Supporting healthcare professionals – worldwide

The Medical Protection Society Limited
Report & Accounts 2003

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Chairman's statement

This is my first annual statement as Chairman of MPS. I would like to pay tribute to the quiet and assured way in which, over seven years, my predecessor Dr Paul Miller helped steer MPS through waters that were sometimes distinctly turbulent. Together with first John Youngman and, for the last two years, John Hickey as its Chief Executive, he has helped MPS achieve a dominant market share and a solid financial base. I am pleased to be able to report that 2003 has been an excellent year, during which MPS has continued to build on these strong foundations.

MPS exists to provide support and advice to members, and to protect their professional reputations wherever possible. We continue its traditional ethos of allowing professionals to look after the interests of their colleagues and this will always remain at our core. The doctors and dentists who work at MPS have extensive talent and experience. All understand the current pressures under which we work, as they have been clinicians themselves; some still practise part-time and most have additional legal qualifications. They work closely with our team of in-house lawyers, or instruct external solicitors when necessary. On average, well over a hundred members call in for advice each day, and I believe the wise, informed counsel they receive cannot be bettered.

Doctors and dentists also rely on access to the professional indemnity offered as a benefit of MPS membership. Some may wonder, as they write a cheque for their subscription, whether this sum is justified. Sadly, even the most skillful and diligent practitioner can be hit by claims and disciplinary procedures.

MPS offers indemnity, subject to Council exercising its discretion, even if the claim does not surface until many years after the alleged negligence took place. We recently had to settle a claim relating to the treatment of a patient as much as 38 years earlier. I am sure this occurrence-based cover is much preferred by doctors and dentists; it certainly reduces the chance that a patient will go uncompensated because a practitioner does not have indemnity when a claim is reported. In addition, unlike the claims made basis of cover, members do not have to pay for run-off cover to protect them when they retire. Such cover can be very expensive, if available at all, and is often ignored by those offering claims made protection. However, making an accurate estimate of the value of claims that might arise so far into the future is far from easy. Members of MPS do not have to worry about this, but they rightly expect that we make the best possible estimates. We are fortunate that our actuaries, Lane Clark & Peacock LLP, have unparalleled world-wide experience in this field. Members also rightly expect MPS to have sufficient funds available for meeting these future costs, whenever they might be incurred. I am pleased to say that careful management and investment has ensured that MPS's assets cover the estimated costs of all present and potential claims incurred but not yet reported.

Last year, the Chairman remarked that there seemed to be some slowing in the growth of the number and size of claims in many countries. As far as medical claims are concerned, this has been maintained during 2003. However, subscriptions must be set to reflect future uncertainties and risks. For example, a significant change in UK law this year allows courts to order that compensation be paid to successful claimants as regular payments for life, rather than as a single lump sum. In addition, claimants are now allowed to return to court to ask for the payments to be increased, so we shall need to set aside further sums to reflect this added risk. Such government decisions (and there have been several similar examples in recent years), although intended to improve the patient's circumstances, amount to a 'stealth tax' on MPS's funds. They demonstrate the continuing need for caution and forethought in financial planning, and the need to continue to improve the financial strength of MPS.

Three senior members of Council step down at the AGM this June. We shall miss the invaluable contributions made by Martin Gairdner, Professor Richard Hobbs and Robert Seward over the past eight years. They have given freely of their considerable and varied expertise, and always offered correct and steadfast scrutiny of the executive. We shall also be sad to lose Jack Hardcastle from Claims Committee. Jack retired from Council last year, served as the immediate past Chairman of Claims Committee, and has made notable contributions to the Society over his period of office.

Nicholas Davies
Chairman of the Council

Chief Executive's report

2003 Performance

The past year has been a very good year, with a significant improvement in MPS's financial strength and a consolidation of your company's position as the world's leading mutual medical indemnifier.

I am pleased to report that, at the end of 2003, MPS had a surplus of assets over known claims and potential future claims (without taking into account the value of a call upon members). By potential future claims, I mean the total estimated value of claims from incidents that have already occurred and for which MPS Council may be called upon (under the discretionary basis of indemnity that it offers) to indemnify members. This is indeed good news and members should take comfort from this statement of financial strength. However, pleased as I am at once again reaching this milestone, there is still more to be done.

Improving financial security

The very nature of our business means that it is subject to great uncertainty, in that many assumptions are made today about the amount of money needed to settle claims in the future. It is of paramount importance for members and patients that the company's financial position is strong enough to cope with these uncertainties. It is for this reason that Council has decided to improve the financial strength of MPS, by setting a target for an increased buffer of assets over liabilities. To achieve this in a reasonable manner, will take time. The concept of reasonableness is important in this context as we must never forget that MPS is a mutual, non-profit organisation whose only source of capital is that which members provide through their subscriptions. While it is important to ensure that MPS is well funded, it should not be over funded. Bearing this in mind, we have set a new funding reserve target to be achieved over a period of seven years.

Having observed at close quarters the mayhem that has ensued following the provisional liquidation of United Medical Protection (UMP) in Australia in 2002, I have absolutely no doubt that UMP members would, in retrospect, have preferred to pay a little more in subscriptions over the years rather than be faced with the grim reality of a potential failure of their indemnifier. Fortunately for them, the government has stepped in with significant aid and UMP has now come out of provisional liquidation. Unfortunately, at the time of writing, the position remains unclear for UMP's former members in Singapore. Similarly, one of our competitors has indicated that some consultant obstetricians in Ireland may not be indemnified because it failed to charge them the appropriate subscriptions over the years. This exemplifies the need to ensure that medical protection organisations maintain levels of funds that, while reasonable, are also prudent. We are determined to ensure that MPS members do not have to face a similar situation.

A superior form of indemnity

Discretionary indemnity is sometimes criticised by those who do not know any better, and sometimes by those who should know better. In my experience, the indemnity offered by the discretionary mutuals is far superior to that offered by a commercial insurance contract. Through organisations such as MPS, the medical, dental and other healthcare professions retain control over their indemnity arrangements rather than out-sourcing them to for-profit commercial insurers whose primary objective, quite rightly, is to make profits for shareholders.

One effect of involving commercial partners is to increase the cost of indemnity cover for certain high-risk specialties like neurosurgery and obstetrics. It is very difficult to make profits out of high-risk specialties; if the rates reflected their true risks (as they would do if set by a commercial insurer), practitioners in these specialties would be unable to afford them.

In our view, high-risk specialties should attract subscriptions that reflect their risks to a degree, but, as a mutual society, we should not charge subscriptions that threaten the commercial viability of these practitioners, unless it is unavoidable competitively. Thus, we believe very strongly that if, for some reason, an insurance contract rather than discretionary benefits is required, it should be provided through a wholly owned subsidiary of a medical protection organisation rather than through a partnership with a commercial insurer. This would ensure that the professions retain control over pricing and, importantly, claim and case management.

2003 experience

Subscription and other income increased by £21m (15.8% in the year to £156m). This is partly because some subscription rates were raised to fund the liabilities that it is expected members will ask us to accept in the future, but can also be attributed to strong membership growth. MPS experienced an expansion in member numbers in nearly all areas, the highest growth being in the UK (particularly general practitioners), Hong Kong, Ireland, South Africa and New Zealand. Total member numbers reached 218,000 by the end of the year.

Worldwide, we received 14,640 written and in excess of 50,000 telephone requests for assistance from members, and 80% of new files opened related to matters other than claims of clinical negligence. Despite this volume of non-claim work, it seems – if research we conducted recently is to be believed – that many members are unaware of the full spectrum of services that we can offer. While discretionary indemnity for clinical negligence claims continues to be the most important part of our work from a financial point of view, most members who approach us for assistance do so for matters other than claims of negligence. We are redoubling our efforts to ensure that members know about, and avail themselves of, the full benefits of membership.

Total expenditure increased by 12.2% to £100m. This includes damages paid out to successful claimants, legal costs, the increase in the provision required for reported claims and administration costs. Claims costs, and their associated legal costs, have increased by 7.8% to £75m. Experience generally has been better than expected in the UK and Ireland, but in some countries – especially Hong Kong and, to a lesser extent, South Africa – we have seen a considerable rise in claims costs. It is for this reason that we have had to impose substantial increases in subscription rates in those two territories. As I report later, we have embarked upon an awareness programme, aimed at different governments around the world, about the need to contain the costs of clinical negligence if the delivery of healthcare is not to be compromised. Equally, we must not lose sight of the fact that risk-management programmes can help to reduce the risks of avoidable harm to patients.

The average number of employees in MPS has grown from 226 in 2002 to 247 in 2003. The boost in member numbers has led to a greater demand on the services MPS provides; as a result, our complement of medical and dental advisers has grown, as has the number of lawyers employed in-house. This is particularly relevant, given the need to contain what appears to be a relentless rise in legal costs.

For a more detailed review of the financial results of 2003, please see the Finance Director's report.

Regional experience

In the UK we are concerned about the provisions of the Courts Act. This Act allows judges to impose periodic or regular payments rather than a lump-sum award in clinical negligence cases; in some instances the payment awarded will be open to review many decades after the court settlement. This legislation is retrospective and its introduction will lead to a great deal of uncertainty, higher clinical-negligence costs and, consequently, substantial increases in subscriptions for UK members. We continue to try to persuade the Department of Constitutional Affairs of the pressing need to restrict the occasions on which a judge can impose variable periodic payments, therefore avoiding spiralling clinical-negligence costs.

We have been involved in intensive discussions with the Department of Health and Children and the consultants' representative bodies in Ireland over the introduction of Enterprise Liability – the so-called Clinical Indemnity Scheme. As mentioned previously, one of our competitors has indicated that it may refuse to pay an obstetric claim. We continue to watch the position closely to ensure that MPS members are not disadvantaged by any agreement the Department of Health and Children reaches with the competitor on this issue.

In Singapore we have continued discussions with a committee set up under the auspices of the Ministry of Justice to discuss the possibility of tort reform. We are pleased to have been able to assist the committee by supplying it with substantial amounts of data to support the notion that reform is desirable in order to limit the size of the compensation bill, and therefore members' subscriptions, in Singapore.

We have met government officials in South Africa to discuss the possibility of introducing tort reform, and we are also active in trying to persuade the Department of Health that it would be foolhardy to dispense with the current State Indemnity Schemes and expect publicly employed hospital doctors to purchase their own indemnity, rather than be indemnified by their employers.

Looking back, and to the future

In the last five years we have seen some significant ups and downs for the business, perhaps exemplified by the equity markets peaking at the end of 1999, only to be followed by a significant slump between 2000 and 2002. Thankfully, MPS had altered its investment strategy in 1999, such that its exposure to the equity markets was very much reduced. Whilst claims experience has been uneven in the different territories in which MPS has members, it is the effect of legislative change, especially in the UK, that has dealt the business a few blows, noticeably the decrease in the discount rate used to determine the value of a lump-sum award to compensate claimants for future loss of income and future costs of care. Despite these squalls, MPS has weathered the storm and improved its financial strength over the last six years.

MPS remains the world's leading mutual protection organisation for doctors, dentists and other health-care professionals, and it is the only one that continues to operate internationally to any significant degree. As mentioned in previous reports, this gives us added size and stability; it enables us to offer protection to members practising in almost all parts of the world, and augments our wealth of experience in the field.

John Hickey
Chief Executive

Note:
Information specific to MPS's dental business is included in the separate DPL annual review.

Non-statutory information not required by Companies House

Finance Director's report

Net asset position

As the Chief Executive's report states, 2003 has seen a considerable strengthening in MPS's financial security. This increased financial strength is shown by the improved net asset position on the balance sheet, where the net assets of the group have increased by £99m (39.6%) in the year to £349m, after allowing for claims reported and accepted. The increase in net assets is due to a combination of a net contribution of income less expenditure of £56m and a contribution net of tax from investments of £43m.

Subscription income

The consolidated income and expenditure account shows a strong increase in subscription and other income of 15.8% to £156m. This is due partly to increased subscription rates that, based on independent actuarial advice, were needed to enable MPS to settle future claims arising from membership renewed in 2003, and partly to membership growth. Medical membership growth has been particularly strong, with increases of 8% in the UK, 16% in Ireland, 10% in Hong Kong and 5% in South Africa and New Zealand.

Expenditure

Total claims costs, which include damages, defence and claimant legal costs, and an increase in the provision required for reported claims, were lower than expected at £75m. This was due to higher than expected costs paid and a lower than expected increase in the provision for known claims. The costs paid in the year amounted to £66m and included a considerable increase in legal and insurance costs. This was more than offset by a smaller than expected increase in the provision for reported claims of only £9m, mainly because the value of reported claims in two of MPS's key markets, UK and Ireland, was lower than anticipated.

MPS also spends considerable resources on a host of advisory services other than claims for negligence. These include assistance with medical and dental council complaints, inquests, disciplinary and ethical matters. The amount spent under this category has increased considerably over the last four years, and 2003 is no exception with an increase of 23.3% to £20m. This reflects the continued trend in all countries of a more aggressive approach to alleged misconduct on the part of doctors and dentists, and the increasing legal costs associated with defending such matters.

Total administration costs (shown in the Income and Expenditure account under claims costs, advisory costs and administration expenses) have increased by 26.6% to £28m in the year. This figure includes general inflation and the cost of extra staff to meet the needs of an enlarged membership; it also includes a £2.5m one-off special contribution to the MPS staff pension fund. If this one-off payment is excluded, underlying administration costs increased by 15.3%. Council considered a one-off contribution a positive statement to staff, in light of the under-funded pension scheme at the end of 2002, and a timely move because of the depressed nature of the UK equity markets when the investment was made. Other contributors to the increase in administration costs are a rise in rent on our London office and the continued development of our IT systems.

MPS holds foreign cash balances around the world to enable it to meet its obligations as they fall due. The restatement of these balances in sterling at the year end shows a profit that is substantially offset by a corresponding increase in international liabilities, which is included in claims costs as part of the increase in the provision for known claims.

Investment return

At the end of 2003 MPS held £559m in long- and short-term investments to meet the future costs of assisting members with claims and other matters. Monies are invested firstly to match MPS's liabilities and secondly to maximise their return, subject to an acceptable level of risk. Consequently, MPS holds a range of international assets to match the currency of its international liabilities and a range of equities, fixed-interest securities and shorter-term money-market instruments to provide a strong return for an acceptable level of risk. In the year, UK and foreign-denominated equities performed very well in sterling terms and even the UK bonds managed commendable increases, despite fears of growing inflation and actual interest-rate increases. Total return on invested assets after tax and investment management fees for the year was 7.5%.

Risk review

As part of prudent management, MPS considers it important to control, as far as possible, the risks to which the business is exposed. To help with this, MPS has for the first time appointed an operational review manager, who will be responsible for reviewing both operational risks throughout the company and the controls that are in place to manage these risks. It is felt that MPS is now of such a size and complexity that a dedicated resource is required to assume responsibility for these important issues within the business.

Simon Kayll
Finance Director

Medical Division

Head of medical division
Priya Singh LLB MB ChB MRCGP

Head of medical services (London)
Stephanie Bown LLB MB BS MRCP DRCOG

Senior medico-legal adviser (Leeds)
Iain Barclay LLB MB ChB MRCGP DRCOG

Medico-legal advisers

Angela Bramley LLB MB BS MRCGP

Nick Clements LLB MB ChB DRCOG

Jane Cowan MB BS DCH DCP MRCPI FRCPCH

Marika Davies BSc MB BS MRCS(Eng)

Richard Dempster LLB MB BS MRCGP DRCOG

Mark Dudley MA MD FRCP FRCPath

Angela Farquhar MB ChB DRCOG MRCGP

Lyn Griffiths MB BS

Bryony Hooper LLM BM MRCGP MFPHM DRCOG

Graham Howarth MB ChB MMed(O&G) MPhil(Bioethics)

Susan Jones MA LLB MB BS MRCGP DRCOG

Robert Lazarus LLB MRCP(UK) FRCA

Peter Mackenzie MA MB BS DRCOG MRCGP DipLaw

Michael Martin LLM LRCP MRCS MRCGP DObstRCOG MIOSH

Alison Metcalfe BM MRCGP DRCOG DipLaw

Janet Page BSc MB BS MRCP FRCR

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Richard Stacey MB ChB MRCGP

David Stewart MB BS DFFP

Desmond Watson LLM BM BCh MA(Oxon) FRCS(Eng)

Consultants

John Barker JP MB BS DMJ ACII

Albert Day JP LLM MB ChB FRCGP DObstRCOG

Julian Pedley MA(Medlaw) MB BS MSc FFPHM DTM&H

William Smith MB ChB MRCGP

Gillian Talbot MB BS MRCGP DRCOG DA

International Operations
Tim Hegan MA MB BChir DPH PgDL DFPHM

Marketing/claims adviser (Bermuda and Caribbean)
Nancy Boodhoo BDS FDS RCS

Claims and Legal Services

Director, Claims and Legal Services
Naomi Selvadurai LLB(Hons) SRN SCM OHNC Barrister

High claims managers

Caroline Bennett LLB

Jonathan Bonser BA

Frances Comerford BA

Alan Dool ACII

Emma Hallinan LLB

Kirsten Miller LLB (Hons) DipNP

Rosamund Oddie BA(Hons) DipLaw LLB Barrister

Carlotta Pidgeon BA BJuris LLB

Andrew Urbanek LLB

Solicitors

William Bremner MA

Shaheda Chand LLB

George Dodd BA(Hons)

Mark Jordan BA(Hons) LLM

Catherine Longstaff BA(Hons)

Emma Michaels LLB

Christina Milne LLB(Hons)

Andrew Oates LLB(Hons)

Susan Silk LLB(Hons) RGN

Jill Stevens LLB(Hons)

John Taylor LLB

Adrian White LLB

Dental Director
Kevin Lewis BDS LDS RCS

Finance Director
Simon Kayll BA(Hons) FCA MBA

Communications and Policy Division

Communications and Policy Director
Gerard Panting MA MB BS FRCGP DMJ

Sherry Williams MB BS MFPHM DCH Barrister
Deputy Director

Shelley McNicol BA (Hons)
Head of Public Relations

Department Managers

Head of human resources & service
Pauline Brown

Risk consulting
Keith Haynes MSc LLB DipHSM

Marketing and business development
John Lamb BSc(Hons)

IT
Jason Stothard BSc MAPM

Information and analysis
Martin Burns BSc(Hons)

Finance
Ian Cook FCCA Cert ICM

Report of the Council

The Council, which for the purposes of the Companies Acts is the Board of Directors, presents its annual report for the year ended 31 December 2003.

Principal activity
The Society is a mutual society, the function of which is to protect, support and safeguard the character and interests of medical and dental practitioners. It is a non-profit-making company limited by guarantee and all income and property must be applied solely towards its objects as defined by the Society's Memorandum of Association. Members are not entitled to dividends or other distributions, and the balance on the income and expenditure account is retained by the Society to set against future liabilities.

One of the objects of the Society 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 28 that 'the grant of indemnity shall be entirely in the discretion of the Council who shall have power to impose such terms and conditions on the grant of any indemnity as it thinks fit and may in its absolute discretion limit or restrict such indemnity or decline altogether to grant the same.'

Review of the business
The results for the year are stated in detail on pages 12 to 28.

The review of the business appears in the Chief Executive's report on pages 2 to 4 and the Finance Director's report on page 5.

Donations
Charitable donations made by the Society during the year amounted to £1,000, all in favour of the Royal Medical Benevolent Fund. No political donations were made during the year.

Employees
During the year the Society continued to provide employees with relevant information and seek their views on matters of common concern through the Staff Consultative Group, staff briefings and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the Society's trading position and of any significant organisational changes.

It is the policy of the Society to support the employment of disabled persons where possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Society, as well as generally through training and career development.

Members of the Council
The names of the members of the Council of the Society who served during the year are set out on page 6.

Corporate Governance
The Listing Rules of the Financial Services Authority require listed companies to disclose how they have applied the principles set out in Section 1 of the Combined Code prepared by the Committee on Corporate Governance and whether they have complied with its provisions throughout the period. Although not listed, the Society is committed to maintaining the highest standards of corporate governance and thus complies with the Combined Code where it is considered relevant to the Society's business and constitution. The following is a statement in accordance with the Code.

Council
Council consists of a non-executive Chairman, a Chief Executive, two further executive members and eleven other non-executive members.

All the non-executives are considered to be independent, not being past executives of the Society and not having any financial interest in the Society other than their fees as members of Council and, if relevant, their personal membership of the Society. The Society has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the Society's business. Council considers that the non-executive members of Council as a group are of a sufficient calibre and number to bring strength and independence to Council and does not propose to nominate any one non-executive to be a senior independent member of Council. In stating this, Council recognises that this is not in accordance with the relevant provision of the Combined Code.

The normal retirement age for executive members of Council is 60 and for non-executive members 70. All Council members are subject to election by members at the first opportunity after their appointment by Council and to re-election (excepting the Chief Executive) at general meetings at least every three years. The Chief Executive is appointed by Council and can be removed by Council. Council recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the Combined Code, but believes that it does not compromise the independence or integrity of Council. Non-executive members of Council are limited to an eight year term.

Council met formally ten times during the year. Council has a schedule of matters specifically reserved to it for decision, including strategy and 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 Council to take independent advice at the Society's expense.

Council has a Nominations Committee, a Remuneration Committee and an Audit Committee, the members of which are listed on page 6.

The Nominations Committee is chaired by the Chairman of Council and keeps under review the composition of Council and makes recommendations concerning all new appointments of non-executive members.

The Remuneration Committee is chaired by the Chairman of Council and is responsible for making recommendations to Council concerning matters relating to remuneration policy. See Remuneration Report below.

The Audit Committee is chaired by a non-executive member of Council (a former audit partner of an international firm of Chartered Accountants) and meets at least twice a year. The Society's external auditors, Chief Executive and Finance Director also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. The Audit Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews prior to publication the annual financial statements and the other information included in the Annual Report. The Audit Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

Several members of Council are members of the Board of MPI (London) Limited, which manages MPS's investment portfolio. The Board is chaired by the Chairman of Council and the members are listed on page 6.

Internal Control

The Council has overall responsibility for the Society's system of internal controls and for reviewing its effectiveness whilst the role of management is to implement Council's policies on risk and control. The system 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 the Society in line with recommendations in the Turnbull report. 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 likely significance based on the probability of the risk occurring and its likely impact on the Society if it were to do so. Management then determines what action can cost-effectively be taken.

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

In fulfilling its responsibilities to Council, the Audit Committee:

- 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 independent consulting actuaries their approach to statistical reserving of claims and IBNR assessment

- Considers the results of the external auditors' 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 works, with any necessary recommendations, to Council and ensures that actions required by Council are implemented. One such report is made at the year-end before producing this statement.

In line with best practice governance and following an internal review, the Society has created an internal audit function during the year. This role will strengthen risk management and

Report of the Council continued

controls assurance processes already in operation within the Society.

Remuneration report

The Remuneration Committee is responsible for recommending to Council fees for members of Council, Committees and directors of subsidiaries as well as deciding the remuneration of senior staff and receiving recommendations from the Chief Executive for the remuneration of other employees. In framing its policy, the Remuneration Committee aims to attract and retain senior staff to run the Society successfully without making excessive payments. The Society does not provide any regular bonuses, incentive schemes or performance related payments to any staff or non-executive members of Council.

Details of Council Members' remuneration are included at note 6 to the accounts.

Going concern

Members of Council consider that the Society 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. Members of Council have satisfied themselves that the Society is in a sound financial position.

Relations with members

The provisions of the Combined Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that the Society has with its members. However, the general tenor of the provisions is applicable to the Society and the Society values its dialogue with members. Council also uses the Annual General Meeting to communicate financial performance with members and encourages their participation.

Auditors

On 3 May 2003, RSM Robson Rhodes, the Society's auditors, transferred their business to RSM Robson Rhodes LLP. The members of Council have consented to treating the appointment of RSM Robson Rhodes as extending to RSM Robson Rhodes LLP and a resolution for their re-appointment was proposed and passed at the AGM on 11 June 2003. Furthermore a resolution to re-appoint RSM Robson Rhodes LLP as auditors will be proposed at the forthcoming annual general meeting.

Statement of the Council's responsibility for the Annual Report

Company Law in the United Kingdom requires the Council to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and the Group and of the surplus or deficit of the Society and the Group for that period. In preparing those financial statements, the Council has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and the Group and to enable it to ensure that the financial statements comply with the Companies Act 1985. It is also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Council is responsible for ensuring that the Report of Council and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

Approval

This report was approved by the Council on 14 April 2004 and signed on its behalf by:

Simon Kayll
Company Secretary
33 Cavendish Square,
London, W1G 0PS

Simon Kayll

Independent auditors' report

We have audited the financial statements on pages 12 to 28.

This report is made solely to the Society's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Society'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 Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Council and auditors

Council's responsibility for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards is set out in the Statement of Council's Responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, Council's report is not consistent with the financial statements, if the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Council members' remuneration and transactions with the Society and other members of the group is not disclosed.

We read the information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Report and the Finance Director's Report and the Report of Council. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Society and the Group as at 31 December 2003 and of the net contribution available to meet future liabilities and charges of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP,
Chartered Accountants and
Registered Auditors
Leeds, England
14 April 2004

Consolidated income and expenditure account

Year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Income			
Members' subscriptions and other income		156,379	135,047
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	14	75,362	69,933
Insurance recoveries		(3,917)	(3,797)
Advisory costs and associated legal costs	3a	20,447	16,582
Administration expenses	3a	12,280	9,413
Profit on exchange movements	3b	(4,192)	(3,046)
		99,980	89,085
Excess of members' subscription and other income over expenditure		56,399	45,962
Income from investments	4	16,803	12,850
Realised gains/(losses) from disposal of investments		3,658	(311)
Contribution from ordinary activities before taxation		76,860	58,501
Tax on investment income and gains	5a	(6,219)	(3,981)
Net contribution for the year available to meet future liabilities and charges	16	70,641	54,520

Statement of total recognised gains and losses

	Notes	2003 £'000	2002 £'000
Net contribution for the financial year		70,641	54,520
Surplus/(deficit) on revaluation of investments	15	29,104	(15,048)
Surplus on revaluation of fixed assets		–	826
Tax charge on investment gains	5a	(644)	(2,810)
Total recognised gains		99,101	37,488

Note of historical cost income and expenditure

	Notes	2003 £'000	2002 £'000
Reported net contribution before tax		76,860	58,501
Realisation of valuation gains/(losses) of previous years	15	9,296	(850)
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	15	50	35
Historical cost net contribution before tax		86,206	57,686
Historical cost net contribution retained after tax		79,343	50,895

Consolidated and company balance sheets

At 31 December 2003

	Notes	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Fixed assets					
Tangible assets	9	7,902	8,417	7,874	8,393
Investments	10	459,823	351,990	20,001	20,001
		467,725	360,407	27,875	28,394
Current assets					
Debtors	12	15,219	13,395	389,735	320,390
Bank deposit accounts		98,652	87,419	24,847	16,132
Cash at bank and in hand		1	1,601	1	1,579
		113,872	102,415	414,583	338,101
Creditors: amounts falling due within one year	13	(37,479)	(26,961)	(34,694)	(22,605)
Net current assets		76,393	75,454	379,889	315,496
Total assets less current liabilities		544,118	435,861	407,764	343,890
Provision for liabilities and charges	14	(194,933)	(185,777)	(194,933)	(185,777)
Net assets		349,185	250,084	212,831	158,113
Accumulated funds	15				
Revaluation reserve		10,038	(9,720)	2,298	2,348
Income and expenditure		339,147	259,804	210,533	155,765
Funds available to meet future liabilities and charges	16	349,185	250,084	212,831	158,113

Nicholas Davies
Chairman of the Council
14 April 2004

Consolidated cash flow statement

Year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
Cash flow from operating activities	17	76,728	61,880
Returns on investments	18	16,803	12,850
Tax		(8,597)	(1,643)
Capital expenditure and financial investment	19	(73,546)	(33,666)
		11,388	39,421
Net cash outflow from management of liquid resources (comprising bank deposits and investment deposits)		(13,204)	(39,920)
Decrease in cash in the period		(1,816)	(499)

	At 1 Jan 2003 £'000	Cash flow movement £'000	At 31 Dec 2003 £'000
Analysis of changes in net funds			
Cash at bank and in hand	1,601	(1,600)	1
Bank overdraft	-	(216)	(216)
Bank deposit accounts	87,419	11,233	98,652
Cash with investment managers	3,161	1,971	5,132
Net funds	92,181	11,388	103,569

	2003 £'000	2002 £'000
Reconciliation of net cash flow to movement in net funds		
Decrease in cash	(1,816)	(499)
Cash flow from increase in net liquid resources	13,204	39,920
	11,388	39,421
Net funds at 1 January	92,181	52,760
Net funds at 31 December	103,569	92,181

Notes to the accounts

1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and the constitution of the Society.

2 Accounting policies

(a) Convention

The financial statements include investments and freehold property at valuation but in all other respects have been prepared in accordance with the historical cost convention. The principal accounting policies adopted by the Society within that convention are set out below.

(b) Consolidation

The Group financial statements comprise a consolidation of the financial statements of the parent company (the 'Company') and all its subsidiary undertakings (together, the 'Group') as at 31 December. In accordance with the exemptions given by Section 230 of the Companies Act 1985, the Company does not publish its own income and expenditure account.

(c) Subscriptions

Subscription income comprises amounts receivable during the year, apportioned to accounting periods on a time basis. No geographical analysis of subscription income is shown because, in the opinion of Council, it would be seriously prejudicial for the Group so to do.

(d) Tangible fixed assets and depreciation

All freehold land and buildings are included at valuation. Valuations are kept up-to-date. Other tangible fixed assets are included at cost. Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amounts. Any such write down would be charged to operating profit unless it was a reversal of a past revaluation surplus in which case it would be taken to the statement of total recognised gains and losses. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Freehold buildings – 2% per annum
Leasehold properties – over life of leases
Furniture and fittings – 5% per annum
Office equipment – 15% per annum
Computers – 20%, 25% or 33.3% per annum

(e) 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 or at a rate fixed in advance by way of a forward exchange contract. Any gain or loss is taken to the income and expenditure account.

(f) Dividends and interest receivable

Dividends and interest receivable are brought into account on an accruals basis. Dividend income is recorded net of tax credits.

(g) Investments

Investments (which include cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with Financial Reporting Standard 3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.

(h) Costs and damages

Provision is made at discounted future settlement values for estimated future costs and damages, legal costs and claims handling costs expected to arise from claims that have been notified to the Society by 31 December in respect of which Council has exercised or is expected to exercise its discretion to provide indemnity. The estimate of these costs is stated before deducting estimated recoveries from insurers, which are disclosed separately, and are recognised only when it is virtually certain that reimbursement will be received.

2 Accounting policies: continued

No provision is made for claims that may arise from incidents that occurred before 31 December but had not been reported to the Society at that date.

(i) Tax

Provision is made in the financial statements for tax on investment and trading income received and receivable in the year and on capital gains on investments disposed of during the year.

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS19 deferred tax is not provided on timing differences arising from:

a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date;

b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets; and

c) extra tax payable if the overseas retained profits of subsidiaries and associates are remitted in future.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

(j) Pensions

The Society operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of the finances of the Society. Pension costs are assessed in accordance with the advice of an independent qualified actuary. Costs include the regular cost of providing benefits which it is intended should remain a substantially level percentage of current and expected future earnings of the employees covered. Variations from the regular costs are spread evenly through the income and expenditure account over the average remaining service lives of current employees.

(k) Leasing

Rentals under operating leases are charged on a straight-line basis over the lease term.

3a Advisory costs and administration expenses

		2003 £'000	2002 £'000
Included under this classification are:			
Operating lease rentals	– Land and buildings	646	707
	– Motor vehicles	95	90
Auditors' remuneration	– Audit fees	59	61
	– Fees for other services	55	23
Loss on disposal of tangible fixed assets		61	7
Depreciation of fixed assets		1,026	952

3b Exchange movements

The majority of the profit on exchange movements relates to the restatement of international cash assets (principally in South Africa and Ireland) held to match international liabilities. These gains are substantially offset by a corresponding increase in international liabilities, which is included in claims costs through an increase in the overall claims provision (note 14).

4 Income from investments

		2003 £'000	2002 £'000
Dividends: listed investments	– franked	2,435	1,247
	– unfranked	9,810	8,242
Bank interest		4,558	3,361
		16,803	12,850

5a Tax on income and gains from investments

	2003 £'000	2002 £'000
Tax on income and gains included in the income and expenditure account for the year		
UK corporation tax:		
Current tax on income for the year at 30% (2002: 30%)	5,017	4,001
Adjustment in respect of prior years	1,173	(20)
Double taxation relief	(61)	(54)
	6,129	3,927
Foreign tax:		
Current tax on income for the year	90	54
Tax on investment income and gains in the income and expenditure account	6,219	3,981
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax:		
Current tax charge on gains for the year at 30% (2002: 30%)	644	2,810
Tax on other gains included in the statement of total recognised gains and losses for the year	644	2,810

5b Factors effecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2003 £'000	2002 £'000
Contribution before tax per accounts	76,860	58,501
Less: non-taxable contribution (see below)	(54,092)	(43,540)
Income and gains from investments included in the income and expenditure account for the year	22,768	14,961
Income and gains from investments multiplied by the standard rate of corporation tax in UK of 30%	6,830	4,488
Effects of:		
Income from UK equities not subject to taxation	(731)	(374)
Non-taxable Inland Revenue interest	7	-
Foreign exchange losses/(gains) not subject to taxation	8	(201)
Realised (gains)/losses on disposal of investments	(1,097)	88
Current tax charge for the year	5,017	4,001

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

5c Unprovided deferred taxation

A £ nil (2002: £ nil) tax charge would arise should the Society's equity investments and freehold property be sold at the market values at which they are included in the balance sheet.

6 Emoluments of members of the Council

		2003 £'000	2002 £'000
Aggregate amount of emoluments paid to members of Council (incl. Chief Executive)		604	440
Chairman	– to 11 June 2003	15	28
	– from 11 June 2003	21	–
Highest paid member of Council			
Chief Executive	– emoluments and taxable benefits	170	122
	– accrued annual pension rights	74	63

There are 3 (2002: 1) executive members of Council who are members of the Society's defined benefit pension scheme.

The standard remuneration for all non-executive members of Council (other than the Chairman) was £16,000 (2002: £12,500) per annum, with additional remuneration of up to £12,000 (2002: £10,000) per annum for members who are also chairmen of subsidiary companies or sub committees.

7 Employees

The average number of people employed by the Society during the year was 247 (2002: 226).

Costs in respect of these employees:

	2003 £'000	2002 £'000
Wages and salaries	9,663	8,474
Social security costs	949	775
Pension costs (including special contribution – note 8)	4,031	1,327
	14,643	10,576

8 Pensions

The Society operates a defined benefits pension scheme, The Medical Protection Society Limited (1973) Pension and Life Assurance Scheme. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial adviser on the basis of triennial valuations.

The most recent full valuation was carried out as at 31 December 2002 using the projected unit method. It was assumed that investment returns would be 6.4% pa pre retirement and 5.4% pa post retirement, that increase in earnings would average 4.3% pa and that pensions would increase at the rate of 2.3% pa. The valuation showed that the market value of the fund's assets was £15.3m, which represented approximately 99% of the Minimum Funding Requirement liabilities and 72% of the value of the benefits that had accrued to members after allowing for future increases in earnings.

In view of the shortfall revealed by the valuation, in May 2003, the Society made a special contribution to the scheme of £2,500,000.

The Society has continued to account for pensions in accordance with SSAP24 'Accounting for pension costs'. FRS17 was issued in November 2000 and updated in November 2002. However full recognition will not be mandatory for the Society until the year ending 31 December 2005. Prior to this, phased transitional disclosures have been required from 30 June 2001.

The formal actuarial valuation as at 31 December 2002 was updated to the accounting date by an independent qualified actuary in accordance with the transitional arrangements of FRS17. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

The following tables set out the key FRS17 assumptions used for the scheme. The tables also set out, as at the accounting date, the fair values of the assets, a breakdown of the assets into the main asset classes, the present value of the FRS17 liabilities and the deficit of assets below the FRS17 liabilities (which equals the gross pension liability).

Assumptions

	At 31 December 2003 % pa	At 31 December 2002 % pa	At 31 December 2001 % pa
Price inflation	2.7	2.3	2.5
Discount rate	5.4	5.6	6.0
Pension increases	2.6	2.3	2.5
Salary growth	4.2	3.8	4.0

8 Pensions: continued

Asset distribution and expected returns:

	At 31 December 2003		At 31 December 2002		At 31 December 2001	
	Expected return %pa	Fair value £'000	Expected return %pa	Fair value £'000	Expected return %pa	Fair value £'000
Equities	7.7	17,118	7.4	11,743	8.0	13,656
Bonds	4.8	4,250	4.5	1,966	4.8	2,044
Property	6.3	594	6.0	562	6.4	550
Cash	4.6	303	4.0	1,045	5.0	928
Total		22,265		15,316		17,178

Balance sheet:

	At 31 December 2003 £'000	At 31 December 2002 £'000
Total fair value of assets	22,265	15,316
FRS17 value of liabilities	(26,534)	(21,348)
Gross pension liability	(4,269)	(6,032)

Under FRS17, the scheme would be represented on the balance sheet at 31 December 2003 as a liability of £4,269,000 (2002: £6,032,000).

Over the year to 31 December 2003, contributions by the Society of £4,030,559 (2002: £1,326,776) were made to the Scheme, which includes a special contribution of £2,500,000. It has been agreed that future employer contributions will continue at a rate of 20% of pensionable salaries.

The post retirement deficit under FRS17 moved over the period as follows:

	2003 £'000	2002 £'000
Post retirement deficit at start of year	(6,032)	(1,150)
Current service cost (employee and employer)	(2,013)	(1,566)
Contributions (employee and employer)	4,348	1,603
Other net finance income	(78)	181
Actuarial loss	(494)	(5,100)
Post retirement deficit at end of period	(4,269)	(6,032)

Deferred tax has not been recognised on the deficit shown above in accordance with the Society's accounting policy.

8 Pensions: continued

If the Society had recognised FRS17 in the financial statements, the following would have been the movements during the year:

	2003 £'000	2002 £'000
Amount that would have been charged to operating surplus:		
Current service cost (excluding employee contributions)	1,696	1,290
Amount that would have been charged to other financial income:		
Expected return on pension scheme assets	1,156	1,309
Interest on post retirement liabilities	(1,234)	(1,128)
Net return to (charge)/credit to finance income	(78)	181
Amount that would have been recognised in the Statement of Total Recognised Gains and Losses:		
Actual return less expected return on scheme assets	2,078	(4,176)
Experience gains/(losses) arising on scheme liabilities	135	(45)
Loss due to changes in assumptions underlying the FRS17 value of scheme liabilities	(2,707)	(879)
Actuarial loss	(494)	(5,100)

History of experience gains and losses:

	2003	2002
Actual return less expected return on scheme assets (£'000)	2,078	(4,176)
Percentage of scheme assets	9%	(27%)
Experience gains/(losses) arising on scheme liabilities (£'000)	135	(45)
Percentage of the FRS17 value of the scheme liabilities	1%	(0%)
Total amount that would have been recognised in the Statement of Total Recognised Gains and Losses (£'000)	(494)	(5,100)
Percentage of the FRS17 value of the scheme liabilities	(2%)	(24%)

The Society's net assets, including the disclosed FRS17 balance sheet item above, would be £344,916,000 at 31 December 2003 (£244,052,000 at 31 December 2002).

The Society's income and expenditure reserve, including the disclosed FRS17 balance sheet item above, would be £334,878,000 at 31 December 2003 (£253,772,000 at 31 December 2002).

9 Tangible fixed assets

Group	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Total £'000
Cost or valuation				
At 1 January 2003	5,900	659	7,519	14,078
Additions	–	6	571	577
Disposals	–	–	(2,098)	(2,098)
At 31 December 2003	5,900	665	5,992	12,557
Depreciation				
At 1 January 2003	20	420	5,221	5,661
Provided in year	119	62	845	1,026
Released on disposals	–	–	(2,032)	(2,032)
At 31 December 2003	139	482	4,034	4,655
Net book values				
At 31 December 2003	5,761	183	1,958	7,902
At 31 December 2002	5,880	239	2,298	8,417
Company				
Cost or valuation				
At 1 January 2003	5,900	659	7,470	14,029
Additions	–	6	563	569
Disposals	–	–	(2,090)	(2,090)
At 31 December 2003	5,900	665	5,943	12,508
Depreciation				
At 1 January 2003	20	420	5,196	5,636
Provided in year	119	62	842	1,023
Released on disposals	–	–	(2,025)	(2,025)
At 31 December 2003	139	482	4,013	4,634
Net book values				
At 31 December 2003	5,761	183	1,930	7,874
At 31 December 2002	5,880	239	2,274	8,393

All the leasehold properties held at 31 December 2003 are short leaseholds.

9 Tangible fixed assets: continued

Assets included at valuation

The freehold property was revalued on 31 December 1999 on the basis of the Existing Use Value including notional directly attributable acquisition costs. The valuation was independent and external and was carried out by DTZ Debenham Thorpe, Chartered Surveyors in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. The valuation was updated on 1 November 2002 by the above Chartered Surveyors.

If the freehold property had not been revalued it would have been included in the balance sheet at the following amount:

	£'000
Cost	4,138
Depreciation	(674)
At 31 December 2003	3,464
At 31 December 2002	3,533

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (2002: £ nil).

10 Investments

	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Valuation or cost at 1 January	351,990	333,224	20,001	20,001
Additions	244,606	146,126	–	–
Disposals at carrying value	(167,974)	(113,715)	–	–
Movement in cash and brokers' balances	2,097	1,403	–	–
Surplus/(deficit) on revaluation of listed investments	29,104	(15,048)	–	–
At 31 December	459,823	351,990	20,001	20,001
Investments comprise:				
Listed on UK Stock Exchange:				
– Equities	85,700	41,046	–	–
– Government and other bonds	230,218	202,900	–	–
Listed on overseas Stock Exchanges:				
– Equities	76,280	42,870	–	–
– Government and other bonds	62,246	61,892	–	–
Shares in Group undertakings	–	–	20,001	20,001
Cash	5,132	3,161	–	–
Brokers' balances	247	121	–	–
	459,823	351,990	20,001	20,001
Historical cost of investments	452,083	364,058	20,001	20,001

11 Investment in subsidiary undertakings

The Medical Protection Society has the following direct interests in subsidiary undertakings:

Name	Parent and Group interest in ordinary shares and voting rights	Country of incorporation or registration	Nature of business
Dental Protection Limited	100%	England	To manage the advisory and administrative affairs of the dental division of the Society.
MPS Risk Consulting Limited	100%	England	To provide risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations.
M P I (London) Limited	100%	England	To manage the investment portfolio.
D P L Australia PTY Limited	100%	Australia	To manage the administrative affairs of Dental Protection Limited in Australia.

All the above subsidiaries operate in their country of incorporation or registration.

12 Debtors

	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Receivable within one year:				
Trade debtors	814	1,020	714	952
Recoverable insurance claims	3,974	3,295	3,974	3,295
Amounts owed by subsidiary undertakings	–	–	374,629	307,105
Other debtors	148	213	135	177
Prepayments	2,483	2,267	2,483	2,261
	7,419	6,795	381,935	313,790
Receivable after one year:				
Recoverable insurance claims	7,800	6,600	7,800	6,600
Total Debtors	15,219	13,395	389,735	320,390

13 Creditors: amounts falling due within one year

	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Bank overdraft	216	–	220	–
Corporation tax	2,530	4,264	126	106
Other taxes and social security	465	360	457	359
Other creditors and accruals	14,761	8,052	14,384	7,855
Deferred subscription income	19,507	14,285	19,507	14,285
	37,479	26,961	34,694	22,605

14 Provision for liabilities and charges: Group and Company

	Known claims £'000	Claims handling £'000	Total £'000
At 1 January 2003	179,560	6,217	185,777
Movements in the year			
– Charged to the income and expenditure account	69,786	5,576	75,362
– Paid	(60,895)	(5,311)	(66,206)
At 31 December 2003	188,451	6,482	194,933

The known claims provision is the estimated discounted ultimate settlement values for damages and legal costs in respect of all claims notified by 31 December. The claims handling provision is the estimated internal cost of managing these claims to conclusion.

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

The known claims provision is stated before insurance recoveries of £11.6m that are estimated to be recoverable from the Society's insurers.

Although Financial Reporting Standard 12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for this provision due to the complexities of the many actuarial calculations involved.

15 Movement on reserves

Group	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
At 1 January 2003	(9,720)	259,804	250,084
Surplus on revaluation of listed investments	29,104	–	29,104
Realised on disposal of investments	(9,296)	9,296	–
Tax charge recognised on investment gains	–	(644)	(644)
Release of depreciation on revalued property	(50)	50	–
Net contribution for the year after tax	–	70,641	70,641
At 31 December 2003	10,038	339,147	349,185
Company			
At 1 January 2003	2,348	155,765	158,113
Release of depreciation on revalued property	(50)	50	–
Net contribution for the year after taxation	–	54,718	54,718
At 31 December 2003	2,298	210,533	212,831

16 Reconciliation of movements in funds available to meet future liabilities

	2003 £'000	2002 £'000
Net contribution for the financial year	70,641	54,520
Other recognised gains/(losses) relating to the year	29,104	(14,222)
Tax charge on investment gains	(644)	(2,810)
Total recognised gains	99,101	37,488
Opening funds available to meet future liabilities and charges	250,084	212,596
Closing funds available to meet future liabilities and charges (see note 21)	349,185	250,084

17 Reconciliation of excess of income over expenditure to operating cash flows

	2003 £'000	2002 £'000
Excess of income over expenditure	56,399	45,962
Depreciation charges	1,026	952
Loss on disposal of tangible fixed assets	61	7
Increase in claims provision	9,156	13,170
Increase in debtors	(1,950)	(4,442)
Increase in creditors	12,036	6,231
Net cash inflow from operating activities	76,728	61,880

18 Returns on investment and servicing of finance

	2003 £'000	2002 £'000
Interest received	4,558	3,361
Dividends received	12,245	9,489
Net cash inflow from returns on investments and servicing of finance	16,803	12,850

19 Capital expenditure and financial investment

	2003 £'000	2002 £'000
Purchase of tangible fixed assets	(577)	(949)
Purchase of investments	(244,606)	(146,126)
Proceeds from sale of tangible fixed assets	5	5
Proceeds from sale of investments	171,632	113,404
Net cash outflow from capital expenditure and financial investment	(73,546)	(33,666)

20 Commitments

	2003 Group £'000	2002 Group £'000	2003 Company £'000	2002 Company £'000
Operating lease commitments				
Land and buildings, leases expiring:				
Greater than five years	1,150	1,044	1,150	1,044
Motor vehicles, leases expiring:				
Within one year	3	2	3	2
Two to five years	14	16	14	16
	17	18	17	18

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

21 Potential claims incurred but not yet reported (IBNR)
Unreported incidents up to 31 December may give rise to claims in the future. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on Council exercising its discretion, will to the extent to which Council exercises that discretion become the Society's responsibility under the occurrence basis of cover the Society provides. The funds on the balance sheet at 31 December 2003 are sufficient to cover the IBNR based on an actuarial assessment prepared by an independent firm of consulting actuaries and detailed in a report prepared in accordance with the Guidance Note 'General Insurance Business: Actuarial Reports, (GN12)' published by the Faculty of Actuaries and Institute of Actuaries.

22 Obligations of members
The Society has the right to call each year for additional funds from its members up to an amount equal to the annual subscription.

23 Guarantee
The Society is limited by guarantee not exceeding £1 per member.

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