

THE MEDICAL PROTECTION SOCIETY LIMITED

PROTECTION in PRACTICE



2018

ANNUAL REPORT
AND ACCOUNTS

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 any 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.

"Your calm nature, and sound advice, with consistent regard for my best interest, and wellbeing, has been most appreciated, and I thank you for everything."



OUR PURPOSE

We protect the careers, reputations and financial security of doctors, dentists, healthcare professionals and organisations around the world.

OUR VISION

We will provide the most expert, trusted and valued protection to enable our members around the world to deliver healthcare.

The Medical Protection Society Limited
[medicalprotection.org](https://www.medicalprotection.org)
[dentalprotection.org](https://www.dentalprotection.org)

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Chairman's Statement

PROTECTION IN PRACTICE

Having been a member of MPS Council since 2015, I was immensely proud to be appointed Chairman in 2018. It's an honour to be given the opportunity to drive the strategic direction of such a prestigious, long-standing organisation as it navigates some turbulent waters: MPS is tackling some significant challenges on numerous fronts, and in my first report as Chairman I'll be updating you on these issues and what MPS is doing about them.

As healthcare continues to evolve around the world, so too does the healthcare indemnity and insurance environment. We regularly consider the potential impact of legislative and regulatory changes, and work with governments and other organisations to champion members' interests and ensure their needs remain at the forefront of any decisions made.

Ever since the UK Government announced it was to create a state-backed scheme for those working in general practice, MPS has pushed hard to ensure it provided comprehensive support to GPs. After many months of negotiations with the Government, arrangements for an Existing Liabilities Scheme were established for MPS general practice members, alongside the well-publicised Clinical Negligence Scheme for General Practice (CNSGP), which launched on 1 April 2019. Further details on this development can be read in the Chief Executive and the Financial Performance reports.

Arguably the most significant and emotionally charged issue of the past year has been the fallout of the Dr Bawa-Garba case. Although this took place in the UK, the decision of the prosecution authorities to charge a trainee paediatrician with gross negligence manslaughter, following her involvement with the tragic death of

a child, and the General Medical Council's (GMC) subsequent decision to seek her erasure from the medical register, struck a nerve with clinicians around the world. While we were pleased to see sense prevail when the GMC's initial appeal success was overturned, allowing Dr Bawa-Garba the opportunity to return to practice, there was still much to contribute as part of Professor Sir Norman Williams' review of gross negligence manslaughter, established by the Secretary of State, and the independent review of gross negligence manslaughter and culpable homicide, chaired by Dr Leslie Hamilton, former consultant cardiac surgeon, assistant coroner and specialist adviser at the Care Quality Commission.

As you would expect from an organisation dedicated to fighting for your interests, MPS submitted a robust set of evidence that called for a complete overhaul of the application of gross negligence manslaughter in medicine. While this battle goes on, we were satisfied to see another of our recommendations – that the GMC lose its right to appeal decisions made by the Medical Practitioners Tribunal Service – accepted by the Government. We look forward to that change coming in to force as soon as possible.

DEFENDING MEMBER INTERESTS

Going the extra mile to help shape the circumstances in which you practise is a fundamental part of what MPS is here to do, and there are many notable success stories from the past year.

A highlight from last September is the Judicial Review we brought against the General Dental Council (GDC) over its attempts to publish a warning against a member in Scotland in the public domain that patients could see and which they would have to declare to any new employer. We felt the GDC misapplied its own guidance in doing so and said at the time that the dental regulator must



Mr Ian Eardley
Chairman of the Council

be fair and accountable in all its dealings, which is why we were satisfied to see the Judicial Review successfully overturn the GDC decision and protect the member's reputation.

In Ireland, we continue to call for legal reform to address the rising cost of clinical negligence, and in 2018 we made detailed submissions to an expert group that has been established by the Irish Government to consider alternative mechanisms to the court process. While some of the changes we are calling for are quite technical, their impact could be very real – with the whole process being made less stressful for clinicians and patients, costs being reduced and outcomes being more consistent. We also published new data that revealed an increase of 146% in the number of negligence claims from 2008 to 2017 for Irish dentists, prompting us to host our first conference for dentists in Ireland – Safer Practice, Better Care debuted on 29 September in Dublin, and we were happy to share our expertise on a range of matters from quality assurance and the claims environment, to GDPR and the use of dental amalgam.

The introduction of compulsory indemnity in Malaysia prompted us to make changes to our membership arrangements for affected members, demonstrating the flexibility of our service that allowed us to meet members' ever-changing needs. The changes ensured a smooth transition for members into the new arrangements, allowing both medical and dental members to submit their applications for their Annual Practising Certificate, which is now a requirement of both the Malaysian Medical and Dental Associations.

"I am looking forward to guiding and directing this organisation so that it continues to be a powerful support mechanism for many more years to come."

South Africa continues to have a dynamic legislative and regulatory environment, and there are numerous such health policies that MPS continues to monitor and engage with through regular dialogue with the Government and stakeholders. These include the National Health Insurance Bill, the Competition Commission's Health Market Inquiry, and the State Liability Amendment Bill – the latter of which is a reaction to increasing clinical negligence claims against the state by patients for negligence that has occurred in public healthcare.

STRENGTH IN NUMBERS

MPS has the largest network of medico and dentolegal experts in the world. With this unrivalled foundation of strong local knowledge, members can be sure of the best assistance, advice and support with the range of issues faced in day-to-day practice. The scope of our expertise extends beyond defending claims of negligence and includes the provision of support at disciplinary procedures from employers, regulatory issues – such as fitness to practise hearings before medical councils – inquests and complaints from patients. Often these situations can develop into a claim, but we are dedicated to resolving matters before this happens.

I invite you to read more detail on MPS's risk management programmes, case experience, initiatives and financial position in the rest of this Annual Report. In the meantime, I am looking forward to guiding and directing this organisation so that it continues to be a powerful support mechanism for members for many more years to come.

Finally, I'd like to pass on my thanks to the outgoing Chair, Professor Kay-Tee Khaw, and President, Professor Sir Ravinder (Tiny) Maini. They have both contributed a significant amount of expertise and insight to Council, and their service to MPS members cannot be overstated. I am also pleased to welcome our new President, Professor Dame Jane Dacre, one of the most highly respected medics in the NHS and an influential advocate for the healthcare professions.

Mr Ian Eardley
Chairman of the Council



Professor Dame Jane Dacre
President of the Council

President's Statement

This is my first MPS Annual Report, as I took over as President from Professor Sir Ravinder Maini last October. When I demitted office as President of the Royal College of Physicians of London last autumn, I wanted to continue focusing my efforts on valuing, supporting and motivating my clinical colleagues. MPS is an organisation that is committed to doing just that.

Medical and dental professions continue to be respected and trusted by the general public, and the delivery of excellence in clinical care is what we all aspire to, and try to achieve. Having high standards like this sometimes results in feelings of vulnerability and disempowerment, especially in health systems that are feeling the strain.

As healthcare professionals, we have become the victims of our success. Our patients are living longer, with a complex mix of chronic conditions and high expectations of health services, which we sometimes cannot deliver for reasons that are outside our control. In meetings all over the world, if I ask what it is like to deliver healthcare, people are usually positive. That feeling of helping patients through their health problems is empowering and gives us a sense of value. When I then ask about the system, the views change, and most people admit to feeling stressed and undervalued.

As an organisation, MPS is committed to supporting doctors, dentists and other healthcare professionals. The clinicians working in, and leading, the organisation understand the multiple stresses of clinical practice and work in collaboration with legal, insurance and financial experts to provide high quality advice and guidance when things go wrong. We aim to prevent problems if possible, to stop problems escalating where we can, and to help the clinician through the difficult times if things do escalate.

We are very aware of the increasing demands placed on practitioners around the world and have a number of educational programmes – ranging from face-to-face workshops to online modules – which are designed to support safer practice and professional development. These include risk management programmes and communication, resilience and burnout workshops. The risk of burnout is growing significantly, potentially impacting both the quality of care and increasing the risk to patients. The workshop has been carefully designed to be an evidence-based intervention that will support members through this difficult issue. Feedback that has been received suggests these are great events, and well worth attending.

PRISM, our e-learning platform, hosts interactive material and a comprehensive webinar programme allowing learning anytime, wherever you are. We have also partnered with hospitals across the world to promote and foster a safety culture change within their organisations with the Speaking Up for Safety programme, which has been developed by the Cognitive Institute. This is all aimed at helping prevent risk and provide support in an increasingly challenging healthcare environment.

The past few years has shown us that working in healthcare, although a brilliant career, can also be a demanding and challenging one. Dentists, doctors and other professionals need to find a way to thrive in this complex and changing environment. MPS is committed to working with us in this endeavour. I am pleased to have joined an organisation that is looking out for us.

Professor Dame Jane Dacre
President of Council



Simon Kayll
Chief Executive

Chief Executive's Report

I am often surprised, when speaking to members, how little they sometimes know and understand about MPS; who we are and what we do. So let me start my review of 2018 with some background information.

MPS was established in the UK more than 125 years ago by doctors, for doctors. A mutual organisation owned by its members and run for its members. Since then our membership has expanded to include dentists and other healthcare professionals such that at the end of 2018 we had over 300,000 members. We have also grown well beyond the shores of the UK and currently offer the benefits of membership in more than ten different countries, including Ireland, South Africa, Hong Kong, Singapore, Malaysia, New Zealand, Australia, Jamaica, Barbados and Trinidad and Tobago.

Despite its expansion since its foundation, MPS very much remains owned by its members and run for its members.

Whilst virtually everything about healthcare has changed since those late Victorian days, there is one constant – the desire of members to provide the very best care they can for their patients. There is an equal constant for MPS – a desire to deliver the very best protection we can for members.

Every time a clinician interacts with a patient, they do their very best to deliver excellent care; but healthcare is inherently risky and this is exacerbated in the modern world with a backdrop of a progressively challenging environment. Members in all countries are increasingly being expected to deliver more for less, are subject to ever greater scrutiny, and experience the impact of rapidly developing technology and increasing patient expectations. These pressures manifest in many ways, not least the growing number of reports of abuse and violence against healthcare workers by patients, and the growing reports of

burnout and stress amongst healthcare workers.

Against this background MPS's purpose – to protect the careers, reputations and financial security of members – is as vital, if not more vital now, than it has ever been. It is this purpose which drives everything that we do.

MPS is here, as your protection organisation, to support and protect you with any matter arising from your professional practice. Yes, for many members this is access to occurrence-based protection against claims of clinical negligence, but this is just a fraction of the wide range of support and protection that MPS provides. We provide full support with cases before the regulator, with inquests and disciplinary matters, and we provide a 24/7 emergency helpline for all medicolegal, dentolegal and ethical queries. In 2018 we managed 9,778 claims of clinical negligence, answered 38,827 helpline calls and opened 20,493 non-claims cases worldwide.

But our work does not stop there. We provide a wide range of educational workshops, the most recent and popular of which is around resilience and burnout and, on this theme, we also provide access to a confidential counselling service for those members who are particularly affected by ongoing cases or claims. In 2018 we ran a total of 862 educational workshops, attended by 18,432 healthcare professionals around the world. In addition, over 5,000 members joined one of our many webinars in the year and members completed over 18,000 of our e-learning modules.

Finally, we are an extremely active voice on behalf of the professions, lobbying and influencing in areas related to the interest of members and the wider professions. In the UK we led the debate around criminalisation of healthcare professionals and the right of appeal by the GMC, and gave evidence to both the Williams and

Hamilton reviews into gross negligence manslaughter. We have engaged in Ireland, Malaysia and the UK on regulatory matters and sought to influence the debate on legal reform in Ireland, Scotland and Hong Kong.

CHANGE IS COMING TO MPS

Whilst the world of healthcare has been developing very dramatically in the last 20 years or so, and whilst MPS has responded to the changing medico and dentolegal environment and the needs of members, we have been fortunate that there has been very little change to our business model and mode of operation. But this is no longer the case. As I mentioned in my report last year, in late 2017 the UK Government announced the introduction of a state-backed indemnity scheme for claims of clinical negligence for GPs in England, with the Welsh Government following suit soon afterwards.

In late 2018 the UK Government also announced a consultation on the future regulation of the discretionary medical defence industry, with the potential that in the future, UK regulated healthcare professionals will be required to buy a regulated insurance product to protect them against claims of clinical negligence. In both instances, this only impacts protection against claims of clinical negligence and does not relate to the wide range of support and protection that MPS provides for all other matters arising from your professional practice.

THE IMPACT OF THESE CHANGES

As a mutual, MPS is your organisation and therefore it is right that we are open and honest with you about the impact of these changes. Whilst they are fundamental to MPS's business, they are not unexpected and we have been planning for their possibility for some time, so we are in a strong position to take these changes in our stride, to adapt to the new world, and emerge as an even stronger organisation, remaining wholeheartedly focused on supporting

and protecting the careers, reputations and financial security of members.

The new state-backed indemnity schemes for GPs in England and Wales launched on 1 April 2019. These will be managed by NHS Resolution for England and by NHS Wales Shared Services Partnership. The schemes provide indemnity against clinical negligence claims arising from NHS contracted work. Claims arising from non-NHS contracted work, along with representation, support and advice for matters such as regulatory investigations and inquests or inquiries are not covered, and MPS will continue to offer this support to general practice members.

"In 2018 we managed 9,778 claims of clinical negligence, answered 38,827 helpline calls and opened 20,493 non-claims cases"

The scheme in England will also be supported by an Existing Liabilities Scheme (ELS). Under the ELS agreement, which MPS signed on 3 April 2019, the Government has assumed responsibility for all existing GP claims against members, as well as claims that are brought in the future where the adverse incident date was before 1 April 2019 and related to treatment under an NHS contract. This mirrors the approach that was taken for hospital doctors when their arrangements were introduced in 1990, and is something we have argued for since the proposals for state-backed GP indemnity were first announced. To ensure a smooth transition to the new arrangements, MPS will continue to

manage existing claims for the next two years. After two years, claims will be managed by NHS Resolution. This transfer of responsibility relates to claims already reported and recognised within our claims provision (note 18) and to expected potential future costs reported in note 22. Further details of this agreement are included in note 26.

The potential requirement to offer a regulated insurance product to members for protection against claims of clinical negligence is an even more fundamental change to our business. We strongly believe that MPS's model of discretionary indemnity has served our members well for more than 125 years and is still well suited to the needs of our members. As such we plan to defend our current model. However, we have anticipated this and despite thinking it is not required, we have been working on plans to accommodate this potential change. If this is the outcome of the government consultation, it is expected that there will be a transition period and that this change will not be imposed for a few years yet. Given the likely timescales, we fully anticipate that we will be in a position to provide insurance policies to protect members against claims of clinical negligence if the consultation proposals are introduced. If this consultation does result in change, we will be able to take it in our stride and continue to protect the interests of members.

WHAT MEMBERS WANT

As a membership organisation, it is vital that we understand what you want from MPS and that we deliver it. With members in many different countries and with different clinical backgrounds, there will be a range of wants, but there are also some universal themes. You tell us that you want to have the most expert, trusted and valued protection.



“You have all been brilliant. It is the first time I have needed your help in 16 years! It is so reassuring to have Medical Protection helping us.”

EXPERT

In all countries in which we operate, MPS is the largest non-state provider of indemnity and support and protection to healthcare professionals. We have a significant number of in-house doctors, dentists and lawyers who all specialise in clinical negligence support and protection matters. In addition, MPS works with the most expert and experienced solicitors, barristers and clinical experts in all countries in which we operate, for the benefit of members.

In this way, we can confidently say that we have – or have access to – the most expert advice to help you.

TRUSTED

Members face many threats to their careers, reputations, financial security, and on occasion, even their liberty. MPS is here to protect and support the interests of members to the very best of our ability, as I hope the following small sample of cases shows.

The patient of a UK member sadly died and we assisted the member successfully with all the subsequent UK-based legalities associated with the patient's death. However, because the patient was a French national living in the UK, one of the patient's relatives made a complaint to the French authorities and the member faced the prospect of being the subject of a European criminal arrest warrant. Although MPS does not have members in France, we identified and appointed specialist lawyers in France. Years after the patient's death, the Court of Appeals in France declared the attempt by an investigating Judge in Amiens to investigate the potential criminal prosecution to be null and void.

Recently in South Africa, an aggrieved patient started picketing the practice of an MPS member and preventing patients entering. Working with local lawyers on behalf of the member we managed to put an end to this harassment.

These are just two examples from the many hundreds in 2018, where we have assisted members in their time of need. I hope these go some way to illustrate the lengths that MPS will go to help you, even in the most unexpected and unusual of situations.

VALUED

Part of being valued is getting the right balance between benefit and cost. We know from member feedback that when you use our services, you find them extremely beneficial and thus are much more likely to consider the cost of membership to represent value. However, the nature of membership means that most members do not call on our services from one year to the next. In such circumstances, it is harder to perceive the value in MPS's subscription, especially as we are well aware that in most countries our subscriptions have become less affordable, as the cost has risen faster than the growth in your earnings.

This is a difficult issue to resolve, as around 75% of a member's subscription relates to the indemnity risk and we have limited ability to directly influence the number and value of claims reported to MPS. But we can *indirectly* influence this, and we do.

As mentioned earlier, we provide an extensive range of risk management and education. Primarily this is aimed at reducing risk and thus helping to keep down the cost of subscriptions.

We have remodelled our approach to the management of claims and support and protection matters in the last two years, with the aim of ensuring a better member experience, delivered at a lower cost. Our revised approach for claims has been running for more than a year and has proved to significantly reduce the legal costs associated with claims. Our revised approach for support and protection matters was only rolled out fully in 2018, but the initial signs are encouraging.

As our subscriptions increase, members are keen that the price they pay represents their risk and not the risk of others. We are working towards this goal. To achieve this we need to understand what you do and the environment in which you do it. More detail on these and other initiatives can be found in our Member Engagement report.

The Financial Performance report shows that 2018 has seen an improvement in our financial position, which is welcomed and vital to underpin our sustainability. The coming year will see the transition of GP indemnity for NHS contracted work in England and Wales move to a state-backed scheme, and should also answer the question regarding whether the future of MPS's business will remain discretionary or become insurance based. Whatever the outcome, I would like to reassure members that we have foreseen these possibilities and have taken steps to address them. Driven as always by the purpose of the organisation – to protect the careers, reputations and financial security of members – I can assure you that no matter what the future holds, MPS is well placed to continue to use all of our expertise and experience to protect and support members for many years to come.

Simon Kayll
Chief Executive



Dr Rob Hendry
Medical Director

Medical Services Insights

The stress of facing an allegation of malpractice cannot be underestimated, the impact of which is summed up in an email one member recently sent to us:

“With your help and guidance I removed myself from free fall. I am forever grateful. You all may think you are simply doing your jobs; but you saved my life.”

Throughout this report you will notice similar sentiments from fellow clinicians who have experienced a challenge to their expertise, reputation or conduct, and turned to us for help.

Doctors can be held to account in a number of ways. As well as claims for damages from alleged clinical negligence, they can find themselves being referred to their regulator, facing complaints to the ombudsman, being called to appear in a coroners court or at an inquest (or fatal accident inquiry) to name but a few. We refer to such matters under the general term ‘cases’. At the close of the year, we had opened 17,758 medical cases and assisted 17,488 members around the world, with some cases having more than one aspect of assistance.

LEARNING FROM CASES

Whilst it’s necessary to track the number and types of cases being reported to us, it’s more important that we understand what’s driving them. As the leading provider of professional protection to more than 300,000 doctors, dentists and healthcare professionals worldwide MPS has a unique insight into the nature of clinical negligence claims and non-claims cases.

We review our cases to spot the common themes and emerging risks, identify practical clinical risk management issues and share this learning with members. For example a comprehensive review of the almost 3,000 cases brought against UK-based anaesthetists showed problems from spinal and epidural anaesthesia, peripheral nerve blocks, malpositioning of patients and dental injuries to be amongst the most common causes.

We also undertook a similar review of ophthalmology claims reported over the past ten years, where we identified the largest number of claims related to laser vision surgery. The majority of claimants suffered from a deterioration in their vision following the surgery, while some claimants had experienced complications

Types of medical cases opened in 2018 (MPS global)

Category	Number of cases	%
Claims and patient-related matters	2,562	14%
Complaints	3,862	22%
Criminal	104	1%
Disciplinary	473	3%
Regulatory	1,214	7%
Inquests	1,668	9%
Adverse incidents	2,533	14%
General medicolegal advice	4,791	27%
Others	551	3%
Total	17,758	100%

following surgery, eg, infection. A quarter required further surgery. In a quarter of claims that were settled, there was evidence of inadequate consent. The second most frequent ophthalmology claim reason was post-cataract surgery, followed by intraocular lens exchange surgery. In half of the claims analysed, there was alleged failure to obtain adequate consent.

Based upon the anaesthetics, ophthalmology and gynaecology case reviews, we launched a new series of articles and booklets, titled *Learning from Cases*, which outline the key medicolegal issues behind cases and guidance for minimising risk.

Many members have shared a desire to get a more comprehensive understanding of the often complex and technical processes that comprise the passage of a case. Therefore, we have expanded the case reports in our publications to provide you more insight into the legal aspects of each case, to complement the clinical details.

VOICE OF THE PROFESSION

We were particularly pleased this year when MPS succeeded in having a potentially unsafe NICE Clinical Knowledge Summary (CKS) guideline on cauda equina syndrome (CES) revised and updated as the result of our analysis of cases. CES is one of MPS's highest cost settlement cases. Our submission, where we rewrote all five NICE/CKS cauda equina syndrome red flags, has been accepted by NICE and has now been published. Analysis of our cases found that the previous red flags for diagnosis set a high threshold for urgent investigation, meaning some patients are not referred for treatment, or are referred too late and left with a permanent disability. Dr Philip White, medical claims adviser at MPS, re-wrote the guidelines with the support of expert neurosurgeon Mr R A Cowie.

The updated red flags are now more explicit, enable earlier referral, and could have a significant impact on patient safety.

We have also set out a four-point action plan to encourage and support more doctors to become expert witnesses, which are desperately needed in order to ensure that clinicians have an informed hearing when they appear before the regulator or face criminal charges.

No doctor likes to imagine having to appear before the regulator or in a criminal court. But when faced with this prospect they would hope that the assessment of their practise has been carried out by someone respected by their peers and who can present balanced evidence in the context of delivering healthcare in a modern day setting. This is why there needs to be a much wider pool of doctors with the right experience who are able to serve. It is a vital role that doctors can perform on behalf of and in support of their profession.

We are seeing challenges with the availability and provision of expert witnesses in most countries where our members practise. We engage with regulators and stakeholders to raise awareness of this important role so the quality of expert evidence can constantly be improved.

Dr Rob Hendry
Medical Director



“Thank you very much for your letter, and more to the point, for the invaluable support that Medical Protection has provided to me through your offices over the last 31 months. I shudder to think of the likely levels of personal stress if you had not been there. Hopefully this is now the end of the matter and that I will not find myself in need of your future assistance.”



Dr Raj Rattan
Dental Director

Dental Services Insights

Vantage Point is a 2008 movie where the filmmakers return to a single, but pivotal, event multiple times. On each occasion the viewer is presented with different perspectives of the same event. Each perspective adds a little more information and it is not until the end of the film that we realise what really happened.

The same is true of many dentolegal cases. Many clinical negligence cases are centred on acts of omission or commission. Examples include a failure to carry out special tests, inaccurate diagnosis resulting from incomplete history-taking and suboptimal outcomes from invasive procedures which result from human error. The root causes of these occurrences provide learning opportunities and form the basis of our risk management advice.

As in the film, it is easy for observers to jump to conclusions from what they read,

hear and infer from any commentary on how to handle and manage cases. Invariably, third party reports of cases leave gaps in the storyline, and as observers we may attach importance to the trivial and lend significance to the insignificant. Facts, opinions and myths blend together and it becomes difficult to see the whole picture.

Patients and dentists inevitably view the same event through different lenses and this gives rise to different perspectives. Our experience suggests that a significant number of cases arise from a mismatch of expectations between dentist and patient. It is important that discussions about treatment options include the risks and benefits of the treatment, but it is also important that the expectations of the patient are aligned to what is reasonably achievable from a clinical perspective. This is particularly the case when it comes to elective interventions such as cosmetic dentistry.

Types of dental cases opened in 2018 (MPS global)

Category	Number of cases	%
Claims and patient-related matters	1,559	24%
Complaints	3,187	48%
Regulatory	364	5%
Disciplinary	22	0%
General dentolegal advice	1,254	19%
General Dental Services	104	2%
Adverse incidents	114	2%
Others	21	0%
Total	6,625	100%

The use of digital imaging is commonplace in clinical practice and very useful in explaining the nature of the proposed treatment. It may however result in heightened expectations, which might prove to be difficult to match in reality. This is an example of the expectancy-disconfirmation paradigm where negative disconfirmation is said to occur when the experience of the patient does not live up to their expectation. It is the root cause of many complaints. The perspective then is the expectation.

Our team of case handlers are often those closest to the case and are well placed to assess the true picture. This assessment feeds into our risk management advice and supports our educational messages. We are uniquely positioned to do this and are able to identify trends from our internal experience and share this information through our publications, webinars and lectures.

Unlike in the movie, a dentist cannot rewind in time to replay an event to those who are investigating a complaint or regulatory breach. The only record is that of the dentist's recall, the patient's memory and the clinical record. The clinical record should read like a script and accommodate all perspectives. It must include clinical facts and findings, inferences, discussions and observations. It must be a complete picture and leave no gaps. The gaps are often filled in by differing perspectives and often compromise the strength of any defensive argument.

In dentolegal cases, as in the film, more importance can be attached to missing information than to recorded information. For example, in periodontal cases there may be no record of a discussion with the patient about risk factors or the extent of the patient's compliance with the advice given. The gaps in what is recorded may then be subject to

multiple interpretations. It is why we continue to emphasise the important of comprehensive records. The story written therein should be complete. It is the security of a single, true perspective.

Dr Raj Rattan
Dental Director



"Thank you for your kind words and reassurance. It is really timely, touching and heart-warming. I am eternally grateful to Dental Protection for your kind assistance to us in this troubling time. No words could express our sincere gratitude."

Member Engagement Insights



Mark Randerson

Executive Director of Business Development and Engagement

MPS has a simple but critical purpose, that of protecting the careers, reputations and financial security of members. We believe that we do that better than anyone else. Our unique philosophy of prevention being better than the cure means we work tirelessly to help members at every step in their career, to avoid risks and become protection partners for life.

But, we know that we cannot stand still and rest on our laurels. The world in which members practise healthcare has changed significantly since MPS was first established and continues to evolve (legally, technologically and socially) at a rapid pace. If we are to continue to provide protection that is relevant to the emerging risks and differing needs of members in each country, we must evolve our range of products and services, build

our experience and expertise, and share best practice on an international scale. We must also deliver value to current and future members across the world by focusing on what really matters to them.

CREATING LONG-TERM, SUSTAINABLE VALUE

Our Business Development and Engagement teams have been working hard throughout 2018 to improve in a number of areas that members tell us are key.

We will be launching a series of initiatives in 2019 to further improve our service quality and cost efficiency, provide greater digital capability and develop new, more personalised pricing for many members.

"I just want to express my extreme gratitude for your help. It's a personal nightmare and I have to say that from the first time I spoke to you until now you have been so helpful and I think at the least you have saved my life. Your calm consideration at every turn has allowed me to consider a future, which I could not see at all last June. Again, speaking to you just now just gives me some hope. So thank you."

ENHANCING THE QUALITY AND CONSISTENCY OF OUR SERVICES ACROSS THE WORLD

2018

- ✓ Delivered the first phase of our new member administration system and online portal (UK and Ireland), making it easier for members to update their practice details and renew at a time convenient for them.
- ✓ Our award-winning Member Operations centres provided world-class, professional service during the complex changeover to the new system, answering 221,000 calls and 62,000 emails and letters.
- ✓ Website improvements have delivered members a better experience online – with increased website usage and members finding the resources and information they are looking for quicker, spending more time on each page.

2019 AND BEYOND

- ✓ Next stage planned for later in 2019 and will provide new, personalised pricing for members*, more closely aligned to their individual risk and practice profile.
* commencing with UK and Ireland
- ✓ Continuing to improve the efficiency of operational processes – giving members quicker access to the right support at the right time.
- ✓ Increasing investment internationally to build greater capacity at a local level and enhance our understanding and services.
- ✓ Digital developments based on insight and member feedback, further enhancing and tailoring content and resources in ways that work best for members.

DEVELOPING VALUE-ADDED PRODUCTS AND PROPOSITIONS

- ✓ Designed a new, tailored membership package for established consultants in private practice – providing specialist advisers, one-to-one risk management advice, business support and personalised relationship management.
- ✓ Cognitive Institute, our risk prevention and education consultancy, launched its world-leading Speaking Up for Safety and Promoting Professional Accountability programmes in the UK, Singapore, Malaysia and New Zealand, working with organisations such as Ramsay Health Care and Great Ormond Street Hospital.
- ✓ Over 127,135 healthcare professionals in more than 235 hospitals across the world are currently implementing these organisation-wide initiatives, which aim to embed a culture of safety and quality.
- ✓ Meeting the needs of a rapidly evolving healthcare sector by offering unique and tailored protection solutions for corporates and organisations.
- ✓ Combining risk management with corporate and individual protection, to reduce risk, save cost and improve quality outputs.
- ✓ Upgrading our PRISM platform to allow members greater digital access to our risk management modules and webinars across all regions.

SHAPING OUR FUTURE

At MPS we firmly believe in shaping the future, not being shaped by it, and following significant research in 2018 we put forth a new vision to guide our strategy long into the future:

“We will provide the most expert, trusted and valued protection to enable our members around the world to deliver healthcare.”

This vision reflects the needs of the diverse nature of our membership across different specialties, the different sectors we service – be it individual, organisational or health authority – and the importance of our reputation amongst members.

In recent brand research, we asked members to share their views about their membership, and many confirmed our outstanding reputation for being there when they needed us most, and being trusted to provide them with the very best protection using our considerable experience and expertise.

Recently published research in the *BMJ Simulation and Technology Enhanced Learning* has provided further conclusive

evidence that MPS's risk prevention programmes add real value to members by changing the behaviours that lead to risk.

Members clearly trust MPS and the comprehensive nature of their protection. But they are increasingly uncomfortable with the affordability of subscriptions at a time when their own wages are not increasing at the same rate. The challenge for us then is two-fold: first, to better explain the unique value that we provide, and secondly in finding ways to continue to provide the quality and reassurance of our protection but at a cost that is more affordable.

Many members and potential members might ask: “Why should I join or stay with MPS with cheaper prices elsewhere?” We believe it is too easy to make a price-based decision. In an increasingly competitive world with more choices than ever, we need to do better at informing members that all protection providers are not the same.

In reality the only way to be cheaper is to provide a lower quality of service or less robust defence. From speaking to members, we understand that they

do not wish to see their protection compromised in such a way.

Your career, professional reputation and financial security are just too important to place in the hands of anyone other than the very best. I truly believe no other organisation has the expertise, understanding and the unique philosophy to protect members from the risks of healthcare.

Mark Randerson

Executive Director of Business Development and Engagement



Rob Hemson
Executive Director - Finance

Financial Performance Report

MPS has delivered another year of strong financial performance in 2018, with a positive net contribution to funds available for members and an improved funding position.

Our purpose is to protect the careers, reputations and financial security of doctors, dentists and healthcare professionals around the world. This is our reason for being. It describes our aspirations to grow MPS for the benefit of our worldwide members and is underpinned by our vision to provide the most expert, trusted and valued protection to enable members around the world to deliver healthcare.

These are undoubtedly challenging times for members. In recent years the cost of clinical negligence has increased significantly for many. As a responsible, not-for-profit organisation, we have an obligation to ensure that we collect sufficient subscription income to meet the expected future costs of claims and cases against members, so we can be in a position to defend their interests, should they require it.

MPS, which was incorporated in 1892, was built to last. As a mutual we take decisions on membership subscriptions that are in the long-term interests of our membership, rather than pursuing short-term gain. Despite the uncertain political and economic environment, our financial strength gives us confidence that we can continue to be there for members in the months and years ahead, in the same way that we have always been.

To this end, MPS has the largest reserves of any medical defence organisation in the UK. We manage members' money wisely, taking a prudent approach to our business and administration costs, whilst ensuring members experience world class service and support.

The Council of MPS, elected by the membership, determine the overall level of surplus of assets over liabilities that we should aspire to hold for members, and the 2018 result showed good progress towards this.

OUR 2019 STRATEGIC PRIORITIES AND PERFORMANCE ARE ALIGNED TO OUR PURPOSE AND VISION

We continue to develop and deliver the corporate strategy and plan, to ensure MPS continues to effectively support members and further builds its financial position to deliver a robust level of funding.

“Our aim is not to maximise surplus, but rather to manage the subscriptions we collect in the interest of members – through a balance of maintaining our financial strength, benefiting members and investing to meet their future needs.”

The group is financed primarily by members' subscriptions, supplemented by investment returns from funds retained. All surplus funds are retained within MPS for the benefit of members; we do not pay profits or distributions to any third parties.

As the world's largest medical defence organisation, MPS aims to strike a balance between the value we return to members, through good value products and services, the surpluses we retain to fund future growth and sustain strong capital ratios, and the level of investment that we make for the benefit of members.

Our aim is not to maximise surplus, but rather to manage the subscriptions we collect in the interest of members – through a balance of maintaining our financial strength, benefiting members and investing to meet their future needs.

MPS's subscription income was largely stable and an improvement in advisory and associated legal costs has helped to deliver a strong performance in the year, but was impacted by net losses on investment funds driven by weaker investment markets, which gave up some of the gains we achieved in 2017. Total comprehensive income for the financial year was £120m, £221m lower than prior year, which principally comprised £158m due to the change in fair value of investments and £39m reduced net income from investments.

Our financial and trading strength has put us in a strong position to increase investment in technology which will further enhance member experience and drive increased efficiency over the longer-term. We took the opportunity to provide additional investment in technology in 2018 to support our growth strategy. We delivered on our efficiency programme in 2018, are on track to deliver our permanent savings target in 2019 and have set a more ambitious target through to 2023.

Advisory costs and associated legal costs decreased by £28m to £74m, which was more than 10% below our 2018 budget; the movement in projected insurance recoveries increased by £7m to £11m.

One of our key performance indicators is Return on Assets. For the current year we targeted a return on investment of 3% above the risk-free rate; for the year to 31 December 2018 we actually generated a return of -1.1% compared to 5.8% in 2017. This reflects the overall uncertainty across the market, particularly in the wake of unknown Brexit negotiations. We continue to work closely with our investment managers and advisors to improve our returns whilst maintaining a suitable risk profile.

“Against this backdrop, MPS is strong and secure, with a growing membership and business, and is well placed to support members with the products and services they need to manage their financial lives.”

Administration costs increased to £42m (up 11% from 2017) led by increased IT and strategic project costs. Taking into account other factors, such as claims costs and associated legal costs, the overall result from membership activities was a surplus of £154m (2017: surplus of £191m).

Close management of our cost base is a key component of our financial strategy and we will focus on driving efficiencies and cost effectiveness across all areas of our business in order to create capacity to further invest in our people and systems. This will help to ensure we continue to deliver excellent service to a growing membership base.

Of key importance is the relationship between the value of our reserves, after allowing for reported claims, and the Estimate of Potential Future Cost for incidents already occurred to date (EPFC). The consolidated statement of comprehensive income only relates to a single calendar year, whilst MPS is managed on a long-term basis to ensure that our finances are sufficient so that we continue to be able to exercise our discretion in support of members and to meet any future potential obligations. The vast majority of members are entitled to seek our assistance on the “occurrence-based” principle. This means that the subscription income we collect in any one year is held on behalf of the members to meet the risks arising from their clinical activities in that year. The overall period from an incident to payment is an average of eight years, but it can be longer. Therefore, these funds need to be invested in anticipation of the costs crystallising in future years.

The MPS balance sheet remains strong. At the end of December 2018 MPS had £3bn of assets under management (2017: £2.9bn).

MPS maintains sufficient levels of high quality diverse assets to meet the future costs of claims, without holding excess liquidity that may reduce potential investment returns, where MPS sees opportunities to commit funds for the longer term. A variety of stress testing scenarios are regularly run to help ensure we remain within our liquidity risk appetite and we meet all Council



“Thank you for every support you gave me during the most difficult nearly two years of my career. I believe I will take all the positives from this experience and use it for the future.”

requirements. Extreme economic scenarios are run to ensure that we can still meet the needs of our members when they require our help.

In December 2018 MPS sold MPS Risk Solutions (MPSRs), our semi-dormant insurance company. On 31 December 2018, the Prudential Regulatory Authority (PRA) approved the change of control. Closed to new business in 2012, all policies had expired and the focus in recent years had been on managing the claims that arose from the policies that were in place.

LOOKING AHEAD

MPS has a diverse portfolio of investments internationally, and we monitor market forces in all the countries in which we operate.

Against this backdrop, MPS is strong and secure, with a growing membership and business, and is well placed to support members with the products and services they need to manage their financial lives.

The size and diversity of MPS helps us to manage risks effectively and it benefits the membership as a whole that we serve a wide range of medical and dental disciplines in many countries. The in-scope GP indemnity cover that will transfer to the Department of Health and Social Care (DHSC) represents almost 20% of MPS's total business. For other MDOs who do not have a significant number of members outside of the UK, GP indemnity in England and Wales would have represented a significantly larger proportion of their business. MPS has been working on rebalancing our business in order to ensure we are well placed to adapt to changes in the healthcare sector and to continue to meet members' evolving needs. At the same time the UK Government has commenced a consultation on the provision of professional indemnity in healthcare, with an indication to move away from discretionary indemnity and towards

insurance. MPS had anticipated the need to develop a strategic option for insurance and has been progressing this project. We believe we are well placed to continue to serve the needs of our members long into the future.

To ensure MPS is as prepared as possible for any of the many possible Brexit outcomes, our legal team maintains a close watch on the UK parliamentary process, together with the UK Government's continued negotiations both with the EU and other parts of the UK political landscape. In preparation for Brexit, our legal team also engaged with each part of our business, to ascertain the impact (if any) of a no-deal or otherwise hard Brexit. The outcome of that engagement was confirmation that MPS's business will be able to operate as it does prior to Brexit, and, regardless of the severity of any ultimate Brexit, the effect on MPS's operations is expected to be minimal, and will have no impact on MPS's ability to provide the benefits of membership to members in the United Kingdom, the EU (principally Ireland) and further afield.

I would like to thank our colleagues for all their efforts in 2018, and to thank members for their loyalty. We will continue to work hard to maintain that.

Rob Hemson

Executive Director – Finance

Strategic Report

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Council presents its Strategic Report for the group for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

MPS is the leading medical defence organisation of its kind around the world. It is a mutual society, whose purpose 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 parent 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 is responsible for implementing the investment strategy approved by the Asset and Liability Committee (ALCo) of MPS Council. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity.

ALCo, members of which are also Directors of MPI, 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 South Africa Services (Pty) Limited, which is registered in South Africa, provides services to MPS in relation to its membership in South Africa.

MPS (Singapore Services) Pte Limited, which is registered in Singapore, provides services to MPS in relation to its membership in Singapore.

MPS (Hong Kong Services) Limited, which is registered in Hong Kong, provides services to MPS in relation to its membership in Hong Kong.

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 safekeeping of assets, and payments due, in respect of past Periodical Payment Orders made in settlement of claims against members.

Further details regarding investments in subsidiary undertakings can be found in note 14 to the financial statements.

BUSINESS PURPOSE

MPS exists to serve its members with the aim of ensuring 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 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 on pages 22 to 25, 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.



“Thank you so much for your message. Indeed it is an immense relief. I am most grateful to you... for the time and care you have taken with me. I felt well prepared for the interview, but am glad beyond measure that I can now put it behind me.”

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.

PERFORMANCE FOR THE YEAR

The Council is committed to ensuring appropriate governance and oversight of the business for the benefit of its members. To achieve this, MPS operates and continues to develop a robust system of performance measurement. This provides the Executive Committee and the Council with information on our Key Performance Indicators (KPIs), allowing them to assess organisational effectiveness and efficiency, cost control and an appropriate level of investment in the development of MPS services.

Aside from financial measures of performance, central to our KPIs are the measures MPS operates in relation to member interactions and, importantly, the member feedback that we receive in relation to the services we offer. The 2018 outcome of some of our key surveys and activity measures, along with other significant achievements, are highlighted below.

MEMBER SURVEYS

We survey the members who contact us to understand their evaluation of the services provided, and we use this feedback to consider how we can

continue to improve those services. Feedback is given on a scale of 1-7, where 1 represents “Very Poor” and 7 represents “Excellent”. The average of the monthly feedback scores achieved from surveys of those members who contacted Member Operations or our medicolegal and dentolegal advice lines, as well as of those attending Educational Services workshops during 2018, is as follows:

	2018	2017
Member Operations	6.1	6.4
Medicolegal/ Dentolegal advice	6.3	6.4
Educational Services	6.6	6.5

KEY ACTIVITIES

MEDICOLEGAL AND DENTOLEGAL ADVICE

In relation to nearly 27,000 calls received during working hours into our medicolegal and dentolegal advice lines during the year, 85% were answered within our SLA; outperforming our target of answering 80% of calls within 20 seconds.

MEMBER OPERATIONS

In relation to the 221,000 calls received into Member Operations during the year, over 93% of the calls were answered without the need for a callback against an internal target of 97%.

EDUCATIONAL SERVICES

Worldwide, MPS offered just under 800 educational workshops during the year, for members and non-members, which was 99% of targeted activity. As part of our surveys, we also ask attendees whether they will change their working practices as a result of taking part in the workshop. For this year, the average response for this question was 6.4 out of 7, exceeding our target.

KEY MARKETS

MPS offers membership in a number of different international markets. This international perspective allows many members to practise around the world 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.

MPS's key markets are:

- United Kingdom • Hong Kong
- Caribbean and Bermuda • Ireland
- Singapore • Australia* • South Africa
- Malaysia • New Zealand

* Non-indemnity dental membership

MPS has a strong presence in all of the above key markets, and in 2019 will continue to invest in these key markets to develop our membership offering and the quality of service we provide to members.

FUTURE DEVELOPMENTS

The Chief Executive, Financial Performance, and Member Engagement reports refer to key initiatives during the year and touch on future developments in specific areas.

MPS will continue to focus on 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. As noted in previous reports, to ensure these aims are met now, and in the future, we have undertaken a strategic change programme over recent years, and progress has been made on a number of initiatives aimed at improving member experience and service quality around the globe.

Our digital development is based on insight and member feedback, and enables us to further enhance and tailor the content and resources that we share with members, ensuring they not only see improved service speed and quality, but also have greater control over how, when and where they engage with MPS. Website improvements will deliver members a better experience online, and upgrades to our PRISM platform will allow members greater digital access to our risk management modules and webinars across all regions.

Our new member administration system and online portal is one of our key ongoing projects. Delivery is now complete for the first phase of this project, which means that members can follow a simple process for updating their own practice details and areas of work. Crucially it is also providing greater speed and simplicity around membership renewal time, allowing members to renew their subscription at a convenient time for them. The next phase is planned for later in 2019, when personalisation will be a key feature; beginning with the UK and Ireland, the new system will provide more tailored pricing for members that more accurately reflects their individual risk profile.

A number of other key projects continue to be developed and delivered in 2019, as the result of three major changes affecting the UK clinical indemnity market. The first is the launch of state-backed indemnity for GPs undertaking NHS work in England and Wales. This has prompted the creation of a new product that is exclusively aimed at covering those vital extra areas of protection that the state-backed indemnity will not address. Second is the UK Government's consultation on regulation of the discretionary medical indemnity industry – while third, and linked to this second area of change, is the potential requirement in the UK for doctors to hold a regulated insurance product. In response to these last two areas, MPS has been focused on putting internal systems and processes in place to prepare for possible regulation, and we have also developed a new insurance product.

While MPS continues to operate in a challenging environment, we are committed to shielding members from this as far as possible. We have done this

by restructuring the business throughout 2018 and will continue to do so in 2019, in a way that will not only control our costs but also ultimately leave MPS in a position to deliver a better service to members. A recent example is the overhaul of our approach to managing claims and providing medicolegal and dentolegal support to members. This is now delivered at a lower cost and, judging by its first year in operation, has been well-received by members who now enjoy access to a multidisciplinary support team.

EMPLOYEES

Over the past year we have worked to embed our new Purpose, Vision and Values.

Our Values – Member First, Ambitious, Determined and Empowered – define our culture, what we do and how we do it. Our Values have been developed with our people, as we want a culture where our employees enjoy their work, find it rewarding and are empowered to do the best for members every day.

We work collaboratively across MPS drawing on the expertise of our people to ensure that we consistently provide a quality service that members trust and value. Our members come from diverse backgrounds. Reflecting this, we seek employees with a diversity of thought. We believe that having a diverse workforce, performing to their full potential, is essential to our success – the wider the mix of people in our business, the greater the mix of skills, experiences, perspectives and ideas we can draw upon.

We are committed to carrying on our business with respect and integrity. This includes how we attract and employ the right people, with the right skills and professionalism, who can deliver the excellent advice, support and defence our members have come to expect. We stand proudly by our policy of selecting and appointing on a candidate's merit alone. That way every colleague knows they were hired for their unique talent, skills and experience. That same philosophy is carried through to all our employee development programmes. MPS is a place where everyone has the opportunity to progress and develop their career, no matter their age, gender, race, religion or sexual orientation.

Building leadership capability and identifying and nurturing key talent are strategic priorities. We invest in continuous training to maintain technical and professional excellence across MPS. An embedded performance management framework is core to our pay policy.

We received positive feedback on the annual review of our Investors in People silver accreditation. We continue to embed the Leadership Framework, Talent Management process, new Recognition Scheme, people metrics, coaching strategy and developments to e-learning provision.

Each year we survey our employees on employee satisfaction. Our results dropped slightly in 2018. This is not surprising given the challenging backdrop of the UK Government's announcement of its intention to implement a state-backed indemnity scheme for English and Welsh GPs and the implementation of some organisational changes. We continue to perform well against other benchmark organisations.

Our scores around Enablement, Reward and Leadership remain strong against the external benchmark. We continue to commit to our Employee Engagement Forums which provide our employees with opportunities to raise issues that are important to them, directly with their Senior Leaders and Executive Directors.

Our common passion is our culture of service and a desire to do more. Working for members whose careers are characterised by care, compassion, and resourcefulness is inspiring. MPS's Charity and Social Committee helps employees to organise fundraising events for charitable organisations, and we actively seek out opportunities for MPS to support local initiatives that foster community spirit. We are very proud of our employees who ran, walked, cycled, sky dived, baked, raffled and collectively raised over £21,000 in 2018 for Shelter UK, to help tackle housing poverty and homelessness.

PRINCIPAL RISKS AND RISK MANAGEMENT

We have established a culture of effective risk management through the identification, assessment, mitigation and monitoring of risk throughout MPS. We review risks, both existing and emerging,

and consider risk when reviewing MPS Strategy and in meeting our objectives.

We have two approaches to risk management in so far as 'bottom up' (business risk) which is aimed at our day-to-day operations and 'top down' (strategic risk) which focuses on lower frequency, higher impact risks that could have a significant impact on the group.

The Council has ultimate responsibility for our Risk Management Framework and delegates the oversight of this to our Audit and Risk Committee. This Committee is a formal sub-committee of the Council with its own defined Terms of Reference.

As an organisation, we are not prepared to knowingly, or willingly, take risks which will result in member detriment, regulatory censure, and/or unexpected loss (or gain), both financial and non-financial (eg reputational). However, in pursuing our business strategy and objectives, MPS is inevitably exposed to various risks. Given the nature of our business, we identify our principal risks, including how we seek to manage them as follows:

- **Strategic Risk** – the risk of failure to achieve business objectives that impact the long-term interests of membership or other stakeholders. Mitigation: we monitor our environment so that we anticipate and respond to structural change sufficiently far in advance. We incorporate insight into our future strategic planning.
- **Financial Risk** – the risk arising from inadequate income, cash flow or capital to meet current or future obligations and deliver a sustainable business. Mitigation: we maintain a prudent capital and liquidity profile to ensure a robust financial position is maintained.
- **Underwriting Risk** – the risk of loss or adverse changes in the value of provisions due to inadequate pricing and provisioning assumptions. Mitigation: we have a balanced and sustainable portfolio, avoiding concentration of business that is volatile, higher risk, or loss making over the long-term.
- **Operational Risk** – the risk arising from inadequate or failed internal processes, people or systems or from external events. Mitigation: we put in controls

to manage our operational losses, reputational events, or failures to meet regulatory requirements. We act to identify emerging risks and mitigate these.

- **Conduct Risk** – the risk arising from business activities which fail to deliver appropriate and consistent outcomes for our membership or other stakeholders. Mitigation: we operate business models and design products and sales practices which deliver fair member outcomes and meet our member needs.
- **Compliance Risk** – the risk arising from failure to comply with existing or new legislation or regulations in the markets within which MPS operates. Mitigation: we comply with all relevant regulation and legislation.
- **People Risk** – the risk arising from the failure to appropriately recruit, retain and manage the performance of colleagues. Mitigation: we lead responsibly by having the right capabilities, managing our people resource effectively, developing colleague talent and having colleagues who feel engaged and connected.

RESERVING RISK

MPS provides 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 claims that have not yet been reported (unreported potential claims). Subject to discretion, MPS will be responsible for all of these claims.

For us to be responsible for paying these claims, we need to be able to assess their value and ensure that MPS 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.

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 an adverse incident to the reporting 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 the UK personal injury discount rate. This is the interest 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.

Mitigation

The likelihood that our estimates for reported claims and unreported potential claims vary from the eventual payments required diminishes with the increasing size of the portfolio of risk. The geographical diversity of the portfolio also helps to reduce the overall variation between our estimates and the eventual payments required. A larger, more diversified portfolio of risk is less likely to be affected overall by a change that affects a subset of that portfolio.

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 accuracy 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. At MPS, we use the skill of our internal staff to determine accurate estimates for individual claims and ensure that levels of skill are maintained by supporting ongoing training initiatives. We also have many checks and balances in our internal systems to allow regular review and monitoring of these estimates to help ensure a high degree of accuracy and consistency. MPS's internal Actuarial Services team use the internal individual claim estimates and relevant membership

data to advise on an appropriate statistical reserve for the likely cost of all reported claims, and estimates of the potential future costs of unreported requests for assistance (see note 22 to the financial statements).

UNDERWRITING RISK

MPS charges a subscription based, in part, on the expected volume and value of claims and cases that may arise against those members paying the subscription. There is a risk that the volume or value of claims and cases brought against those members will turn out to exceed the expectations contained within the subscriptions, with the result that 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 for membership 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 a limited number of cases, members are not accepted into, or do not continue in membership, as we consider their risks to be too high. We continue to invest in improving and developing the systems, resources and processes involved in the management of member risk, and we purchase insurance to reduce the impact of the highest value claims made against our members.

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 we can achieve from these investments, the less we would theoretically need to charge in subscriptions. However, the greater the investment return that we try to achieve from these invested assets, the greater the fluctuations in the value of those assets, and thus, the greater 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, a significant portion of assets is 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. Given that MPS supports members in several different countries, 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 MPS may have insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to meet a required 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 and liquidity funds at other times. In addition, these cash funds are supplemented by substantial holdings in liquid assets.

CREDIT RISK

This is the risk that a third party, 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 certain investments, including defaults within the direct lending portfolio and derivative financial instruments that form part of the investment portfolio.

Specific comment on this risk in relation to derivative financial instruments is provided on page 25.

Mitigation

MPS has a 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. For the direct lending fund the main mitigant against default risk is that the fund aims to be, and is, heavily weighted to senior secured debt, and as such direct lending benefits from better recovery rates than bond investors.

Following a review of investment strategy and independent advice, MPS considered that it could increase its investment in credit funds to achieve a modest increase to contractual returns, and reduce market risk, and has built up a portfolio of credit funds with experienced credit fund managers. Credit risk is managed by careful portfolio selection and diversification across managers.

INTEREST RATE/INFLATION RISK

MPS currently holds a significant, though reducing, portion 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 personal injury discount rate. The discount rate might be expected to change with changing interest rate expectations, but, as noted above in the Reserving Risk section, in the UK it is in fact fixed, by the Lord Chancellor.

Specific comment on the interest risk in relation to derivative financial instruments is provided below.

Mitigation

Interest rate exposure for bond assets has historically been 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. MPS has also previously used interest rate swaps as a means of protecting bond assets against rising interest rates. MPS's response to the risk inherent in its liabilities 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. As the proportion of bonds in the portfolio is reduced under the revised strategy, so too are exposures to interest rate and inflation movements, which could increase the risk that the asset portfolio does not adequately match the associated risks arising from its liabilities. A derivative swap programme has been introduced to ensure that the overall portfolio maintains an appropriate level of interest rate and inflation expectation exposure matching for the associated liability risks.

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 swap programme to further manage the matching of interest rate and inflation expectation risks of MPS's liabilities by the portfolio.

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 6 to the financial statements, 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, used by its investment managers within the funds, 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, diversity of investment managers where funds are invested, and the maximum exposure to any particular investment or investment manager. 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.

Whilst holding credit default swaps MPS was exposed to the credit risk of a collection of companies in return for a fixed premium. The risk of a default and resulting permanent loss of capital was mitigated by the spread of credit protection to a number of companies split across multiple counterparties. In addition, the identified risk of default was incorporated into the pricing structure to compensate for any loss.

APPROVAL

This report was approved by Council on 8 May 2019 and signed on its behalf by:

David Wheeler
Company Secretary

Members of the Council and Presidents

President

Professor Dame Jane Dacre
BSc MBBS MD FRCP London,
Edinburgh, Glasgow FHEA Honorary
Fellowships: FRCPI FACP FAcad Med
Ed FRCGP (appointed 1 October 2018)

Professor Sir Ravinder Maini
BA MB BChir FRCP FRCPE Hon DSc
(Glasg) FMedSci FRS (retired 30 June
2018) ⁵

Vice-President

Professor John Bonnar MA MD
FRCPI FRCOG

Chairman

Ian Eardley BA(Hons) MB BChir MA
FRCS MChir FRCS (Urol) (appointed 19
September 2018)

Kay-Tee Khaw CBE MA MB BChir
MSc FRCP FFPHM FMedSci
(until 18 September 2018)

Vice-Chairman

Martin Thomas MA (Oxon)
(appointed 27 March 2019)

Simon Pashby BA(Hons) FCA
(until 27 March 2019)

Chief Executive

Simon Kayll BA(Hons) FCA MBA

Members of the Council as at 31 December 2018

Richard Brennan MB BCh MICGP FRCGP LRCP&SI ^{2 3}

Fiona Cornish MA MB BChir DRCOG DCH FRCGP ^{3 4}

Ian Eardley BA(Hons) MB BChir MA FRCS MChir FRCS (Urol) *Chairman* ^{1 3 4 5 8}

Patrick Forbes MB ChB FRCOG ^{1 3 6}

Simon Kayll BA(Hons) FCA MBA *Chief Executive (ex officio)* ^{1 4 6 7 8}

Howard Kew BSc(Hons) PGCE ^{1 4 6 7}

Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci ^{1 3 4 5 6 8}

James McLenachan MB ChB MRCP FRCP ^{3 4}

Simon Pashby BA(Hons) FCA ^{1 2 4 5 6}

Alexander Scott MB ChB ^{1 2 4 6}

Sally Scutt BA(Hons) MBA MA ^{2 3 5}

Graham Stokes BDS MFGDP(UK) DPDS Dip Imp Dent RCS CertMedEd ^{2 8}

Martin Thomas MA (Oxon) *Vice-Chairman* ^{1 4 5 6}

Michael Urmston BA FIA ^{1 2 4 6}

Tom Weitzman QC BA(Hons) ^{3 4 5}

Callum Youngson BDS DDSc FDS DRD MRD FDS(Rest Dent) RCS(Ed)
FDSRCS(Eng) ^{1 8}

1. Member of the Asset and Liability Committee
2. Member of the Audit and Risk Committee
3. Member of the Medical Committee
4. Member of the Management Oversight Committee
5. Member of the Remuneration and Nominations Committee
6. Member of the Board of MPI (London) Limited
7. Member of the Board of MPS Risk Solutions Limited (disposed of operation as of 31 December 2018)
8. Member of the Board of Dental Protection Limited

Report of the Council

The Council, which for the purposes of the Companies Act 2006 is the Board of Directors, presents its Annual Report for the year ended 31 December 2018.

THE ROLE OF THE COUNCIL

The Council's principal focus is the overall strategic direction, development and control of the MPS group. In addition, it is also ultimately responsible for the exercising of discretion in response to requests for assistance. In practice, subject to reporting, oversight and review by the Council, this is delegated to the executive management and employees.

In support of the overall strategy, the Council approves the group's values, strategic plans, annual budget and overall system of risk identification, management and internal controls. The Council also has control of the group's operating and financial performance.

The Council agrees the group's corporate governance framework, as part of which it has empowered the main management committee, the Executive Committee, who are responsible for day-to-day operations.

The roles of the Chairman and Chief Executive are documented and the Chairman, together with the Chief Executive and the Company Secretary, are responsible for ensuring that the Council is kept fully informed and is consulted on issues that are reserved to it and that decisions are made in a timely manner.

Newly appointed members of the Council are given an induction appropriate to their level of previous experience.

MEMBERS OF THE COUNCIL

The names of the members of the Council of MPS who served during the year are set out on page 26.

GOVERNANCE OF MPS

In the running of its business, MPS seeks to ensure a level of governance appropriate to the size and nature of the company and to incorporate appropriate best practice. Following changes in Company law, MPS will, for the financial year ending 31 December 2019 as a large private company, adopt and report in line with the new Wates corporate governance principles (the Principles). Council considers that MPS's existing governance structure means that it is well placed to adopt the Principles.

The following sections provide details of MPS's governance.

THE COUNCIL

The Council currently consists of a non-executive Chairman, a non-executive Vice-Chairman, the MPS Chief Executive, the MPS Executive Director, and 12 other non-executive members. MPS's constitution requires that the majority of Council members are Medical or Dental members of MPS and that the Chairman is either a Medical or Dental member.

Of the non-executives (including the Chairman) at the year end, ten are Medical or Dental Protection members. With the exception of the Chairman, the non-executives are considered to be independent. The non-executives who are not a Medical or Dental Protection member have no financial interest in MPS other than their fees as members of the Council. The non-executives who are a Medical or Dental Protection member receive fees as members of the Council. Their personal membership of MPS is not felt sufficient to compromise their independence.

MPS continues to review the transparency of the independence of its non-executive directors and to provide appropriate guidelines for all directors on their ethical conduct as a director of MPS. To this

end, MPS has, for MPS and its subsidiary Boards, a register of interests and also publishes internally a Code of Ethical Conduct for all staff, which applies equally to members of the Council.

MPS has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the business. The Council considers that the non-executive members of the Council as a group are of sufficient calibre and number to bring strength and independence to the Council; this is further supported by the Vice-Chairman role.

All Council members, except for the Chief Executive and the Chairman of Dental Protection Limited, are subject to election by members at the first opportunity after their appointment by the Council, and to re-election (again excepting the Chief Executive and the Chairman of Dental Protection Limited) at general meetings at least every three years. The Chief Executive is appointed by the Council and can be removed by the Council. The Council believes that not subjecting the Chief Executive to re-election does not compromise the independence or integrity of the Council. The Chairman of Dental Protection Limited is a member of the Council *ex officio*. They are appointed to both the Dental Protection Limited Board, together with their fellow directors, and the post of Chairman, by the Council of MPS. Non-executive members of the Council usually serve for a maximum of eight full years.

The Council met formally five times during 2018. The attendance record of members of the Council at the five meetings is shown in the table below (eligible meetings for attendance shown in brackets):

Member of the Council	Appointed/Retired	Number of Meetings Attended	
		2018	2017
Richard Brennan		4 (5)	5 (5)
Fiona Cornish	Appointed 13 September 2017	4 (5)	2 (2)
Mark Davis	Retired 26 July 2017	- (-)	3 (3)
Yasmin Drabu	Retired 26 July 2017	- (-)	3 (3)
Ian Eardley		5 (5)	5 (5)
Patrick Forbes		5 (5)	5 (5)
John Gibson	Resigned 15 February 2017	- (-)	1 (1)
Simon Kayll		5 (5)	5 (5)
Howard Kew		5 (5)	5 (5)
Kay-Tee Khaw		4 (5)	5 (5)
James McLenachan		5 (5)	5 (5)
Simon Pashby		5 (5)	5 (5)
Alexander Scott		3 (5)	5 (5)
Sally Scutt		4 (5)	4 (5)
Graham Stokes	Appointed 13 September 2017	5 (5)	2 (2)
Martin Thomas		5 (5)	5 (5)
Michael Urmston		5 (5)	5 (5)
Tom Weitzman		4 (5)	4 (5)
Callum Youngson	Appointed 26 April 2017	5 (5)	3 (4)

The Council has a schedule of matters specifically reserved to it for decision, including strategy, financial policy and major acquisitions and disposals. All Council members have access to the advice and services of the Company Secretary and procedures exist for any member of the Council to take independent advice at MPS's expense.

Non-executive members of the Council met on occasions during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman.

COMMITTEES OF THE COUNCIL

The Council has a Management Oversight, Remuneration and Nominations, Asset and Liability, Audit and Risk, and Medical Committee, the members of which are listed on page 26.

The Committees met in accordance with the following schedule:

Committee	Scheduled meetings*
Council	March, April, June, September and December
Asset and Liability	February, May, September and November
Audit and Risk	March, July, September and November
Medical	March, June and October
Management Oversight	February, May, September and December
Remuneration and Nominations	February, May, July, October and December

*Additional meetings can be held if required.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is chaired by Simon Pashby (formerly a senior audit partner with KPMG), and met four times in the year. MPS's external auditors, Chairman, Chief Executive, Executive Director – Finance, Executive Director of Risk and Compliance and internal auditors also attend the meetings. The Committee meets with internal audit and the external auditor at least annually without management present. Other senior managers may attend for specific agenda items at the request of the Committee. The Audit and Risk Committee reviews the adequacy and effectiveness of risk management and control systems, oversees the work of internal audit and considers their reports and reviews the scope and results of the external audit, its quality, effectiveness and value-for-money, as well as the independence and objectivity of the auditors. In addition, the Committee also receives referrals for ethical guidance, provides oversight of MPS's anti-bribery and corruption policies, has responsibility for the 'anti-bribery' risk assessment including the risk of management override, and has oversight of the whistleblowing policy. It also reviews, prior to publication, the annual financial statements and the other information included in the Annual Report.

The attendance record of members of the Audit and Risk Committee is shown in the table below (eligible meetings for attendance shown in brackets). The Committee met in March, July, September and November in 2018.

Member of the Audit and Risk Committee	Appointed/Retired	Number of Meetings Attended	
		2018	2017
Richard Brennan		4 (4)	4 (4)
Yasmin Drabu	Retired 26 July 2017	- (-)	1 (1)
Simon Pashby (Chairman)		4 (4)	4 (4)
Alexander Scott		4 (4)	4 (4)
Sally Scutt		4 (4)	4 (4)
Michael Urmston		4 (4)	4 (4)

As noted above, the Audit and Risk Committee is responsible for ensuring the continued independence of the external auditors. The Committee has a written policy on this, which includes requiring the auditors to make a statement on their continued independence, placing limits on the amount of non-audit work undertaken by the auditors and having a policy covering the commissioning of non-audit services from the auditors.

MEDICAL COMMITTEE

The Medical Committee is chaired by a non-executive member of the Council, James McLenachan. The Medical Committee advises Council on developments within medicine, sharing experience which may impact on MPS and the membership of its Medical members. This Committee also advises Council on engagement with Medical members, and their issues and needs.

MANAGEMENT OVERSIGHT COMMITTEE

The Management Oversight Committee is chaired by a non-executive member of the Council, Alexander Scott. The Committee is responsible for overseeing all aspects of MPS's day-to-day business operations, where such operations are not otherwise covered by other Council committees or subsidiary boards.

REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee is chaired by a non-executive member of the Council, Sally Scutt, and is responsible for making recommendations to the Council concerning matters relating to remuneration policy. See 'Remuneration report' below. The Committee also keeps under review the composition of Council and makes recommendations concerning all new appointments of non-executive members.

ASSET AND LIABILITY COMMITTEE

The Asset and Liability Committee is chaired by a non-executive member of the Council, Michael Urmston, and provides governance oversight of the strategic management and oversight of the assets and liabilities of MPS. Several members of the Council are members of the Board of MPI (London) Limited, and the Asset and Liability Committee, via common membership, jointly manages MPS's investment portfolio with the Board of MPI (London) Limited. The Board of MPI (London) Limited is chaired by the Chairman of the Council.

The Boards and Committees on which members of the Council sit are set out on page 26.

BOARD EVALUATION

The Council undertakes an evaluation of its performance in each financial year. To date, this has been based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the most recent evaluation have been reported to the Council by the Chairman and reviewed and discussed. The Council was satisfied as a result of the review that the Council and its committees functioned effectively during the review period.

INTERNAL CONTROL

The Council has overall responsibility for MPS's system of internal controls and for reviewing its effectiveness, whilst the role of management is to implement the Council's policies on risk and control. MPS has an Executive Director of Risk and Compliance, responsible for fostering a member-focused and appropriate risk culture across the business which supports the delivery of financial security of our membership fund. The Executive Director of Risk and Compliance also reports into the Audit and Risk Committee. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

There is a continuous process for identifying, evaluating and managing the significant risks faced by MPS. This has been in place for the full financial year and up to the date of approval of the Annual Report.

The process involves the undertaking of regular reviews at departmental and corporate level. From these reviews, management identifies the key risks and determines their significance, based on the likelihood of each risk occurring and the potential impact on MPS if it were to do so. Management then determines what action can be taken cost-effectively.

The Council has delegated the function of monitoring the effectiveness of the system of internal control and of the risk management process to the Audit and Risk Committee. The Chairman of the Audit and Risk Committee reports outcomes of its meetings to the Council and the Council receives the minutes of all these meetings. In fulfilling its responsibilities to the Council, the Audit and Risk Committee:

- discusses with internal audit a plan of work each year, agrees the resource commitment and reviews findings of their work
- discusses with the external auditors their audit approach, and agrees any

particular aspect of internal control or risk management to be reviewed by them beyond their statutory responsibilities

- discusses with MPS in-house actuaries their approach to statistical reserving of reported claims and potential claims that have yet to be reported and procedures for an independent peer review by external consulting actuaries
- considers the results of the external auditor's work with them and with management
- initiates as necessary and considers reports from management on systems of internal control and on the effectiveness of risk management
- reports the results of its work, with any necessary recommendations, to the Council and ensures that actions required by the Council are implemented. One such report is made at the year end before producing this statement.

MPS engages the services of KPMG to provide an internal audit function, whose responsibilities include providing assurance over a wide range of issues including financial, corporate and operational risks. Assurance is provided through reporting and the provision of opinion following a range of monitoring activities, discussion and review. The internal audit function is independent from all operational departments and its work is overseen and co-ordinated by the Audit and Risk Committee. The Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the internal auditors about their work at each Committee meeting. The Committee also monitors and, where appropriate, challenges management's timely progress in the clearance of agreed audit recommendations.

The Council recognises the need to regularly review and monitor the appropriateness of its approach to overseeing the systems of risk management and control operated at MPS. With this in mind, the Council

has continued to adapt its approach during the year to take into account the economic climate of recent years, the revisions and ongoing consultations relating to corporate governance standards and guidance, and the recommendations of the Sharman Inquiry (Going Concern and Liquidity Risks). The Audit and Risk Committee itself maintains focus on the many facets of risk management and reviews key risks and their mitigating controls at least annually.

REMUNERATION AND NOMINATIONS REPORT

The Remuneration and Nominations Committee met five times in 2018. Its current constitution comprises Ian Eardley, Kay-Tee Khaw, Simon Pashby, Sally Scutt (Chair), Martin Thomas and Tom Weitzman.

Our President, Professor Sir Ravinder Maini, also attended committee meetings prior to his retirement in June 2018. From December 2018 Professor Dame Jane Dacre attended the Committee in her capacity as our new President. In addition, the Chief Executive and Executive Director of People and Culture are also in attendance at the meetings. The Chief Executive takes no part in discussions concerning his own remuneration.

The Committee is responsible for:

- recommending to Council the overarching principles and parameters of remuneration policy for MPS and working with management to oversee the operation of a reward approach in line with these principles
- establishing the salary and performance reward for the Executive Members of Council, and for receiving and reviewing managements' proposals the salary and performance reward for other senior employees
- overseeing the effectiveness, capability and development of Council and its members and for approving the remuneration of Council, its Committees and subsidiary
- succession planning for Council and its Sub-Committees and ensuring the balance, structure and composition of Council and its Committees, and

for recommending new Council appointments, appointments to subsidiary boards and Committees.

NOMINATIONS

Non-Executive Appointments

Professor Sir Ravinder Maini retired as President of MPS Council in June 2018, having served in this post for three years. We were delighted to welcome Professor Dame Jane Dacre as our new President from 1 October 2018. To ensure smooth succession for Professor Kay-Tee Khaw who was due to retire from Council in June 2019, a recruitment process commenced for a new Chairman of Council. Mr Ian Eardley was selected and became Chairman with effect from 19 September 2018 (Professor Khaw having taken the decision to step-down as Chairman with effect from 18 September 2018 and Mr Eardley's appointment was therefore effective from the 19 September 2018 in order to ensure an orderly hand-over).

In January 2018 Miss Serpil Djemal resigned from Dental Protection Ltd Board and Mr Eardley was appointed as a Director of the Board on 10 October 2018. In July 2018 Dr Sue Greening and Mr Peter Hodgkinson retired from the Dental Protection Ltd Board. A recruitment process commenced and we were delighted to welcome Dr Onkar Dhanoya and Dr Judith Husband to the Dental Protection Ltd Board with effect from 1 January 2019.

Focus of the Nominations Committee during the Year

In 2018, individual performance assessment of the Non-Executive Directors continued to complement the Council performance review that has been in place for several years. This informed the skills audit, Sub-Committee and Council succession plans ensuring that MPS optimises the skills, knowledge and experience of the extensive and diverse backgrounds of Council members.

All Non-Executive Directors are committed to participating in masterclasses to ensure currency of their skills and knowledge. They also have access to the Non-Executive Directors Association which provides online reading and learning as well as access

to governance, networking and training events.

As an international organisation we continue to be committed to representing the interests of all our members and to seeking to understand their diverse perspectives. In 2019, the Remuneration and Nominations Committee will focus on getting closer to our international members and are exploring options to extend the representation of all members.

GUIDING REMUNERATION PRINCIPLES

MPS seeks to apply a remuneration policy appropriate for a mutual society ensuring it is:

- aligned to the business strategy and goals,
- applied consistently,
- differentiated for performance,
- flexible in its delivery, and
- competitive.

BASE PAY POLICY

MPS is committed to pay equity and the principle that equal work deserves equal pay. As part of each pay review, MPS considers the base salary and performance related bonus for all employees and moves to close any pay or bonus gap for similar roles and performance. MPS will continue its work to make sure pay equity is maintained.

All roles at MPS are evaluated and benchmarked against an external benchmark database. 97.5% of our employees are paid within the established pay ranges for each. No pay range is below the Real Living Foundation rate. We pay new starters from a competitive position; those developing their skills, knowledge and experience are paid towards the lower end of the salary range and will progress through the salary range on demonstrating the required level of competence.

In November 2018, MPS published information on our gender pay gap as at 5 April 2018 and the gender bonus gap based on the preceding 12-month period to 5 April 2018. It is important to stress that a gender pay gap is not the same as

pay inequality and we are confident that our employees are paid equally for doing equivalent jobs at MPS.

Details of our Gender Pay Gap Report are at medicalprotection.org/uk/genderpay.

We recognise that our gender pay gap reflects the lower number of females in senior roles in MPS. Over the coming years we will continue to work to build a strong pipeline of talented female leaders as we believe that this is the most effective way to address this issue.

PENSION SCHEME

In 2018 the Remuneration and Nominations Committee provided oversight of the closure of the Defined Benefit Scheme to future accrual. The drivers for that closure were to ensure that MPS's pension provisions are equitable between all employees, utilise a proportionate share of MPS's resources, are sustainable into the future and remain competitive in the market place from a total reward perspective. The closure of the Scheme to future accrual required us to consult with around 30% of our employees and the migration of over 200 employees onto the Defined Contribution Scheme from 1 October 2018, to which 846 employees now belong.

PERFORMANCE RELATED BONUS

MPS operates a reward and remuneration model which aims to drive high performance and reward employees who perform according to set expectations, contribute to successful organisational performance and embody our core Values (Member First, Ambitious, Determined and Empowered).

The performance related bonus is a discretionary monetary reward that is based on performance and results achieved. It is additional to a colleague's fixed remuneration, as set out in their terms and conditions of employment.

The maximum bonus award varies according to the level of the role held by the colleague within MPS. Increased responsibility brings higher expectations, and a higher potential reward for achieving challenging targets. Accordingly, the more senior roles have more variable pay at risk if targets are not met. The Executive leadership roles have half of their variable pay reward deferred for between three and six years and subject to MPS achieving certain financial thresholds. This ensures that their main focus is on protecting the long-term financial strength of the organisation. If the overriding financial targets are not met, the deferred element is lost and will not be paid out.

The performance related bonus is assessed against corporate objectives, standard objectives and MPS Core Behaviours. For those in Lead and Translate level roles, Core Behaviours are replaced with the Leadership Framework.

A summary of the remuneration policy applied to the Executive team is outlined as follows.

	Operation	Maximum opportunity
Base salary	Reviewed annually, taking into account market data, individual responsibilities and skills, performance and experience. A more detailed external benchmark analysis is undertaken every three years, against a comparator group of mutual organisations of similar size and complexity; the next such exercise will be in 2019.	No maximum opportunity.
Core benefits	Includes car allowance, healthcare, insurance benefits and buying/selling up to five days annual leave per annum.	No maximum opportunity.
Pension	The final salary scheme closed to new members in November 2013 and to current members in September 2018. The Defined Contribution Scheme is available to all Executive members. However, if proven for tax reasons, Executive Directors may take a cash allowance in replacement of a pension scheme contribution.	For final salary calculations, pensionable pay is capped at £160,800 per annum. This cap is linked to RPI and set annually. The cash allowance is a percentage of the base pay less employer's National Insurance. It is also subject to tax and employees' National Insurance deductions.
Performance Related Bonus	Rewards annual performance against core behaviours, challenging financial and strategic measures and key individual objectives. A balanced scorecard approach is used to blend the measures for each Executive, which includes shared team objective measures. Weightings are: 50% corporate objectives, 50% based on individual objectives and Leadership Framework. 50% of variable pay is deferred, and is subject to clawback.	For Executives, the maximum additional reward for exceptional performance is an additional 50% of base salary. For "on target" performance the expected reward is 25% of base salary. Half of the above amount is deferred for three to six years, subject to satisfactory financial measures being cleared by MPS at the time of payment. The deferred portion is at risk and is not paid if key financial measures are not met regarding the strength of financial reserves of the organisation.

Executive Performance Related Bonus achieved in 2018

Name	In-Year 2018 Payable £	Deferred 2018 Payment (Potentially payable 2022 to 2025)
Simon Kayll	48,113	48,113
Howard Kew	32,436	32,436

“Thank you SO much for all your help, support and expert guidance over the last few months. It has been hugely reassuring to have full confidence in everyone who has helped me work through the various stages of this surreal journey. I have learned so much over this time and am really looking forward to having my next registrar in August.”



Full details of amounts paid are disclosed in note 8 to the financial statements.

NON-EXECUTIVE MEMBERS OF COUNCIL

The Non-Executive Council Members' remuneration was reviewed as part of the 2018 annual pay review. The Remuneration and Nominations Committee proposed changes in accordance with the MPS pay policy; the 2018 remuneration was increased by an inflationary amount of 2%.

Non-Executive Council Members do not receive any incentive or performance-related remuneration.

Non-Executive Council Members are reimbursed travel and accommodation expenses for attending Council and Committee meetings. All reimbursement in relation to meetings held in London is treated as part of taxable gross pay through payroll, as London is deemed to be their normal place of work. Expenses are paid in line with the MPS expenses policy applicable to all employees and directors.

Further information can be found in note 8 to the financial statements.

RELATIONS WITH MEMBERS

MPS values its dialogue with members throughout the year on a diverse range of subjects. In particular, the Council uses the Annual General Meeting to communicate financial performance to members and encourage their participation. Members of the Audit and Risk, Nominations and Remuneration and Asset and Liability committees will be present at the Annual General Meeting to respond to any relevant questions if necessary.

The notice for the Annual General Meeting is sent to members at least 14 clear days before the meeting date.

GOING CONCERN

Members of the Council consider that MPS has adequate resources to continue in operation for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In forming this view, members of the Council have considered the UK's Financial Reporting Council guidance. In addition to reviewing and approving short-term financial plans, they have received and discussed a report detailing the current financial position of MPS, the implications of this over various time periods, and the actions being taken by MPS to ensure that it remains a going concern.

Subsequent to the year end a non-adjusting post balance sheet event occurred. The impact of this has also been considered from a going concern perspective. Further details of the event are included in note 26.

AUDITORS

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

STATEMENT OF THE COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Council is responsible for preparing the Strategic Report, the Report of the Council and the financial statements in accordance with applicable law and regulations.

Company law requires the Council to prepare financial statements for each financial year. Under that law the Council has elected to prepare the financial statements in accordance with United

Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland". Under company law, the Council must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company, and of the total comprehensive income of the company and group for that period.

In preparing these financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Council is responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, disclose with reasonable accuracy at any time the financial position of the company, and enable them to ensure that the financial statements comply with the Companies Act 2006. It is also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council members confirm that:

- so far as each Council member is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the Council members have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

APPROVAL

This report was approved by the Council on 8 May 2019 and signed on its behalf by:

David Wheeler
Company Secretary

Independent auditor's report to the Members of The Medical Protection Society Limited

OPINION

We have audited the financial statements of The Medical Protection Society Limited (the 'parent company') and together with its subsidiaries (the 'group') for the year ended 31 December 2018, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statements of Cash Flows, the Consolidated and Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's net contribution for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the

financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

“It was actually very reassuring to see you today. You have been the absolute rock for me since I contacted you, so scared nearly a year ago. Without any doubt you have saved my life, and thus saved my children and parents from a terrible legacy. I can never repay that to you except to tell you and thank you.”

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities.

This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Redfern FCA

Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants Leeds
8 May 2019

Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Income: continuing operations			
Members' subscriptions and other income		473,876	476,815
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	18	172,462	105,510
Movement in projected insurance recoveries	4(k)	(11,373)	(4,695)
Advisory costs and associated legal costs	18	74,035	102,513
Education, publications and external relations	5a	3,597	10,809
Administration expenses	5b	42,220	38,139
Finance cost (unwinding of discount)	18, 4(k)	39,237	33,670
Gain/(loss) on exchange movements	5c	279	(331)
		320,457	285,615
Surplus of members' subscriptions and other income over expenditure: continuing operations		153,419	191,200
Net income from investments	6	36,028	75,097
Other finance income	10	345	303
Change in fair value of investments		(62,571)	98,984
Change in fair value of derivatives		243	(3,572)
Contribution before taxation: continuing operations		127,463	362,012
Tax credit/(charge) on investment income and gains/(losses)	7a	9,284	(22,146)
Net contribution for the year to funds available for members		136,747	339,866
Other comprehensive income			
Actuarial gains/(losses) on defined benefit pension scheme	10	10,930	871
De-recognition of defined benefit pension asset	10	(27,935)	-
Total comprehensive income for the financial year		119,742	340,737

The notes on pages 40 to 59 form part of these financial statements

CONSOLIDATED AND COMPANY BALANCE SHEETS

Year ended 31 December 2018

	Notes	2018 Group £'000	2017 Group £'000	2018 Company £'000	2017 Company £'000
Fixed assets					
Intangible assets	11	20,489	17,252	20,708	17,498
Tangible assets	12	36,913	38,428	36,895	38,418
Investments	13a	2,926,341	2,798,907	1,660,051	1,536,051
Derivative assets	13a	7,218	3,940	-	-
Pension asset	10	-	10,168	-	10,168
		2,990,961	2,868,695	1,717,654	1,602,135
Current assets					
Debtors - due within one year	15	52,117	35,338	186,971	121,972
- due after one year	15	65,420	59,124	65,420	59,124
Bank deposit accounts		104,990	128,723	49,433	56,332
Cash at bank and in hand		11,235	15,731	10,674	15,459
		233,762	238,916	312,498	252,887
Creditors: amounts falling due within one year	16	(102,702)	(98,294)	(100,836)	(83,662)
Net current assets		131,060	140,622	211,662	169,225
Total assets less current liabilities		3,122,021	3,009,317	1,929,316	1,771,360
Creditors: amounts falling due after one year	17	(512)	(787)	(512)	(787)
Provision for liabilities	18	(1,036,652)	(1,046,450)	(975,903)	(974,916)
Derivative liabilities	13a	(4,408)	(1,373)	-	-
Net assets		2,080,449	1,960,707	952,901	795,657
Accumulated funds					
Income and expenditure		2,080,449	1,960,707	952,901	795,657
Funds available for members	22	2,080,449	1,960,707	952,901	795,657

The parent company's net contribution for the financial year was a surplus of £174,249k (2017: £196,091k).

The financial statements were approved and authorised for issue by the Council and were signed on its behalf on 8 May 2019.

Ian Eardley
Chairman of the Council

Simon Kayll
Chief Executive

The Medical Protection Society Limited Registered Company No. 00036142

The notes on pages 40 to 59 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**Year ended 31 December 2018**

	2018 £'000	2017 £'000
Cash flows from operating activities		
Net contribution for the year to funds available for members	136,747	339,866
Adjustments for:		
Amortisation of intangible assets	2,300	827
Depreciation of tangible assets	1,953	2,033
Revaluation of investment property	1,403	-
Foreign exchange translation	279	(331)
Interest received	(2,270)	(1,615)
Dividends received from fixed asset investments	(33,759)	(73,482)
Taxation (credit)/expense	(9,284)	22,145
Net fair value losses/(gains) recognised in statement of comprehensive income	62,328	(95,412)
(Gains)/losses on disposal of tangible fixed assets	(11)	280
Loss on sale of intangible fixed assets	3	-
Loss on disposal of subsidiary	2,114	-
Increase in debtors	(6,482)	(2,815)
Increase/(decrease) in creditors	15,955	(6,638)
Decrease in claims provisions	(840)	(78,922)
Movement in net pension asset and re-measurement	(6,837)	(1,152)
Cash from operations	163,599	104,784
Income taxes paid	(12,420)	(8,061)
Net cash generated from operating activities	151,179	96,723
Cash flows from investing activities		
Purchase of intangible assets	(5,544)	(7,069)
Proceeds from sale of tangible fixed assets	22	1
Purchase of tangible fixed assets	(1,844)	(6,465)
Proceeds from sale of fixed asset investments	580,769	999,001
Purchase of fixed asset investments	(723,958)	(1,111,887)
Cash disposed of on sale of subsidiary	(18,615)	-
Interest received	2,269	1,615
Dividends received from fixed asset investments	33,759	73,482
Net cash from investing activities	(133,142)	(51,322)
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	18,037	45,401
Foreign exchange translation	550	667
Cash and cash equivalents at beginning of year	287,935	241,867
Cash and cash equivalents at end of year	306,522	287,935

The notes on pages 40 to 59 form part of these financial statements.

Analysis of changes in net funds	At 1 Jan 2018 £'000	Cash flow movement £'000	Foreign exchange £'000	At 31 Dec 2018 £'000
Cash at bank and in hand	15,731	(6,565)	2,069	11,235
Bank deposit accounts	128,723	(23,374)	(359)	104,990
Cash with investment managers	143,481	47,976	(1,160)	190,297
Net funds	287,935	18,037	550	306,522

Of the net funds held by MPS, £16.6m (2017: £16.6m) is held in trust on behalf of the MPS Periodical Payments Trust, which was established to provide security for payments to be made in satisfaction of periodical payment orders. The Trust's funds, which are invested in a segregated managed cash portfolio, can only be used to meet liabilities resulting from periodical payment orders and are not available to settle any other MPS liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Income and Expenditure £'000
At 1 January 2017	1,619,970
Net contribution for the year	339,866
Actuarial gains	871
Total comprehensive income for the year	340,737
At 31 December 2017	1,960,707
Net contribution for the year	136,747
Actuarial gains	10,930
De-recognition of defined benefit pension asset	(27,935)
Total comprehensive income for the year	119,742
At 31 December 2018	2,080,449

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Income and Expenditure £'000
At 1 January 2017	598,695
Net contribution for the year	196,091
Actuarial gains	871
Total comprehensive income for the year	196,962
At 31 December 2017	795,657
Net contribution for the year	174,249
Actuarial gains	10,930
De-recognition of defined benefit pension asset	(27,935)
Total comprehensive income for the year	157,244
At 31 December 2018	952,901

The notes on pages 40 to 59 form part of these financial statements.

Notes to the Financial Statements

1 COMPANY INFORMATION

The Medical Protection Society Limited is a private company, limited by guarantee, registered in England with company number 00036142 at Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for the modification to a fair value basis for certain financial instruments and investment property, as specified in the accounting policies below.

The financial statements are presented in Sterling (£) and are rounded to the nearest £'000.

The group's financial statements consolidate the financial statements of The Medical Protection Society Limited and its subsidiary undertakings, as detailed in note 14. The consolidation is drawn up to 31 December each year.

The group has adopted the disclosure exemption relating to the exposure to, and management of, financial risks on financial instruments as the financial instruments are held as part of an active investment portfolio.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Preparation of the financial statements requires management to make significant judgment and estimates. The items in the financial statements where these judgments and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

Provision for the future cost of claims (note 18)

Provision is made, as appropriate, for estimated future costs and damages, legal costs and claims handling costs expected to arise from all requests for assistance that have been notified to MPS by 31 December, in respect of which the Council has exercised or is expected to exercise its discretion to provide indemnity. These provisions require management's best estimate of the costs that will be incurred. The timing of cash flows and the discount rates used to establish the net present value of the future settlement values require management's judgment and are detailed in the accounting policy, note 4(k).

No provision is made in the financial statements for the potential claims that may arise from incidents that occurred before 31 December but which had not been reported to MPS at that date. This is a key judgment area, which the Council has considered in detail, concluding that these potential claims do not constitute a liability as recognition is dependent on the exercise of discretion by the Council; and there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of

discretion by the Council is set out in the Articles of Association in paragraph 40.

In reaching this judgment, the Council considered whether members have a valid expectation that assistance will be provided in full with regards all submitted claims. Having considered how discretion is exercised by MPS, the Council conclude that there cannot be a valid expectation that all requests for assistance will be met in full, and that it is not appropriate to make a provision for potential claims that have not been reported by 31 December. However, the Council believes it is appropriate to make an estimate of the cost of these potential future claims when assessing the adequacy of MPS's funding position. This estimate is disclosed and discussed in note 22.

Defined benefit pension scheme (note 10)

The group has obligations to pay pension benefits to current and past employees who are members of the defined benefit pension scheme. The cost of these benefits and the present value of the obligation are dependent on a number of factors such as life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors with guidance from external actuaries, in order to determine the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

The actuarial calculations indicate a significant surplus on the accounting valuation basis. Due to the closure of the scheme during 2018 the company has no continuing contributions planned against which the asset would be utilised, however the asset can still be realised through a refund from the scheme at the point that scheme is finally wound up, typically on the death of the final pensioner. The directors consider that a receipt at such time is sufficiently uncertain that they have de-recognised the asset at this time, pending further review and advice.

Valuation of unlisted investments (note 13a)

Some of the investments held by the group are not traded on active markets, so it is not possible to value the asset or liability using a quoted price in an active market. Where there is no quoted price available it is sometimes possible to use observable market data for valuation, examples include forward foreign exchange contracts and interest rate swaps. Where there is an absence of quoted prices and observable market data the company relies on the valuation methodology applied by the investment manager to ascertain the fair value of the assets, these are disclosed in level 3 of the fair value hierarchy in note 13(d).

The Council has judged that the valuation policies and controls, which the investment managers have in place for unlisted investments, are sufficient to be able to use the valuations provided to account for the investments at fair value.

Further details on the valuation of investments and derivatives are disclosed in the accounting policies section in notes 4(g) and 4(h).

Deferred tax

In preparing the financial statements the directors made the assumption that the equity investments as shown in note 13(a) are held for long-term investment. The deferred tax payable on the change in fair value that would be taxable on disposal has been calculated at 17%, the latest UK Corporation Tax rate enacted as at the balance sheet date which applies from 1 April 2020. Should any holdings be disposed of in the intervening period the tax charge would be at a higher tax rate.

4 PRINCIPAL ACCOUNTING POLICIES

(a) Consolidation

The group financial statements comprise a consolidation of the financial statements of the parent company (the "company") and all of its subsidiary undertakings (together, the "group") as at 31 December and as identified in note 14. The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

As a consolidated statement of comprehensive income is published, the parent company has taken advantage of the exemption in section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. Also, as a consolidated statement of cash flows is published, the parent company has taken advantage of the exemption in paragraph 1.12(b) of FRS 102 and has not included its own statement of cash flows in these financial statements.

(b) Subscriptions

Subscription income comprises amounts receivable during the year, apportioned to accounting periods based on actual membership periods and stated at the fair value of the consideration receivable. It is recognised when the company has performed its obligation to provide a period of membership, which allows members to seek assistance for incidents occurring during that period, and in exchange obtained the right to consideration. Income is not deferred beyond the end of the period of membership, as future benefits arising from that period of membership will be subject to Council exercising its discretion to provide such benefits.

No geographical analysis of subscription income is shown because, in the opinion of the Council, it would be seriously prejudicial for the group to do so.

(c) Intangible fixed assets and amortisation

Intangible fixed assets are included at cost. Amortisation is provided on a straight-line basis on the cost of intangible fixed assets so as to write them down to nil value over their expected useful lives. Where there is evidence of impairment, intangible assets are written down to their current valuation, with any such write down being charged to net contribution to funds. The expected useful lives for intangible assets are:

Intellectual property rights	5 years
Copyrights	22 years
Software	5 - 10 years
Case management system	7 years

(d) Tangible fixed assets and depreciation

All tangible fixed assets are included at cost. Depreciation is provided on a straight-line basis on the cost of tangible fixed assets so as to write them down to their estimated residual value over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down is recognised immediately in net contribution to funds. The expected useful lives for tangible fixed assets are:

Freehold buildings	50 years
Leasehold property	the term of the lease
Furniture and fittings	20 years
Office equipment	6.5 years
Computers	4 years
Motor vehicles	5 years

(e) Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in net contribution to funds.

(f) Translation of foreign currency transactions

Income and expenditure in foreign currencies are translated to their Sterling equivalent at the rate ruling at the transaction date. Monetary assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December. Any gains or losses are taken to net contribution to funds.

(g) Net investment income

Investment income is made up of interest, dividends, realised gains/losses and derivative income. Interest receivable is brought into account on an accruals basis under the effective interest method, with derivative income and realised gains/losses accounted for when received/paid. As equity investments are in pooled funds and unit trusts, dividend income is reinvested rather than distributed. Such income is therefore included within fair value movement on investments rather than being recorded as dividend income.

(h) Investments

Investments are recognised initially at fair value which is normally the transaction price. They are then subsequently measured as follows:

Listed investments (which include cash held by the investment managers awaiting investment) are subsequently measured at fair value through net contribution to funds using bid price. Changes in fair value are recognised in net contribution to funds.

Unlisted investments, for which an independent market valuation is available, are measured at fair value through net contribution to funds.

Unlisted infrastructure funds are measured at fair value using a discounted cash flow valuation methodology. In this methodology the future cash flows that are expected to be generated by an asset and made available to the fund, for example through dividends or loan repayments, are estimated, and these are discounted back to the valuation date. The discount rate comprises a risk premium reflecting the uncertainty associated with the cash flows, and the risk-free interest rate applicable in the country in which the asset is located. The risk premium is determined as the implied risk premium at acquisition, unless there is an inherent change in the risk profile of the business which may necessitate a change. Foreign assets

are converted using the exchange rate on the valuation date. Changes in fair value are recognised in net contribution to funds.

The direct lending fund is carried at fair value, fair value is determined by using the funds valuation approach which is based on a net asset value. Unlisted direct lending funds are measured at par value including any deferred interest which has been capitalised up to the valuation date. If the senior debt or bond has an S&P Rating of "CCC+" or lower, a fair value is determined by applying a standardised valuation approach. Thereby, the fair enterprise value of the respective company is derived based on a fair enterprise value (EV) determination. The EV is computed using a variety of techniques including, but not limited to, determination based on latest EBITDA figures (or forecast/budgeted EBITDA figures) using public and private transaction multiples as comparables. Where the fair enterprise value determined above is smaller than the underlying company's net debt position, the investment is written down to the fair value calculated correspondingly.

The inflation opportunities portfolio and multi-asset credit investments are measured using the net asset values provided by the fund managers. The funds contain a variety of assets that are measured at fair value through net contribution to funds. The fair value of the underlying financial instruments is based on their quoted mid-market prices at the reporting date. If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, pricing models, or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions. Collective Investment Schemes (CIS) are priced based on the valuation supplied by the administrator of the CIS. Financial assets include investments in open-ended investment funds. Fair value is based on the underlying fund administrator's calculation of net asset value per share which will be the latest mid prices published by the collective investment schemes, unless any adjustments are required for illiquidity, low trading volumes or any such factors that indicate that the mid price may not be fair value.

For real estate debt funds, any underlying properties are valued in accordance with Practice Statement 4.2 of the Appraisal and Valuation Manual (1995) of the Royal Institution of Chartered Surveyors (RICS). For the ground rent element where the investment is in "strips", the fair value is deemed to be equal to the historical cost, adjusted for amortisation and other payments received, less any impairment.

Investments in subsidiaries are stated at cost, less provision for impairment where necessary to reduce book value to recoverable amount.

(i) Derivative financial instruments

Derivative financial instruments are recognised at fair value using a specified valuation technique (see below) with any gains or losses being reported in the statement of comprehensive income. Outstanding derivatives at the reporting date are included under the appropriate format heading depending on the nature of the derivative.

Interest rate swaps are valued on a daily basis by MPS's investment managers using a detailed valuation methodology for a zero coupon interest rate swap. Interest rate curves using real-time quotes from a number of market sources are used to value the swaps along with interpolation required to calculate the cash flow due or payable on each swap's floating rate leg.

The investment manager reconciles the valuations on a daily basis between their own systems and those of the counterparty. In addition an independent third party agent is also used to value the trades. The three-way reconciliation process ensures that the valuations are in line with the market on any given day and enables variations in valuation between the investment manager and the counterparty to be investigated in a timely fashion.

Credit default swaps are valued on a daily basis by MPS's investment managers using Markit credit default swap levels. Euro swap curves using real-time quotes from a number of market sources are used to value the swaps.

A third party currency management system is utilised by MPS's investment managers to obtain valuations for foreign exchange forward contracts. This system uses WM Reuters Fix rate to value the open market contracts against the traded rate. The number of contracts and market value difference is reconciled against counterparties daily and material variances flagged for further investigation.

In addition, the group's investment managers are permitted to hold derivative financial instruments to enhance investment returns. These instruments are measured at fair value with any changes in value and gains or losses credited or charged to net contribution to funds.

The currency swaps are not designed to be a perfect hedge, and the group has not adopted any form of hedge accounting.

(j) Cash deposits

Cash deposits (consisting of bank deposit accounts, and cash at bank and in hand) are held to meet working capital requirements and when awaiting long-term investment within MPS's managed portfolios. A range of deposit accounts and cash equivalents such as liquidity funds are used for this purpose. The funds are kept liquid with the vast majority available on call.

(k) Costs and damages for claims

Provision is made, as appropriate, for estimated future costs and damages, legal costs and claims handling costs expected to arise from all claims that have been notified to MPS by 31 December in respect of which the Council has exercised or is expected to exercise its discretion to provide indemnity. The estimate of these costs is provided on an individual basis by claims managers along with an estimation of the likelihood that MPS will have to settle the claim. These estimates are stated before deducting estimated recoveries from insurers, which are disclosed separately within debtors. These estimated recoveries are reassessed quarterly.

The discounted future settlement values are deemed to be the best estimate of these costs. The unwinding of the discount is separately identified in the claims provision (note 18) and is disclosed within finance costs in net contribution to funds. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 4.3% (2017: 3.6%) per annum.

The principal financial assumptions used in the calculation of the claims provision are that average claims inflation will be 6.7% (2017: RPI plus 3.9%) per annum over the period to payment where claims inflation assumptions are estimated and applied by territory by the internal actuarial team, having been approved by MPS's Asset and Liability Committee. Investment return, used to discount future claims payments back to the balance sheet date, will be the UK risk-free rate published by the European Insurance and Occupational Pensions Authority (EIOPA) as at the year end,

plus 3% for all territories other than South Africa. The South Africa risk-free rate published by EIOPA -0.2% is used (2018: RPI plus 1.1%). The average period to payment is estimated as 2.4 years (2017: 2.5 years). The payment delay is estimated by territory by the internal actuarial team.

(l) Tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods, using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except otherwise as indicated. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date, that are expected to apply to the reversal of the timing difference.

The tax credit/(charge) is presented either in net contribution to funds or equity, depending on the transaction that resulted in the tax credit/(charge).

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if the group has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

(m) Pensions

MPS operates two pension schemes: a defined benefit scheme (DB) and a defined contribution scheme (DC).

The assets of both schemes are invested and managed independently of MPS's finances. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method, which attributes entitlement to benefits to the current cost period to calculate current service cost, and to the current and prior periods to determine the present value of defined benefit obligations, and is based on actuarial advice. When a settlement or a curtailment occur, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss, which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined benefit liability by the discount rate at the start of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in net contribution to funds as other finance income or cost.

Re-measurements, including actuarial gains and losses, the effect of the asset ceiling and the return on the net defined benefit liability (excluding amounts included in net interest), are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to net contribution to funds in subsequent periods.

The defined benefit pension asset or liability in the balance sheet comprises the total present value of the defined benefit obligation, calculated using a discount rate based on UK gilts, less the fair value of plan assets, out of which the obligations are to

be settled. Fair value is based on market price information, and in the case of quoted securities, is the published bid price.

Defined benefit pension scheme surpluses are limited to the extent they are considered recoverable either through reduced contributions or agreed refunds from the scheme.

The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of the scheme, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, the company considers the rate of return from UK gilts and future RPI inflation by deriving a single-weighted average over the appropriate Bank of England curve (extrapolated for years beyond 25) taking account of the scheme's projected benefit cash flows at each duration. The mortality rate is based on publicly available mortality tables for the UK. Future salary increases are based on expected future UK inflation rates.

Further information on the structure of the defined benefit scheme is contained within note 10 to these accounts.

Contributions to the defined contribution pension scheme are charged to the statement of comprehensive income in the year to which they relate.

(n) Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the group are treated as operating leases. Rentals under operating leases are charged against net contribution to funds on a straight-line basis over the period of the lease. Operating lease incentives are recognised, on a straight-line basis, as a reduction of the rental expense over the term of the lease.

(o) Current assets and liabilities

Current assets and liabilities (except in relation to the defined benefit pension scheme) are measured at the present value of future cash flows. These amounts are tested for impairment, with any impairment found taken to net contribution to funds.

(p) Going concern

After reviewing the company's forecasts and projections, members of the Council have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

In forming this view, members of the Council have considered the recommendations arising from the Sharman Inquiry "Going Concern and Liquidity Risks". Please see page 32 in the Report of the Council.

5A EDUCATION, PUBLICATIONS AND EXTERNAL RELATIONS

Included under this classification are costs associated with developing and delivering education 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.

5b ADMINISTRATION EXPENSES

	2018 £'000	2017 £'000
Included under this classification are:		
Operating lease rentals:		
- Land and buildings	2,473	3,742
- Motor vehicles	136	179
- Office equipment	227	245
Depreciation of fixed assets	1,953	2,033
Amortisation of intangible assets	2,300	827
Employer contributions to DC pension schemes	4,868	3,749
Auditor's remuneration		
Services to the company and its subsidiaries		
Fees payable to the company's auditor for the audit of the annual financial statements	144	186
Fees payable to the company's auditor and its associates for other services:		
Audit of the financial statements of the company's subsidiaries pursuant to legislation	24	31
Other services:		
- Taxation advice	-	7
- Audit related assurance services	-	2
Services to the company's associated pension scheme		
Audit of the financial statements of the Scheme pursuant to legislation	16	8

The 2017 audit fee of £186k included a one-off charge of £60k for work relating to the PIDR change.

5c EXCHANGE MOVEMENTS

The majority of the losses on exchange movements relate to the restatement of cash assets held to match international liabilities. These losses are substantially offset by a corresponding decrease in international claim liabilities, which are included in claims costs and associated legal costs in the statement of comprehensive income.

6 NET INCOME FROM INVESTMENTS

	2018 £'000	2017 £'000
Bond and gilt interest	27,249	30,509
Bank interest	2,269	1,615
Other investment income	11,884	26,225
Derivative (payments)/receipts	(5,374)	16,748
	36,028	75,097

Other investment income includes distributions from the infrastructure, real estate debt, multi-asset credit and inflation opportunities funds.

As noted in 4(g), dividend income from MPS's equity investments is not distributed but is reinvested and included in the change in fair value of investments rather than as net income from investments.

7a TAX CREDIT/(CHARGE) ON INCOME AND GAINS/(LOSSES) FROM INVESTMENTS

	2018 £'000	2017 £'000
Current tax:		
UK corporation tax	59	12,948
Adjustments in respect of prior years	(925)	190
Overseas taxation	14	138
Double taxation relief	(3)	(6)
Total current tax	<u>(855)</u>	<u>13,270</u>
Deferred tax:		
Origination and reversal of timing differences	(8,461)	11,001
Adjustment in respect of prior years	32	(2,125)
Total deferred tax	<u>(8,429)</u>	<u>8,876</u>
Tax credit/(charge) on investment income and (losses)/gains in the consolidated statement of comprehensive income for the year	<u>(9,284)</u>	<u>22,146</u>

7b FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the United Kingdom at 19% (2017: 19.25%). The differences are explained as follows:

	2018 £'000	2017 £'000
Contribution before tax	127,463	362,012
Income and net gains/(losses) from investments multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.25%)	24,218	69,675
Other permanent differences	5	-
Indexation allowances	-	(998)
RPI linked indexation	(2,212)	(5,082)
Non-taxable dividend income	-	(508)
Adjustment in respect of prior years - current tax	(925)	190
Adjustment in respect of prior years - deferred tax	32	(2,125)
Non-taxable contribution	(31,305)	(37,175)
Difference in tax rates	996	(1,514)
Foreign tax	11	133
Transfer pricing adjustments	8	3
Expenses not deductible for tax	-	8
Deferred tax previously not recognised	-	(2)
Deferred tax not recognised	(112)	(459)
Tax charge for the year	<u>(9,284)</u>	<u>22,146</u>

The non-taxable contribution above is the balance of members' subscription income over related expenditure, which, due to MPS's mutual status, is not subject to corporation tax.

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £nil (2017: £nil).

7c FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

A reduction in the UK corporation tax rate from 20% to 19% took effect from 1 April 2017 and is still in force for the current year. Following Budget 2018 announcements, the proposal to further reduce the main rate of UK corporation tax to 17% in 2020 has remained.

8 EMOLUMENTS OF MEMBERS OF THE COUNCIL

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £26,433 (2017: £25,308). In addition, most non-executive members of the Council receive fees for appointments to various Boards and Committees. Details of Council member appointments can be found on page 26. The total fees payable to all members of the Council are analysed below:

	Salary/fees £'000	TB £'000	PR ¹ £'000	PEN £'000	Total £'000	2017 £'000
Executive members						
Simon Kayll (Chief Executive)	362	20	48	64	494	470
Howard Kew (Executive Director)	244	20	32	43	339	317
Non-executive members						
Ian Eardley (Chairman) (Appointed 19 September 2018)	42	5	-	-	47	35
Kay-Tee Khaw (Chairman) (Until 18 September 2018)	54	-	-	-	54	59
Richard Brennan	35	4	-	-	39	38
Fiona Cornish (Appointed 13 September 2017)	31	-	-	-	31	9
Mark Davis (Retired 26 July 2017)	-	-	-	-	-	23
Yasmin Drabu (Retired 26 July 2017)	-	-	-	-	-	18
Patrick Forbes	35	-	-	-	35	34
John Gibson ² (Resigned 15 February 2017)	-	-	-	-	-	6
James McLenachan	41	3	-	-	44	42
Simon Pashby	58	4	-	-	62	61
Alexander Scott	45	5	-	-	50	46
Sally Scutt	46	-	-	-	46	44
Graham Stokes (Appointed 13 September 2017)	31	1	-	-	32	11
Martin Thomas	39	3	-	-	42	40
Michael Urmston	45	-	-	-	45	44
Tom Weitzman	39	-	-	-	39	37
Callum Youngson (Appointed 26 April 2017)	40	2	-	-	42	34
	1,187	67	80	107	1,441	1,368

Key:

TB	Taxable benefits – includes car allowance, medical benefits, other allowances and taxable expenses
PR	Performance reward relating to the financial year, payable in the following March
PEN	Employer pension contributions into DC schemes or via alternative arrangements

Notes:

- 1 An additional performance award, equal to the PR award paid, is deferred and payable in three years, subject to further objectives being met. The deferred element of the 2015 bonus became payable in 2018 after relevant objectives were achieved. The bonus will be paid in March 2019.
- 2 Fees are paid via a third party and include an uplift of 13.8% in lieu of National Insurance.

During 2018 there were no executive members of the Council (2017: two) who were members of MPS's defined benefit pension scheme, details of which are set out in note 10. During the same period, no members of Council (2017: nil) were members of the defined contribution pension scheme, which was introduced on 1 November 2013.

In addition, as stated in the Report of the Council on page 27, ten (2017: nine) non-executive members of the Council had personal membership of MPS.

9 EMPLOYEES

The average number of people employed in the provision of services to members during the year was 936 for the group (2017: 944) and 922 for the company (2017: 935). Costs in respect of these employees were:

	2018 Group £'000	2017 Group £'000	2018 Company £'000	2017 Company £'000
Wages and salaries	48,120	46,410	47,065	45,730
Social security costs	5,192	5,063	5,178	4,980
Pension costs	1,892	9,956	1,674	9,871
	55,204	61,429	53,917	60,581

10 PENSIONS

MPS operates two pension schemes: a funded defined benefit pension scheme, which is administered under Trust and a defined contribution pension scheme, which is overseen by the Defined Contribution Oversight Committee. The assets of both schemes are held independently of MPS's finances. Contributions to the defined contribution scheme are charged to the statement of comprehensive income in the year to which they relate. Contributions to the defined benefit scheme are paid to the scheme in accordance with the Schedule of Contributions agreed between the Trustees and MPS.

The defined benefit scheme was closed to new entrants on 1 November 2013, at which time the defined contribution scheme was introduced. On 30 September 2018, the defined benefit scheme was closed to future accrual, meaning that no additional service will be accrued after that date, and that pension increases until retirement will be limited to RPI rather than any assumptions on pay increases. These changes have been reflected in this year's accounting figures.

The following tables set out the key assumptions used for the defined benefit scheme. The tables also set out, as at the accounting date, the fair values of the assets, analysed by asset class, the present

value of the scheme liabilities and the resulting pension surplus. Since the closure of the scheme to future accrual, any asset would not be recoverable through reduced future contributions to the scheme, however is recoverable on the winding up of the scheme, typically when the final member of the scheme dies. Due to the long timescale of this eventuality, Council has considered that this gives sufficient uncertainty and therefore de-recognised the net defined benefit asset for the current year, pending further review and advice.

The funding of the defined benefit scheme is based on a triennial valuation. The last full actuarial valuation completed and agreed was as at 31 December 2014. This valuation has then been further updated to the accounting date by an independent qualified actuary. The next full actuarial valuation as at 31 December 2017 has not yet been agreed, however, the underlying membership data has been updated to reflect scheme membership as at 31 December 2017.

For this year's calculation, a provision has been made for GMP equalisation, which equalises pension benefits for male and female members of the scheme. For the MPS scheme, this equalisation was relatively small due given the retirement age rules in the scheme.

Actuarial assumptions

	At 31 December 2018 % pa	At 31 December 2017 % pa
Price RPI inflation	3.4	3.4
Discount rate	2.9	2.4
Pension increases (LPI 5%)	3.2	3.2
Pension increases (LPI 3%)	2.5	2.5
Salary growth	N/A	4.4

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 29.0 years (2017: 29.4 years) and a female pensioner currently aged 60 would be expected to live for a further 31.1 years (2017: 31.7 years). Allowance is made for future improvements in life expectancy.

Movement in net defined benefit asset

	At 31 December 2018 £'000	At 31 December 2017 £'000
Opening net defined benefit asset	10,168	8,145
Cost in net contribution to funds	3,241	(6,047)
Employer contributions	3,596	7,199
Amount recognised in other comprehensive income	10,930	871
Closing net defined benefit asset	27,935	10,168

Amounts recognised in the balance sheet

	At 31 December 2018 £'000	At 31 December 2017 £'000
Fair value of scheme assets	179,088	186,853
Defined benefit obligation	(151,153)	(176,685)
Net defined benefit asset	27,935	10,168
Restriction on value of asset recognised	(27,935)	-
Asset recognised in the balance sheet	-	10,168

As noted earlier, the current net defined benefit asset has not been recognised in the balance sheet pending further review into the certainty of recovery over an extended period of time.

10 PENSIONS (CONTINUED)

Plan Assets

	At 31 December 2018		At 31 December 2017	
	%	£'000	%	£'000
Equities	16	27,489	31	56,953
Liability driven investment	62	111,222	40	74,541
Diversified growth fund	22	39,705	29	54,933
Cash and net current assets	-	672	-	426
Total	100	179,088	100	186,853

Amounts recognised in net contribution to funds

	2018	2017
	£'000	£'000
Employer's part of current service cost	4,515	6,350
Interest income	(345)	(303)
Past service cost and settlements	(7,411)	-
Total (gain)/expense recognised in net contribution to funds	(3,241)	6,047

The defined benefit obligation moved over the year as follows:

	2018	2017
	£'000	£'000
Opening defined benefit obligation	176,685	164,460
Interest on obligation	4,145	4,181
Employer's part of current service cost	4,515	6,350
Contributions by scheme members	11	11
Benefits paid	(4,071)	(7,421)
Past service cost and settlements	(7,411)	-
Actuarial (loss)/gain	(22,721)	9,104
Closing defined benefit obligation	151,153	176,685

Movement in fair value of plan assets

	2018	2017
	£'000	£'000
Opening fair value of scheme assets	186,853	172,605
Interest on assets	4,490	4,484
Contributions by scheme members	11	11
Contributions by the employer	3,596	7,199
Benefits paid	(4,071)	(7,421)
Actual return on plan assets less interest	(11,791)	9,975
Closing fair value of scheme assets	179,088	186,853
Actual return on assets	(7,301)	14,459

Over the year to 31 December 2018, MPS made contributions of £3.6m (2017: £7.2m) to the scheme. As part of the full actuarial valuation effective as at 31 December 2014, it was agreed that employer contributions would be at a rate of 27.4% of pensionable salaries for 88th scale members from 1 January 2015 to 5 April 2016 and 24.4% after 5 April 2016. For 63.8th scale members, employer contributions were agreed at 35.3% for the period from 1 January 2015 to 1 April 2015, 33.5% for the period 1 April 2015 to 5 April 2016 and 30.9% from 6 April 2016.

Estimated total contributions payable to the defined benefit scheme by MPS for 2019, including deficit funding contributions, are £nil following the closure to future accrual.

Amounts recognised in other comprehensive income:

	2018 £'000	2017 £'000
Re-measurements	10,930	871
De-recognition of defined benefit asset	(27,935)	-
	(17,005)	871

11 INTANGIBLE FIXED ASSETS

Group	Software £'000	Copyrights £'000	Total £'000
Cost			
At 1 January 2018	23,020	16	23,036
Additions	5,544	-	5,544
Disposals	(1,260)	-	(1,260)
At 31 December 2018	27,304	16	27,320
Amortisation			
At 1 January 2018	5,774	10	5,784
Provided in year	2,297	3	2,300
Released on disposal	(1,253)	-	(1,253)
At 31 December 2018	6,818	13	6,831
Net book value			
At 31 December 2018	20,486	3	20,489
At 31 December 2017	17,246	6	17,252
Company			
Cost			
At 1 January 2018	22,819	394	23,213
Additions	5,525	-	5,525
Transfers within group	201	-	201
Disposals	(1,256)	-	(1,256)
At 31 December 2018	27,289	394	27,683
Amortisation			
At 1 January 2018	5,573	142	5,715
Provided in year	2,294	18	2,312
Transfers within group	201	-	201
Released on disposal	(1,253)	-	(1,253)
At 31 December 2018	6,815	160	6,975
Net book value			
At 31 December 2018	20,474	234	20,708
At 31 December 2017	17,246	252	17,498

Software additions include £3.9m (2017: £14.8m) of capital expenditure relating to the build phase of a new member administration IT system. This system went live in April 2018. Further enhancements will be released in the 2019 financial year. The remaining amortisation relating to this asset at the end of 2018 is £18m which will be released over nine years.

The group intangible fixed assets include intellectual property rights acquired by a group company, The Cognitive Consulting Group Pty Limited (CCG) (see note 14).

The company intangible fixed assets include copyrights for educational training material purchased by the parent company from CCG.

12 TANGIBLE FIXED ASSETS

	Investment property	Freehold property	Leasehold property	Computers, furniture, fittings and office equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Group						
Cost or valuation						
At 1 January 2018	3,230	31,160	3,882	9,869	33	48,174
Additions	1,041	224	51	496	32	1,844
Disposals	-	-	-	(1,679)	(24)	(1,703)
Revaluation	(1,403)	-	-	-	-	(1,403)
At 31 December 2018	2,868	31,384	3,933	8,686	41	46,912
Depreciation						
At 1 January 2018	-	2,217	644	6,856	29	9,746
Provided in year	-	642	290	1,013	8	1,953
Released on disposals	-	-	-	(1,676)	(24)	(1,700)
At 31 December 2018	-	2,859	934	6,193	13	9,999
Net book value						
At 31 December 2018	2,868	28,525	2,999	2,493	28	36,913
At 31 December 2017	3,230	28,943	3,238	3,013	4	38,428
Company						
Cost or valuation						
At 1 January 2018	3,230	31,160	3,882	9,805	33	48,110
Additions	1,041	224	51	496	32	1,844
Disposals	-	-	-	(1,669)	(24)	(1,693)
Transfers within group	-	-	-	(8)	-	(8)
Revaluation	(1,403)	-	-	-	-	(1,403)
At 31 December 2018	2,868	31,384	3,933	8,624	41	46,850
Depreciation						
At 1 January 2018	-	2,217	644	6,802	29	9,692
Provided in year	-	642	290	1,014	8	1,954
Released on disposals	-	-	-	(1,666)	(24)	(1,690)
Transfers within group	-	-	-	(1)	-	(1)
At 31 December 2018	-	2,859	934	6,149	13	9,955
Net book value						
At 31 December 2018	2,868	28,525	2,999	2,475	28	36,895
At 31 December 2017	3,230	28,943	3,238	3,003	4	38,418

All the leasehold properties held at 31 December 2018 are short leaseholds.

The investment property was acquired in 2017 in an open market, arm's length transaction. The revaluation has been conducted by the members of Council who are deemed to have appropriate skills and experience, as well as knowledge of the local market, to be able to conduct such valuation. The valuation is based on the discounted cash flows which have been forecast from current rental agreements and expected market rates.

The historical cost of investment properties held at fair value is £4,721k (2017: £3,230k).

Capital commitments

Capital expenditure approved and contracted for amounted to £nil on investment property (2017: £797k) and £3,881k for the new member administration system included in intangible assets (2017: £7,387k).

13a INVESTMENTS AND DERIVATIVES

Group

	Total investments £'000	Total derivatives £'000
Valuation at 1 January 2018	2,798,907	2,567
Investment additions	723,958	-
Disposals at carrying value	(601,190)	-
Movement in cash balances	67,237	-
Fair value adjustments	(62,571)	243
At 31 December 2018	2,926,341	2,810

Company

	Total investments £'000
<i>Investment in subsidiaries (note 14)</i>	
Cost as at 1 January 2018	1,536,051
Additions in the year	135,000
Disposals in the year	(11,000)
As at 31 December 2018	1,660,051

Investments comprise

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Listed investments	1,953,116	1,894,143	-	-
Unlisted investments	782,928	761,283	-	-
Shares in group undertakings	-	-	1,660,051	1,536,051
	2,736,044	2,655,426	1,660,051	1,536,051
Cash	190,297	143,481	-	-
	2,926,341	2,798,907	1,660,051	1,536,051
<i>Derivative financial instruments (13b):</i>				
- assets	7,218	3,940	-	-
- liabilities	(4,408)	(1,373)	-	-
	2,810	2,567	-	-

Note 13b below contains further information on derivative financial instruments.

All other fixed asset investments are measured at fair value with changes in value reflected in the statement of comprehensive income.

13b DERIVATIVE FINANCIAL INSTRUMENTS

The following derivative financial instruments, recognised in note 13a above, were held at the end of the year:

Interest Rate Swaps

Duration	Nature of contract	Notional value £'000	Asset £'000	Liability £'000
2yrs-10yrs	Pay fixed for floating	417,500	5,697	(1,290)

Forward Foreign Exchange Contracts

Duration	Nature of contract	Notional value '000	Asset £'000	Liability £'000
3 months	Sell USD Buy HKD	USD 1,600,000	6	(10)
3 months	Sell USD Buy ILS	USD 122,000	-	(828)
3 months	Sell USD Buy MYR	USD 125,000	211	-
3 months	Sell USD Buy SGD	USD 130,000	1,096	-
2 months	Sell GBP Buy ZAR	GBP 73,000	83	-
3 months	Sell USD Buy GBP	USD 20,000	-	(575)
2 months	Sell GBP Buy USD	GBP 13,000	125	-
3 months	Sell ZAR Buy GBP	ZAR 17,000	-	(1,420)
3 months	Sell EUR Buy GBP	EUR 14,000	-	(285)
			1,521	(3,118)

13c COLLATERAL AMOUNTS GIVEN/RECEIVED

The following collateral balances at fair value were held at the end of the year, relating to amounts given/received against unrealised losses/gains respectively on derivative financial instruments shown in note 13b above.

Derivative held	Form of collateral	Given £'000	Received £'000
Interest rate swaps	Cash	1,120	5,932

13d FAIR VALUE HIERARCHY

Financial assets at fair value through net contribution to funds

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2018				
Equities	727,089	-	-	727,089
Government and other bonds	695,081	-	-	695,081
Infrastructure	-	-	153,894	153,894
Multi-asset credit	530,946	-	48,151	579,097
Inflation opportunities portfolio	-	-	219,127	219,127
Real estate and ground rent	-	-	90,180	90,180
Direct lending	-	-	271,576	271,576
	1,953,116	-	782,928	2,736,044
Derivative financial instruments	-	7,218	-	7,218
	1,953,116	7,218	782,928	2,743,262
At 31 December 2017				
Equities	777,145	-	-	777,145
Government and other bonds	1,116,998	-	-	1,116,998
Infrastructure	-	-	140,132	140,132
Multi-asset credit	-	-	195,461	195,461
Inflation opportunities portfolio	-	-	210,356	210,356
Real estate and ground rent	-	-	83,227	83,227
Direct lending	-	-	132,107	132,107
	1,894,143	-	761,283	2,655,426
Derivative financial instruments	-	3,940	-	3,940
	1,894,143	3,940	761,283	2,659,366

Financial liabilities at fair value through net contribution to funds

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2018				
Derivative financial instruments	-	(4,408)	-	(4,408)
At 31 December 2017				
Derivative financial instruments	-	(1,373)	-	(1,373)

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1	Valued using quoted prices in active markets for identical assets.
Level 2	Valued by reference to valuation techniques using observable inputs other than quoted prices included in level 1.
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data.

14 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

MPS has the following direct interests in subsidiary undertakings, with associated cost of parent investment as follows:

Name	Interest ¹	Cost (£'000)	Registered office address	Nature of business
Dental Protection Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To provide insight on dental issues which impact MPS.
MPI (London) Limited	100%	1,660,001	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To manage the investment portfolio for MPS
DPL Australia Pty Limited	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To manage the administrative affairs of dental members in Australia.
MPS Periodical Payment Trustee Limited	100%	40	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Corporate Trustee.
MPS Holdings Australia Pty Limited	100%	10	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	Holding company.
The Cognitive Consulting Group Pty Limited ²	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To provide communication skills and risk management training to healthcare professionals in Australia.
Victoria Place Management Company (Leeds) Limited ³	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	To oversee the management of the common areas of Victoria Place, Leeds.
The Dental Protection Society Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Dormant company.
MP Properties Limited	100%	-	Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG, UK.	Dormant Company.
MPS (Singapore Services) Pte Ltd ⁴	100%	-	10 Changi Business Park Central 2, #05-01, Hansapoint @CBP, Singapore (486030).	To provide administration, training and oversight functions relating to Singapore members of MPS.
MPS South Africa (Pty) Ltd ⁵	100%	-	Executive City, Cnr Cross Str and Charmaine Ave, President Ridge, Randburg, Gauteng, 2194, South Africa.	To provide administration, training and oversight functions relating to South Africa members of MPS.
MPS (Hong Kong Services) Pte Ltd ⁶	100%	-	Units 1603-4, 16th Floor, Causeway Bay, Plaza 1, 489 Hennessy Road, Hong Kong.	To provide administration, training and oversight functions relating to Hong Kong members of MPS.
		1,660,051		

¹ Parent and group interest in ordinary shares and voting rights

² Indirectly owned by MPS

³ Not included in consolidation on grounds of materiality

⁴ Acquired on incorporation of the company on 14 August 2017

⁵ Acquired on incorporation of the company on 18 September 2017

⁶ Acquired on incorporation of the company on 29 November 2017

All the subsidiaries listed operate in their country of registration.

MPS sold the investment in MPS Risk Solutions Limited (MPSRs) on 31 December 2018.

14a SALE OF SUBSIDIARY

	2018
	Group
	£'000
Consideration:	
Proceeds	16,000
Selling costs	(115)
	<u>15,885</u>
Net assets disposed of:	
Investments (classified as cash and cash equivalents)	18,530
Debtors	3
Cash	85
Creditors	(89)
Provisions	(530)
	<u>17,999</u>
Loss on disposal before tax	<u>(2,114)</u>

The loss on disposal relates solely to the sale of MPSRs and is included within administration expenses in the statement of comprehensive income. This has not been classified as discontinued operations as the activities of the former subsidiary were not deemed to be material to the group. The sale proceeds were received subsequent to the year end.

The net cash disposed of, effecting cash flows, is made up as follows:

	2018
	Group
	£'000
Cash proceeds received at 31 December	-
Cash equivalents	18,530
Cash	85
	<u>18,615</u>

15 DEBTORS

	2018	2017	2018	2017
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Receivable within one year				
Corporation tax repayable	1,527	8	191	-
Membership debtors	16,509	17,483	16,509	17,483
Other trading debtors	1,165	307	646	39
Recoverable insurance claims	8,086	6,569	8,086	6,569
Amounts owed by subsidiary undertakings	-	-	136,746	89,547
Other debtors	16,906	3,456	16,897	831
Prepayments	7,924	7,515	7,896	7,503
	<u>52,117</u>	35,338	<u>186,971</u>	121,972
Receivable after one year				
Recoverable insurance claims	65,420	59,124	65,420	59,124
	<u>65,420</u>	59,124	<u>65,420</u>	59,124
Total debtors	<u>117,537</u>	94,462	<u>252,391</u>	181,096

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 Group £'000	2017 Group £'000	2018 Company £'000	2017 Company £'000
Corporation tax	-	11,813	-	375
Other taxes and social security	3,103	2,883	3,050	2,858
Other creditors and accruals	21,224	22,485	18,787	19,316
Amounts owed to subsidiary undertakings	-	-	624	-
Deferred subscription income	78,375	61,113	78,375	61,113
	102,702	98,294	100,836	83,662

17 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2018 Group £'000	2017 Group £'000	2018 Company £'000	2017 Company £'000
Other creditors and accruals	512	787	512	787

18 PROVISION FOR LIABILITIES

	Deferred tax £'000	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total £'000
Group					
At 1 January 2018	69,178	816,056	75,559	85,657	1,046,450
Movements in the year:					
Charged to the statement of comprehensive income					
- Reported negligence claims	-	147,847	-	24,615	172,462
- Reported other claims	-	-	24,451	49,584	74,035
- Deferred taxation	(8,429)	-	-	-	(8,429)
- Finance cost (unwinding of discount)	-	35,013	4,224	-	39,237
- Release on disposal of subsidiary	-	(502)	-	(25)	(527)
Paid	-	(198,517)	(28,841)	(59,218)	(286,576)
At 31 December 2018	60,749	799,897	75,393	100,613	1,036,652

No amounts charged in the year for deferred tax related to items of other comprehensive income.

	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total £'000
Company				
At 1 January 2018	813,812	75,559	85,545	974,916
Movements in the year:				
Charged to the statement of comprehensive income				
- Reported negligence claims	148,049	-	24,625	172,674
- Reported other claims	-	24,451	49,584	74,035
- Finance cost (unwinding of discount)	35,013	4,224	-	39,237
Paid	(196,977)	(28,841)	(59,141)	(284,959)
At 31 December 2018	799,897	75,393	100,613	975,903

18 PROVISION FOR LIABILITIES (CONTINUED)

The reported negligence claims provision is the estimated discounted future settlement values for damages and legal costs in respect of all negligence claims notified by 31 December. The reported other claims provision is the estimated discounted future settlement value of legal costs relating to these other claims notified by 31 December. The claims handling provision is the estimated cost of managing all reported claims to conclusion. Finance costs reflect the unwinding of discount in the provision.

MPS uses its internal staff to determine accurate estimates for individual claims, based on past experience and factors relevant to each claim. In addition, MPS uses the experience of its internal actuarial team, to use the internal individual claim estimates, and membership data, to arrive at a statistical reserve for the likely cost of all reported claims.

The timing of individual claim payments is uncertain, as they are the subject of litigation.

19 DEFERRED TAXATION

Deferred taxation provided at 17% (2017: 17%) in the financial statements is set out below:

	2018	2017	2018	2017
	Group	Group	Company	Company
Timing differences on fixed asset equity investments (note 18)	60,749	69,178	-	-

The company and the group have unused miscellaneous losses of £95k (2017: £673k). Deferred tax has not been recognised on these losses as it is not likely that taxable profits or gains will be made to offset these losses in the near future.

20 COMMITMENTS

Capital commitments are shown in note 12 above. For operational commitments, the future minimum operating lease payments for the group and company under ordinarily non-cancellable commitments are as follows:

Operating lease annual commitments

	2018	2017	2018	2017
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Land and buildings:				
Within one year	2,543	2,662	2,523	2,644
Between one and five years	9,359	9,578	9,359	9,578
Over five years	17,357	19,596	17,357	19,596
	29,259	31,836	29,239	31,818
Office equipment:				
Within one year	212	214	212	214
Between one and five years	280	442	280	442
	492	656	492	656

MPS has guaranteed that its subsidiaries have adequate resources to meet their liabilities as they fall due.

21 FINANCIAL ASSETS AND LIABILITIES

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
<i>Financial assets measured at fair value through net contribution to funds</i>				
- Listed investments	1,953,116	1,894,143	-	-
- Unlisted investments	782,928	761,283	-	-
- Interest rate swaps	5,697	1,314	-	-
- Forward foreign exchange contracts	1,521	2,626	-	-
	2,743,262	2,659,366	-	-
<i>Financial assets that are equity instruments measured at cost less impairment</i>				
	-	-	-	-
<i>Financial assets that are debt instruments measured at amortised cost</i>				
- Amounts due from subsidiary undertakings	-	-	136,746	89,547
- Amounts due from investment managers	-	2,623	-	-
- Cash held within fixed asset investments	190,297	143,481	-	-
- Bank deposit accounts	104,990	128,723	49,433	56,332
- Cash at bank and in hand	11,235	15,731	10,674	15,459
- Membership debtors	16,509	17,483	16,509	17,483
- Trade debtors	1,165	307	646	39
- Other debtors	16,906	832	16,897	831
	341,102	309,180	230,905	179,691
<i>Financial liabilities at fair value through net contribution to funds</i>				
- Interest rate swaps	(1,290)	(769)	-	-
- Forward foreign exchange contracts	(3,118)	(604)	-	-
	(4,408)	(1,373)	-	-
<i>Financial liabilities measured at amortised cost</i>				
- Amounts owed to subsidiary undertakings	-	-	(624)	-
- Other creditors	(7,467)	(9,766)	(7,401)	(9,698)
- Accruals	(5,881)	(9,375)	(3,709)	(6,446)
	(13,348)	(19,141)	(11,734)	(16,144)

The group purchases forward foreign currency contracts to hedge specific currency exposure. The assets and liabilities are held at fair value through net contribution to funds at the balance sheet date and are determined using quoted prices. Further details on the valuation of derivatives are provided in note 4(i).

22 MEMBERS' FUNDS

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 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 many years, the estimated projections require financial modelling over long emergence periods.

MPS Council engages its internal actuaries to help model and determine likely levels of future claims in accordance with relevant actuarial guidance. The work performed is peer-reviewed by an external actuarial consultancy for material segments of business including all UK business. The level of future claims 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 2018, the Council's estimate of this potential future cost, if it agrees to assist, was £1,739m (2017: £1,626m). This estimate includes the full impact attributable to the change in the Personal Injury Discount Rates for England, Wales and Scotland announced in February 2017. Our disclosure as at 31 December 2018 is based on -0.75% PIDR (including for GPs).

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 4(k) 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.

23 OBLIGATIONS OF MEMBERS

MPS has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

24 GUARANTEE

MPS is limited by guarantee not exceeding £1 per member.

25 RELATED PARTY TRANSACTIONS

The parent company has taken advantage of the exemption in s33.1A of FRS 102 from disclosing transactions with wholly owned subsidiaries of The Medical Protection Society Limited.

As noted in the Report of the Council on page 27, ten (2017: nine) non-executive members of the Council have personal membership of MPS, which is purchased on a basis consistent with that of other members.

MPS considers the Council and the Executive Committee together to be its Key Management Personnel. The Executive Committee includes the executive members of Council (as detailed in note 8), plus other executive directors of MPS that are not members of Council. This combined group has aggregate remuneration of £3,323k (2017: £3,332k).

26 EVENTS AFTER THE END OF THE REPORTING PERIOD

In October 2017 the Secretary of State announced that the Department of Health and Social Care (DHSC) would establish a state-backed scheme for indemnifying English GPs. Subsequently, the DHSC announced its intention to implement such arrangements from 1 April 2019. This duly happened. The Welsh Government has also introduced a similar state-backed scheme for Wales.

These state indemnity schemes cover clinical negligence liabilities arising in general practice in relation to incidents that occur on or after 1 April 2019. This is known as the Future Liabilities Scheme (FLS).

Under arrangements for an Existing Liabilities Scheme (ELS), the DHSC have assumed responsibility for all existing general practice claims in England as well as claims that are brought in the future where the adverse incident date was before 1 April 2019 and related to treatment under an NHS contract. MPS signed an ELS agreement with DHSC on 3 April 2019 which will cover all Medical Protection members working in general practice in England.

MPS has secured an outcome which will see the state-backed scheme offering members consistent and comprehensive support from clinical negligence claims long into the future. The DHSC and NHS Resolution have indicated that they will ensure members can continue to benefit from MPS's knowledge and expertise during this transition period. To ensure a smooth transition to the new arrangements, MPS will continue to manage existing claims for a period of two years. After two years, claims will be managed by NHS Resolution. MPS will also manage most new claims that arise from adverse incidents prior to 1 April 2019 that are notified as claims in the next two years.

On 5 April 2019 MPS made a substantial contribution to the Government to fund the new ELS scheme. That sum was subject to detailed negotiation between MPS and the Government and, in Council's view, represents value for both GPs in England and Wales and all other MPS members.



“I would like to thank you and Medical Protection for your tremendous relentless support over the last 7–8 years. I am very happy that we won the case and would like to thank the team for the great work they have done.”

“Thanks so much for your time and explanations yesterday. I am very grateful for all your support over the last 20 years and am happy to take your recommendations on the best approach to the next reviews.”



2018

THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND ACCOUNTS



The Medical Protection Society Limited

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The Medical Protection Society Limited ("MPS") is a company limited by guarantee registered in England with company number 00036142 at Level 19, The Shard, 32 London Bridge Street, London, SE1 9SG.

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