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ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDING DECEMBER 2011

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## **Strength in numbers**

MPS – the right choice  
for financial security

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## About MPS

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

We are a mutual, not-for-profit organisation offering more than 270,000 members help with legal and ethical problems that arise from their professional practice. This includes clinical negligence claims, complaints, medical council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal-accident inquiries

Fairness is at the heart of how we conduct our business. We actively protect and promote the interests of members and the wider profession. Equally, we believe that patients who have suffered harm from negligent treatment should receive fair compensation. We promote safer practice by running risk management and education programmes to reduce avoidable harm.

MPS is not an insurance company. The benefits of membership are discretionary – this allows us the flexibility to provide help and support even in unusual circumstances.

## Chairman's statement

**MPS started in London in 1892. Now, 120 years later, we are proud to serve members in dozens of countries around the world**

**Nicholas Davies**  
Chairman of the Council

MPS can look back over 2011 with a degree of satisfaction. Membership continues to increase and has reached record numbers, so subscription income is buoyant. However we should not be complacent.

Over the last two or three years, I have drawn attention to a significant rise in the numbers of claims for negligence experienced by doctors and dentists in many territories as well as an increase in the sums needed to settle each claim. Unfortunately this disturbing trend continued during 2011. Moreover the appetite for personal injury claims is not confined to medical negligence. For example, the proportion of motor vehicle accidents resulting in claims has never been higher, and over the last year alone the number of legal companies that have sprung up to manage such claims increased by 20%. There is little doubt that the extensive and severe economic downturn contributed to this widespread rise in personal injury litigation, and it is encouraging to see some governments starting to show an interest in limiting the cost to society as a whole.

Inevitably, some of this litigation has little merit, and it is pleasing to report that in 2011 MPS had some notable successes defending high-value claims and limiting associated legal costs. In an extreme case, one claimant's solicitors incurred costs of more than £236,000 while securing just £2,000 for their client in court. When we appealed, all these absurdly disproportionate costs were disallowed.

Additional reasons are likely to lie behind claims against doctors. Patients are now encouraged to behave as consumers, and often consider they have a right to the healthcare of their choice. While these attitudes have some merit, they can give patients higher and sometimes wholly unrealistic expectations of what can be achieved. In addition, if different aspects of someone's health are treated by different healthcare providers, continuity of care may be imperfect with obvious scope for inadequate communication between all involved. Any fragmentation of a country's health service is likely to accentuate this problem.

So it is not surprising that many doctors feel under pressure when faced with a patient, armed with internet searches into details of their condition, and aware of their ability to complain or change providers if dissatisfied. Extra pressure comes from the need to provide value for money, and to work within sometimes barely adequate resources. Pressure leads to errors. Errors lead to complaints, and demands for disciplinary action and perhaps financial compensation. In the UK, the GMC experienced another sharp rise in referrals of doctors, both from the public and employers. In 2010 nearly 3% of all registered doctors were referred. One measure of the extent to which UK doctors need everyday support from MPS is the number of telephone calls members made to our medicolegal advisers asking for help. In 2011 these averaged over 3,300 per month, 5% up on the previous year. Sadly, it is most unlikely that doctors' incomes have kept pace with the cost of meeting these medicolegal challenges.

Whilst it is pleasing to report that investments held on behalf of all members have increased, even in these difficult economic times, from around £1.5 billion to almost £1.7bn, the costs of meeting negligence claims and defending doctors in disciplinary hearings have continued to increase. The increase in investments is partly a result of a continuing defensive diversification of our portfolio, but also of significant gains in index-linked gilts. It remains absolutely essential to maintain adequate financial resources to provide long-term security. These accounts confirm this is the case. Members know that insurance companies can and do go into liquidation, but they rightly assume MPS will be there to meet fully their potential liabilities even though these may not arise for many years to come.

MPS started in London in 1892. Now, 120 years later, we are proud to serve members in dozens of countries around the world. Tony Mason, our Chief Executive, retired at the end of 2011. Throughout his long and distinguished involvement with MPS, starting more than 25 years ago when he was our consulting actuary, he has articulated and championed the virtues of the MPS ethos, excellent service provided by a mutual society of professionals, free of demands made by shareholders. Under his leadership MPS has also greatly extended its educational role. For example we now provide risk management and communication skills workshops throughout the medical school curriculum in Singapore, and believe this approach will bear fruit in years to come. We will greatly miss Tony, but happily he will remain a member of the MPI Board and so continue to help direct our investment strategy. Simon Kayll takes over as Chief Executive in 2012. Simon has been working for MPS for 18 years, most recently as Finance Director. No-one knows the business better, and members can be confident MPS remains in the safest of hands.

Two other Council members retired in the summer. Leela Kapila and Richard Youell. We will miss them both and are grateful for their trenchant contributions over the last 8 years. In their places we warmly welcome Professor Kay-Tee Khaw CBE, Professor of Clinical Gerontology at Cambridge University and a distinguished contributor to research into the chronic diseases of later life, and Mr Patrick Forbes, a Consultant Urogynaecologist at Addenbrooke's Hospital, Cambridge. This will be my last report as MPS Chairman as my term on Council ends next June. Although I leave with sadness, I am delighted that Kay-Tee is able to take my place and, with our new Chief Executive, to lead MPS through future challenges.

**Nicholas Davies**  
Chairman of the Council

# Chief Executive's report

**MPS has an unparalleled experience of managing the risks associated with providing advisory and indemnity services to members**

**Simon Kayll**  
Chief Executive

I was appointed as Chief Executive at the start of 2012, following my predecessor Tony Mason's planned retirement. Whilst I am new to the role, I am not new to MPS. I have worked for MPS for the last 18 years and 13 of those have been spent as Finance Director. In my place as Finance Director, I am delighted to welcome Howard Kew who has a varied background including insurance and investment management.

By convention, this report, as part of the Annual Report and Accounts, provides the reader with an overview of the business results for the year, touching on the financial performance, business developments and particular challenges faced during the year. This I will do, but first I would like to reiterate MPS's purpose and pedigree. MPS was founded in 1892 and thus the current year marks our 120th of serving members in the health professions. In addition to our longevity, MPS is a mutual, which means we are owned by you, our members. This has two distinct benefits for you: firstly all the money you pay by way of subscriptions is used to provide service and indemnity only to members, any surplus is retained for the benefit of members – no funds are paid as dividends to third parties. Secondly, as members you are both customers and owners: this means we are very focused on ensuring that everything we do is for the ultimate benefit of members.

## Business Overview

As predicted by my predecessor in this report last year, 2011 has been full of challenges. Indeed, MPS faces a more challenging environment now than has been the case for at least the past 18 years. The challenges result from increased competition, deteriorating claims experience, an uncertain investment environment and an economic environment that in some countries has resulted in significant downward pressure on our members' incomes; this can create a conflict when we need to increase subscription rates in response to worsening claims experience.

MPS has done and continues to do much to counter these challenges: we provide both education and risk management expertise to help control risk generally and we seek to identify and control the risk that poorly performing members present to the rest of the membership; our investment diversification helps to reduce the effect of market volatility and preserve gains already made, and we continue to raise awareness of the value that MPS membership represents in terms of service quality, financial security and, ultimately, peace of mind.

I am pleased to report that MPS increased its member numbers in the year by over 10,000 (4.0%). This growth was across all countries, but was particularly marked in the West Indies and Singapore. Even in the UK where competition is at its most fierce, membership numbers grew by just over 3,000 (2.2%).

## Financial Overview

The overall financial result, whilst better than 2010, was not as good as we had anticipated. Subscription income grew and investments performed well but total claims development was

more than anticipated. Net assets after allowing for reported claims have increased in the year by £108.2 million, to £1,127.0m. On the face of it this looks like a decent result. However, this does not allow for the obligations that MPS will assume, subject to the exercising of discretion, for adverse incidents that occurred before 31 December 2011, but that have not yet been reported. Whilst these future costs are not an actual obligation until discretion has been exercised, MPS has collected subscription income commensurate with eventually assuming these obligations, so the full financial picture needs to take account of these potential obligations. In doing so, MPS's financial position has deteriorated somewhat. Such deterioration comes hard on the heels of an even larger deterioration in 2010.

This deterioration in MPS's financial position is the direct result of claims experience being worse than anticipated. As a result, MPS needs to reflect this worsening view of the likely future cost and number of claims in future subscriptions, to ensure that sufficient funds are collected to meet our obligations to provide an indemnity on behalf of members. Any decision made to increase subscription rates is done in the light of independent actuarial advice of the development of claims costs and number of claims, and after considerable internal discussion. In deciding to increase subscriptions rates, I appreciate that, particularly in Ireland and the UK where income from both State and private work is, at the best, level, such increases will add to your financial pressures. A more detailed review of the financial results can be found in the Finance Director's report.

## Claims experience

The costs associated with clinical negligence claims represent the largest single expense for MPS. This cost has been increasing for a number of years in many countries but especially the UK and Ireland, where both the average cost of claims (severity) and the number of claims (frequency) has increased. Many of the reasons for the increasing severity and frequency are beyond MPS's control.

The increasing severity is driven by ever growing demands for compensation in the light of injury resulting from clinical negligence. Whilst this is most significant in the UK it is, in our experience, by no means limited to the UK. A particular element of compensation which has grown considerably in recent years is the annual care package awarded to claimants whose injuries are so severe that they require some form of daily care. By way of example, the settlement for a recent non-MPS UK case that sadly resulted in severe brain damage to a young girl included a lump sum of nearly £5m, plus an annual payment of £450,000. This case was not due to medical negligence, but the resulting injuries are very similar to those that might result from medical negligence and whilst the damages awarded are at the upper end of our expectations, they are indicative of the level of compensation currently being awarded in the UK. Although it varies by country, money used to pay compensation will, in many instances, have a direct or indirect impact on the funds available to provide healthcare. Thus, whilst fair compensation for an individual injured through no fault of their own is desirable, it needs to be balanced by the impact on the

wider society. Ultimately society needs to balance what is fair compensation against what is affordable.

It's harder to be sure what is driving increasing frequency. In general it is probably down to an increasing belief by patients that the science of medicine produces perfect outcomes and a fracturing of the traditional model of continuity of care, particularly in primary care, which means patients no longer have the same long-term relationship they once had with their clinician. There is little hope that any of these drivers are being tackled, especially in the UK and Ireland, where, if anything, things are getting worse. In addition, it is evident that the economic climate has caused an increase in smaller value claims. This is very evident in Ireland, and especially so for dental claims where frequency has rocketed.

#### **MPS is doing what it can to help control claims costs**

The drivers of increasing claims severity and frequency are generally beyond the direct control of MPS. However, MPS can have an influence both generally and specifically in relation to claims for which MPS may provide an indemnity. We devote considerable resources to do what we can and thus ensure that subscriptions are kept as low as they can be.

##### *Education*

MPS has provided education to its members for a number of years, but effort devoted to this was increased considerably about four years ago and MPS is now one of the largest non-clinical educators of health professionals in the world. Our educational focus is on communication skills, team working in the clinical environment and administration matters such as medical records. During 2011 MPS has been successful in getting its educational courses on the residency training programme for doctors in Singapore and specialist registrar training programme in South Africa and, during 2011, we continued to expand the provision of our educational courses in all of the countries in which we operate.

Our education courses are prophylactic in that they are open to all our members and are also provided specifically to help reduce the future risk of individual members who have already been identified as having a considerably worse risk profile than the average.

In Hong Kong we jointly sponsor a prize with the Hong Kong Academy of Medicine for medical ethics and patient safety, which was presented for the first time in November 2011.

As well as the delivery of physical courses, MPS launched in 2011 a number of web based e-learning courses. Feedback has been very positive and it is particularly appreciated by those who have limited access to physically delivered training, for example, some of our members in the West Indies.

##### *Risk management*

MPS also provides a range of risk management programmes aimed at primary care through courses and active assessments working in partnership with the clinicians. Again, 2011 saw an increasing provision of such work.

##### *Individual members with a worse than average risk profile*

The practice of medicine and dentistry is inherently risky and this risk is generally unaffordable for an individual to shoulder on their own. The sharing of this risk amongst fellow clinicians makes the risk affordable for an individual. However, the cost of the shared risk can be pushed up if the risk profile of some individuals is considerably worse than their peers. To limit this effect, MPS takes steps to identify such individuals and work with them to improve their risk profile. However, if this is ultimately not possible, in the interests of the wider membership, MPS will consider removing them from membership.

##### *External relations*

Whilst MPS may not be in a position to directly change some of the drivers of increasing claims, it can work to educate and inform those who are in such a position. Last year we continued this work in many countries. Two examples are, in the UK, where we connected with politicians and medical opinion formers about the ever increasing cost of clinical negligence, and in South Africa, where we took part in a review sponsored by the Minister of Health, looking at the influence of the legal profession in driving up clinical negligence claims and what could be done to influence this.

##### *Counselling*

Being subject to a claim or complaint can be a very stressful experience for any health professional. This stress in itself can increase the likelihood of another adverse incident likely to give rise to a further complaint or claim. To help address this risk, in 2011 MPS rolled out an international counselling service available to all its members who have been subject to a complaint or claim. This is operated by a fully independent provider and is totally confidential. The feedback to date has been very positive and this is a service highly valued by those that have used it.

#### **Summary**

In financial terms, 2011 was better than 2010, but the development of claims experience was somewhat worse than anticipated and this will inevitably place more upward pressure on future subscriptions. However, MPS remains financially strong and remains dedicated to helping its members both reactively when you need advice or are subject to a complaint or claim, and proactively, through education and risk management.

The coming year is likely to be no less difficult than the last two but MPS has an unparalleled experience of managing the risks associated with providing advisory and indemnity services to members in many different countries and jurisdictions. From our current position of strength in all our markets, I have every confidence that we can manage the current challenges and continue to provide an exemplary service to our members and comprehensive indemnity as required.

**Simon Kayll**  
Chief Executive

## Statistics

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# Finance Director's report

**We will continue to invest in people, systems and infrastructure to ensure that MPS can provide the levels of services members rightly expect**

**Howard Kew**  
Finance Director

This is my first report to members as your Finance Director following my appointment in December 2011. I bring extensive financial and senior management experience from a variety of sectors and I am looking forward to providing MPS with financial leadership in what are challenging times for all of us.

## Financial Overview

I am pleased to report that MPS is maintaining its strong reported position with net assets increasing by 10.6% over the past year, from £1,018.8m to £1,127.0m at the end of 2011, showing an improvement of £108.2m.

However, as reported by the Chief Executive, our experience indicates further upward trends in both the frequency and severity (cost) of medical and dental claims. So whilst our reported net asset position has improved, our estimate of the increasing costs of potential claims not yet reported to us leads to our overall view that the financial position of MPS has somewhat deteriorated over the past 12 months.

## Actuarial Estimates

The very nature of the risks we indemnify and the services we provide to members mean that the full costs only emerge over a long period of time. There may be a considerable reporting delay followed by an extended period whilst the exact liability is established. Each year, we share data with our independent actuarial advisers, who provide estimates of the reserves that may be required to meet these unknown future costs. The actuarial estimates look at the longer term trends on a consistent basis and calculate the expected outcome from the current year and all previous years from which claims may arise.

In particular, these trends show a marked increase in expected frequency and severity in UK (except Scotland) general practice, increases in the frequency of medical claims from the Republic of Ireland and an increase in severity, though partly offset by a reduction in frequency, in other areas of UK medical. We have also seen increases in the expected numbers of worldwide dental claims.

A combination of these factors has led us to increase our estimate of these future costs by 16% compared to our position at the end of 2010, and we have carefully set subscription rates to reflect the different risks of different types and locations of practice. Also, the possibility of an increase in the utilisation of Periodical Payment Orders as a means of settling some claims in the future has led us to set up the mechanism for funding this approach, and we have allowed for this when considering our overall financial strength.

## Reported Financial Performance

The principal cost components of our reported financial position for the year are members' claims that we pay out, changes in

our recorded estimates for claims that have been reported to MPS, the costs of providing advice and support with matters other than negligence claims, and the administration costs of delivering our services.

Income comes predominantly from member subscriptions and the return on our invested assets. It is vital to understand that the resources of MPS are managed on a long term basis to ensure that we are not financially impeded when exercising our discretion to support members and meet future potential obligations. Consequently, the income we generate each year must be sufficient to meet the cost of claims that will arise from that year, whether or not they are reported and settled in the year.

Considering our members' claims first, we are showing a total cost of £189.8m for 2011. This is considerably lower than 2010 when we recognised £258.7m, a figure that we would regard as exceptionally high. However as noted above, we are seeing an increasing trend in both the severity and frequency of claims and in the associated cost of settling and managing them. Claim costs of £160.5m and £190.9m were recorded in 2008 and 2009 respectively and these figures demonstrate the longer term deterioration of claims experience. Protecting our members against these increasing costs is the reason we need to ensure that there is a commensurate growth in our net asset position.

The costs of supporting our members with matters other than negligence claims has also reduced slightly compared to last year, with the accounts showing a charge of £51.7m versus 2010's figure of £52.7m.

The other major components of our costs are the operational and administrative costs of delivering services to our members, providing educational services and materials to help mitigate risks, and meeting the costs of ensuring excellent external relations are maintained to ensure members' interests are always adequately and appropriately represented. We have invested in these important areas in the year, administration costs have increased from £17.0m in 2010 to £18.5m in 2011, with the figures for education, publications and external relations being £7.9m for 2010, rising to £8.6m in 2011.

In 2012 and the coming years we will continue to invest in people, systems and infrastructure to ensure that MPS can provide the levels of services members rightly expect. To that end we have embarked on a major IT project and are in the process of acquiring a new freehold property to provide adequate facilities for all our staff as demands for assistance and support continue to rise.

Turning to income, the group reported total subscription and other income of £318.3m in 2011, an increase of 7.3% on 2010's figure of £296.6m. This increase arises from the overall effect of a 4% increase in the number of members, coupled with a change in the mix of membership and the 2011 increase in subscriptions to reflect the cost trends discussed above.

## Finance Director's report continued

Finally, MPS's investment performance reflects the return on members' assets which are needed to meet both reported and unreported potential future costs. Whilst 2011 was generally a difficult year for investment markets, MPS's investment subsidiary was able to compensate with a very strong performance in its largest single asset class of UK index linked government bonds. We hold these inflation related assets to broadly match our UK liabilities as the cost of individual claims is also inflating, albeit with reference to a different index than UK retail prices. In 2011, this market benefited from huge demand as other investors sought out the combination of very high credit security with a desire to be protected from inflation risk. This drove prices up, and as a large holder of this type of asset we saw the value of our overall portfolio increase to almost £1.7bn by the end of 2011, up from £1.5bn at the end of 2010. The performance of these assets contributed significantly to an overall investment return of almost 5% in 2011, although this was below the return for 2010 (+9%), which was achieved in a year of much more general asset growth.

The investment performance reported above is in Sterling terms and this does not always reflect the underlying performance of assets invested in local currency. One of MPS's key strategies is to match local currency liabilities with assets in the same currency to remove currency exchange risks from our finances. For example, in South Africa we hold investments locally to cover our best estimates of our liabilities there. During 2011 these investments performed positively in Rand terms but as the currency weakened against Sterling significantly in the period, the Sterling value of the investments fell and thus negatively impacted our overall Sterling investment return. Whilst this had an adverse effect on our investment return, the weakening of the Rand meant that the Sterling value of our Rand liabilities also fell and so our overall financial position was not impacted. Had we not held a matching level of assets this would not have been the case.

### **Conclusion**

Combining these principal drivers with other, less significant, items of income and costs we are able to report the improvement in net assets of £108.2m, which will help to ensure that MPS continues to protect our members' interests in 2012 and beyond, during this period of economic uncertainty and a deteriorating claims environment.

**Howard Kew**  
Finance Director



# Members of the Council and Committees

**President** Sir Peter Morris AC FRS FRCS FMedSci <sup>3</sup>

**Vice-President** Professor John Bonnar MA MD FRCP FRCOG

**Chairman of the Council** Nicholas Davies MA DM(Oxon) MRCP FRCA

**Chief Executive** Simon Kayll BA(Hons) FCA MBA (Appointed 1 January 2012)  
Tony Mason BSocSc FIA (Retired 31 December 2011)

**Members of the Council** Frank Attwood BSc(Econ) FCA FRSA ACIS MAE <sup>1 2 4</sup>  
The Lord Bradley PC BA(Hons) MPhil <sup>1</sup>  
Professor Trevor Burke DDS MSc BDS MDS FDSRCS(Eng) FDSRCS(Edn) FDSRCS(Glas) MGDRC(S(Edn)) FFGDP(UK) (ex officio)\*  
Ian Croxford QC LLB <sup>1 \*</sup>  
Nicholas Davies MA DM(Oxon) MRCP FRCA Chairman <sup>1 2 3 5</sup>  
Mark Davis MB ChB MRCP DRCOG DocMed FRCPEd <sup>2</sup>  
Yasmin Drabu MB ChB DCH FRCPath FRCP\*  
Mary Favier MB BCh MRCGP MRCP <sup>1 2</sup>  
Patrick Forbes MB ChB FRCOG (Appointed 8 June 2011)  
Taj Hassan MD FCEM MRCP DA FRCSEd <sup>2</sup>  
Leela Kapila OBE MB BS FRCS FRCPC(Hon) <sup>1</sup> (Retired 8 June 2011)  
Simon Kayll BA(Hons) FCA MBA Chief Executive (ex officio) <sup>2 4 5 6</sup>  
Kay-Tee Khaw CBE MA MB BChir MSc FRCP FFPHM FMedSci (Appointed 8 June 2011)  
Kevin Lewis BDS FDSRCS(Eng) FFGDP(UK) LDSRCS(Eng) <sup>6</sup>  
Tony Mason BSocSc FIA <sup>1 2 3 5</sup> (Retired 31 December 2011)  
The Lady Vallance JP MA MSc PhD <sup>1</sup>  
Richard Youell JP MA <sup>2 4</sup> (Retired 8 June 2011)

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

## Council member biographies

### FRANK ATTWOOD

Frank Attwood was elected to the Council as a non-executive director of MPS in June 2004. He is a Fellow of the Institute of Chartered Accountants in England and Wales and was formerly a partner in RSM Robson Rhodes LLP. He was, until retiring on 31 December 2009, Deputy Chair of the International Ethics Standards Board of the International Federation of Accountants. His professional experience covers audits of insurance entities, charities and other regulated companies.

### KEITH BRADLEY

Keith Bradley joined the Council as a non-executive director of MPS in July 2007 and was elected by the membership at the Annual General Meeting in June 2008. He is a member of the House of Lords, is a non-executive director of the Christie Hospital NHS Foundation Trust, Chair of Manchester Salford and Trafford LIFT Company and is Associate Vice-President of the University of Manchester. He was formerly member of Parliament for Manchester Withington (1987 to 2005), served as a Government Minister and a member of the Health Select Committee. He is a member of the Privy Council.

### TREVOR BURKE

Trevor Burke joined the Council as a non-executive director of MPS in June 2010 and as Chairman of MPS's subsidiary, Dental Protection Limited, his position on Council is ex officio and thus he is not elected by the membership. He has been Professor of Primary Dental Care at the University of Birmingham and Honorary Consultant in Restorative Dentistry since 2000. He has authored or co-authored four books and published 270 peer reviewed papers and has been awarded over 75 research grants. His main research interests include properties and applications of tooth-coloured restorative materials, clinical evaluation of materials and their performance in general dental practice, the design of an index of oral health for clinical audit and quality control, and ill health retirement among dentists. He is also an examiner for the Royal College of Surgeons of Edinburgh and is the Editorial Director of *Dental Update*.

### IAN CROXFORD

Ian Croxford joined the Council as a non-executive director of MPS in November 2007 and was elected by the membership at the Annual General Meeting in June 2008. He is a barrister, being called to the Bar in 1976 (Gray's Inn), was appointed a QC in 1993, became a Bencher at Gray's Inn in 2001 and was appointed as a Deputy High Court Judge (Chancery Division) in 2007. Ian's professional practice is mainly substantial commercial and professional negligence (non-medical) litigation. He has, since 1990, served as a Governor of Westcliff High School for Boys and became Chairman of Governors in 1995.

### NICHOLAS DAVIES

Nick Davies was elected to the Council as a non-executive director of MPS in May 2001 and was appointed Chairman of Council in 2003. He has been a member of the Claims Advisory Committee since 1996. He is a consultant anaesthetist at the Southampton University Hospitals NHS Trust and was the Clinical Services Director for Anaesthesia, Theatres and Intensive Care from 1994 to 1997, and 2001 to 2003. He was also an examiner for FRCA, Royal College of Anaesthetists from 1991 to 2003.

### MARK DAVIS

Mark Davis was elected to the Council as a non-executive director of MPS in June 2009. He is in general practice in Leeds and has been a principal since 1984. He acts as an occupational medical adviser to a number of companies and has since 2000 acted as an independent expert witness. He is now on the Executive of Leeds South and East CCG. Between 2007 and 2012 he was a board member of a practice based commissioning consortium and from 2002 to 2006 was a member of the Professional Executive Committee of the East Leeds Primary Care Trust. He has a special interest in cardiovascular medicine and has served, or does serve, on a number of Department of Health, Primary Care and NIHC committees and working groups related to this clinical area.

### YASMIN DRABU

Yasmin Drabu was elected to the Council as a non-executive director of MPS in June 2009. She was appointed as a Consultant Microbiologist in the Health Service in 1982. In 2000, she became Medical Director at North Middlesex University Hospital (NMUH). Her experience at NMUH was extensive and challenging with wide-ranging responsibilities including working as Acting Chief Executive. In March 2006 she moved to Barking Havering and Redbridge University Hospital NHS Trust (BHRUT) as a full time Medical Director and in February 2010 she was seconded to the Blood Policy and Infectious Diseases Division in the Department of Health. Yasmin has over 35 years experience in the NHS. She has been the Executive Lead for Clinical Governance in both NMUH and BHRUT. She has implemented major programmes of developing clinicians as leaders in both the Trusts. In 2009, BHRUT was voted the top NHS Trust for Innovation in London. In 2004 she was awarded the Asian Professional Woman of the Year, in 2007 she was awarded an Honorary Fellowship of the Royal College of Physicians. She is currently a Mentor for Mosaic and Tower Hamlet College.

### MARY FAVIER

Mary Favier was elected to the Council as a non-executive director in June 2005. She is a GP principal and partner in a practice in Cork. She sits on the Professional Competence and Membership committees of the Irish College of General Practitioners. She is on the editorial board of *Forum*, the ICGP general practice magazine, and a member of the editorial board of a consumer health information website.

#### **PATRICK FORBES**

Patrick Forbes was elected to the Council as a non-executive director of MPS in June 2011. He is a Consultant Urogynaecologist at Addenbrooke's Hospital, Cambridge, and previously a Consultant in Obstetrics & Gynaecology in the RAF and at Hinchingsbrooke Hospital, where he has also been Clinical Director and Royal College Tutor. He has been a regional panellist for the Confidential Enquiry into Stillbirths and Deaths in Infancy. He serves as an examiner for Final MB at Cambridge University, and is a member of the Academy of Experts and expert panel for the Speedy Resolution Scheme in Wales.

#### **TAJ HASSAN**

Taj Hassan was elected to the Council as a non-executive director of MPS in June 2006. He has been a member of the MPS Claims Advisory Committee since 2004 and is a Consultant in Emergency Medicine at the Leeds Teaching Hospitals NHS Trust. He is presently Vice President of the College of Emergency Medicine (CEM). He is also the national Director for eLearning for the College's ENLIGHTENme programme, an examiner for Fellowship of the CEM, and a member of the College's Safer Care Committee.

#### **SIMON KAYLL**

Simon Kayll was elected to the Council as an executive director in June 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales. He joined MPS in February 1994 as Chief Accountant and was successively appointed as Financial Controller and then Finance Director in January 1999, also serving as Company Secretary for MPS and most of its subsidiary companies from March 2000 until December 2011. He was appointed Chief Executive of MPS on 1 January 2012.

#### **KAY-TEE KHAW**

Kay-Tee Khaw was elected to the Council as a non-executive director of MPS in June 2011. She is Professor of Clinical Gerontology at Cambridge University and Fellow of Gonville and Caius College. She is a Fellow of the Academy of Medical Sciences, has chaired the International Society of Cardiovascular Epidemiology and Prevention, served as a board member of the Higher Education Funding Council for England, NHS Central Research and Development Committee, MRC Health Services and Public Health Research Board, Cambridgeshire Health Authority, Wellcome Trust Population Sciences Panel, and the World Heart Federation Council on Epidemiology and Prevention. She has also acted as a trustee of the Kennedy Memorial Trust, the British Heart Foundation and Help the Aged.

#### **KEVIN LEWIS**

Kevin Lewis was elected to the Council as an executive director in June 2003. He is formerly a general dental practitioner and was a member of the original Board of Dental Protection Limited from 1989 to 1992, before being appointed as a dentolegal adviser with Dental Protection in 1992. He was subsequently appointed Dental Director of MPS in 1998. His responsibilities include the delivery of all aspects of dentolegal services to members as well as marketing Dental Protection. He was an Associate Editor of *Dental Practice* (1981 to 2006), and since 2006 has been the Consultant Editor of *Dentistry*. He was a member of GDC steering group on Recertification and the former Vice President of the British Association for Dental Therapists and Council member of the British Society for Restorative Dentistry.

#### **ELIZABETH VALLANCE**

Elizabeth Vallance joined the Council as a non-executive director of MPS in February 2005 and was elected by the membership at the Annual General Meeting in June 2005. She has been a non-executive director of HMV Group, Norwich Union plc, CGNU plc and Aviva plc and is on the board of Charter European Trust plc. She was Reader in Government and Politics in the University of London and head of department, professor and Fellow at Queen Mary, London. She is also a Fellow of the Institute of Education, University of London, where she was chairman from 2000 to 2009. She is Chairman of ICAN, the national children's communication charity, of the Centre for Mental Health and of CEDR and chaired St George's Healthcare NHS Trust and the Advisory Committee on Clinical Excellence Awards. She is a JP, was High Sheriff of Greater London from 2008 to 2009, and was, from 2004 to 2011, on the Committee on Standards in Public Life.

*MPS also has a President, Sir Peter Morris. This position is not a director of the board under the terms of the Companies Act, but the President is elected by the membership and is entitled to, and does attend Council meetings, participating fully in the discussions.*

#### **PETER MORRIS**

Peter Morris was elected President in June 2007. He is Nuffield Professor of Surgery Emeritus and former Chairman of the Department of Surgery and Director of the Transplant Centre, University of Oxford. He was, from 2001 to 2004, President of the Royal College of Surgeons of England. He is also Director of the Centre for Evidence in Transplantation at the Royal College of Surgeons and the University of London and Honorary Professor. He is a Fellow of the Royal Society and the Academy of Medical Sciences, and Foreign Member of both the Institute of Medicine of the National Academy of Sciences and the American Philosophical Society.

# Advisers and Senior Staff

## Claims Advisory Committee

### Chairman

Susan Sellers MB ChB MD FRCOG

### Vice-Chairman

Frances Cranfield MB BS MRCS LRCP DRCOG FRCGP

### Secretary

Emma Hallinan LLB(Hons) Solicitor

### Committee members

Martin Ashley MB BS MRCS LRCP FRCA MRCGP FRCert

Robert Battersby MB BS FRCS

Peter Campbell MB BS FRCSEd(Orth)

Nicholas Davies MA DM(Oxon) MRCP FRCA

Yasmin Drabu MB ChB DCH FRCPath FRCP

Mary Favier MB BCh MRCGP MRCGP

Patrick Forbes MB ChB FRCOG

Taj Hassan MD FRCM MRCP DA FRCSEd

Huw Jenkins MA MD FRCP FRCPath

John F Mayberry DSc MD LLM FRCP(London & Glasgow) FRCP(Ireland)

Keith Parsons MB ChB FRCSEd FRCS

Professor Marc Winslet MS FRCS

## Medical Division

### Medical Director

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### Deputy Medical Director

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### Heads of Medical Services

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### Head of Medical Services – Africa

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

### Head of Medical Services – New Zealand

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## Dental Division

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### Hygienist and Therapist Advisers – Australia

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### Hygienist and Therapist Advisers – UK

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## Risk Department

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### Head of Pricing and Analysis

Barry Law PhD

## Claims and Legal Services Division

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### Head of Litigation

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### Claims Managers

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## Advisers and Senior Staff continued

### *Claims Managers continued*

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Helen Carrington BA(Hons) Solicitor  
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Alan Dool ACII  
Paul Dyer LLB Solicitor  
Warren J Forsyth LLB(Hons) Solicitor  
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### *Solicitors*

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Mark Jordan BA(Hons) LLM  
Christina Milne LLB(Hons)  
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### **Educational Services**

#### *Director of Educational Services*

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#### *General Manager – Asia Pacific*

Matthew O'Brien B BUS COMM

#### *Educational Services Directorate*

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Ben Simpson BSc(Hons)  
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#### *Chair of Educational Advisory Committee*

Professor Dame Janet Husband DSE FMedSci FRCP FRCR

### **Senior Staff**

#### *Finance Director*

Howard Kew BSc(Hons) PGCE

#### *Head of Operations, West Indies and Bermuda*

Nancy Boodhoo BDS FDSRCS

#### *Director of Policy, Communications and Marketing*

Stephanie Bown LLB(Hons) MB BS MRCP DRCOG FFFLM

#### *Director of HR and Operations*

Pauline Brown

#### *Internal Audit and Compliance Officer*

Simon Clutterbuck MA(Hons)

#### *Financial Controller*

Ian Cook FCCA Cert ICM

#### *Director of Systems and Change*

Glen Coulthick MSc

#### *General Counsel*

Sarah Denton MA(Oxon) MBA Solicitor

David Wheeler LLB(Hons) Solicitor

#### *Head of Marketing*

David Gray BSc(Hons)

#### *Director of International Operations*

Tim Hegan MA MB BChir DPH PgDLaw DFFHM MFFLM

#### *MPS Risk Solutions Limited – Marketing Director*

John Lamb BSc(Hons)

#### *Head of Communications*

Shelley McNicol BA(Hons)

#### *Head of Membership*

Carol Sherlock BSc(Hons)

# 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 2011

## Business review and principal activity

### *Principal activity*

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

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

In addition to the principal activity of the holding company, the group has two principal trading subsidiaries, MPS Risk Solutions Limited, and Cognitive Consulting Group Pty Limited. MPS Risk Solutions Limited is registered in England and is a general insurance company, regulated by the Financial Services Authority, which provides professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Cognitive Consulting Group Pty Limited is registered in Australia and provides education and training in communication skills and risk management to medical practitioners. There is a further major subsidiary, MPI (London) Limited (MPI), which is registered in England and holds the invested assets on behalf of MPS. MPI has a separate board which is responsible for implementing the investment strategy approved by MPS Council. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity. The MPI board is also responsible for overseeing the investment performance of the third party managers.

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. The Trustee accepted its first life into the Trust on 12 December 2011.

### *Business purpose*

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

MPS will meet the costs of assisting members subject to, discretion, the scope of the benefits of membership and payment of the appropriate subscription. If a member requests

assistance then MPS will pay all reasonable costs related to an incident where it exercises its discretion to assist. These costs may include representation at a regulatory council, assistance with disciplinary proceedings and full indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident before costs are incurred and the issues are resolved.

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

### *Principal risks and risk management*

All businesses face risks of one kind or another and prudent management of the business requires identification, quantification, management and mitigation of these risks. MPS is no exception. The identification and mitigation of the key risks are detailed below and the process of the management of risk is detailed in the section on Internal Controls below.

The principal risks facing MPS and their mitigation are

#### ■ Reserving risk

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

For MPS to be responsible for paying these claims, it needs to be able to assess the value of these claims and ensure that it has sufficient assets to meet the expected total costs.

The value of these claims is estimated by MPS and there is a risk that the eventual payments exceed the sums estimated as the cost of the claims. The uncertainty around estimating the value of all claims is greater for unreported claims, than for those that have been reported. For unreported claims, the uncertainties include the number and severity of claims arising, how long it is likely to take from the date of the adverse incident to the making of a claim and how many may be 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 over the last ten years, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodicals

## Report of the Council continued

and the reduction in discount rates. The discount rate is the rate used to 'translate' future cash flows, to be paid under the settlement agreement, into a lump sum value in current money terms. The lower the discount rate, the higher the value of the lump sum. The discount rate in England and Wales is set by the Lord Chancellor and is currently 2.5%. In other countries, the rate at which future cash flows are discounted to a current value lump sum will be part of the settlement negotiations.

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

### *Mitigation*

Maintaining a large geographically diverse portfolio of risk is a key step in helping to reduce the variation of outcome around the expected mean. Further steps are around ensuring the quality of the expected outcome in the first place and this relies heavily on the accuracy of data used and the quality of analysis in determining the expected outcome. MPS uses the skill of its internal staff to determine accurate estimates for individual claims. It also ensures that levels of skill are maintained by supporting on-going training initiatives. It also has many checks and balances in its internal systems to review and monitor these estimates to achieve a high degree of consistency. MPS uses the experience of its consulting actuary, Lane Clark & Peacock LLP, to use the internal individual claim estimates and membership data to arrive at a statistical reserve for the likely cost of all claims.

### ■ Underwriting risk

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

### *Mitigation*

Again, the skill of staff and advisers is important as are the quality of internal systems. In addition, MPS carefully reviews all applications and makes an assessment on those risks that it is willing to accept. MPS also runs an internal programme to identify individual members who appear to represent a higher than normal risk and tries to work with them to reduce their risk. MPS also purchases insurance to cover catastrophic high claims.

### ■ Market risk

Subscriptions collected in any one year are invested until they are needed to pay the costs arising from the year in which the subscriptions were received. The greater the return MPS can achieve from investments, the less it would

theoretically need to charge in subscriptions. However, the greater the investment return that MPS is trying to achieve from its invested assets, the greater will be the fluctuations in the value of those assets and thus, the greater will be the risk that MPS will see a fall in the value of its assets. Such volatility in the value of MPS's assets is, when asset values fall, damaging to the strength of the balance sheet and significant volatility in investment returns makes it more difficult to plan for the longer term.

### *Mitigation*

MPS has adopted a prudent investment strategy that carefully identifies the levels of risk and return acceptable in its portfolio of assets. External professional advice is regularly sought and investment performance is subject to detailed review in conjunction with advisers. Wherever practical, risks arising from currency fluctuation and investment liquidity are minimised.

The risk of asset value volatility is addressed in a number of ways. Firstly the majority of assets are held in bonds and short-term money market funds, which generally have a lower level of volatility, secondly there is considerable diversity of those assets held primarily to achieve an investment return. The equity element of these assets is held in a number of different portfolios, each investing in different geographic areas and equities are augmented by other return seeking assets which reduce volatility, because returns from these assets are less than perfectly correlated with the returns from equities.

### ■ Currency risk

MPS holds assets to meet claims liabilities. The claims liabilities are in a number of different currencies. If the assets are not held in the same currency as the liabilities, then there is a risk that movements in exchange rates will alter the relative value of assets to liabilities. Sometimes this might be beneficial, sometimes not. This is a risk that is outside the scope of MPS's business and skill, and should be removed as much as is possible.

### *Mitigation*

MPS's strategy is to minimise currency mismatches between its assets and liabilities. This is achieved by either holding assets in the same currency, and to the same value, as the liabilities or through a currency hedging programme designed to remove currency mismatches.

### ■ Liquidity risk

Liquidity risk is the risk that there will be insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to make the payment or the need to terminate an illiquid investment at an inopportune time, 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 funds are available on a daily basis when required, but otherwise are invested in pooled money market funds. In addition to this, the invested assets include a short-term money market portfolio with an average weighted maturity of a maximum of 12 months, which provides additional liquidity if needed.

#### ■ Credit risk

Credit risk is the risk that someone who owes money to MPS will fail to pay. MPS has little risk from a failure by members to pay subscriptions, because if payments are not made, members have no right to apply for assistance. MPS's main credit risk arises from either a failure of its insurers or from a failure of some of the counterparties involved in derivative financial instruments as part of MPS's investment portfolio.

Specific comment on this risk in relation to derivative financial instruments is provided on pages 19 and 20.

#### *Mitigation*

MPS has a stated policy on the acceptable risk profile for its insurers. This policy states the need to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. 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.

#### ■ Interest rate / inflation risk

MPS holds about two thirds of its invested assets in bonds and bond prices move inversely to changes in interest rates, thus an increase in interest rates will cause a fall in the price of bonds. The impact on MPS's liabilities is more complicated. The main influence on the cost of large claims (in the UK) is that element which reflects 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 a discount factor. The discount factors might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor, who is expected to complete his latest review of the discount factor during 2012. However, with the introduction in 2005 of periodical payments as an alternative to lump sum or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant, and these payments are to be indexed according to the retail price index. Since the determination of the Appeal in the *Thompson* case, it is increasingly likely that for settlements subject to periodicals, the cost of future care will be subject to indexation by a wage measure and not the retail price index.

Specific comment on the interest and inflation risk in relation to derivative financial instruments is provided on pages 19 and 20.

#### *Mitigation*

Interest rate exposure for bond assets is mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements and secondly by holding a predominance of index-linked bonds, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount and additional mitigation is provided by the ability to reduce the tax charge as a result of indexation. MPS's response to the risk inherent in periodicals is firstly to ensure that it has an appropriate investment make-up to closely match the liabilities and secondly to ensure that it has sufficient assets to allow a margin in case of unexpected changes in interest and inflation rates.

#### ■ Operational risk

Any organisation will be exposed to operational risk, that is to say the risk that a failure in its operations may incur an additional cost. Examples for MPS might include costs associated with a major failure of IT systems, fraud, fire in one of the offices or theft of its assets.

#### *Mitigation*

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

#### *Financial targets*

Despite the risk mitigation identified above, it is impossible to eliminate risk. Consequently, MPS needs to ensure that it has the financial resources to cope with the remaining unmitigated risk so that it can provide members with the assurance they need that MPS will be in a position to respond to their requests for assistance no matter when these are made.

To this end, MPS has set financial targets that will ensure that its assets exceed the estimated value of both its reported claims and unreported potential claims, to protect against the risk that claims may, for many reasons, when eventually settled, cost more than anticipated, this is known as reserving risk. The financial targets have been set such that even if these 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, which is known as market risk, then MPS would still have sufficient funds to meet all of its potential claims.

#### *Financial performance for the year*

Subscription income has increased in the year, administration costs were close to expectation and investment performance has been positive. Costs incurred in managing and settling claims were less than in 2010, however we anticipate a future upward trend in these costs and have set appropriate reserves accordingly.

## Report of the Council continued

More detail of the financial performance for the year is provided within the Finance Director's report on pages 5-6

### *Key markets*

MPS operates 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

- |               |                           |
|---------------|---------------------------|
| ■ Hong Kong   | ■ Singapore               |
| ■ Ireland     | ■ South Africa            |
| ■ Malaysia    | ■ United Kingdom          |
| ■ New Zealand | ■ West Indies and Bermuda |

In addition, MPS may provide the benefits of membership in many other countries and if members intend to work abroad, they should contact their membership administrator to see if continued membership of MPS is possible.

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

### *Member numbers*

The business aim is to grow membership in a controlled manner without increasing the overall risk exposure of the organisation. The 2011 increase in total members, including those who don't pay a subscription, was 4.0% (2010: 2.5%).

### *Staff and the provision of services*

Staff are a vital ingredient in providing the service to members. MPS does much to ensure effective recruitment of staff, appropriate training once recruited and the provision of appropriate management, reward and working conditions to help ensure retention of a skilled resource.

MPS continues to invest considerable time to help senior staff with managing performance, to ensure consistency of management across the organisation and to ensure that managers feel supported in taking the decisions necessary for the business. In addition, much has been done to improve internal communication, so that staff are more aware of their contribution to the success of MPS and more aware of issues within the business.

MPS was reaccredited with the Investors In People Standard in early 2010.

### *Future developments*

The Chief Executive's report (see pages 2-3) refers to developments during the year and touches on future developments.

For the coming year, MPS's main focus will continue to be the delivery of a high-quality, cost-effective service to members, the delivery of education and risk management courses to members and the continued strengthening of our relationship with regulators, legislators and professional representative bodies.

To this end, MPS will continue to ensure that it has the internal resources necessary to meet demand from members and will continue to develop its IT and operational systems to improve their efficiency and cost effectiveness.

## **Donations**

Charitable donations made by MPS during the year amounted to £10,441 (2010: £10,188). Donations in 2011 were all in favour of the Charities Aid Foundation in lieu of fees waived by a Director of MPI (London) Limited. No political donations were made during the year (2010: £nil).

## **Employees**

During the year MPS 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 MPS's trading position and of any significant organisational changes. MPS also seeks regular feedback from its employees and a number of different mechanisms exist for this, including a regular company-wide staff survey.

In 2005, MPS decided to adapt the existing Staff Consultative Group in order to comply with the requirements of the Information and Consultation of Employees Regulations 2005.

It is the policy of MPS 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 MPS, as well as generally through training and career development.

## **Members of the Council**

The names of the members of the Council of MPS who served during the year are set out on page 7.

## **Corporate Governance**

The Listing Rules of the Financial Services Authority require listed companies to apply the Main Principles of the UK Corporate Governance Code (formerly the Combined Code) prepared by the Financial Reporting Council and report to their shareholders on how they have done so. Although not listed, MPS complies with the UK Corporate Governance Code where it is considered proportionate and relevant to its business and constitution. The following is, where relevant, a statement in accordance with the Code.

### *Council*

The Council, which is the Board of Directors of MPS, currently consists of a non-executive Chairman, a Chief Executive, one further executive member and eleven other non-executive members. MPS's constitution requires that the majority of

Council members are doctors or dentists and that the Chairman is a doctor or dentist

Of the non-executives (including the Chairman) at the year end, eight are doctors or dentists and four are not. With the exception of the Chairman, the non-executives are considered to be independent. The four non-executives who are not a doctor or dentist have no financial interest in MPS other than their fees as members of the Council. The eight non-executives who are a doctor or dentist receive fees as members of the Council and all had personal membership with MPS. Their personal membership 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 introduced in 2008, for MPS and its subsidiary boards, a register of interests and also published 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 a sufficient calibre and number to bring strength and independence to the Council and does not propose to nominate any one non-executive to be a senior independent member of the Council. In stating this, the Council recognises that this is not in accordance with the relevant provision of the UK Corporate Governance Code.

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 (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 recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the UK Corporate Governance Code, but believes that it does not compromise the independence or integrity of the Council. The Chairman of Dental Protection Limited is a member of the Council ex officio, and is elected to the post by the Board of Dental Protection Limited. Directors of Dental Protection Limited are elected by the shareholder of the company, which is MPS and thus the Council of MPS has the ability to appoint and remove directors of Dental Protection Limited. Non-executive members of the Council are limited to an eight-year term.

The Council met formally eight times during the year (eight times in 2010). In addition to these regular meetings, the Council also devoted the better part of a day for an additional meeting to consider and review the organisation's business objectives and strategy. The attendance record of members of the Council at the eight meetings is shown in the table below.

Member of Council	Appointed or Retired	Meetings Attended	
		2011	2010
Frank Attwood		8	8
Keith Bradley		8	8
Trevor Burke	Appointed on 9 June 2010	6	3
Ian Croxford		8	5
Nicholas Davies		8	8
Mark Davis		8	8
Yasmin Drabu		7	8
Mary Favier		7	7
Patrick Forbes	Appointed 8 June 2011	4	–
Taj Hassan		5	7
Leela Kapila	Retired 8 June 2011	4	8
Simon Kayll		8	8
Kay-Tea Khaw	Appointed 8 June 2011	4	–
Kevin Lewis		7	8
Tony Mason	Retired 31 December 2011	8	8
Elizabeth Vallance		7	8
Richard Youell	Retired 8 June 2011	4	8

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 once 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 and executive if they wish – this was not thought necessary during 2011.

#### *Sub-committees of the Council*

The Council has a Nominations, Remuneration, Audit and Risk and Ethical Conduct Committee, the members of which are listed on page 7.

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

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

The Audit and Risk Committee is chaired by a non-executive member of the Council, Frank Attwood, (a former audit partner of an international firm of Chartered Accountants) and met twice in the year. MPS's external auditors, Chairman, Chief Executive, Finance Director, Financial Controller and Internal Audit and Compliance Officer also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. Other senior managers attend for specific

## Report of the Council continued

agenda items as required. The Audit and Risk 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 and Risk Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit and Risk Committee is shown in the table below. The Committee meets in March and November.

Member of the Audit and Risk Committee	Appointed/ Retired	Meetings Attended	
		2011	2010
Frank Attwood		2	2
Keith Bradley		2	2
Ian Croxford		2	2
Leela Kapila	Retired 8 June 2011	1	2
Elizabeth Vallance		1	2

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.

The Ethical Conduct Committee was formed in 2011 and met once in the year. The Committee is responsible for establishing and maintaining an Ethical Code for MPS and its subsidiaries. The Committee acts as a point of reference for legal and ethical issues, provides a forum to which unethical or unlawful behaviour can be reported and monitored, reviews and maintains MPS's anti-corruption policies and procedures. The Committee is chaired by a non-executive member of the Council, Elizabeth Vallance, and the other Council members are listed on page 7.

Several members of the Council are members of the Board of MPI (London) Limited, which manages MPS's investment portfolio, and of the Board of MPS Risk Solutions Limited, which provides general insurance contracts to corporate healthcare providers. Both Boards are chaired by the Chairman of the Council and the other Council members are listed on page 7.

### *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, this is delegated on a daily basis to the executive management and employees. However, the Council is specifically involved in exercising discretion related to potentially controversial, expensive or unusual requests for assistance.

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 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.

### *Board Evaluation*

The Council undertakes an annual evaluation of its performance based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. For the 2011 performance review, external consultants were employed to carry out an evaluation of the Council and its sub-committees using very detailed questionnaires. The results of the 2011 evaluation have been reported to the Council by the Chairman and resulting actions were approved by the Council.

### *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. 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 MPS in line with the UK Corporate Governance Code and the recommendations in the original and updated 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 MPS if it were to do so. Management then determines what action can cost-effectively be taken.

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 its meetings. In fulfilling its responsibilities to the Council, the Audit and Risk 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 reported claims and potential claims that have yet to be reported
- 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 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 has an Internal Audit team 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 coordinated by the Internal Audit and Compliance Officer, who also works closely with the external auditors and attends the Audit and Risk Committee meetings. The Audit and Risk Committee is responsible for monitoring and reviewing the work of the Internal Audit team. The Audit and Risk Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the Internal Audit and Compliance Officer about his work at each committee meeting.

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. Following its most recent such review, Council decided to revise its approach in light of the economic climate of the last three years, the revisions to corporate governance standards (as set out in the UK Corporate Governance Code 2010), and the recent release of the preliminary report of the Sharman Inquiry ("Going Concern and Liquidity Risks"). In February 2012, Council reviewed and approved a Terms of Reference for an Audit and Risk Committee, which will take on the current roles of the Audit Committee but

with a broader scope that allows for specific review of strategic risk and key control structures through an additional focussed meeting.

#### *Remuneration report*

The Remuneration Committee is responsible for recommending to the Council, fees for members of the 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 MPS successfully without making excessive payments. Since 2008 MPS has operated an incentive scheme paying a modest reward to the eleven most senior staff (excluding the Chief Executive) based on performance of a range of criteria. It remains that the non-executive members of the Council do not receive any incentive or performance-related remuneration. Because MPS is not a listed company, this report is not required to comply with the rules on Remuneration Reports.

Details of the Chief Executive's and non-executive Council Members' remuneration are included at note 6 to the accounts.

#### *Relations with members*

The provisions of the UK Corporate Governance Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that MPS has with its members. However, the general tenor of the provisions is applicable to MPS and MPS values its dialogue with members. The Council also uses the Annual General Meeting to communicate financial performance with members and encourages their participation. Members of the Audit and Risk, Nominations, Remuneration and Ethical Conduct 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 20 working days before the meeting date.

#### **Derivative financial instruments**

During the year MPS's investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses resulting from holding these contracts are included in note 4 under other investment income. These instruments were held to take advantage of short-term changes in bond market prices. During the year this was achieved by entering into a number of contracts, which involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future.

#### *Risk characteristics of derivative financial instruments*

##### *Interest rate risk*

MPS's derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk

## Report of the Council continued

of the underlying asset against the risk of the derivative using a formula to determine the number of futures contracts that need to be held

### Credit Risk

Credit risk encompasses all forms of counterparty risk. MPS manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Credit risk is further managed by all such derivative contracts being of short term duration.

### 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. Members of the Council have satisfied themselves that MPS is in a sound financial position.

In forming this view, Members of the Council have considered the guidance set out in the Financial Reporting Council's report – Update for Audit Committees issues arising from current economic conditions – published in November 2010.

### 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 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). 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 the net contribution available to meet future liabilities and charges of the company and group for that period.

In preparing these financial statements, the Council are 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 and 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. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each Council member is aware

- there is no relevant audit information of which the company's auditors are 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 auditors are 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 11 April 2012 and signed on its behalf by

**David Wheeler**

Company Secretary

33 Cavendish Square, London, W1G 0PS



# Independent Auditor's report to the members of the Medical Protection Society Limited

We have audited the financial statements of The Medical Protection Society Limited for the year ended 31 December 2011 which comprises the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost income and expenditure, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## Respective responsibilities of the Council and auditor

As explained more fully in the Council's Responsibilities Statement set out on page 20, the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the net contribution available to meet future liabilities and charges of the group 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.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.

*Grant Thornton UK LLP*

## Andrew Wood

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

11 April 2012

# Financial statements

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT Year ended 31 December 2011

Notes	2011 £'000	2010 £'000
<b>Income. continuing operations</b>		
Members' subscriptions and other income	<b>318,339</b>	296,644
<b>Expenditure</b>		
16 Claims costs and associated legal costs (including costs of insurance)	<b>189,777</b>	258,701
Insurance recoveries	<b>7,181</b>	(4,929)
16 Advisory costs and associated legal costs	<b>51,748</b>	52,651
3a Education, publications and external relations	<b>8,566</b>	7,853
3b Administration expenses	<b>18,539</b>	17,049
10 Impairment of fixed assets	<b>271</b>	–
3c Loss on exchange movements	<b>32,472</b>	226
	<b>308,554</b>	331,551
<b>Excess/(deficit) of members' subscriptions and other income over expenditure: continuing operations</b>	<b>9,785</b>	(34,907)
4 Income from investments	<b>30,438</b>	28,505
8 Other finance income	<b>943</b>	580
Realised (losses)/gains from disposal of investments	<b>(3,332)</b>	4,207
<b>Contribution from ordinary activities before taxation</b>	<b>37,834</b>	(1,615)
5a Tax credit/(charge) on investment income and gains	<b>1,641</b>	(7,897)
<b>18 Net contribution for the year available to meet future liabilities and charges</b>	<b>39,475</b>	(9,512)



## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Notes	2011 £'000	2010 £'000
Net contribution for the financial year	39,475	(9,512)
17 Surplus on revaluation of investments	91,397	121,993
17 Impairment of fixed assets	(178)	–
8 Actuarial (losses)/gains on defined benefit pension scheme	(4,262)	3,175
5a Tax charge on investment gains	(18,217)	(10,018)
<b>Total recognised gains</b>	<b>108,215</b>	<b>105,638</b>

## NOTE OF HISTORICAL COST INCOME AND EXPENDITURE

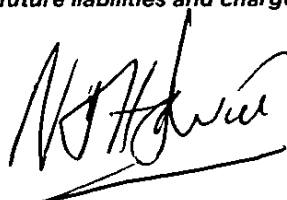
Notes	2011 £'000	2010 £'000
Reported net contribution before tax	37,834	(1,615)
17 Realisation of valuation gains of previous years	27,602	34,326
Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	13	13
Historical cost net contribution before tax	65,449	32,724
<b>Historical cost net contribution after tax</b>	<b>48,873</b>	<b>14,809</b>

Financial statements continued

**CONSOLIDATED AND COMPANY BALANCE SHEETS**  
**At 31 December 2011**

Notes	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
<b>Fixed assets</b>				
9 Intangible assets	-	-	360	378
10 Tangible assets	4,966	8,896	4,929	8,894
11 Investments	1,677,431	1,527,192	1,011,050	921,010
	<b>1,682,397</b>	<b>1,536,088</b>	<b>1,016,339</b>	<b>930,282</b>
<b>Current assets</b>				
13 Assets held for resale	3,750	-	3,750	-
14 Debtors – due within one year	11,157	12,585	96,033	108,254
14 – due after one year	21,857	29,605	21,857	29,605
Bank deposit accounts	85,804	79,950	10,609	12,676
Cash at bank and in hand	8,445	3,636	8,223	3,410
	<b>131,013</b>	<b>125,776</b>	<b>140,472</b>	<b>153,945</b>
15 Creditors amounts falling due within one year	(64,710)	(54,432)	(51,173)	(44,362)
<b>Net current assets</b>	<b>66,303</b>	<b>71,344</b>	<b>89,299</b>	<b>109,583</b>
<b>Total assets less current liabilities</b>	<b>1,748,700</b>	<b>1,607,432</b>	<b>1,105,638</b>	<b>1,039,865</b>
16 Provision for liabilities	(623,246)	(592,126)	(609,605)	(582,238)
<b>Net assets excluding pension asset</b>	<b>1,125,454</b>	<b>1,015,306</b>	<b>496,033</b>	<b>457,627</b>
8 Pension asset	1,515	3,448	1,515	3,448
<b>Net assets</b>	<b>1,126,969</b>	<b>1,018,754</b>	<b>497,548</b>	<b>461,075</b>
<b>Accumulated funds</b>				
17 Revaluation reserve	267,370	203,753	-	178
17 Income and expenditure	859,599	815,001	497,548	460,897
18 <b>Funds available to meet future liabilities and charges</b>	<b>1,126,969</b>	<b>1,018,754</b>	<b>497,548</b>	<b>461,075</b>

Nicholas Davies  
Chairman of the Council  
11 April 2012



The Medical Protection Society Limited  
Registered Company No 36142

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2011**

Notes	2011 £'000	2010 £'000
19 Net cash inflow from operating activities	<b>84,436</b>	82,576
20 Returns on investment and servicing of finance	<b>30,438</b>	28,505
Taxation	<b>(12,285)</b>	(9,683)
Acquisition of subsidiary company	<b>(360)</b>	(306)
21 Capital expenditure and financial investment	<b>(75,848)</b>	(111,175)
	<b>26,381</b>	(10,083)
Net cash (outflow)/inflow from management of liquid resources (comprising bank deposits and investment deposits)	<b>(21,572)</b>	9,646
<b>Increase/(decrease) in cash in the period</b>	<b>4,809</b>	(437)

**Analysis of changes in net funds**

	At 1/1/2011 £'000	Cash flow movement £'000	At 31/12/2011 £'000
Cash at bank and in hand	3,636	4,809	<b>8,445</b>
Bank deposit accounts	79,950	5,854	<b>85,804</b>
Cash with investment managers	11,805	15,718	<b>27,523</b>
Net funds	95,391	26,381	<b>121,772</b>

**Reconciliation of net cash flow to movement in net funds**

	2011 £'000	2010 £'000
Increase/(decrease) in cash	<b>4,809</b>	(437)
Cash flow from increase/(decrease) in net liquid resources	<b>21,572</b>	(9,646)
	<b>26,381</b>	(10,083)
Net funds at 1 January	<b>95,391</b>	105,474
<b>Net funds at 31 December</b>	<b>121,772</b>	95,391

# Notes to the accounts

## 1 Basis of preparation of the financial statements

The financial statements are prepared in accordance with applicable accounting standards and MPS's constitution

### *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 MPS within that convention are set out below

## 2 Accounting policies

### *a 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 and as identified in note 12. As a consolidated income and expenditure account is published, a separate income and expenditure account for the parent company is omitted from the group financial statements by virtue of Section 408 of the Companies Act 2006. The parent company net contribution for the year to 31 December 2011 was a surplus of £40.9m, as shown in note 17.

### *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 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 evenly on the cost of intangible fixed assets, 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 operating profits.

The annual amortisation rate used is

Copyrights – 4.5% per annum

### *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 rates used for other assets are

Freehold buildings	– 2% per annum
Leasehold property	– over life of leases
Furniture and fittings	– 5% per annum
Office equipment	– 15% per annum
Computers	– 33.3% per annum
Motor vehicles	– 20% 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 gains or losses are taken to the income and expenditure account, except for those arising from international equities held at valuation, which are taken to the statement of total recognised gains and losses.

### *f Interest receivable and dividends*

Interest receivable is brought into account on an accruals basis. As MPS's equity investments are in pooled funds and unit trusts, income is reinvested rather than distributed. Such income is therefore included within unrealised gains on investments rather than being recorded in the accounts as dividend income.

*g Investments*

Listed 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 FRS3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.

Unlisted investments are included in the balance sheet at the lower of their sterling cost or net asset value.

Investments in subsidiaries are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

*h Derivative financial instruments*

The Group's investment managers are permitted to hold derivative financial instruments to enhance investment returns. Derivatives are held at cost and as such are not fair valued through the income and expenditure account.

Realised gains and losses arising as a result of holding derivatives are taken directly to the income and expenditure account.

*i Costs and damages for claims of negligence*

Provision is made for estimated future costs and damages, legal costs and claims handling costs expected to arise from 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 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.

The discounted future settlement values are deemed to be the best estimate of these costs.

With the exception of claims arising from policies written by MPS Risk Solutions Limited, no provision is made for the potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date. These potential claims do not constitute a contingent liability as recognition of these liabilities is dependent on the exercise of discretion by the Council; there is no constructive or legal obligation to recognise them until such discretion is exercised.

Although FRS12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for these provisions, due to the complexities of the many actuarial calculations involved.

*j Costs related to all other claims*

Provision is made at discounted future settlement values for estimated future costs, including handling costs, of these 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 assistance.

The discounted future settlement values are deemed to be the best estimate of these costs.

No provision is made for the potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date as they do not constitute a contingent liability. Recognition of these liabilities is dependent on the exercise of discretion by the Council; there is no constructive or legal obligation to recognise them until such discretion is exercised.

Although FRS12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for these provisions, due to the complexities of the many actuarial calculations involved.

*k Tax*

Provision is made in the financial statements for tax on investment and trading income received and receivable in the year, revaluation gains and losses recognised in respect of UK and International bonds and on other investments disposed of during the year.

No deferred tax provision is required to be reflected in the financial statements. Whilst there is a timing difference arising between the accounting and taxation treatment of certain non-monetary assets, in accordance with FRS19, deferred tax is not provided on timing differences arising from the revaluation of non-monetary assets, where there is no binding agreement to sell these assets at the balance sheet date.

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.

## 21 Pensions

MPS operates a defined benefit pension scheme. The assets of the scheme are invested and managed independently of MPS's finances. The pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Any increase in the present value of liabilities within MPS's defined benefit scheme expected to arise from employee service in the period is charged to operating profit. The expected return on the scheme's assets and the increase during the period in the present values of the scheme's liabilities arising from the passage of time are included in other finance income. Actuarial gains and losses are recognised in the consolidated statement of total recognised gains and losses.

Pension scheme surpluses, to the extent they are considered recoverable, or deficits are recognised in full on the face of the balance sheet.

Further information on the structure of the defined benefit scheme is contained within note 8 to these accounts.

## m 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 profits 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 shorter of the lease term and the period to the first rent review where market rentals will be payable.

## 3a 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.

<b>3b Administration expenses</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
Included under this classification are		
Operating lease rentals – Land and buildings	<b>2,731</b>	2,521
– Motor vehicles	<b>150</b>	115
– Office equipment	<b>83</b>	54
Loss on disposal of tangible fixed assets	<b>–</b>	5
Depreciation of fixed assets	<b>1,861</b>	1,590
Auditors' remuneration		
<i>Services to the Company and its subsidiaries</i>		
Fees payable to the Company's auditor for the audit of the annual financial statements	<b>70</b>	75
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	<b>12</b>	13
Other services – Taxation compliance and advice	<b>62</b>	56
– Accounting advice	<b>2</b>	6
<i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	<b>5</b>	4

## 3c Exchange movements

The majority of the losses on exchange movements relate to the restatement of international bonds and cash assets held to match international liabilities, particularly in South Africa. These losses are substantially offset by a corresponding decrease in international claim liabilities, which are included in costs within the increase in the overall claims provisions (note 16).

<b>4 Net income from investments</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
Bond and gilt interest	<b>28,174</b>	25,811
Bank interest	<b>1,052</b>	1,160
Other investment income	<b>1,212</b>	1,534
	<b>30,438</b>	28,505

Other investment income includes realised gains and losses arising from derivative financial instruments, which are discussed in more detail in the Report of the Council on pages 19-20

As noted in 2(f), dividend income from MPS's equity investments is not distributed but is reinvested and included in unrealised gains on investments rather than as investment income

#### **5a Tax on income and gains from investments**

<b>Tax on income and gains included in the income and expenditure account for the year</b>	<b>2011 £'000</b>	<b>2010 £'000</b>
UK corporation tax		
Current tax on income and (losses)/gains for the year at 26% (2010 28%)	<b>(1,514)</b>	8,693
Adjustment in respect of prior years	<b>(139)</b>	(811)
Double taxation relief	<b>(7)</b>	(3)
<b>Current tax (credit)/charge for the year (see note 5b)</b>	<b>(1,660)</b>	7,879
Foreign tax		
Current tax on income for the year	<b>19</b>	18
<b>Tax on investment income and (losses)/gains in the income and expenditure account</b>	<b>(1,641)</b>	7,897
<b>Tax on other gains included in the statement of total recognised gains and losses for the year</b>		
UK corporation tax		
Current tax charge on gains for the year at 26% (2010 28%)	<b>18,217</b>	10,018
<b>Tax on other gains included in the statement of total recognised gains and losses for the year</b>	<b>18,217</b>	10,018

**5b Factors affecting tax charge for the year**

**Current tax reconciliation**

Differences between the current tax charge for the period and the expected tax charge based on the current rate of 26% (2010 28%) are explained below

	2011 £'000	2010 £'000
Contribution before tax per accounts	37,834	(1,615)
Non-taxable contribution	(42,812)	25,005
Income and net (losses)/gains from investments included in the income and expenditure account for the year	(4,978)	23,390
Income and net (losses)/gains from investments multiplied by the standard rate of corporation tax in the UK of 26% (2010 28%)	(1,294)	6,549
Effects of		
Depreciation in (deficit)/excess of capital allowances	(12)	3
Non-taxable dividend income	(328)	(160)
Realised investment income taxed as gains	-	2,059
Double tax relief	(7)	(3)
Adjustment in respect of prior years	(139)	(811)
Loss carry back for MPS Risk Solutions Limited	-	239
Other short term timing differences	4	3
Change in tax rate	(28)	-
Macquarie partnership income	130	-
Royalty withholding tax	14	-
<b>Current tax (credit)/charge for the year</b>	<b>(1,660)</b>	<b>7,879</b>

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

**5c Unprovided deferred taxation**

A £17.0 million (2010 £24.9 million) tax charge would arise should MPS's equity investments be sold at the market values at which they are included in the balance sheet

<b>6 Emoluments of members of the Council</b>	2011 £'000	2010 £'000
Aggregate amount of emoluments paid to members of the Council (including executive members)	1,036	1,008
Chairman	53	52
Highest paid member of the Council		
Chief Executive – standard emoluments and taxable benefits	268	261
– bonus	31	31
– accrued annual defined benefit pension rights	9	7
– employer contributions to defined contribution pension scheme	25	25

During 2011 there were 3 (2010 3) executive members of the Council who were members of MPS's defined benefit pension scheme, details of which are set out in note 8



## 6 Emoluments of members of the Council (continued)

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £20,485 (2010 £19,985). An increase of £500 per annum was implemented on 1 March 2011. The following members of the Council, who were members of other Boards and Committees, received additional remuneration as detailed below.

Council Member	Additional Remuneration (£)	Council Member	Additional Remuneration (£)
Frank Attwood	15,870	Patrick Forbes	2,117
Keith Bradley	2,480	Taj Hassan	9,540
Trevor Burke	20,940	Leela Kapila	2,502
Ian Croxford	2,480	Yasmin Drabu	5,082
Mark Davis	2,480	Elizabeth Vallance	2,480
Mary Favier	2,117	Richard Youell	1,420

In addition, and as stated in the Report of the Council on page 17, 8 members of the Council had personal membership of MPS.

## 7 Employees

The average number of people employed by the Group and the Company during the year was 483 (2010 427).

Costs in respect of these employees were	2011 £'000	2010 £'000
Wages and salaries	22,384	19,547
Social security costs	2,262	1,991
Pension costs	3,567	3,095
	<b>28,213</b>	<b>24,633</b>

## 8 Pensions

MPS operates a funded defined benefit pension scheme, The MPS Pension Scheme. The scheme funds are administered by Trustees and are independent of MPS's finances. Contributions are paid to the scheme in accordance with the Schedule of Contributions agreed between the Trustees and MPS.

The last full actuarial valuation as at 31 December 2008 was updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

A further full actuarial valuation is being carried out as at 31 December 2011.

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, analysed by asset class, the present value of the scheme liabilities and the resulting pension surplus. FRS17 requires that this surplus be shown as "Pension asset" on the face of the balance sheet.

### Principal actuarial assumptions.

	At 31/12/2011 % pa	At 31/12/2010 % pa
Price inflation	3.3	3.7
Discount rate	4.8	5.4
Pension increases (LPI 5%)	3.2	3.5
Pension increases (LPI 3%)	2.5	2.7
Salary growth	4.8	5.2
Expected return on assets at start of year	6.4	6.7

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.3 years (2010 28.2 years). Allowance is made for future improvements in life expectancy.

# Notes to the accounts continued

## 8 Pensions (continued)

Balance sheet	At 31/12/2011 £'000	At 31/12/2010 £'000
Defined benefit obligation	74,577	64,332
Fair value of scheme assets	(76,092)	(67,780)
<b>Pension asset in the balance sheet</b>	<b>(1,515)</b>	<b>(3,448)</b>

The current allocation of pension scheme assets is as follows:	At 31/12/2011 %	£'000	At 31/12/2010 %	£'000
Equities	43	32,919	54	36,406
Index linked gilts	22	16,720	18	12,450
Liability driven investment	19	14,332	17	11,695
Property	1	646	1	636
Diversified growth fund	15	11,429	9	6,438
Cash	–	46	1	155
<b>Total</b>	<b>100</b>	<b>76,092</b>	<b>100</b>	<b>67,780</b>

The following amounts are recognised in the income and expenditure account	2011 £'000	2010 £'000
Current service cost	3,328	2,936
Interest cost	3,546	3,290
Expected return on pension scheme assets	(4,489)	(3,870)
<b>Total expense recognised in income and expenditure account</b>	<b>2,385</b>	<b>2,356</b>

Within the income and expenditure account, current service costs are recognised within administration expenses, and the net of interest costs and the expected return on pension scheme assets is recognised as other finance income. For 2011 this was an income of £943,000, and for 2010, an income of £580,000.

The defined benefit obligation moved over the year as follows	2011 £'000	2010 £'000
Opening defined benefit obligation	64,332	57,495
Current service cost	3,328	2,936
Interest cost	3,546	3,290
Contributions by scheme members	718	642
Actuarial losses	3,993	1,007
Benefits paid	(1,340)	(1,038)
<b>Closing defined benefit obligation</b>	<b>74,577</b>	<b>64,332</b>

## 8 Pensions (continued)

The fair value of the scheme assets moved over the year as follows*	2011 £'000	2010 £'000
Opening fair value of scheme assets	67,780	55,682
Expected return on scheme assets	4,489	3,870
Actuarial gains	(269)	4,182
Contributions by the employer	4,714	4,442
Contributions by scheme members	718	642
Benefits paid	(1,340)	(1,038)
<b>Closing fair value of scheme assets</b>	<b>76,092</b>	<b>67,780</b>
 The actual return on scheme assets was	 <b>4,220</b>	 <b>8,052</b>

Over the year to 31 December 2011, MPS made contributions of £4,714,133 (2010 £4,441,642) to the scheme. It has been agreed that future employer contributions will be at a rate of 16% of pensionable salaries for 80th scale members, 23% of pensionable salaries for other scale members and a further £1,500,000 pa to fund the deficit revealed as part of the 2008 valuation. Contributions will be reviewed following the completion of the next actuarial valuation due as at 31 December 2011.

The following amounts are recognised in the statement of total recognised gains and losses	2011 £'000	2010 £'000
<b>Actuarial losses/(gains)</b>	<b>4,262</b>	<b>(3,175)</b>

Five year history	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	74,577	64,332	57,495	40,987	44,831
Fair value of scheme assets	(76,092)	(67,780)	(55,682)	(44,952)	(47,672)
<b>(Surplus)/deficit</b>	<b>(1,515)</b>	<b>(3,448)</b>	<b>1,813</b>	<b>(3,965)</b>	<b>(2,841)</b>
Experience adjustments on scheme liabilities	258	172	385	–	–
Experience adjustments on scheme assets	269	(4,182)	(4,478)	7,603	(766)

## 9 Intangible fixed assets

Copyright  
£'000

Company	
<b>Cost</b>	
At 1 January 2011	394
<b>At 31 December 2011</b>	<b>394</b>
<b>Amortisation</b>	
At 1 January 2011	16
Provided in year	18
<b>At 31 December 2011</b>	<b>34</b>
<b>Net book value</b>	
<b>At 31 December 2011</b>	<b>360</b>
At 31 December 2010	378

The intangible fixed asset above relates to copyrights for educational training material purchased by the parent company from another group company, The Cognitive Consulting Group Pty Limited. (See note 12)

**10 Tangible fixed assets**

	Freehold property £'000	Leasehold property £'000	Computers, fittings, and office furniture £'000	Motor vehicles £'000	Total £'000
<b>Group</b>					
<b>Cost or valuation</b>					
At 1 January 2011	4,410	2,134	10,040	25	16,609
Additions	–	178	1,953	–	2,131
Disposals	–	–	(8)	–	(8)
Impairment	(660)	–	–	–	(660)
Reclassification	(3,750)	–	–	–	(3,750)
<b>At 31 December 2011</b>	<b>–</b>	<b>2,312</b>	<b>11,985</b>	<b>25</b>	<b>14,322</b>
<b>Depreciation</b>					
At 1 January 2011	105	932	6,669	7	7,713
Provided in year	106	290	1,460	5	1,861
Released on disposals	–	–	(7)	–	(7)
Released on impairment	(211)	–	–	–	(211)
<b>At 31 December 2011</b>	<b>–</b>	<b>1,222</b>	<b>8,122</b>	<b>12</b>	<b>9,356</b>
<b>Net book value</b>					
<b>At 31 December 2011</b>	<b>–</b>	<b>1,090</b>	<b>3,863</b>	<b>13</b>	<b>4,966</b>
At 31 December 2010	4,305	1,202	3,371	18	8,896
<b>Company</b>					
<b>Cost or valuation</b>					
At 1 January 2011	4,410	2,164	9,811	25	16,410
Additions	–	178	1,892	–	2,070
Disposals	–	–	(8)	–	(8)
Impairment	(660)	–	–	–	(660)
Reclassification	(3,750)	–	–	–	(3,750)
<b>At 31 December 2011</b>	<b>–</b>	<b>2,342</b>	<b>11,695</b>	<b>25</b>	<b>14,062</b>
<b>Depreciation</b>					
At 1 January 2011	105	926	6,478	7	7,516
Provided in year	106	289	1,435	5	1,835
Released on disposals	–	–	(7)	–	(7)
Released on impairment	(211)	–	–	–	(211)
<b>At 31 December 2011</b>	<b>–</b>	<b>1,215</b>	<b>7,906</b>	<b>12</b>	<b>9,133</b>
<b>Net book value</b>					
<b>At 31 December 2011</b>	<b>–</b>	<b>1,127</b>	<b>3,789</b>	<b>13</b>	<b>4,929</b>
At 31 December 2010	4,305	1,238	3,333	18	8,894

In 2011 it was decided to acquire a new freehold property and dispose of the existing one, which was accordingly reclassified as an asset held for resale (see note 13 below) as at 31 December 2011. At the same time the value of the property was written down to the estimated resale value. This is viewed as a permanent diminution in value.

All the leasehold properties held at 31 December 2011 are short leaseholds.

**Capital commitments**

Capital expenditure approved and contracted for amounted to £10.1m (2010: £nil) and related to the purchase of a new freehold property as noted above, for which contracts were exchanged on 20 January 2012.

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
<b>11 Investments</b>				
Valuation or cost at 1 January	1,527,192	1,296,999	921,010	856,011
Additions and increase in investment in subsidiary undertakings	1,162,955	445,790	90,400	65,305
Disposals at carrying value	(1,092,569)	(332,293)	-	-
Provision for impairment of investment in subsidiary undertakings	-	-	(360)	(306)
Movement in cash	15,718	(784)	-	-
Foreign exchange losses on listed investments	(27,262)	(4,513)	-	-
Surplus on revaluation of listed investments	91,397	121,993	-	-
<b>At 31 December</b>	<b>1,677,431</b>	<b>1,527,192</b>	<b>1,011,050</b>	<b>921,010</b>
<b>Investments comprise</b>				
Listed on UK Stock Exchange				
- Equities	219,628	217,093	-	-
- Government and other bonds	951,578	832,206	-	-
Listed on overseas Stock Exchanges				
- Equities	242,675	229,771	-	-
- Government and other bonds	188,152	195,001	-	-
Unlisted	47,875	41,316	-	-
Shares in group undertakings	-	-	1,011,050	921,010
Cash	27,523	11,805	-	-
	<b>1,677,431</b>	<b>1,527,192</b>	<b>1,011,050</b>	<b>921,010</b>
Historical cost of investments	<b>1,416,391</b>	<b>1,302,685</b>	<b>1,011,050</b>	<b>921,010</b>

## 12 Investments in subsidiary undertakings

MPS has the following direct interests in subsidiary undertakings

Name	Parent and group interest in ordinary shares and voting rights	Cost of parent investment £'000	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 MPS
MPI (London) Limited	100%	1,000,001	England	To manage the investment portfolio
DPL Australia Pty Limited	100%	-	Australia	To manage the administrative affairs of Dental Protection Limited in Australia
MPS Risk Solutions Limited	100%	11,000	England	The provision of general insurance contracts to organisations in the healthcare sector
MPS Periodical Payment Trustee Limited	100%	40	England	Corporate Trustee
MPS Holdings Australia Pty Limited	100%	9	Australia	Holding company
The Cognitive Consulting Group Pty Limited*	100%	-	Australia	To provide communication skills and risk management training to healthcare professionals in Australia

\* Indirectly owned by MPS

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

Notes to the accounts continued

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
<b>13 Asset held for resale</b>				
Freehold property	3,750	–	3,750	–
	<b>3,750</b>	<b>–</b>	<b>3,750</b>	<b>–</b>

As stated in note 10 above, MPS's existing property, which was offered for sale in 2011, was reclassified as an asset held for resale at 31 December 2011. Since 1999 the property has been revalued and recognised at valuation in the balance sheet in accordance with FRS15, Tangible Fixed Assets. The property will in future be revalued to its estimated resale value. If the freehold property had not been revalued and subsequently impaired it would have been included in the balance sheet at the following amount

	£'000
Cost	5,341
Depreciation	(1,304)
<b>At 31 December 2011</b>	<b>4,037</b>
At 31 December 2010	4,130

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
<b>14 Debtors</b>				
<b>Receivable within one year</b>				
Trade debtors	463	405	129	82
Recoverable insurance claims	5,464	7,401	5,464	7,401
Amounts owed by subsidiary undertakings	–	–	85,286	96,122
Other debtors	167	293	135	209
Prepayments	5,063	4,486	5,019	4,440
	<b>11,157</b>	<b>12,585</b>	<b>96,033</b>	<b>108,254</b>
<b>Receivable after one year</b>				
Recoverable insurance claims	21,857	29,605	21,857	29,605
<b>Total debtors</b>	<b>33,014</b>	<b>42,190</b>	<b>117,890</b>	<b>137,859</b>

	2011 Group £'000	2010 Group £'000	2011 Company £'000	2010 Company £'000
<b>15 Creditors' amounts falling due within one year</b>				
Corporation tax	12,308	8,017	1,692	868
Other taxes and social security	2,137	1,783	2,047	1,711
Other creditors and accruals	6,551	5,986	5,589	4,776
Deferred subscription income	43,714	38,646	41,845	37,007
	<b>64,710</b>	<b>54,432</b>	<b>51,173</b>	<b>44,362</b>

<b>16 Provision for liabilities:</b>	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total £'000
<b>Group</b>				
At 1 January 2011	524,064	40,926	27,136	592,126
Movements in the year				
– Charged to the income and expenditure account				
Reported negligence claims	179,339	–	10,438	189,777
Reported other claims	–	31,707	20,041	51,748
Paid	(153,380)	(28,141)	(28,884)	(210,405)
<b>At 31 December 2011</b>	<b>550,023</b>	<b>44,492</b>	<b>28,731</b>	<b>623,246</b>
<b>Company</b>				
At 1 January 2011	514,647	40,926	26,665	582,238
Movements in the year				
– Charged to the income and expenditure account				
Reported negligence claims	175,506	–	10,249	185,755
Reported other claims	–	31,707	20,041	51,748
Paid	(153,121)	(28,141)	(28,874)	(210,136)
<b>At 31 December 2011</b>	<b>537,032</b>	<b>44,492</b>	<b>28,081</b>	<b>609,605</b>

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 claims notified by 31 December. The claims handling provision is the estimated internal cost of managing all reported claims to conclusion.

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

The reported negligence claims provision is stated before insurance recoveries of £27.3m (2010: £35.9m) that are estimated to be recoverable from MPS's insurers.

Although FRS12 requires that the unwinding of the discount within a provision be shown separately, it is not considered practical for these provisions, due to the complexities of the many actuarial calculations involved.

<b>17 Movement on reserves</b>	Revaluation £'000	Income and Expenditure £'000	Accumulated £'000
<b>Group</b>			
At 1 January 2011	203,753	815,001	1,018,754
Surplus on revaluation of listed investments	91,397	–	91,397
Loss on impairment of fixed assets	(178)	–	(178)
Realised on disposal of investments	(27,602)	27,602	–
Actuarial losses recognised in pension scheme	–	(4,262)	(4,262)
Tax charge on recognised investment gains	–	(18,217)	(18,217)
Net contribution for the year after tax	–	39,475	39,475
<b>At 31 December 2011</b>	<b>267,370</b>	<b>859,599</b>	<b>1,126,969</b>
<b>Company</b>			
At 1 January 2011	178	460,897	461,075
Loss on impairment of fixed assets	(178)	–	(178)
Actuarial losses recognised in pension scheme	–	(4,262)	(4,262)
Net contribution for the year after taxation	–	40,913	40,913
<b>At 31 December 2011</b>	<b>–</b>	<b>497,548</b>	<b>497,548</b>

Notes to the accounts continued

	2011 £'000	2010 £'000
<b>18 Reconciliation of movements in funds available to meet future liabilities</b>		
Net contribution for the financial year	39,475	(9,512)
Other recognised gains relating to the year	86,957	125,168
Tax charge on investment gains	(18,217)	(10,018)
Total recognised gains	108,215	105,638
Opening funds available to meet future liabilities and charges	1,018,754	913,116
<b>Closing funds available to meet future liabilities and charges (see note 23)</b>	<b>1,126,969</b>	<b>1,018,754</b>

	2011 £'000	2010 £'000
<b>19 Reconciliation of excess/(deficit) of income over expenditure to operating cash flows</b>		
Excess/(deficit) of income over expenditure	9,785	(34,907)
Depreciation charges	1,861	1,590
Loss on disposal of tangible fixed assets	–	5
Impairment of fixed assets	271	–
Increase in provisions	31,120	118,272
Decrease/(increase) in debtors	9,176	(1,766)
Increase/(decrease) in creditors	6,347	(3,625)
Foreign exchange losses on listed investments	27,262	4,513
Cash pension contributions more than current service cost	(1,386)	(1,506)
<b>Net cash inflow from operating activities</b>	<b>84,436</b>	<b>82,576</b>

	2011 £'000	2010 £'000
<b>20 Returns on investment and servicing of finance</b>		
Interest received	1,052	1,160
Bond and gilt interest received	28,174	25,811
Other interest	1,212	1,534
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>30,438</b>	<b>28,505</b>

	2011 £'000	2010 £'000
<b>21 Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(2,131)	(1,885)
Purchase of investments	(1,162,955)	(445,790)
Proceeds from sale of fixed assets	1	–
Proceeds from sale of investments	1,089,237	336,500
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(75,848)</b>	<b>(111,175)</b>



<b>22 Commitments</b>	<b>2011 Group £'000</b>	<b>2010 Group £'000</b>	<b>2011 Company £'000</b>	<b>2010 Company £'000</b>
<b><i>Operating lease commitments</i></b>				
Land and buildings, leases expiring				
Within one year	<b>594</b>	–	<b>594</b>	–
Two to five years	<b>364</b>	1,335	<b>343</b>	1,316
Greater than five years	<b>1,191</b>	1,136	<b>1,191</b>	1,136
	<b>2,149</b>	2,471	<b>2,128</b>	2,452
Motor vehicles, leases expiring				
Within one year	<b>6</b>	3	<b>6</b>	3
Two to five years	<b>19</b>	20	<b>19</b>	20
	<b>25</b>	23	<b>25</b>	23
Office equipment, leases expiring				
Within one year	<b>30</b>	–	<b>30</b>	–
Two to five years	<b>51</b>	62	<b>51</b>	62
	<b>81</b>	62	<b>81</b>	62

MPS has guaranteed that its subsidiaries have adequate resources to meet their liabilities as they fall due  
MPS has issued a letter of credit to MPS Risk Solutions Limited in the sum of £20 million

### **23 Potential claims that have not yet been reported**

Incidents that could potentially lead to claims that have occurred prior to the end of the financial year, but that have not been reported to MPS by the year end, are known as Incurred But Not Reported (IBNR) claims. IBNR claims do not constitute a contingent liability, and are not therefore recognised in the financial statements, because recognition of the liability is dependent on the Council exercising its discretion. These potential claims, will, to the extent to which the Council exercises that discretion to indemnify, become MPS's responsibility under the occurrence basis of cover MPS provides. The funds on the balance sheet at 31 December 2011 are more than sufficient to cover the cost of these potential claims 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.

### **24 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

### **25 Guarantee**

MPS is limited by guarantee not exceeding £1 per member

# Professional advisers

## Investment managers

State Street Global Advisers Limited  
25 Bank Street  
London, E14 5NU

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36 Hans Strijdom Avenue  
Foreshore  
Cape Town 8001  
South Africa

AllianceBernstein Limited  
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London, W1X 6JJ

Schroder Investment Management Limited  
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Baring International Fund Managers (Ireland) Ltd  
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54-62 Townsend Street  
Dublin 2, Ireland

Macquarie Capital Funds (Europe) Limited  
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Bank of New York  
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Ruffer LLP  
80 Victoria Street  
London, SW1E 5JL

FRM Investment Management Limited  
7th Floor, The Adelphi  
1-11 John Adam Street  
London, WC2N 6HT

BlackRock Asset Management Ireland Ltd  
JP Morgan House  
International Financial Services Centre  
Dublin 1  
Ireland

## Solicitors

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

## Insurance Brokers

Miller Insurance Services Limited  
Dawson House  
5 Jewry Street  
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## Bankers

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1 Churchill Place  
London, E14 5HP

HSBC Bank plc  
Yorkshire Corporate Banking Centre  
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## Actuaries

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MPS Risk Solutions is a general  
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The Medical Protection Society is the leading provider of comprehensive professional indemnity and expert advice to doctors, dentists and health professionals around the world

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

The Medical Protection Society Limited. A company limited by guarantee  
Registered in England No. 36142 at 33 Cavendish Square London W1G 0PS

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