

Registered in England No. 00036142

THE MEDICAL PROTECTION SOCIETY LIMITED

MADE FOR MEMBERS

Annual Report and Financial Statements 2019

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THE MEDICAL PROTECTION SOCIETY LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

PREFACE

23 March 2020

A joint message from the MPS President and the Chair of MPS Council

We are writing to you as colleagues and fellow MPS members to thank you for the work you are doing now and in the months ahead to tackle COVID-19, and also to tell you about the actions MPS are taking to support you during this time.

As the President and Chairman of MPS, and as consultants who are both working on the 'front line', we can confidently say that for most of us, this pandemic will be the biggest challenge of our lifetime.

We want you to know that MPS is here to support you. Our job is to protect you in both good times and bad. You need to be able to solely focus on treating your patients and looking after yourself. To help you do that, we have made a commitment to respond quickly to the challenges that will arise, so that we can meet your needs and the needs of all members, across the world.

There are three areas where we have already committed to take action:

- **Protecting your wellbeing.** We understand the pressure you will be put under during this crisis, and we have therefore extended our counselling service to all members who are experiencing any work-related stress, or stress that they feel could impact upon their practice. Our counselling service is provided through a third-party partner and is completely confidential.
- **Bolstering the workforce.** As part of our support for government-led initiatives to increase the number of doctors within the public health service, we are providing free non-claims support and assistance to former and retired MPS members who wish to return to the front line, and have suspended disclosure requirements for current members taking on additional work or work outside of the normal scope of practice within a state facility.
- **Protecting members' financial position.** We are keen to support members with private practice who have seen a significant drop in their work and a dramatic fall in income. We are currently considering ways to provide increased flexibility to make subscriptions more affordable for members during this challenging time. Once we have agreed the details, we will actively communicate and share our plans with you.

In the coming days, weeks and months, MPS will be sharing updates and information with you on our website and through a variety of other channels such as social media and email. We will also continue to provide advice on our website and will build on this over time. Our aim is to anticipate your needs and proactively provide you with the necessary answers, where we can.

As two fellow healthcare professionals, we share your concerns and apprehension about what is to come. This is a challenge on a scale unimaginable only a few months ago. We all came into our professions to treat and support patients; that call perhaps rings truer today than ever.

This is not going to be an easy time for any of us, but we are going to get through it. Support each other, stay safe and continue the great work that you do.

With sincere best wishes,

Prof Dame Jane Dacre
President of the Council

Mr Ian Eardley
Chairman of the Council

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MADE FOR MEMBERS

Founded by a group of doctors in London in 1892 to 'support and safeguard the character of legally qualified practitioners and to advise and defend members'.

Recognising that strength in numbers could be mutually beneficial, they started the Medical Protection Society (MPS).

For over 125 years our fundamental purpose has not changed.

OUR PURPOSE

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

OUR VISION

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

OUR VALUES

*Being **Member First**, **Ambitious**, **Determined** and **Empowered (MADE)** together with our Purpose and our Vision, guide our thinking, our actions and our decisions.*

- **Member First** – We passionately care about our members. We are dedicated to treating them fairly and placing them at the heart of everything we do.
- **Ambitious** – We look to the future, keeping our minds open to embrace new ideas. We welcome feedback and seek out opportunities to grow and learn to be our best self.
- **Determined** – We make things happen. We work together and at pace to deliver the best outcomes for members.
- **Empowered** – We respect and trust each other to carry out our work with skill, expertise and integrity. We have the freedom and confidence to make decisions and own the choices we make.

Read more about our Values on page 31 and what we do on page 27.

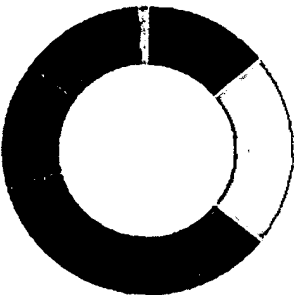
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Our global work

We are a truly international organisation,
supporting members across four continents.

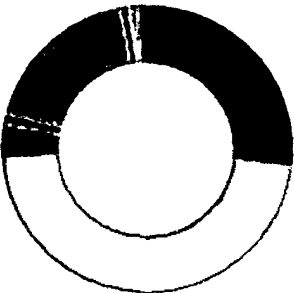
Total cases we opened
across the world¹

Medical 17,827
Dental 6,494



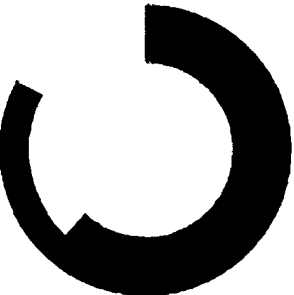
Medical case types

• Claims and related matters	14%
• Complaints	22%
• Regulatory	8%
• Disciplinary	2%
• General medicolegal advice	25%
• Reports of adverse incidents	14%
• Others	3%
• Inquests	11%
• Criminal	1%



Dental case types

• Claims and related matters	27%
• Complaints	47%
• Regulatory	4%
• Disciplinary	1%
• General dentolegal advice	18%
• Reports of adverse incidents	1%
• Others	1%
• General dental services	1%



We successfully
defended 83% of
medical and 62.5%
of dental claims and
pre-claims matters
in the year²

Caribbean and Bermuda



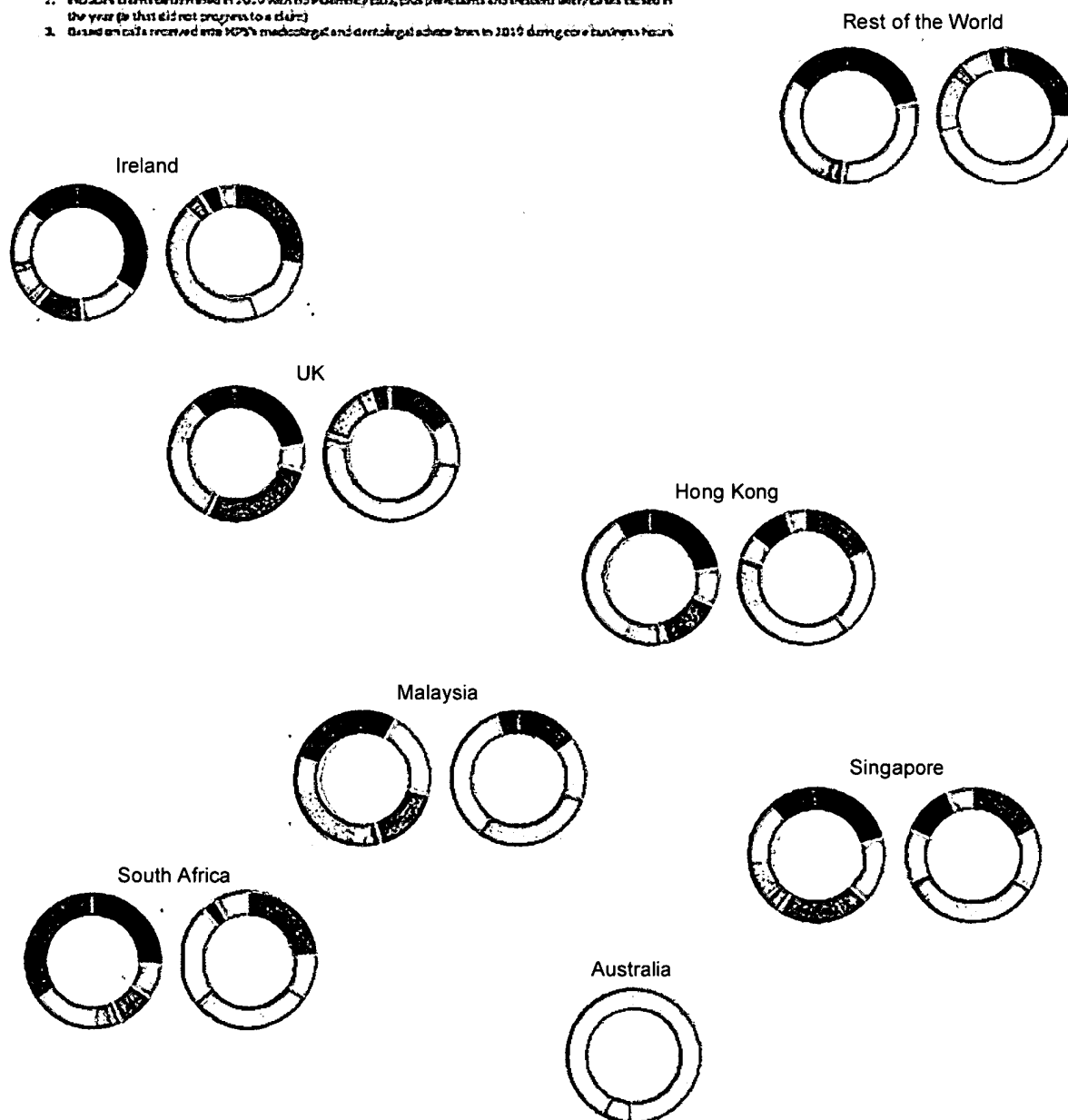
Top reasons members called us
for help and advice in 2019³

Medical	Dental
• Complaints	• Complaints
• Confidentiality	• Clinical judgement
• Reporting of adverse incidents	• Confidentiality

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REFERENCES

1. New cases opened in 2019 breakdown by case type; figures as at 31 December 2019
2. Includes claims determined in 2019 with no indemnity paid, plus pre-claims and resolved third-party cases closed in the year (ie that did not progress to a claim)
3. Based on calls received into MPS's medical and dental helpline in 2019 during core business hours



Medical case types

- Advice
- Claims
- Complaints
- Criminal investigation
- Defamation
- Disciplinary
- Inquests
- Pre-claims
- Regulatory matters
- Reports of adverse incidents
- NZ Accident Compensation Rehab
- NZ Health Disability Commissioner
- NZ Privacy Commissioner Case

Dental case types

- Advice
- Claims
- Complaints
- Criminal investigation
- Defamation
- Disciplinary
- General Dental Service
- Pre-claims
- Regulatory matters
- Reimbursements
- Reports of adverse incidents
- NZ Accident Compensation Rehab

* Non-indemnity, dental membership

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OUR BUSINESS MODEL

We are owned by our members.

We exist solely to serve and protect their interests.

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

With our member-focused protection, there are no small print exclusion clauses and decisions on whether we can assist are made following careful consultation. Our experts exercise that discretion with utmost rigour and fairness, and with the benefit of specialist professional insight.

We are impacted by...

The world you work in

The clinical negligence environments in the jurisdictions in which our members practise (page 5)

Significant external factors impacting members and the healthcare industry (pages 16-20)

Our people

Creating expert multidisciplinary teams to support and defend members (page 18)

The views of our members and key stakeholders

Understanding and having regard for their interests is vital to our success (pages 9-12)

Our financial position (page 21)

We protect members through....

Expert medicolegal and dentolegal advice, support and defence (page 5)

World-class risk prevention programmes

Backed by data and insight (page 29)

Advocating for positive changes and reforms

Our duty to be the voice for the professions (page 13)

Sustainable growth, asset management and investment

Achieving long-term growth of the member fund (pages 21-26)

Strong governance and risk management (pages 34-37, 39)

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OUR BUSINESS MODEL

Where our funding comes from

- Member subscriptions
- Net income from investments
- Other financial income

How we grow the member fund

- The vast majority of our income comes from member subscriptions
- We are member-owned and have been since our founding; we do not have any external shareholders or investors to pay in the form of dividends. We exist purely for the benefit of members
- Subscription income is invested in regional markets to generate additional income (or 'financial surplus') from the investments
- We also sell risk management programmes to corporate healthcare providers and hospital groups across the world

How we spend the member fund

- Claims costs and associated legal costs (including costs of insurance taken to reduce our risk)
- Medicolegal / dentolegal advisory costs and associated legal costs
- Education, publications and external relations
- Administration expenses
- Other expenditure

What we use our financial surplus for

- To provide benefits to members today
- To retain money for future assistance and support
- To reinvest in our services; maintaining the excellence and expertise which members deserve and have come to expect from MPS
- To run our business effectively and in the interest of members.

Our successes in 2019

- £2bn of net assets available to members (2018: £2.1bn)
- Return on investments of +8.6% (2018: -1.1%)
- 16,405 member calls to medicolegal and dentolegal advice lines handled
- 208,462 calls to membership services handled and 66,845 items of correspondence answered with 99% of complex queries dealt with within 5 business days
- 20,000+ members attended our workshops and webinars
- 41,510 Continuing Professional Development certificates completed.

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OUR STAKEHOLDERS

We believe that, to be a responsible company and secure our long-term success, MPS must build mutually beneficial relationships with our key stakeholders and take account of what is important to them. This is best achieved through proactive and effective engagement.

By understanding our stakeholders' interests, the Council, as the Board of Directors of MPS, has considered the potential impact of our long-term decisions on each stakeholder group and has regard for their needs and concerns when setting the Group's strategy and making decisions. For more information of how the Council has fulfilled its duties in accordance with Section 172(1) of the Companies Act 2006, see pages 52 to 54.

We set out in the following table our key stakeholder groups, their material issues and, how we have engaged with them throughout the year:

Stakeholder	Why it is important for us to engage	Their key interests	Ways we engage	How we ensure we are doing this well	Further details
Members	Understanding members' needs allows us to provide the protection and services they need.	Expertise, trust, and quality of service Availability and ease of access to services Value for money	Contact centre Medicolegal and dentolegal advicelines Tailored communications, including journals, e-bulletins and online resources Risk prevention workshops, webinars and online modules MPS conferences and events Social media Annual General Meeting	Correspondence and feedback Member research and surveys Tracking engagement scores and content analytics Monitoring member movements Assessing complaints Satisfaction surveys	Chairman's statement (Page 13) Chief Executive's report (Page 18) Strategic report (Page 28) Report of the Council (Page 53)

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Stakeholder	Why it is important for us to engage	Their key interests	Ways we engage	How we ensure we are doing this well	Further details
Our people	Colleagues at MPS are fundamental to the achievement of our member experience ambitions and are the cornerstone of our service.	<p>Being here for members</p> <p>Career opportunities</p> <p>Health and wellbeing</p> <p>Training and development</p> <p>Pay and conditions</p> <p>Reward and recognition</p> <p>Colleague engagement</p> <p>Job security</p>	<p>Manager one-to-one meetings</p> <p>Intranet – including discussions, blogs, news, social pages and activities</p> <p>Chief Executive and Executive briefing sessions</p> <p>Monthly manager calls</p> <p>Recognition and reward</p> <p>Colleague engagement surveys</p> <p>Charity and social activities</p> <p>Wellbeing working group</p> <p>Women's Inspirational Network supporting colleagues in work</p>	<p>Internal communications function</p> <p>Annual end-of-year and interim surveys</p> <p>Leadership framework, MPS values, talent management, and performance bonuses</p> <p>Employee Engagement Forums</p>	<p>Strategic report (Page 31)</p> <p>Report of the Council (Page 52)</p>
Healthcare providers	<p>MPS provides risk prevention and protection services to healthcare providers.</p> <p>Working with healthcare providers enables us to create a better practice environment for individual members.</p>	<p>Quality and price of indemnity services</p> <p>Risk assessment and management</p> <p>Understanding issues facing members and healthcare systems</p>	<p>Direct engagement with healthcare providers</p> <p>Risk prevention programmes</p>	<p>Dedicated business development leads</p> <p>Member movements and monitoring of prospective corporate members</p> <p>Team approach combining commercial and medical expertise</p>	

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Stakeholder	Why it is important for us to engage	Their key interests	Ways we engage	How we ensure we are doing this well	Further details
Our partners and suppliers	Working with partners (e.g. panel law firms and associations) enables us to deliver core MPS services to members.	<p>Quality of services</p> <p>Logistical efficiencies</p> <p>Sharing expertise and insights</p>	<p>Regular engagement with MPS operational, business development, claims delivery, and medicolegal / dentolegal teams</p> <p>Discussions with senior business leaders and Executive Directors on key issues and developments</p>	<p>Contract arrangements to ensure consistency in control, reporting and governance</p> <p>Relationship managers introduced, responsible for panel law firm performance</p>	Report of the Council (page 53)
Governments and public bodies	<p>Policies and regulatory changes introduced by governments provide opportunities and pose risks to members. Working closely with governments enables us to identify and influence potential changes as well as ensure that our products and services evolve.</p> <p>Relationships with state-run schemes and other bodies are also important.</p>	<p>Expertise on medicolegal and dentolegal issues</p> <p>Cost of clinical negligence</p> <p>Quality of member service</p> <p>Issues facing the professions</p>	<p>Regularly scheduled meetings with officials</p> <p>Engagement with ministers on key developments</p> <p>Campaigning on key issues</p> <p>Monitoring</p>	<p>Dedicated public affairs function</p> <p>Stakeholder mapping in each major market</p> <p>Support from in-country advisers</p>	Chairman's statement (Page 13)

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Stakeholder	Why it is important for us to engage	Their key interests	Ways we engage	How we ensure we are doing this well	Further details
Professional bodies	Working with professional bodies (e.g. colleges, societies and unions) enables MPS to influence the wider debate on issues linked to our work. It also enables us to better understand our membership's interests.	Expertise on medicolegal and dentolegal issues Cost of clinical negligence Issues facing the professions	Regular scheduled meetings Speaking at and attending stakeholder events Collaborative working on key issues	Dedicated public affairs team Stakeholder mapping in each major market Support from local, regional advisers	
Professional regulators	Working with professional regulators enables us to influence the way in which they regulate members for the benefit of the membership.	Fair and efficient regulatory processes	Regular scheduled meetings Protecting members before the regulator Attending events	Dedicated public affairs team working with colleagues across MPS Medical Director, Dental Director and country medical/dental leads	
Communities and the environment	We aim to be a sustainable business and recognise our responsibility to the communities in which our members operate.	Reducing the impact of climate change Supporting local community initiatives	Charity and Social Committee Support volunteering days for the healthcare profession Recycling older technology	Corporate social responsibility working group established to identify and monitor initiatives	Corporate social responsibility statement (page 34)

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CHAIRMAN'S STATEMENT

I am writing this during an unprecedented global health crisis, impacting nearly every aspect of our lives and those of our families, friends, businesses and communities. In terms of the impact on our healthcare systems, our members are facing a situation of a scale not seen in generations. Those on the front lines are working tirelessly to deliver the best possible care for patients, under challenging conditions.

As a mutual organisation, our purpose is to look after the professional interests of members and the wider healthcare professions around the world. We are working hard to support them, where we can, in their rapid response to the COVID-19 pandemic. I invite you to read Professor Dacre's and my open letter on page 2, which summarises that support and the implications for MPS.

As a consultant urologist in active practice, I understand the value of having a protection organisation that is going to be there for me when I need them. As healthcare professionals we operate under more scrutiny than ever before, whether it comes from patients, regulators, lawyers or the media – and I think that is the same no matter where in the world you practise.

While it is right that safety standards are upheld and the appropriate level of investigation is carried out following an adverse incident, at times it feels that modern expectations have grown to the point that doctors and dentists must be infallible – we can't and shouldn't make mistakes. And with some less scrupulous areas of the legal profession hovering to reap the material rewards, working in medicine and dentistry today feels like a minefield, in which you never know where the finger of blame is going to come from next.

It's why I was especially proud to be appointed Chairman of MPS last year. As a membership organisation with the sole aim of protecting your interests and meeting your needs – with no external shareholders to answer to – MPS is truly the best placed clinical indemnity organisation for providing that much needed expertise and guidance in shielding you from the pitfalls of contemporary medical and dental practice.

In saying that, I do so with some experience of those pitfalls because in the past I have been referred to the General Medical Council (GMC). The concerns raised were reviewed and the GMC concluded that there was no need for a formal investigation, but it was an unsettling and stressful experience. The point being that, when things do go wrong I know how valuable it is to have powerful, knowledgeable support on your side. MPS has in its armoury a rich array of medicolegal and dentolegal experts – doctors and dentists with dual clinical and legal qualifications – and in-house solicitors, case managers and claims negotiators, all of whom play a vital role in the multidisciplinary network that is here to fight your case.

This is true even in those situations where negligence has occurred and a claim unavoidably must be settled – our team of cost advisers are here to protect members' funds and, by extension, your membership fees by keeping settlement figures as low as possible while ensuring fair compensation is paid where necessary.

Fighting your battles on all fronts

Because doctors and dentists are increasingly being held to account by regulators, civil and criminal courts, and even employers, at MPS we know there needs to be a change in culture within the profession. With a large reach across the world that stretches across governments, regulatory bodies and other influential organisations, we have a professional responsibility to stand up for members and advocate on your behalf.

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CHAIRMAN'S STATEMENT

In 2019, we have had another very busy year doing just that. Something that has perhaps been top of the agenda for many in the profession is burnout, which in truth can and does affect everyone across every type of profession, and is thankfully being talked about much more openly around the world. In medicine and dentistry, however, burnout is unique in that it is very much within the profession's grasp to rigorously tackle it – if not eradicate it completely.

This is because the sources of burnout are avoidable, and this is something we reported on at length in our global campaign *"Breaking the burnout cycle: keeping doctors and patients safe"*, which has so far been launched in the UK, Ireland, Australia and New Zealand and which reveals some sobering findings from our surveys of medical and dental members in those countries.

With workload and operational issues leading to many of our members feeling tired, hungry and unable to take proper breaks or even have a suitable work-life balance, our campaign is calling on healthcare leaders to finally take notice of this serious issue before it leads to further problems. While the mental health of practitioners is enough of a concern, there are also worrying risks for patient safety – not to mention potential workforce shortages as more doctors and dentists consider leaving the profession.

Elsewhere, in the UK we challenged the General Dental Council (GDC) over its attempts to trick its own registrants into getting themselves into trouble. This began in 2016, when we defended a dental technician against an anonymous complaint to the GDC over allegations that he was practising without registration, only for the GDC two months later to send two undercover private investigators to the technician in the guise of relatives attending a routine appointment.

While the ensuing investigation was halted by the GDC's own Practice Committee due to abuse of process, Dental Protection sought an order against the GDC to recover our legal costs, which they eventually conceded. We also submitted a Freedom of Information request in 2017, which found that the GDC had spent over £15,000 on such undercover investigations in 2017 alone. With the legal aspects of this case coming to a close in 2019, we will continue to voice our strong concerns about such covert investigations and to fight our members' corner on this issue.

Significant developments in England and Wales

In 2019, we were pleased to conclude negotiations with both the Department of Health and Social Care in England and the Welsh Government in the wake of state-backed indemnity for general medical practitioners being introduced on 1 April 2019. The negotiations we concluded mean that GP members of Medical Protection will be able to turn to the state scheme for assistance with any historic claims that arise in future. The Existing Liabilities Scheme gives valuable security and peace of mind to general practice members and Medical Protection was pleased to be the first defence organisation to conclude this arrangement with both governments. The terms of the agreements are required to remain confidential, but I am pleased to reassure members that they were beneficial both to the GPs affected, and our existing members' fund. MPS will continue to administer claims for affected GPs as an orderly transition is made to NHS Resolution, to be in place by April 2021.

Further changes in the clinical indemnity field in the UK look likely in the years ahead. In 2019, we responded to a UK Government consultation on the regulation of clinical indemnity. With the Government due to respond to this consultation soon, MPS have been working to ensure we are well placed to adapt to any changes that are introduced.

You can read more on these developments in the Chief Executive's and the Financial Performance reports on pages 16 and 21 respectively.

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CHAIRMAN'S STATEMENT

Raising concerns in Ireland and South Africa

As a global organisation, MPS continues to fight for members' interests on several fronts. In Ireland, we have continued to be a vocal champion for the professions by raising concerns directly with Government ministers about the unintended consequences of mandatory open disclosure. We have also actively engaged with key legislation in the Irish Parliament (Oireachtas) that has proposed wide ranging reforms to healthcare professional regulation, such as the Regulated Professions (Health & Social Care) Bill.

In South Africa we have spent the last few years calling for reforms to address the steadily deteriorating claims environment. An inquiry by the South African Law Reform Commission started in 2017, reintroducing a much-needed analysis of the problem and its underlying causes. MPS has repeatedly called for a complete overhaul of the legal system while sharing our own experiences of claims and the legal process in South Africa and we believe that now is the time for progress to be made.

Among the reforms we have called for is a viable alternative to the litigation process, where the current absence of a strong, patient-focused complaints process has left claims for clinical negligence the only real option for patients who are dissatisfied with their care. Another area in urgent need of reform is the litigation process itself, which is currently inefficient and complex, leading to costly delays which add to what is already a stressful procedure.

Putting your interests first

Within MPS we constantly talk about how we are "made for members". This is not just a throwaway soundbite – it's an ever-present reminder about how the interests of members underpin everything we do in our daily jobs. It encompasses everything from ensuring our own systems and processes reflect best practice in the industry, in order to provide you with complete excellence across our pricing, administration, education and cases and claims handling functions, to adopting a proactive approach in monitoring the global healthcare landscape and pushing your interests to the forefront of government agendas.

It is no coincidence that the Council of MPS, which sets the strategic direction and helps drive this member-first culture, is made up predominantly of senior healthcare professionals. In 2019, we welcomed two new highly regarded doctors to the Council, Dr Suzy Lishman CBE and Dr David Roytowski, our first member of the Council to be from and practise in South Africa. Both bring a wealth of experience, understanding and awareness of the issues affecting the professions. I am very pleased that they have joined MPS and I am sure they will make a great contribution. I would also like to give thanks to Professor Kay-Tee Khaw and Mr Patrick Forbes, who both retired from the Council in 2019. Their service to MPS members over the years cannot be overstated.

As with your own careers, MPS is here for the long-term and plans accordingly. We aim to be there for you whenever you need us, by your side throughout your working lives – with a view to enabling you to get the most reward out of what is still an immensely satisfying and life-changing profession.

Mr Ian Eardley
Chairman of the Council

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CHIEF EXECUTIVE'S REPORT

As mentioned in my report last year, MPS faced significant challenges in 2019 as a result of external forces. Prime among these were plans by the Department of Health and Social Care in England and the Welsh Government to introduce a state-backed indemnity scheme for NHS primary care clinical negligence risks. The Government assumed responsibility for all NHS primary care clinical negligence claims arising from adverse clinical incidents from 1 April 2019 onwards – the Future Liabilities Scheme. In parallel with this scheme, MPS also reached agreement to transfer responsibility for its historical NHS primary care clinical negligence obligations in England and Wales to the Government in exchange for a transfer of assets – the Existing Liabilities Scheme. The resulting impact on MPS has been significant and is the greatest change on the organisation in the last 30 years.

Unfortunately, it is not possible to accommodate such imposed change to MPS's single largest member segment without some considerable restructuring to ensure that MPS's shape is suited to the future requirements of our business following the introduction of the Future and Existing Liabilities Schemes. This is something that we have been working on in 2019 and the changes are nearly concluded.

As discussed in our Chairman's statement, in addition to the state-backed indemnity scheme, the UK Government launched a consultation towards the end of 2018 as to whether registered healthcare professionals should be protected from the risks of clinical negligence by a regulated product. This consultation has yet to report, but the publication in early 2020 of the Paterson inquiry report into the actions and consequences of Ian Paterson, add weight to the likelihood of the need for a regulated product to protect registered healthcare professionals from clinical negligence risks. It is widely expected that the regulated product will be an insurance product.

MPS has been working on an insurance solution and I am pleased to say that in 2019 we received permission from Lloyd's of London (Lloyd's) to sell insurance policies. This is a major step for MPS. We are currently using our insurance capability to write insurance policies for the clinical negligence risks of corporate entities involved in the delivery of healthcare, such as private hospitals, but we aim to have the capability to offer insurance policies to individual clinicians, if this is mandated in the future, whether solely in the UK or in the other countries where MPS offers membership.

It is hard to overstate the magnitude of these two immensely important achievements in 2019. In order to ensure we can serve you, the membership, and protect your interests into the future, it was vital that we found a way to overcome the potentially devastating impact of these two imposed changes. The state-backed indemnity scheme has removed about 20% of MPS's income, yet we have accommodated the impact of this and reshaped our business for a strong future without English and Welsh NHS primary care clinical negligence risk. Achieving the ability to sell insurance business through Lloyd's has secured MPS's ability to manage members' risk in the future, whether or not insurance regulation is imposed.

This would not be possible without the dedication, determination, hard work and focus of MPS's people. The last year has been a difficult and uncertain time for many colleagues and a number have been made redundant as a result of these imposed changes. Everyone has behaved in the most professional manner throughout this time and retained their focus on serving members and looking after their interests. This is a great testament to those within MPS who work in the interests of our members.

Being a healthcare professional is a vocation and provides an extremely rewarding career for many. But increasingly the demands placed on the modern healthcare professional are becoming intolerable. These demands stem from the rapid pace at which medicine and dentistry are developing, patient expectations, changes in society and possibly one of the most significant demands, in all countries in which MPS has members, is the need to do more for less in healthcare systems under financial pressure. To add to this burden are the often well

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CHIEF EXECUTIVE'S REPORT

intentioned, but sometimes ill-advised actions of legislators and regulators in response to tragic, but rare events.

It's an obvious statement to say that we want compassionate, effective and sustainable healthcare systems. However, from MPS's perspective, in supporting our members it seems this is not being achieved on two key fronts. Firstly, there seems to be an increasing climate of fear amongst healthcare professionals and secondly modern healthcare is the product of a complex system, but so often the control, oversight and regulation is focused on individual clinicians and not the system.

Fear

Fear drives defensive practices and is highly likely to lead to greater error, stress and burnout. Yet, in many countries in which MPS operates, the degree of fear experienced by healthcare professionals seems to be growing. If we want a sustainable healthcare system, we must eliminate fear. It is very much our duty to fight on behalf of members who have suffered in a system that induces fear and to fight for the membership and wider professions to identify and implement changes which reduce fear.

I have used the word 'fight' and sadly, that is often what it feels like to support and assist our members. We need to move to systems of accountability and oversight which are much more consensual and considerate of the impact on individuals, without neglecting the need to uphold the highest standards of patient safety.

A prime example of increasing fear is the growing use of legislation to force compliance, rather than cultural change to win the hearts and minds of individuals, to do the right thing. A specific example of this is the proposed legislation in Ireland, The Patient Safety (Notifiable Patient Safety Incidents) Bill 2019. It has laudable intentions to promote transparency and open disclosure, but we have never felt legislation is the right way to achieve that. Instead, cultural change is key. On its own, legislation risks creating more fear, and could even be counterproductive.

Individual accountability in the healthcare system

Healthcare is increasingly delivered by a complex system, of which the clinician is but one part. Yet the processes of oversight and holding clinicians accountable seems rooted in the past of a much simpler, less complex world. Individual clinicians will still be solely responsible for adverse outcomes, but often an adverse outcome is the result of a number of failings in the system, of which the clinician is at the end and is thus the one held accountable.

Again, if society wants a compassionate, affordable and effective healthcare system, more has to be done to recognise the failings in the system and treat these to prevent reoccurrence, rather than just hold one individual in the system wholly accountable for the outcome. Again, part of MPS's remit is to stand up for members and be a voice for the professions, and these are the sort of issues where we believe we have an insight, understanding of and ability to influence thinking.

MPS's future strategy

We recognise that the cost of defending and supporting members is ever growing, partly because of the reasons identified above. In addition, members have more choice of different indemnifiers or insurers. Thus, it is vital that members understand that not all providers are the same and that they appreciate the value that MPS provides and in doing so, choose to join and stay with us throughout their careers. Many members who have experienced our support and assistance in their time of need will recognise the value of MPS membership, but the reality

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is that in any one year, only a minority of members, fortunately, will need assistance and support with an adverse event. So how do we ensure that all of our members appreciate and recognise the value of MPS membership? We believe that our new MADE for Members strategy will be effective in communicating the value that MPS provides and the importance of MPS membership. Our strategy is to focus on Members, People and Data.

Members

MPS is a membership organisation and we have to deliver what members need; thus, it is self-evident that to do so, we must understand those needs. We already invest in understanding your needs, but we can and will do more. One example of this is our recent decision to increase our resources outside of the UK, to enable us to deliver professional services directly, rather than through third parties co-ordinated from the UK. Therefore, in 2020, we will be placing medicolegal, dentolegal and case management resources in South Africa and Ireland for the first time, to deliver services directly to our members. Also, during 2020 we will be reviewing how best to achieve the same in Hong Kong, Singapore and Malaysia.

In 2019, we went live with the second phase of our new member administration system, MAPS, which for the first time enables us to provide internet-based self-service to the majority of our members in the UK and Ireland, and to provide a more individualised approach to pricing. We plan to roll this out to our members globally through 2020 and 2021. Recognising, as mentioned above, that delivering service to our members is the result of a system, rather than just individuals, we will be investing in our systems to improve your experience of engaging and communicating with MPS, to make it quicker and easier, and to offer access to information and services outside of standard office hours.

People

MPS is a service organisation and our support and assistance for members is only as good as our people – people who at all levels ensure an effective system that results in excellent support and assistance. To meet our aspirations, we need the best people to deliver expert and valued assistance and support to our members. We are investing in different ways to attract the right applicants, focused on aptitude and diversity, as well as a new approach to assessing their capabilities and fit for MPS. We are also investing in a new approach to induction and development throughout their career with MPS. MPS will have the most expert people in the clinical negligence field, devoted to supporting and assisting our members.

Our People report on page 31 provides more details of what we have done and what we plan to do in this space.

Data

Data is of growing importance in all fields and supporting and assisting our members is no exception. MPS has one of the most extensive and diverse clinical negligence data sets in the world. The problem is that the data has been captured to help defend the interests of members and is largely unstructured, thus it is difficult to access in a structured way. Yet, we believe the insight that can be gained from this data will be invaluable in helping MPS and our members manage their risk. To that end, we are investing in ways to create structure for the data, develop insight from that data and to then share this with members. This will help us meet an ever-growing demand for and an understanding of the drivers of risk for clinicians across different specialties and jurisdictions.

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In conclusion

2019 has proved to be a transformational year for MPS and we start 2020 in a stronger position, with a renewed focus and energy to protect the interests of our members and to use our position, connections and reputation to speak out on behalf of our members for better and safer healthcare systems. However, this has only been possible because of the changes which we have gone through in 2019 and this has only been achieved by the professionalism and determination of our people. They have faced the challenge and change with equanimity and continued to ensure the very best service for members, even though a number faced redundancy. I would like to pay tribute to and to thank them for their work and to those who have left MPS in 2019, I thank them for their contribution and wish them well in the next stage of their careers.

COVID-19

My report above was largely written before the current COVID-19 crisis. As this has such an impact on our members and MPS, it is right to provide an update of our response and the expected impact on MPS. Further detail on the COVID-19 impact on MPS's business is provided on pages 25, 36 and 54.

Business continuity

MPS implemented its business continuity plan in early March 2020 and took swift action to increase our capability for all MPS colleagues to work from home, such that by 23 March 2020, MPS was able to close all of its offices and ensure that the majority of colleagues could work productively from home.

In the first week of working from home, our service levels answering member telephone and email enquiries dropped because we were not yet at full capacity and, understandably, there was an increased demand from members in some areas. This stabilised in the following week as we achieved near full capacity and the immediate demand from members subsided. Our teams are now fully embedded in the working from home environment and maintaining our normal service levels during this difficult time.

Subscription relief for members

One of the impacts of the COVID-19 virus is that elective clinical activity has declined considerably, both medically and dentally, resulting in a drop in members' incomes as well as the risk presented to MPS. Consequently, MPS took the decision to provide subscription relief to the vast majority of our members, equivalent to two months' subscriptions, and which will be reviewed country-by-country if the lockdown is prolonged. Further information on this relief and those directly impacted can be found on page 25.

Communication with members

MPS has increased markedly its communication with members. This includes medicolegal advice provided through our website, webinars and social media as well as communication about subscription relief and increased access to our third-party confidential counselling services. This increased level of communication will continue throughout the pandemic.

Engagement with governments and key stakeholders

The clinical landscape has changed considerably in many countries, with the cessation of nearly all elective procedures, in some countries the move to treat public patients in private healthcare facilities, the 'calling up' of recently retired clinicians and the potential to require clinicians to work outside of their specialty. These developments have implications for risk management and who is responsible for that indemnity. MPS has engaged with governments and key stakeholders in many of the countries where MPS operates, to ensure clarity on these matters for the sake of our members and MPS.

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Investments and liquidity

The above sections outline MPS's response to the immediate crisis and actions taken to address the needs of our members. A further consequence has been a fall in asset values around the world. MPS holds substantial invested assets to meet the future cost of claims anticipated from past periods of membership. The market value of listed investments declined sharply, however MPS holds a broad and diversified portfolio. The nature of some of our unlisted long-term assets means that obtaining an up to date valuation is not straight forward, though they may be impacted by the economic downturn, if prolonged.

There are no concerns around liquidity as MPS funds its day-to-day activity from subscriptions and even with the level of subscription relief already committed to, the availability of short-term funds is expected to be unchanged.

MPS's funding (the level of assets compared to estimated future costs) before the COVID-19 crisis showed a prudent surplus above the best estimate of future costs. Further details are included in the Financial Performance report on pages 21 to 26. Even with the asset falls seen to date, we believe that we have sufficient funds to meet future costs and that we expect asset values will recover to a degree in the future, improving the current situation.

In closing, I would like to take this opportunity to express my sincere appreciation and pride in the way colleagues are dealing with this crisis – some of whom are also answering the call to help on the front lines. It is a huge testament to the power of everyone at MPS who has rallied round, supported each other, and got on with whatever is required. I am very proud of what we have achieved and the part that we have played to support our members, so that they can remain focused on their patients.

Simon Kayll
Chief Executive

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Purpose and financial strength

MPS remains firmly focused on our Purpose – to protect the careers, reputations and financial security of doctors, dentists and healthcare professionals around the world. To deliver our Purpose, we must demonstrate longevity – being there to keep our commitments, when members need us, which is underpinned by our financial security. Financial security comes from MPS achieving sustainable growth, acquiring and retaining members and delivering our growth strategies over the long-term.

Given the uncertain political and economic environment throughout 2019, and in the face of significant events in the industry as described in the Chairman's Statement and in the Chief Executive's report, I am pleased to report that MPS's net asset value remained robust in the circumstances, decreasing only marginally from £2.1bn to £2.0bn. This highlights the financial strength of MPS that we have been able to absorb the impact of these events without undue strain on our financial position.

MPS continues to have the largest reserves of any medical defence organisation in the UK, in excess of the best estimate of the current and estimated claims value from historic incidents. This demonstrates that MPS has the financial ability to support members and to meet any future potential obligations.

Sustainability and financial overview

It is vital to remember that the resources of MPS are managed on a long-term basis, to ensure we are not financially impeded when exercising our discretion to support members and are therefore able to meet future potential obligations.

The nature of the medical and dental risks we indemnify on a discretionary basis mean that the full costs emerge over a long period of time. Most MPS members are entitled to seek our assistance on an "occurrence-basis". This means that the subscription income we collect in any one year is held to support members for life, for the risks arising from their clinical activities in that year. *There can be a considerable delay from the date of an incident to the date of claim and final resolution which for some specialties can be on average eight years, if not more.*

Estimates of the final settlement values of claims will change over time and each time a change occurs we are required to recognise this change within the financial statements. Each year our actuarial team provide estimates of the reserves that may be required to meet these uncertain future costs. The actuarial estimates look at the future trends on a consistent basis and calculate the expected outcome from the current year and all previous years. Our reported financials within the annual accounts not only show the costs experienced in 2019 but the expected impact of the claims where we have exercised our discretion to support members.

In addition, we manage MPS's finances and set subscriptions on a consistent basis, bearing in mind the risks of potential claims (both from incidents occurring in the year, but have not yet been reported, and from future incidents), which can take years to emerge. Of key importance for the financial health of the business is the relationship between the value of our reserves, after allowing for reported claims, and the estimate of the potential future cost of requests. This is where MPS decides to grant support relating to incidents that have occurred prior to 31 December 2019, but where the incident has yet to emerge as a claim against a member. This is known as the Estimated Potential Future Cost (EPFC). The cost of these potential claims is not recognised as a liability in the financial statements until the Council of MPS exercises its discretion to assist. However, as we offer occurrence-based discretionary indemnity, the Council takes the quantum of EPFC into careful consideration when managing

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the financial position of the Company each year. As at 31 December 2019, the EPFC for assistance is estimated at £1,259m (2018: £1,739m).

Where we can see opportunities to commit funds to generate member returns, MPS is guided by a sustainable, future-focused investment strategy. We invest our funds in anticipation of the costs of potential claims crystallising in future years, taking into account those costs which have not been recorded as a liability. Thus, the business maintains sufficient levels of high-quality diverse assets to meet the future costs of claims, without holding excess liquidity that may reduce potential investment returns. MPS sets a risk appetite for liquidity and regularly stress tests its positions against this risk appetite. At the end of December 2019, MPS had £2.5bn of assets under management (2018: £3bn) and the investment portfolio remains well-diversified and well-positioned to withstand volatility.

The MPS investment portfolio is well diversified both in terms of composition and geographic disbursement. The current and future investment strategy will see the composition of the portfolio migrate into longer-term assets such as infrastructure, direct lending and commercial real estate debt, moving away from being over reliant on listed equities. Whilst there are inherent risks in these assets, such as corporate debt failures, they tend to be more resilient and defensive in nature.

To monitor our investment strategy, one of MPS's key financial performance indicators is Return on Investments. For the current year, we targeted a return of +3% above the risk-free rate (i.e. the rate of return of an investment with no risk of loss). Investment return on the whole portfolio, net of fees but before tax, in Sterling terms, for 2019 was +8.6% (2018: -1.1%). Following market falls in late 2018, global equity markets rallied throughout 2019, delivering strong returns for MPS during the year. Our positive investment result was led by accommodative Central Bank policies and easing geopolitical tensions and as a result the majority of credit asset investments performed well. Property returns remained robust, despite 2019 seeing a slowdown in transaction volumes, driven mainly by companies delaying long-term business decisions. However, gilt yields fell over the year which was primarily due to ongoing Brexit uncertainty and fears of a potential slowdown in global growth.

We continue to work closely with our investment managers and advisors to improve our returns through longer term investing which MPS is able to do, whilst maintaining a suitable risk profile aimed to preserve members' funds.

State Indemnity

The overall financial result is better than we had anticipated but has been distorted by the accounting for the beneficial Existing Liabilities Scheme arrangement. On 1 April 2019 the Department of Health and Social Care (DHSC) implemented a state-backed indemnity scheme for England general medical practice for NHS-related work. The Welsh Government introduced a similar scheme at the same time for Wales. These schemes cover clinical negligence liabilities arising in general practice in relation to incidents that occur on or after 1 April 2019. This is known as the Future Liabilities Scheme (FLS).

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

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MPS secured an outcome which will see the state-backed scheme offering members consistent and comprehensive support from clinical negligence claims long into the future. The DHSC and NHS Resolution have confirmed that they will ensure members can continue to benefit from MPS's knowledge and expertise during a transition period. To ensure a smooth transition to the new arrangements, MPS has been managing, and will continue to manage, existing claims for a period of two years. After April 2021, claims will be managed by NHS Resolution in England. MPS will also manage most new claims which arise from adverse incidents prior to 1 April 2019 and that are notified as claims in the next two years until 31 March 2021.

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

On 15 November 2019, MPS agreed terms for the establishment of an ELS for general medical practice members in Wales. Under this arrangement, the NHS Wales Shared Service Partnership assumed responsibility for all existing claims against healthcare professionals working in general practice, as well as claims that are brought in the future, where the adverse incident date was before 1 April 2019 and related to treatment under an NHS contract.

MPS will continue to manage existing claims for an interim period for general practice members in Wales before the management of these claims is taken on by the NHS Wales Shared Service Partnership. We will also continue to provide general practice members in England and Wales with medicolegal advice and assistance as well as the right to request indemnity for claims arising from any fee-paying or private work.

The arrangements mean that MPS's general medical practice members across both England and Wales will be able to turn to a Government-backed arrangement for assistance no matter when in the future they become aware of a claim against them. This is a positive result for MPS, general practice members and the wider membership.

MPS was the first medical defence organisation to successfully conclude negotiations on the establishment of an ELS for both England and Wales. This was a clear reflection of the ambition, determination and financial strength of MPS and of an organisation that places the membership at the heart of everything we do.

The agreement with the DHSC not only impacted reported claims, as the DHSC assumed responsibility for all existing NHS-related general practice claims in England; it also favourably impacted EPFC through claims that are brought in the future under the ELS arrangement.

The payment terms for both ELS arrangements remain confidential. The amounts paid in the year have been treated as part of paid claims, which has affected the annual comparison of claims levels, and is the main contributor to the reported deficit in the year. This is because most of the payment related to EPFC, where claims had not yet emerged, and the financial estimate of which was, in effect, crystallised as a single settlement to transfer that financial risk to the DHSC. The payments were funded in cash, after investments were disposed during the year, at prices which, in hindsight, were near the top of market values and contributed to a positive investment performance.

Insurance Capability

During the year, MPS established the capability to provide insurance products to corporate entities. In June 2019, MPS received agreement from Lloyd's of London to market and sell our Healthcare Protection product, MPS's new regulated, corporate medical and dental malpractice insurance offering.

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There is a growing opportunity to protect corporate members against the increasing clinical negligence claims, costs and risks they may face. Making the decision to offer a regulated insurance product is an innovative move, which places MPS in a strong position to respond, should the UK Government decide to regulate the indemnity market for doctors, dentists and other healthcare professionals.

Capital paid into our Lloyd's of London corporate member, to support our insurance offer, is held in escrow and has been accounted for as part of our investments.

Systems Development

As a mutual organisation, keeping costs down is a key focus. Using members' funds responsibly and ensuring that we are focused on our new MADE for Members strategy helps drive our decision making around this. During the year we successfully implemented a major IT project; the second phase of MPS's new member administration system launched in November 2019, offering a number of MPS members on-line capability for the first time. This also introduced Types of Work for a first tranche of members, a fairer and more accurate way for understanding what our members do, allowing MPS to factor in the level of risk this work poses into the price of membership.

Reported financial performance

As highlighted, MPS is managed on a sustainable and lasting basis to ensure that our finances are sufficient so that we continue to be able to support members and to meet any future potential obligations. With this in mind, a review of the consolidated statement of comprehensive income for MPS only gives a snapshot of the financial performance of the business as this only relates to a single calendar year.

At a reported level, MPS recorded a reduction in net contribution to funds available for members, a deficit of £108.2m for the year to 31 December 2019, compared to a surplus of £136.7m for the equivalent period in 2018. This reduction reflects the ELS payment referred to earlier in my report which adversely impacted the net contribution to funds available for members, but which strengthened MPS by removing potential future liability payments for GPs in England and Wales. 2019 thus represented an exceptional year of activity for MPS.

In 2019, subscription income remained stable and was in line with expectations, in what was anticipated to be a very challenging market with increasing numbers of competitors. The move of claims indemnity for English and Welsh GPs to the state in April 2019 reduced subscription income by c.20% year-on-year. However, it should be noted that the associated claims liability was also reduced (see below). Despite the significant changes, we saw growth in GP and Allied Healthcare Professional members taking up our Professional Protection product and maintaining membership.

In terms of overall member movements, we were also relatively stable year-on-year. During the year, we saw growth in international membership although an increasing risk profile in UK Dental meant that subscriptions were increased proportionally, resulting in a loss of some members in this area.

During 2019, the overall cost base as reported in the consolidated statement of comprehensive income was skewed by the impact of the agreement with the DHSC. Claims costs and associated legal costs increased by £326m to £499m for example, as this included the impact of the significant contribution made by MPS to the DHSC in April 2019 and the associated reduction in claims reserving liabilities. Similarly, insurance recoveries have declined by £37m due to the reduction in remaining claims liabilities following the ELS arrangement.

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Administrative expenses increased to £50m (2018: £42m), led by various factors, including increased investment fees in light of strong investment performance in 2019. During the year, we worked hard to rebalance our business in order to ensure we are well-placed to adapt to changes in the healthcare sector and to continue to meet members' evolving needs. This involved investment in colleague roles as well as several tranches of restructuring activity undertaken in 2019 with further changes scheduled for 2020.

Offsetting this, MPS has seen positive progression across specific cost lines. Advisory costs and associated legal costs have fallen by 20% since 2018 to £59m as the business has utilised its provision during the year and has continued to take on more legal work in-house, limiting our reliance on external legal input. MPS has also benefitted from a £7m (or 17%) reduction in the unwinding of the discount rate within finance costs to £32m, as a portion of the claims reserves liabilities have transferred to the DHSC.

Post-balance sheet events

COVID-19

The COVID-19 pandemic, and the restrictions on all but essential activities by many governments, has significantly reduced economic growth across the world, with no certainty of when normal business can be restored. Whilst MPS has been impacted, the effects to date have been relatively modest compared to many, especially considering MPS's strong financial position prior to the COVID-19 outbreak.

We have seen pressure on the membership who have been on the front line of the battle against COVID-19. Whilst there may be a change in the shape and scope of the work of some of our members, they continue to practice; they continue to need MPS membership and we continue to be here to provide that support and assistance. MPS has responded to the immediate changes in clinical practice by collecting reduced subscriptions from secondary care consultants and dentists – members, who have seen a decline in their work and thus a reduction in the risk of a case or claim where MPS will be asked to assist.

COVID-19 and the economic shock caused a dramatic fall in global financial markets, on a scale unprecedented since the mid-twentieth century. Since 31 December 2019, there has been a significant fall in many asset values, especially in equity markets, and global financial markets remain very volatile. MPS holds a diverse portfolio of assets, both by asset type and geographical location and we believe that this means that asset values have held up better than what the headline falls in equity markets might suggest.

Finally, we do not foresee cash flow issues as a result of COVID-19. MPS meets the annual costs of claims, support and assistance out of annual cash flow, without the need to draw-down on invested funds. At the time of writing, we still expect this to be the case; we believe the annual cash flow will remain sufficient, especially as many open cases and claims are being put on hold, which is likely to mean they are not resolved until after the current crisis, at which point MPS expects subscription levels to be restored to more normal levels.

The longer-term impacts from COVID-19 on the eurozone economies, although likely uneven, will test the resolve and aggravate the underlying economic frailties of many in the deteriorated operating environment. MPS continues to work with local governments and regulators to ensure the healthcare industry is in the best possible shape to deliver these changes.

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Brexit

The UK left the European Union (EU) on 31 January 2020 and has now entered a transition period where further negotiations are needed to determine the UK's new relationship with the EU. Whilst it is difficult to predict the impact that the final Brexit agreements will have on the delivery of healthcare, MPS members can be absolutely reassured that they will continue to be offered support and protection with matters arising from their professional practice, no matter what the final Brexit outcome. MPS has a long history of providing membership and support to members internationally and under different legal and regulatory frameworks. Regardless of any eventual changes implemented following Brexit, members can be assured that it is very much business as usual at MPS.

Our 2020 strategic priorities

Our MADE for Members corporate strategy reflects our focus on delivering. Our plans are on track and in the coming years whilst still growing our business and in spite of increasing competition, we will continue to evaluate and improve our service and product offerings, whilst ensuring the sustainability of our business for the future.

Our financial strategy will continue to focus on reducing costs, where it makes good sense to do so, as well as improving our efficiency, so that we can continue to provide a better service for our members and add ever more value for money. We will also be investing in key areas to further improve our service and better meet member needs, in areas such as member experience, digital capability, risk prevention activity and international infrastructure, to name but a few initiatives.

Looking ahead

As one of the world's largest medical defence organisations, MPS aims to strike a balance between the long-term value we return to members, through valued products and high standards of service which our members deserve, the surpluses we retain to sustain strong capital ratios and the level of investment that we make for the benefit of members.

MPS is strong and secure, with plans to further grow the membership and the business and is well placed to support members with the products and services they need to manage their professional risks.

I would like to thank all our members for their loyalty in 2019 and to thank colleagues for their contribution to our success.

Rob Hemson
Executive Director of Finance

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STRATEGIC REPORT

The Council presents its Strategic Report for the Group for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

MPS is the world's leading protection organisation for doctors, dentists and healthcare professionals. It is a mutual society, whose purpose is to protect and support the professional interests of doctors, dentists, healthcare professionals and organisations across the world.

MPS exists to serve its members with the aim of ensuring that it remains a strong, viable entity to meet its current and future commitments to members, and that it continues to provide much-needed services to members for years to come.

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

Membership provides access to expert advice and support as well as the right to request indemnity for any complaints or claims arising from professional practice. Highly qualified advisers are on hand to talk through a question or concern at any time.

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

Our philosophy is to support safe practice in medicine and dentistry by helping to avert problems in the first place. We offer a range of risk prevention programmes and tools to help members deliver safer, more reliable healthcare at both an individual and organisational level. The educational courses take the form of workshops, online learning, publications and conferences, and through expert advice and support from our specialist teams.

Further information on our business model can be read on page 7.

SECTION 172(1)

Members of the Council have considered their duty to promote the success of MPS, and in doing so have had regard to other relevant stakeholders, in accordance with Companies Act 2006 Section 172(1), as outlined on page 52.

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FINANCIAL TARGETS

Despite the risk mitigation identified on pages 36 to 37, it is impossible for MPS to eliminate risks associated with its business activities. Consequently, MPS needs to ensure that it has the financial resources to cope with the remaining unmitigated risk so that it can provide members with the assurance they need that MPS will be in a position to respond to their requests for assistance, no matter when these are made.

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

PERFORMANCE MEASUREMENTS

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

MPS monitors financial performance using several KPIs, including funding levels and Return on Investments. These are covered in more detail in the Financial Performance report on pages 21 to 26 and Our Business Model on page 7. Alongside financial measures of performance, MPS tracks non-financial KPIs in relation to member interactions and, importantly, the member feedback that we receive in relation to the services we offer, as well as colleague feedback.

We survey the members who contact us to understand their evaluation of the services provided, and we use this feedback to consider how we can continue to improve those services. Feedback is given on a scale of 1 to 7, where 1 represents "Very Poor" and 7 represents "Excellent". The average of the monthly feedback scores achieved from surveys of those members who contacted our member administration call centre or our medicolegal and dentolegal advice lines, as well as of those attending risk prevention workshops during 2019, is as follows:

	2019	2018
• Member administration	6.2	6.1
• Medicolegal/Dentolegal advice	6.4	6.3
• Risk prevention workshops	6.6	6.6

KEY ACTIVITIES

Medicolegal and dentolegal advice

In relation to the 16,405 calls received during working hours into our medicolegal and dentolegal advice lines during the year, 89% were answered within our service level agreement, outperforming our target of handling 80% of calls within 20 seconds.

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Member administration

In relation to the 208,462 calls received into our Direct Sales and Service UK and Ireland department during the year, over 96% of the calls were answered without the need for a call-back against an internal target of 97%, and 71% were answered within 20 seconds.

In addition, our teams handled 66,845 individual items of correspondence, with 99% of complex queries dealt with within five business days and 91% of more routine items within two working days.

Risk prevention services

Worldwide, MPS offered 667 educational workshops and masterclasses during the year, attended by 10,299 healthcare professionals. For those members who find it increasingly difficult to fit training and development within their busy schedules, we offer an online programme of interactive risk prevention modules and webinars. In 2019, 41,510 online courses were completed (evaluation and CPD certification received) and over 10,000 members joined one of our 48 webinars in 2019.

As part of our surveys, we also ask workshop attendees whether they will change their working practices as a result of taking part in the training. Feedback is given on a scale of 1-7, where 1 represents "Strongly disagree" and 7 represents "Strongly agree" with the statement. For this year, the average response for this question was 6.3 out of 7 (2018: 6.36).

What our attendees have said:

"Fantastic content and well presented. One of the best e-learning platforms that I have experienced."

"Excellent. The training materials, including workbooks, were outstanding, and will be very valuable resources for the future."

"As with all the other MPS mastering workshops, I find the pace and contents rightly pitched, with little nuggets to take to my own life and workplace."

"Enjoyable, challenging, relevant – should be mandatory for all doctors in training."

"Course was excellent. I didn't know what to expect and was really impressed. Gave me a completely new vision for the topic of resilience and a fantastic framework. Already implementing some changes and looking forward to doing more reading to learn more about practical changes to make."

KEY MARKETS

MPS offers membership in a number of different international markets. This international perspective allows many members to practise around the world and still enjoy the benefits of MPS membership. It also allows MPS to use its wide and diverse experience for the benefit of all its members.

MPS's key markets are:

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

* Non-indemnity dental membership

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FUTURE DEVELOPMENTS

The Chief Executive's and Financial Performance reports refer to key initiatives during the year and touch on future developments in specific areas. Below is a summary of those plans:

Regulation

We are working with the UK Government on their proposal to regulate professional indemnity, contributing our knowledge and experience to ensure that members' needs remain at the forefront of any decisions made. We are proud of the high-level of service we have provided members for over 125 years and are committed to maintaining the highest possible standards should there be a change in our regulatory framework.

Insurance

During the year we began to offer insurance to healthcare providers which requires many aspects of our business to comply with the necessary regulations in the same way as many insurance providers. We are committed to continuing to offer individual members discretionary indemnity. However, it may become a requirement for healthcare professionals to hold a regulated product, which we expect to be a policy of insurance, in the next few years. Should the UK Government decide doctors and dentists need to hold a regulated policy of insurance for clinical negligence risks, we will be in a strong position to offer this as a benefit of membership, alongside the other important membership benefits we offer, such as advice and support. Any changes that the UK Government intends to introduce would require legislation and this is likely to take several years.

We also need to be prepared for the possibility that market forces overwhelmingly require us to offer insurance in existing countries of MPS business, apart from the UK, and we need to be poised to enter new countries with an insurance offering. With all this in mind, we are initiating a significant programme to get ready for insurance, including the development of our products, systems and processes.

Digital Transformation

Linked to this programme, we are enhancing our risk and compliance capability and introducing the right risk control environment for our future business.

MPS will continue to focus on members' needs by delivering a high-quality, cost-effective service, along with the development and provision of education and risk management courses to members, and the continued strengthening of our relationship with regulators, legislators and professional representative bodies. As noted in previous reports, to ensure these aims are met now, and in the future, we have undertaken a strategic change programme over recent years, and progress has been made on a number of initiatives aimed at improving member experience and service quality around the globe. This includes building flexible data capabilities and improving our data reporting systems.

Sustainable growth

MPS has a strong presence in all of the key markets in which we operate, and in 2020 will continue to invest in these regions to develop our membership offering and the quality of service we provide to members, with further details on page 33.

Brexit

At the date of this report there is still considerable uncertainty as to the UK Government's final trade agreements with the European Union. Whilst it is difficult to predict what impact the final Brexit agreements will have, members can be absolutely reassured that we will continue to offer support and protection with matters arising from their professional practice, no matter what the final Brexit outcome is. MPS has a long history of providing membership and support to members in a number of countries and under different legal and regulatory frameworks.

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Regardless of any eventual changes implemented following Brexit, members can be assured that it is very much business as usual. We have reviewed our operations in Ireland and taken steps to ensure that we will be able to continue to support members in the lead up to the exit, during the transition and beyond, without impediment and regardless of the eventual changes implemented as a result of Brexit. Further information is contained in our Financial Performance report on page 26.

OUR PEOPLE

We draw on the expertise of our people to consistently provide a quality service that members trust and value. The strength of MPS is thus dependent on attracting, developing and retaining skilled and high performing colleagues, who put members' interests at the heart of everything they do.

Recruitment

We are a mutual organisation, owned by and run for the benefit of members across the world – spanning continents, cultures, and a multitude of clinical fields and environments. MPS's heritage is rooted in this diversity, which remains central to our culture today. Put simply, in order to understand our members, our workforce needs to reflect them. We must attract quality candidates from a variety of backgrounds and experience. It is their different perspectives that help us grow, compete, and innovate for members. MPS has a recruitment strategy which ensures we recruit for the right attitude, aligned to our Values and Leadership Framework. The newly implemented recruitment system not only automates and enhances the candidate experience, it also enables MPS greater time to generate high quality and diverse candidate pools, attend careers fairs and improve selection and assessment processes for volume, leadership and technical recruitment.

Culture

The critical foundation for everyone joining MPS is the quality of the onboarding and induction programme. In 2019 we improved both, providing a warm welcome to our people with the new MADE Welcome Programme. In recognition of its importance our Executive Committee, leaders and in-house doctors and dentists are involved – inspiring new recruits in our Purpose, our Vision and our Values, developing their understanding of members and the environment in which they practise and ensuring that our people put the membership's interests first.

However, it is not just about those who join us. We are equally committed to creating a fair and inclusive workplace, ensuring opportunities are available to all and fostering the talent within our organisation. We firmly believe we are more successful as a company if everyone is empowered to fulfil their potential.

Equality and diversity

In a year marked by significant transformation and change in our organisation, we are pleased to see our overall gender pay gap continue to close. We welcomed more female than male new starters over the past year, and we have more women in positions of leadership roles across our medical, dental, underwriting, actuarial and legal teams. This is steady progress towards our aim of achieving greater gender balance, through a long-term, sustainable approach. However, our 2019 pay gap is still above the national average, and we have seen a widening of the overall bonus gap. Despite improvements, a larger proportion of women at MPS work in more junior or part-time roles compared to men, where remuneration levels are lower or pro-rated.

Details of our Gender Pay Gap reports, for the last three years, can be found at www.medicalprotection.org/uk/about/our-approach-to-business.

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In response, 2019 saw the launch of our Women's Inspirational Network (WIN) to provide a space for all colleagues to share experiences, ideas and raise awareness of issues that can be faced by women in the workplace. It is committed to developing a community that helps colleagues to network, deliver educational events, monthly guest blogs from inspiring women and mentoring opportunities for our female colleagues to grow their support network and succeed through collaboration. It is not just about women in MPS, WIN exists to highlight the topics that disproportionately impact women but with the intention that what we do will be of interest to all MPS colleagues, whatever their gender.

Through talent and succession planning, we are committed to increasing the representation of women in more senior roles by ensuring the short-listed candidates comprise both males and females, though we continue to recruit and appoint on merit.

The continued development of our family friendly policies allows both men and women to build a successful career without compromising on family or personal life. Flexible working is also seen as key to attract people from different demographic groups to join and stay with MPS. At the start of 2020, MPS completed an extensive review of and investment into our flexible working capabilities to ensure they support the business, follow best practice and are fair for colleagues. As a result, the majority of colleagues now have the capacity to work from home.

As an equal opportunity employer, MPS commits to welcoming and supporting colleagues and applicants with disabilities, ensuring that they are treated with dignity and respect and are not disadvantaged in the workplace. Our Equality and Diversity Policy is at the heart of this commitment to equal opportunities for all. The rights of disabled persons and the responsibilities of the Company are embedded within this policy. The needs of disabled colleagues, including workplace modifications for example, are given priority and accommodated whenever possible. All colleagues are required to comply with the policy and to act in accordance with its objectives in order to remove any barriers to equal opportunity.

Continuous professional development

For MPS to be recognised as the most expert and trusted organisation in protecting and supporting members we are committed to strengthening our technical training and investing in continuous professional development (CPD). The MPS Academy pilot was launched in 2019 mapping competency frameworks, qualifications, career paths and aligning job related, personal effectiveness and CPD learning. It will take several years to complete but 2019 saw the start of this journey.

Developing our future leaders

Building leadership capability remains a strategic priority as it is essential that we have quality leaders who consistently live our Values and reinforce putting members first. 2019 saw the launch of our Leadership Development Programme focussing on building the leadership and operational skills of all our leaders. This commenced with the Executive Committee and senior leaders in MPS, and in 2020 will be cascaded to all leaders across the business and an Emerging Leaders Programme will be introduced.

Additionally, we have partnered with international talent management and assessment experts, Cubiks, to assess MPS's senior leaders, and we plan to build internal capability in this during 2020 by training high-potential leaders through Cubiks.

Supporting colleagues and the wider community

Working for members whose careers are characterised by care, compassion, and resourcefulness is inspiring. Last year we introduced a Wellbeing Group tasked to develop and deliver a program dedicated to our people's overall health and wellbeing and this group played an instrumental role in the introduction of Mental Health First Aiders in 2019.

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MPS's Charity and Social Committee also had a great year helping colleagues to organise fundraising events for charitable organisations, and we actively seek opportunities for MPS to support local initiatives that foster community spirit. We also embarked on our corporate social responsibility (CSR) journey with the introduction of team volunteering, one day each year, to support the community allied to the healthcare profession. More on this can be read in our CSR statement below, on page 34.

Building local teams

Although we are proud of our work so far and that of our people, we know there is more we can do. To deliver on our aspiration to be 'closer to our members' in 2019 we reviewed our service delivery model and stated our commitment to move our case and claims handling services for South African and Irish members, into country. We will invest in the local community by recruiting locally and in the training and development that we will provide. Our teams in the UK are looking forward to welcoming their new colleagues from South Africa and Ireland and to support their development as we embed our Values in those locations. 2019 also saw us welcoming business development colleagues recruited in South Africa, the Caribbean, Ireland and South East Asia – ensuring we better understand our members' needs and the evolving healthcare risks and market trends which they face.

Recognition

In 2019, we were pleased to retain the Investors in People silver accreditation and our colleague survey results saw significant improvements on our 2018 results. Response rates were ahead of the previous year and the external benchmark – engagement and leadership scores both increased, performing well against the external benchmarks with further notable improvements in understanding our Purpose, conduct risk and reward. These are exceptional results considering the amount of change our colleagues have experienced over the past 12 months and reflect the focus that we have on our colleagues.

What our colleagues have said:

Q: What is the best thing about working here?

A: *"The people – dedicated, committed, and caring about members and each other."*

"Working for an organisation that is steeped in history and provides an invaluable service to its members – I feel very privileged to be part of MPS and I am lucky to have a lovely team of people to work with."

"I love my work and interacting with members as well as with the senior executives in the business."

"The work-life balance."

"The work we do is something that is very close to my heart and medical defence is something I deeply enjoy. The people in my team are also incredible individuals that I take pleasure working with side-by-side."

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT

At MPS we recognise our obligations and truly believe being socially responsible builds trust and enhances our good reputation with members, colleagues, suppliers and in the communities in which we operate.

In our day-to-day work, by helping members we help to serve the patients they care for. Our Values therefore reflect members' values, meaning we can all take pride in what we do and the vital part we play within healthcare delivery.

As an organisation, we are already taking important steps to reduce our impact on the environment where we can. We have removed single-use plastic cups in our principal offices, and we are working to reduce our waste which goes to landfill with dedicated recycling points. We are disposing of our information and communications technology equipment, which is no longer fit for purpose, in a way that is environmentally responsible – with 0% of this e-waste going to landfill, and where it is possible to refurbish the kit, donating it to other not-for-profit organisations.

We also value our people by creating a workplace where our colleagues can learn, develop and do a great job – and that's not just in the office. You can find out more about this in the Our People section of this report (pages 31 to 33), including the launch of WIN to support our MPS women in work.

We support local charities where our colleagues can take time to volunteer their services to help make a difference, as well as collecting for foodbanks and holding other fundraising events across our offices. Each year our colleagues vote for the MPS chosen charity of the year. We are proud of our people who ran, walked, cycled, baked, raffled and collectively raised over £12,000 in 2019 for our nominated charity.

We are also currently reviewing our approach to ethical investments and giving consideration to those aspects of our investment strategy which we would like to improve.

PRINCIPAL RISKS AND RISK MANAGEMENT

MANAGING OUR RISKS

We have a risk management framework to ensure we understand the risks we run in the pursuit of our business strategy and objectives, and that we have appropriate controls in place to manage our risks.

Our risk strategy is aligned to our Group strategy with the understanding and managing of our risks being a key aspect of our strategic planning processes. Our risk strategy supports our ambition to be MADE for Members - helping us achieve sustainable growth and placing our members at the heart of everything we do.

Risk Governance

The Council sets our risk appetite and risk framework on an annual basis and has established a 'Three Lines of Defence' risk management model to ensure effective segregation between risk management (1st Line), risk oversight (2nd Line) and risk assurance (3rd Line).

Our 1st Line of defence is our member-facing business areas and Group-wide operational management functions. The systems, internal controls, control environment and culture developed and implemented by these business areas are crucial in anticipating and managing our operational risks.

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Our 2nd Line of defence comprises our Group Risk & Compliance division. They are responsible for providing oversight and independent, constructive challenge to the effectiveness of risk decisions and risk management activities of the 1st line.

Our 3rd Line of defence is our Internal Audit function which receives its authority direct from the Council. It is independent of operational management and has no direct authority over the 1st Line activities it reviews.

At each scheduled meeting, the Audit and Risk Committee (the Committee), as the delegated authority for the Council, receives a report from the Executive Director of Risk and Compliance which provides an overview and assessment of the Group's risk profile. This report is informed by quarterly risk and control self-assessments carried out with the business areas and the MPS Group Risk Register.

The Committee also receives updates from the Executive Director of Risk and Compliance on the key activities being undertaken to further embed risk management across MPS and signs off the Group Compliance Monitoring Plan following the establishment of the insurance business in 2019.

The Committee reviews the arrangements by which colleagues may, in confidence, raise concerns about possible improprieties (whistleblowing) and has unrestricted access to management to help discharge its duties. The Chair of the Committee meets privately with the Executive Director of Risk and Compliance during the year.

The MPS governance structure is set out in detail in our Statement of Corporate Governance Arrangements on pages 39 to 41.

Risk Management Strategy and Framework

To enable us to manage the business with the necessary understanding of our risks and controls we have a risk management strategy and framework which includes:

- **Risk Vision** - to actively identify, understand and manage our risks responsibly and effectively, to enable MPS to deliver sustainable growth within risk appetite
- **Risk Aware Culture** - fostering the need for transparency of our risks, acknowledging that we are not immune from risk and we need to be responsive to our risks, adhering to the rules and not acting to benefit ourselves to the detriment of the wider organisation
- **Risk Appetite** - articulating the level of risk we are prepared to take to meet our objectives
- **Risk Governance and Policies** – which collectively articulate our approach to risk management
- **Risk Universe** – our key risk categories through which all our risk processes such as assessment, aggregation and reporting must align
- **Risk Management Processes and Controls** – our risks are controlled end-to-end with key business processes mapped, effective outcomes and quality assurance; and clear escalation routes and reporting.

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COVID-19 pandemic

Given the nature of the COVID-19 pandemic, members have not faced a situation on this scale in generations. As mentioned in the Chairman's statement, members are working around the clock, in intense environments to care for patients. To ensure we continue to support and maintain service to our members we established a dedicated Incident Management Team to agree and implement our response to the COVID-19 situation as it unfolds. Our initial focus was ensuring our member-facing colleagues had the ability to work from home in response to public health advice preventing workforces from going into the workplace, so that we could continue to provide service to members at their most critical hour of need.

We have provided guidance to members through webinars, podcasts and web-based Coronavirus hubs across all our jurisdictions relating to medicolegal issues and COVID-19 guidance. We are also focussing on colleague wellbeing with the ongoing promotion of the existence of our MPS Mental Health First Aiders (MHFA) and providing contact details for external support mechanisms.

PRINCIPAL RISKS

As an organisation, we are not prepared to knowingly, or willingly, take risks which will result in member detriment, regulatory censure, and/or unexpected loss (or gain), both financial and non-financial (e.g. reputational).

However, in pursuing our business strategy and objectives, MPS is inevitably exposed to various risks. Given the nature of our business, we identify our principal risks, including how we seek to manage them as follows:

Risk	Description	Mitigation
Strategic risk	The risk that we fail to achieve our business objectives, and this could impact the long-term interests of the membership or other stakeholders	We monitor our environment so that we anticipate and respond to structural change sufficiently far in advance. We incorporate insight into our future strategic planning.
Financial risk	The risk arising from inadequate income, cash flow or capital to meet current or future obligations and deliver a sustainable business	We maintain a prudent capital and liquidity profile to ensure a robust financial position is maintained.
Underwriting risk	The risk of loss or adverse changes in the value of provisions due to inadequate pricing and provisioning assumptions	We have a balanced and sustainable portfolio, avoiding concentration of business that is volatile, higher risk, or loss making over the long-term.
Operational risk	The risk arising from inadequate or failed internal processes, people or systems or from external events	<p>We put in controls to manage our operational losses, reputational events, or failures to meet regulatory requirements. We act to identify emerging risks and mitigate these.</p> <p>We have a business continuity process to ensure we have plans and resources to limit disruption to our services and negative impact to members, colleagues and the wider business.</p>

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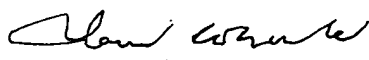
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Risk	Description	Mitigation
Conduct risk	The risk arising from business activities which fail to deliver appropriate and consistent outcomes for our membership or other stakeholders	We operate business models and design products and sales practices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

For more details on financial risk management, see note 21 of the financial statements on pages 90 to 93.

APPROVAL

This report was approved by Council on 10 June 2020 and signed on its behalf by:



David Wheeler
Company Secretary

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PRESIDENT AND MEMBERS OF THE COUNCIL

President	Professor Dame Jane Dacre BSc MBBS MD FRCP London, Edinburgh, Glasgow FHEA Honorary Fellowships: FRCPI FACP FAcad Med Ed FRCGP
Vice-President	Professor John Bonnar MA MD FRCPI FRCOG
Chairman	Ian Eardley BA(Hons) MB BChir MA FRCS MChir FRCS (Urol)
Vice-Chairman	Martin Thomas MA (Oxon) (appointed 27 March 2019) Simon Pashby BA(Hons) FCA (until 27 March 2019)
Chief Executive	Simon Kayll BA(Hons) FCA MBA

Members of the Council for the year ended 31 December 2019

Richard Brennan MB BCh MICGP FRCGP LRCP&SI ^{2 3}
 Fiona Cornish MA MB BChir DRCOG DCH FRCGP ^{3 4}
 Ian Eardley BA(Hons) MB BChir MA FRCS MChir FRCS (Urol)
Chairman ^{1 3 4 5 7}
 Patrick Forbes MB ChB FRCOG (retired 30 September 2019)
 Simon Kayll BA(Hons) FCA MBA *Chief Executive (ex officio)* ^{1 4 6 7}
 Howard Kew BSc(Hons) PGCE ^{1 4 6}
 Kay-Tee Khaw *CBE* MA MB BChir MSc FRCP FFPHM FMedSci (retired 1 September 2019)
 Suzy Lishman *CBE* MA BChir FRCPath (appointed 1 September 2019) ^{3 5}
 James McLenachan MB ChB MRCP FRCP ^{3 4}
 Simon Pashby BA(Hons) FCA ^{1 2 4 5 6}
 David Roytowski MBChB MBA MMED FC Neurosurg (SA) (appointed 1 October 2019) ³
 Alexander Scott MB ChB ^{1 2 4 6}
 Sally Scutt BA(Hons) MBA MA ^{2 3 5}
 Graham Stokes BDS MFGDP(UK) DPDS Dip Imp Dent RCS CertMedEd ^{2 7}
 Martin Thomas MA (Oxon) *Vice-Chairman* ^{1 4 5 6}
 Michael Urmston BA FIA ^{1 2 4 6}
 Tom Weitzman QC BA(Hons) ^{3 4 5}
 Callum Youngson BDS DDSc FDS DRD MRD FDS(Rest Dent) RCS(Ed) FDSRCS(Eng) ^{1 7}

- ¹ Member of the Asset and Liability Committee
- ² Member of the Audit and Risk Committee
- ³ Member of the Medical Committee
- ⁴ Member of the Management Oversight Committee
- ⁵ Member of the Remuneration and Nominations Committee
- ⁶ Member of the Board of MPI (London) Limited
- ⁷ Member of the Board of Dental Protection Limited

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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 2019.

The following disclosures have been included elsewhere within the Annual Report and Financial Statements and are incorporated into the Report of the Council by reference:

Disclosures	Page references
Financial instruments	80 to 83, 89
Financial risk management	90 to 93
Future developments	30 to 31
Equal opportunities	31 to 32
Employees	31 to 33
Events after the end of the reporting period	94 to 97

THE ROLE OF THE COUNCIL

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

In support of the Group 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 is responsible for 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, which is responsible for day-to-day operations.

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

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

MEMBERS OF THE COUNCIL

The names of the members of the Council of MPS who served during the year are set out on page 38.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS AT MPS

In the running of its business, MPS seeks to ensure a level of governance appropriate to the size and nature of the Group and to incorporate appropriate best practice. Following changes in Company law on the requirements for private companies to report on their corporate governance arrangements, MPS has chosen to adopt and report in line with the new Wates Corporate Governance Principles for Large Companies (the Wates Principles).

In the context of this change, the Council has reviewed its governance practices and it concluded that MPS's governance structure and its approach to corporate governance is in accordance with the six guiding principles which underpins the Wates Principles. These are detailed below:

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REPORT OF THE COUNCIL

Principle	Requirement	How MPS has complied
Purpose and leadership	An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	<p>Our Purpose – to protect the careers, reputations and financial security of doctors, dentists and healthcare professionals around the world – was reviewed by the Council in 2019. The Council seeks to ensure that MPS's communicated values, strategy and culture align with that purpose. MPS has explained its purpose and values to colleagues through Chief Executive briefings and other channels and promotes adherence to our Values through the performance related bonus arrangement and monitors culture through colleague engagement surveys and through Committee feedback sessions.</p> <p>During 2019, the Council developed and sponsored the MADE for Members strategy designed to generate long-term sustainable growth for MPS.</p>
Board composition	Effective composition of members of a Board requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.	<p>The Council has reviewed its composition and size, to ensure that there is an appropriate balance of skills, backgrounds, experience and knowledge, with individual Council members having sufficient capacity to make a valuable contribution.</p> <p>Council comprises a majority of medical and dental professionals, who are complemented by experienced Directors in sectors relevant to our business operations.</p> <p>The Chairman is assisted by a Vice Chairman, thus facilitating working with relevant but divergent backgrounds.</p> <p>See the Remuneration and Nominations report on page 47 for further information.</p>
Director responsibilities	A Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.	During 2019, the Council reviewed its terms of reference and those of its sub-committees, to ensure all Council members understand their accountability and responsibilities, and that Council's policies and procedures support effective decision-making and independent challenge.

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Principle	Requirement	How MPS has complied
Opportunity and risk	A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.	<p>The Council reviewed MPS's MADE for Members strategy to 2025 at its annual strategy day, to identify opportunities for MPS to create and preserve long-term value and to oversee the identification and mitigation of risks.</p> <p>The Council approved the decision to offer a regulated insurance product to protect corporate members against the increasing clinical negligence claims, costs and risks they may face. This was an innovative move, which places MPS in a strong position to respond should the UK Government decide to regulate the indemnity market for doctors, dentists and other healthcare professionals.</p>
Remuneration	A Board should promote Executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	<p>Council reviewed Executive Director remuneration structures during 2019 to ensure that they were aligned to the long-term sustainable success of MPS, taking into account pay and conditions elsewhere within MPS.</p> <p>See the Remuneration and Nominations report on pages 47 to 51 for further information.</p>
Stakeholder relationships and engagement	Directors should foster effective stakeholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	<p>The Council has reviewed key stakeholder relationships to ensure that they are effective and aligned to the Company's purpose. The Council has given due regard to stakeholders' views when making its decisions – for further information on this see the Section 172(1) Statement on page 52.</p>

The following sections provide details of MPS's governance.

THE COUNCIL

The Council currently consists of a Non-Executive Chairman, a Non-Executive Vice-Chairman, 12 other Non-Executive Directors and two Executive Directors, including the Chief Executive. MPS's constitution requires that the Chairman and the majority of Council members are Medical or Dental members of MPS.

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

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MPS continues to review the transparency of the independence of its Non-Executive Directors and to provide appropriate guidelines for all Directors on their ethical conduct as a Director of MPS. To this end, MPS has, for MPS and its subsidiary Boards, a register of interests and also publishes internally a Code of Ethical Conduct for all staff, which applies equally to members of the Council. MPS has separate posts of Chairman, Vice-Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the business. The Council considers that the Non-Executive members of the Council as a Group are of sufficient calibre and number to bring strength and independence to the Council.

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

The Council met formally six times during 2019. The attendance record of members of the Council at the six meetings is shown in the table below (eligible meetings for attendance shown in brackets):

Member of the Council	Appointed / Retired	Number of Meetings Attended		
		2019	2018	
Richard Brennan		4 (6)	4 (5)	
Fiona Cornish		4 (6)	4 (5)	
Ian Eardley		6 (6)	5 (5)	
Patrick Forbes	Retired 30 September 2019	3 (5)	5 (5)	
Simon Kayll		6 (6)	5 (5)	
Howard Kew		6 (6)	5 (5)	
Kay-Tee Khaw	Retired 1 September 2019	4 (4)	4 (5)	
Suzy Lishman	Appointed 1 September 2019	2 (2)	- (-)	
James McLenachan		6 (6)	5 (5)	
Simon Pashby		6 (6)	5 (5)	
David Roytowski	Appointed 1 October 2019	1 (1)	- (-)	
Alexander Scott		4 (6)	3 (5)	
Sally Scutt		6 (6)	4 (5)	
Graham Stokes		6 (6)	5 (5)	
Martin Thomas		6 (6)	5 (5)	
Michael Urmston		4 (6)	5 (5)	
Tom Weitzman		5 (6)	4 (5)	
Callum Youngson		5 (6)	5 (5)	

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.

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

Activities in the year

During the year, the Council has:

- Set the Group strategy (MADE for Members).
- Reviewed and approved strategic transactions, such as agreement of ELS arrangements for GPs in England and Wales, and establishing wider insurance capability.
- Reviewed and approved the budget for the next financial year.
- Reviewed and approved the tax strategy for the Group.
- Reviewed the financial performance of the Group on a quarterly basis.
- Approved the Annual Report and Financial Statements.
- Approved the subsidiary financial statements.
- Approved policy statements, including Modern Slavery.
- Reviewed the governance structure and activities of the sub-committees of the Council.
- Reviewed competitor analysis.

Board evaluation

The Council undertakes an evaluation of its performance in each financial year. To date, this has been based upon a questionnaire and Council members have an individual review with the Chairman on performance issues. The results of the most recent evaluation have been reported to the Council by the Chairman and reviewed and discussed.

During 2019, the Council engaged Lintstock, Board performance consultants, to carry out an independent review of the Council's effectiveness. The results of this review were due to be presented in March 2020 but have been deferred for formal presentation and assessment until after the UK Government's COVID-19 measures are lifted. Based on draft survey findings from that review, the Council was satisfied that it functioned effectively during the review period.

Internal control

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

There is a continuous process for identifying, evaluating and managing the significant risks faced by MPS. This has been in place for the full financial year and up to the date of approval of the Annual Report and Financial Statements. The process involves the undertaking of regular reviews at departmental and corporate level. From these reviews, management identifies the key risks and determines their significance, based on the likelihood of each risk occurring and the potential impact on MPS if it were to do so. Management then determines what action can be taken cost-effectively.

The Council has delegated the function of monitoring the effectiveness of the system of internal control and of the risk management process to the Audit and Risk Committee. See the 'Audit and Risk Committee' section below for more detail.

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The Council recognises the need to regularly review and monitor the appropriateness of its approach to overseeing the systems of risk management and control operated at MPS. With this in mind, the Council has continued to adapt its approach during the year to take into account the economic climate of recent years, the revisions and ongoing consultations relating to corporate governance standards and guidance, such as the Wates Code for large private companies, and relevant FRC guidance on key risks such as going concern and liquidity. The Council, through the Audit and Risk Committee, maintains focus on the many facets of risk management and reviews key risks and their mitigating controls at least annually.

COMMITTEES OF THE COUNCIL

The Council has several sub-committees. These are the Audit and Risk Committee, Management Oversight Committee, Asset and Liability Committee, Medical Committee, and Remuneration and Nominations Committee. The members of these Committees are listed on page 38. The Committees met in accordance with the following schedule:

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

In addition, the separate board of Dental Protection Limited, comprising a majority of Non-Executive dental practitioners, met four times to consider issues affecting the dental profession and dental members.

As well as the scheduled meetings, the Management Oversight Committee met on a further occasion in March and the Audit and Risk Committee met on a further occasion in April (2018: no additional meetings were held).

For details on the Remuneration and Nominations Committee, see pages 47 to 51.

Audit and Risk Committee

The Audit and Risk Committee is chaired by Simon Pashby (formerly a senior audit partner with KPMG) and met five times in the year. MPS's external auditors, Chairman, Chief Executive, Executive Director of Finance, Executive Director of Risk and Compliance and internal auditors also attend the meetings. The Committee meets with internal audit and the external auditor at least annually without management present. Other senior managers may attend for specific agenda items at the request of the Committee.

As noted above, the Audit and Risk Committee reviews, on behalf of the Council, the adequacy and effectiveness of risk management and control systems, and oversees the work of internal audit and considers their reports.

The Chairman of the Audit and Risk Committee reports outcomes of its meetings to the Council and the Council receives the minutes of all these meetings.

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In fulfilling its responsibilities to the Council, the Audit and Risk Committee:

- Discusses with internal audit a plan of work each year, agrees the resource commitment and reviews findings of their work.
- Discusses with the external auditors their audit approach and agrees any particular aspect of internal control or risk management to be reviewed by them beyond their statutory responsibilities.
- Discusses with MPS in-house actuaries their approach to statistical reserving of reported claims and potential claims that have yet to be reported and procedures for an independent peer review by external consulting actuaries.
- Considers the results of the external auditor's work with them and with management.
- Reviews the quarterly reports from the Executive Director of Risk and Compliance.
- Initiates as necessary and considers reports from management on systems of internal control and on the effectiveness of risk management.
- Reports the results of its work, with any necessary recommendations, to the Council and ensures that actions required by the Council are implemented. One such report is made at the year-end before producing this statement.

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

The Audit and Risk Committee also reviews the scope and results of the external audit, its quality, effectiveness and value-for-money, as well as the independence and objectivity of the auditors. The Committee has a written policy on ensuring the continued independence of the external auditors, 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.

In addition, the Committee also receives referrals for ethical guidance, provides oversight of MPS's anti-bribery and corruption policies, has responsibility for the 'anti-bribery' risk assessment including the risk of management override, and has oversight of the whistleblowing policy. It also reviews, prior to publication, the annual financial statements and the other information included in the Annual Report and Financial Statements.

The Committee met twice in April and once in June, September and November in 2019.

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Activities in the year

During the year, the Audit and Risk Committee has:

- Considered the appropriateness of the Group's Annual Report and Financial Statements.
- Understood key judgements made by management in respect of the Group's Financial Statements.
- Assessed the outcomes/findings of work performed by the external auditor.
- Considered the effectiveness of the internal controls and the work of internal audit and discussed key risks (described in more detail on pages 36 and 37).
- Considered reports produced by internal audit.
- Reviewed the risk management process and the process for which the risk strategy and appetite is determined.
- Recommended the tax strategy for approval by the Council.
- Reviewed key accounting policies for the Group and accounting for major transactions during the year.
- Understood the new Wates Principles corporate governance code and reporting requirements.
- Considered the requirements and impact of new accounting standards during the year.
- Reviewed and understood pensions matters during the year and their impacts on the Group's Financial Statements.
- In 2020, reviewed and considered 2019 subsequent event disclosures, in particular going concern assessment in light of the economic shock from COVID-19 pandemic response.

Management Oversight Committee

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

Activities in the year

During the year, the Management Oversight Committee has:

- Reviewed the financial performance of the Group on a quarterly basis.
- Reviewed any changes to the approved budget for approval by the Council.
- Considered analysis of the membership, including member movements, member pricing and claims and cases.
- Reviewed key people metrics.
- Received updates on key strategic projects.
- Reviewed the performance of the Group against the corporate objectives.

Asset and Liability Committee

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

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Activities in the year

During the year, the Asset and Liability Committee has:

- Reviewed quarterly investment performance of the Group.
- Received and reviewed the Group's investment strategy.
- Received updates on the Group's capital modelling.
- Reviewed the liquidity and rebalancing.
- Considered funding updates on a quarterly basis.
- Reviewed the assumptions for claims reserves and reports on the provisions.
- Approved the claims reserving policy.
- Set subscriptions both internationally and in the UK.

Medical Committee

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

Remuneration and Nominations Committee

Information on the Committee's purpose and activities in the year can be found in the following Remuneration and Nominations report.

REMUNERATION AND NOMINATIONS REPORT

The Remuneration and Nominations Committee met four times in 2019. The constitution was Sally Scutt (Committee Chair), Ian Eardley, Kay-Tee Khaw, Suzy Lishman, Simon Pashby, Martin Thomas and Tom Weitzman.

Our President, Professor Dame Jane Dacre, the Chief Executive and the Executive Director of People and Culture are also in attendance at the meetings. The Chief Executive takes no part in discussions concerning his own remuneration. In September 2019, Professor Khaw stepped down from the Committee when she retired from the Council, and Dr Suzy Lishman joined from December 2019.

The Committee is responsible for:

- Recommending to the Council the overarching principles and parameters of the remuneration policy of MPS and overseeing the operation of a reward approach in line with these principles.
- Establishing the salary and performance reward of the Executive members of the Council, and for reviewing the salary and performance reward proposals of other Executives who are not members of the Council.
- Overseeing the effectiveness, capability and development of the Council and its members and for approving the remuneration of the Council, its Committees and subsidiary Committees.
- Succession planning for the Council and its Committees and ensuring the right balance, structure and composition of the Council and its Committees, and for recommending new Council appointments, appointments to subsidiary Boards and Committees.

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REMUNERATION POLICY

MPS seeks to apply a remuneration policy appropriate for a mutual society. The principles that guide our remuneration policy are:

- alignment to the business strategy and goals
- consistent application
- differentiation for performance
- flexibility in delivery
- being competitive.

	Operation	Maximum opportunity
Base salary MPS is committed to paying within a market competitive range commensurate with the skills, qualifications, experience, accountabilities and performance of colleagues.	<p>As part of each pay review performed on an annual basis, MPS considers the base salary and performance related bonus for all colleagues and moves to close any pay or bonus gap for similar roles and performance. MPS will continue its work to make sure pay equity is maintained.</p> <p>All roles at MPS are evaluated and benchmarked against an external benchmark database. 98.5% of our people are paid within the established pay ranges set for each role with no individual paid below the market rate. We pay new starters in the salary range for the role, with all colleagues being paid above the national minimum real living wage. Those with less experience, new to the role or in training start at the lower end of the salary range, moving through that range as their competency level grows. Subject matter experts, high-performers or those ready for promotion tend to be paid at the higher end of the salary range.</p> <p>A more detailed external benchmark analysis is undertaken every three years against a comparator group of businesses of similar size and complexity. This exercise was undertaken in 2019 for the 2020 pay review.</p>	No maximum opportunity.
Core benefits MPS provides a market competitive benefits package for colleagues to support and retain the best talent.	Includes car allowance, healthcare, insurance benefits and buying or selling up to five days annual leave per annum.	No maximum opportunity.

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	Operation	Maximum opportunity
Pension benefits MPS provides a market competitive pension benefits package for colleagues.	<p>MPS operates several defined contribution schemes worldwide.</p> <p>The final salary defined benefit pension scheme closed to new members on 1 November 2013 and to future accrual on 30 September 2018.</p> <p>The Defined Contribution Governance Committee provides oversight to all defined contribution schemes.</p> <p>If any colleague's financial adviser confirms that their pension contributions exceed lifetime or annual allowances limits, that person may take a cash allowance in replacement of pension scheme contributions.</p>	<p>Before it was closed, pensionable pay for the defined benefit scheme was capped at £160,800 per annum. This cap was linked to RPI and was set annually. From 1 October 2018, MPS employees no longer accrue additional defined benefits.</p> <p>The cash allowance is a percentage of the base pay less employer's National Insurance. It is also subject to tax and employees' National Insurance deductions.</p>
Performance related bonus The performance related bonus is a discretionary monetary reward for delivery of high individual and team performance. It is additional to fixed remuneration.	<p>The performance related bonus is assessed against the results of corporate objectives, personal objectives and our Values (Member First, Ambitious, Determined and Empowered).</p> <p>For those in senior leadership roles, our Values are replaced with the Leadership Framework.</p> <p>A balanced scorecard approach is used to blend the measures for each Executive.</p> <p>Weightings are:</p> <ul style="list-style-type: none"> • 50% corporate objectives • 50% based on individual objectives and the Leadership Framework. <p>For the Executive Directors, 50% of the bonus is deferred.</p>	<p>For Executives, the maximum additional reward for 'exceptional performance' is 50% of base salary.</p> <p>For performance rated as 'achieved' the reward is up to 25% of base salary.</p> <p>Half of the bonus paid is deferred for a minimum of three years and a maximum of six years. Payment is subject to financial thresholds being met. If the financial thresholds are not achieved in year three, they will be assessed in the subsequent years. The deferred bonus is paid in the first year the financial thresholds are met. If, after year six, the financial thresholds are still not met the deferred element of the bonus is lost.</p>

In November 2019, MPS published information on our gender pay gap as at 5 April 2019 and the gender bonus gap based on the preceding 12-month period to 5 April 2018. It is important to stress that a gender pay gap is not the same as pay inequality and we are confident that our colleagues are paid equally for doing equivalent jobs at MPS. Details of our Gender Pay Gap reports for the last three years can be found at medicalprotection.org/uk/about/our-approach-to-business.

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REMUNERATION PAID

Directors' emoluments

The standard remuneration for all Non-Executive members of the Council (other than the Chairman) was £26,970 (2018: £26,433). In addition, most Non-Executive members of the Council receive fees for appointments to various Boards and Committees. Details of Council member appointments can be found on page 38. The total fees payable to all members of the Council are set out below:

	Salary/fees £'000	TB £'000	PR ¹ £'000	PEN £'000	Total £'000	2018 £'000
Executive members						
Simon Kayll (Chief Executive)	369	14	113	65	561	494
Howard Kew (Executive Director)	199 ²	11	67	35	312	339
Non-Executive members						
Ian Eardley (Chairman of the Council)	62	5	-	-	67	47
Kay-Tee Khaw (Retired 1 September 2019)	23	-	-	-	23	54
Richard Brennan	35	4	-	-	39	39
Fiona Cornish	35	-	-	-	35	31
Patrick Forbes (Retired 30 September 2019)	26	1	-	-	27	35
James McLenachan	41	2	-	-	43	44
Simon Pashby	55	3	-	-	58	62
Alexander Scott	46	3	-	-	49	50
Sally Scutt	46	-	-	-	46	46
Graham Stokes	35	4	-	-	39	32
Martin Thomas	47	7	-	-	54	42
Michael Urmston	46	-	-	-	46	45
Tom Weitzman	39	-	-	-	39	39
Callum Youngson	44	3	-	-	47	42
David Roytowski (Appointed 1 October 2019)	10	-	-	-	10	-
Suzy Lishman (Appointed 1 September 2019)	10	1	-	-	11	-
	1,168	58	180	100	1,506	1,441

Key:

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

Note:

- 1 An additional performance award, equal to the PR award paid, is deferred and payable in three years, subject to certain financial thresholds being met. The deferred element of the 2016 bonus became payable in 2019, after the relevant financial thresholds were met. That bonus was paid in March 2020.
- 2 Remuneration represents 80% full-time employment in 2019.

During 2019 there were no Executive members of the Council (2018: none) who were members of MPS's defined benefit pension scheme, details of which are set out in note 9 of the financial statements. During the same period, no members of the Council (2018: none) were members of the defined contribution pension scheme.

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In addition, ten (2018: ten) Non-Executive members of the Council had personal membership of MPS.

Executive Director Performance Related Bonus achieved in 2019

Name	In-Year 2019 Payable £	Deferred 2019 Payment (Potentially payable 2023 to 2026) £
Simon Kayll	67,780	67,780
Howard Kew	36,556	36,556

NON-EXECUTIVE MEMBERS OF THE COUNCIL

The remuneration of the members of the Council was reviewed as part of the 2019 annual pay review. The Remuneration and Nominations Committee proposed changes in accordance with the MPS pay policy and the 2019 remuneration of members of the Council was increased by an inflationary amount of 2%.

Members of the Council do not receive a performance related bonus.

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

NOMINATIONS

Non-Executive Appointments

In June 2019, Professor Kay-Tee Khaw retired from the Council. In September 2019, Mr Patrick Forbes also retired after eight dedicated years on the Council. In September 2019, we welcomed Dr Suzy Lishman to the Council and in October 2019 we were also pleased to welcome Dr David Roytowski - our first member of the Council who practices in South Africa.

In March 2019, Dr Judith Ann Husband and Dr Onkar Singh Dhanoya were appointed as Non-Executive Directors to Dental Protection Limited, our dental subsidiary Board.

Committee on Nominations

In 2019, individual performance assessment of the Members of the Council continued to complement the Council performance review that has been in place for several years. This informed the Council development plan, sub-committees' and Council succession plans aimed at ensuring that MPS optimises the skills, knowledge and experience of the diverse backgrounds and perspectives of Council members. In 2019, it was agreed that on a triennial basis, we would appoint the services of an external company to provide an independent assessment of Council performance.

The 2019 Council Development Plan was delivered through e-learning, training sessions and general inductions. All members of Council continued to have access to the Non-Executive Directors Association, which provides online reading and learning as well as access to networking and training events.

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POLITICAL DONATIONS

No political donations were made in the financial year, which is Group policy (2018: £nil).

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Group maintains insurance cover for the protection of Directors and senior management from personal liabilities and costs which may arise in the course of fulfilling their duties. This insurance was in force during the year ended 31 December 2019 and to the date of approval of the Group's financial statements.

STATEMENT BY THE COUNCIL IN PERFORMANCE OF THEIR STATUTORY DUTIES IN ACCORDANCE WITH SECTION 172(1) COMPANIES ACT 2006

The Directors of MPS, both individually and together as the Council, have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of the membership (having regard to MPS's stakeholders and matters set out in Section 172(1)(a-f) of the Companies Act 2006) in the decisions made during the year ended 31 December 2019. In doing so, the Directors have considered (amongst other matters):

- The likely consequences of any decision in the long term.
- The interests of the Company's employees.
- The need to foster the Company's business relationships with suppliers, members and others.
- The impact of the Company's operations on the community and the environment.
- The desirability of the Company in maintaining a reputation for high standards of business conduct.
- The need to act fairly as between members of the Company.

As part of their induction, a Director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent adviser. It is important to recognise that in MPS, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision-making to employees of the Company and details of this can be found in the Committees of the Council section on pages 44 to 51.

The following paragraphs summarise how the Directors' fulfil their duties:

Sustainability

Our Group strategy, MADE for Members, was considered formally at the annual Council strategy day and was designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering a better quality, more reliable service for members across the world to 2025 and beyond. We will continue to operate our business within tight budgetary controls and in line with our financial targets. For more details on the strategy, see pages 21 and 22.

Our people, and how Council engages with colleagues and takes account of their interests

Our people are fundamental to the delivery of our strategy. We aim to be a responsible employer in our approach to the pay and benefits colleagues receive. The health, safety and well-being of our colleagues is one of our primary considerations in the way we do business.

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The Council is committed to engaging and empowering colleagues through formal and informal channels and promoting engagement by taking the views of colleagues into account as part of the decision-making process. To do this, the Council monitors and seeks to act on feedback received from colleagues via formal Colleague Engagement Surveys and through regular meetings with their managers where they are encouraged to raise issues regarding their work, personal development and the wider MPS business. MPS also seeks to engage with employees via town hall talks, CEO briefings, divisional updates and monthly people manager calls, all of which give colleagues the opportunity to ask questions and provide feedback; this feedback is ultimately escalated to the Council via the Executive Committee. MPS operates a company-wide engagement forum to seek colleagues' views more informally, runs wellbeing initiatives and offers people managers training on colleague engagement and leadership. Council members also meet a selection of MPS colleagues at informal dinners throughout the year.

Business relationships

We believe that effective corporate governance is critical to delivering our strategy and supporting our members. MPS recognises the importance of our wider stakeholders in delivering our strategy and achieving sustainability within our business. The Council is focused on developing and maintaining strong relationships with members and with suppliers. We value all of our suppliers and have multi-year contracts with our key suppliers. For further details on how we work with our members and suppliers, see 'Our stakeholders' section on pages 9 to 12.

Community and environment

Our duty, in accordance with ISO2600, is to act as a sustainable business and recognise our responsibility to the communities in which our members operate. Our strategy takes into account the impact of the Company's operations on the community and environment and our wider societal responsibilities, and in particular how we impact the regions we serve across the world. For further details on how we interact with communities and the environment, see our corporate social responsibility statement on page 34.

Good governance and business conduct

As the Board of Directors, the Council's intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours and in doing so, will contribute to the delivery of our plan (see Statement of Corporate Governance Arrangements at MPS on pages 39 to 41). The intention is to nurture our reputation, through both the construction and delivery of our plan, that reflects our responsible behaviour.

Stakeholders

MPS values the relationship it has with its members and other stakeholders, and as the Board of Directors, the Council is openly committed to engaging with stakeholders through effective dialogue. The Council recognises the importance of our wider stakeholders in delivering our strategy and achieving sustainability within our business. It is the intention of the Council to behave responsibly toward all of our stakeholders and treat them fairly and equally, so they too may benefit from the successful delivery of our strategy. We have detailed our stakeholders and their importance to our business in the Strategic report on pages 9 to 12.

In 2019, as part of its work on ensuring compliance with the Wates Principles, the Council reviewed and approved a stakeholder engagement plan which detailed MPS's key stakeholder base and explored how MPS could better engage with those it encounters and improve its business relationships. See pages 39 to 41 for more details on this.

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The Council values its dialogue with members throughout the year on a diverse range of subjects. In particular, the Council uses the Annual General Meeting to communicate financial performance to members and encourage their participation. Members of the Audit and Risk, Remuneration and Nominations, and Asset and Liability Committees are present at the Annual General Meeting to respond to any relevant questions if necessary. The notice for the Annual General Meeting is sent to members at least 14 clear days before the meeting date.

GOING CONCERN

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

In forming this view, members of the Council have considered the UK's Financial Reporting Council (FRC) guidance for non-Code companies on the Going Concern Basis of Accounting and have had regard to updated FRC guidance on COVID-19 published in March 2020. The members of the Council have approved short-term detailed budget plans and financial forecasts, and have received and discussed a report detailing the current financial position of MPS, the implications of this over various time periods, the longer-term strategy and the actions being taken by MPS to ensure that it remains a going concern.

In considering the above, the members of the Council have concluded that although there are significant uncertainties due to the impact of COVID-19 on our investment portfolio, on the membership, and potentially on the future claims environment, these do not cast a material doubt on MPS's ability to continue as a going concern.

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.

**THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

REPORT OF THE COUNCIL

STATEMENT OF THE COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

- Select suitable accounting policies and then apply them consistently.
- Make judgements and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Council members confirm that:

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

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

APPROVAL

This report was approved by the Council on 10 June 2020 and signed on its behalf by:



David Wheeler
Company Secretary

**THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MEDICAL
PROTECTION SOCIETY LIMITED**

Opinion

We have audited the financial statements of The Medical Protection Society Limited (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2019, which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated and Company Statements of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice). In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group associated with these particular events.

**THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MEDICAL
PROTECTION SOCIETY LIMITED**

Conclusions relating to going concern

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

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

In our evaluation of the Directors' conclusions, we considered the risks associated with the Group's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group will continue in operation.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and the Report of the Council for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Report of the Council have been prepared in accordance with applicable legal requirements.

**THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MEDICAL
PROTECTION SOCIETY LIMITED**

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Report of the Council.

Matters on which we are required to report by exception

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

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

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of the Council's responsibility for the financial statements set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

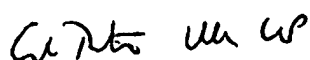
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019**

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE MEDICAL
PROTECTION SOCIETY LIMITED**

Use of our report

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



Michael Redfern FCA

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

10 June 2020

THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Income			
Members' subscriptions and other income		<u>402,931</u>	<u>473,876</u>
Expenditure			
Claims costs and associated legal costs (including costs of insurance)	17	498,939	172,462
Movement in projected insurance recoveries		37,323	(11,373)
Advisory costs and associated legal costs	17	59,164	74,035
Education, publications and external relations	5a	9,030	3,597
Administration expenses	5b	50,045	42,220
Finance cost (unwinding of discount)	17	32,459	39,237
Loss on exchange movements	5c	4,731	279
		<u>691,691</u>	<u>320,457</u>
(Deficit)/surplus of members' subscriptions and other income over expenditure		(288,760)	153,419
Net income from investments	6	62,308	36,027
Net interest income	9	810	345
Change in fair value of investments	12a	152,400	(62,571)
Change in fair value of derivatives	12a	<u>(2,891)</u>	<u>243</u>
Contribution before taxation		(76,133)	127,463
Tax (charge)/credit on investment income and gains	7a	<u>(32,035)</u>	<u>9,284</u>
Net contribution for the year to funds available for members		(108,168)	136,747
Other comprehensive income			
Actuarial (loss)/gain on defined benefit pension scheme	9	(2,961)	10,930
Recognition/(de-recognition) of defined benefit pension asset	9	27,935	(27,935)
Total comprehensive income for the financial year		<u>(83,194)</u>	<u>119,742</u>

The consolidated statement of comprehensive income has been prepared on the basis that all activities relate to continuing operations.

The notes on pages 64 to 97 form part of these financial statements.

THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

CONSOLIDATED AND COMPANY BALANCE SHEETS
At 31 December 2019

	Notes	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Fixed assets					
Intangible assets	10	21,989	20,489	22,195	20,708
Tangible assets	11	36,469	36,913	36,451	36,895
Investments	12a	2,482,883	2,926,341	1,259,601	1,660,051
Derivative assets	12a	9,798	7,218	-	-
Pension asset	9	25,784	-	25,784	-
		2,576,923	2,990,961	1,344,031	1,717,654
Current assets					
Debtors - receivable within one year	14	42,551	52,117	128,927	186,971
- receivable after one year	14	31,539	65,420	31,539	65,420
Bank deposit accounts		172,697	104,990	30,006	49,433
Cash at bank and in hand		29,818	11,235	23,362	10,674
		276,605	233,762	213,834	312,498
Creditors: amounts falling due within one year	15	(132,871)	(102,702)	(121,856)	(100,836)
Net current assets		143,734	131,060	91,978	211,662
Total assets less current liabilities					
		2,720,657	3,122,021	1,436,009	1,929,316
Creditors: amounts falling due after one year	16	(568)	(512)	(568)	(512)
Provisions for liabilities	17	(712,955)	(1,036,652)	(644,487)	(975,903)
Derivative liabilities	12a	(9,879)	(4,408)	-	-
Net assets		1,997,255	2,080,449	790,954	952,901
Accumulated funds					
Income and expenditure reserve		1,997,255	2,080,449	790,954	952,901
Funds available for members	22	1,997,255	2,080,449	790,954	952,901

The parent company's net contribution for the financial year was a deficit of £186.9m (2018: £174.2m surplus). The financial statements were approved and authorised for issue by the Council and were signed on its behalf on 10 June 2020.

Ian Eardley

Ian Eardley
Chairman of the Council

Simon Kayll

Simon Kayll
Chief Executive

The Medical Protection Society Limited
Registered Company No. 00036142

The notes on pages 64 to 97 form part of these financial statements.

THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2019

	2019	2018
	£'000	£'000
<i>Cash flows from operating activities</i>		
Net contribution for the year to funds available for members	(108,168)	136,747
Adjustments for:		
Amortisation of intangible assets	3,049	2,300
Depreciation of tangible assets	2,010	1,953
Revaluation of investment property	223	1,403
Foreign exchange translation	4,731	279
Interest received	(4,013)	(2,269)
Dividends received from fixed asset investments	(58,360)	(33,759)
Taxation charge/(credit)	32,035	(9,284)
Net fair value (gains)/losses recognised in the statement of comprehensive income	(149,509)	62,328
Losses/(gains) on disposal of tangible assets	42	(11)
Loss on disposal of intangible assets	644	3
Loss on disposal of subsidiary	-	2,114
Decrease/(increase) in debtors	14,596	(6,482)
Increase in creditors	25,846	15,954
Decrease in provisions	(324,836)	(840)
Movement in net pension asset and re-measurement	(810)	(6,837)
<i>Cash from operations</i>	(562,520)	163,599
Income taxes paid	(13,361)	(12,420)
<i>Net cash (used)/generated from operating activities</i>	(575,881)	151,179
<i>Cash flows from investing activities</i>		
Purchase of intangible assets	(5,192)	(5,544)
Proceeds from sale of tangible assets	-	22
Purchase of tangible assets	(1,831)	(1,844)
Proceeds from sale of fixed asset investments	1,283,244	580,769
Purchase of fixed asset investments	(702,092)	(723,958)
Cash disposed of on sale of subsidiary	-	(18,615)
Proceeds from sale of subsidiary	15,885	-
Interest received	3,948	2,269
Dividends received from fixed asset investments	58,360	33,759
<i>Net cash generated/(used) from investing activities</i>	652,322	(133,142)
<i>Net cash used in financing activities</i>	-	-
<i>Net increase in cash and cash equivalents</i>	76,441	18,037
Foreign exchange translation	(4,921)	550
Cash and cash equivalents at beginning of year	306,522	287,935
<i>Cash and cash equivalents at end of year</i>	378,042	306,522

The notes on pages 64 to 97 form part of these financial statements.

THE MEDICAL PROTECTION SOCIETY LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

Analysis of changes in net funds	At 1 Jan 2019	Cash flow movement	Foreign exchange	At 31 Dec 2019
	£'000	£'000	£'000	£'000
Cash at bank and in hand	11,235	19,058	(475)	29,818
Bank deposit accounts	104,990	68,547	(840)	172,697
Cash with investment managers	190,297	(11,164)	(3,606)	175,527
Net funds	306,522	76,441	(4,921)	378,042

Of the net funds held by MPS, £15.7m (2018: £16.6m) is held in trust on behalf of the MPS Periodical Payments Trust, which was established to provide security for payments to be made in satisfaction of periodical payment orders. The Trust's funds, which are invested in a segregated managed cash portfolio, can only be used to meet liabilities resulting from periodical payment orders and are not available to settle any other MPS liabilities.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Income and Expenditure £'000
At 1 January 2018	1,960,707
Net contribution for the year	136,747
Actuarial gains	10,930
De-recognition of defined benefit pension asset	(27,935)
Total comprehensive income for the year	119,742
At 31 December 2018	2,080,449
Net contribution for the year	(108,168)
Actuarial losses	(2,961)
Recognition of defined benefit pension asset	27,935
Total comprehensive income for the year	(83,194)
At 31 December 2019	1,997,255

COMPANY STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2019

	Income and Expenditure £'000
At 1 January 2018	795,657
Net contribution for the year	174,249
Actuarial gains	10,930
De-recognition of defined benefit pension asset	(27,935)
Total comprehensive income for the year	157,244
At 31 December 2018	952,901
Net contribution for the year	(186,921)
Actuarial losses	(2,961)
Recognition of defined benefit pension asset	27,935
Total comprehensive income for the year	(161,947)
At 31 December 2019	790,954

The notes on pages 64 to 97 form part of these financial statements.

THE MEDICAL PROTECTION SOCIETY LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

NOTES TO THE FINANCIAL STATEMENTS

1 Company information

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

2 Basis of preparation of the financial statements

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" (FRS 102), and with the Companies Act 2006. The Group has considered, and applied, all of the amendments to FRS 102, as set out in the triennial review published in December 2017.

The financial statements have been prepared on the historical cost basis, except for the modification to a fair value basis for certain financial instruments and investment property, as specified in the accounting policies below.

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

The Group's financial statements consolidate the financial statements of The Medical Protection Society Limited and its subsidiary undertakings, as detailed in note 13. The consolidation is drawn up to 31 December each year.

After reviewing the Company's forecasts and projections, and in light of the outbreak of the COVID-19 pandemic, members of the Council have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For further detail on this assessment, see the Going Concern section in the Members of the Council report, which forms part of these financial statements, on page 54. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

3 Significant accounting judgements and estimates

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

Provision for the future cost of claims (note 17)

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

No provision is made in the financial statements for the potential claims that may arise from incidents that occurred before 31 December, but which had not been reported to MPS at that date. This is a key judgement area which the Council has considered in detail, concluding that these potential claims do not constitute a liability as recognition is dependent on the exercise of discretion by the Council; and there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of discretion by the Council is set out in the Articles of Association in paragraph 40.

THE MEDICAL PROTECTION SOCIETY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

NOTES TO THE FINANCIAL STATEMENTS

3 Significant accounting judgements and estimates (continued)

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

Defined benefit pension scheme (note 9)

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

The actuarial calculations indicate a significant surplus on the accounting valuation basis. Due to the closure of the scheme during 2018, the Company has no continuing contributions planned, against which the asset would be utilised. However, the asset can still be realised through a refund from the scheme after meeting all pensioner obligations, at the point that the scheme is finally wound up, typically on the death of the final pensioner. After considering legal advice on the terms of the pension trust deed, the Council considers that MPS's entitlement to the residual assets is sufficiently certain that the asset can be recognised as at 31 December 2019.

Valuation of unlisted investments (note 12a)

Some of the investments held by the Group are not traded on active markets, so it is not possible to value the asset or liability using a quoted price in an active market. Where there is no quoted price available it is sometimes possible to use observable market data for valuation; examples include forward foreign exchange contracts and interest rate swaps. Where there is an absence of quoted prices and observable market data the Company relies on the valuation methodology applied by the investment manager to ascertain the fair value of the assets, these are disclosed in level 3 of the fair value hierarchy in note 12(d).

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

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

Deferred tax

In preparing the financial statements the Directors made the assumption that the equity investments, as shown in note 12(a), are held for long-term investment. The deferred tax payable on the change in fair value that would be taxable on disposal has been calculated at 17%, the latest UK corporation tax rate enacted as at the balance sheet date which applies from 1 April 2020. Should any holdings be disposed of in the intervening period the tax charge will be at a higher tax rate (currently 19%).

THE MEDICAL PROTECTION SOCIETY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

NOTES TO THE FINANCIAL STATEMENTS

4 *Principal accounting policies*

(a) Consolidation

The Group financial statements comprise a consolidation of the financial statements of the parent company (the Company) and all of its subsidiary undertakings (together, the Group) as at 31 December and as identified in note 13. The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

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

(b) Subscription income

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

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

Intellectual property rights	5 years
Copyrights	22 years
Software	5 - 10 years

(d) Tangible assets and depreciation

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

Freehold buildings	40 years
Leasehold property	the term of the lease
Computers	4 years
Furniture and fittings	20 years
Office equipment	6.5 years
Motor vehicles	3 years

Land is not depreciated.

THE MEDICAL PROTECTION SOCIETY LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

NOTES TO THE FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(e) Investment properties

Investment properties for which fair value can be measured reliably on an ongoing basis are measured at fair value, annually, with any change recognised in net contribution to funds.

(f) Translation of foreign currency transactions

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

(g) Net investment income

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

(h) Investments

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

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS

4 *Principal accounting policies (continued)*

(h) *Investments (continued)*

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

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

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

(i) *Derivative financial instruments*

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

Collateral is received/given, in cash, to support derivative assets/liabilities, as appropriate. Any cash given remains an asset of MPS and any cash received is not recognised until the derivative position is realised.

Interest rate swaps are valued on a daily basis by MPS's investment managers using a detailed valuation methodology for a zero-coupon interest rate swap. Interest rate curves using real-time quotes from a number of market sources are used to value the swaps along with interpolation required to calculate the cash flow due or payable on each swap's floating rate leg. The investment manager reconciles the valuations on a daily basis between their own systems and those of the counterparty. In addition, an independent third-party agent is also used to value the trades. The three-way reconciliation process ensures that the valuations are in line with the market on any given day and enables variations in valuation between the investment manager and the counterparty to be investigated in a timely fashion.

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

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

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

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4 *Principal accounting policies (continued)*

(j) Cash deposits

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

Cash equivalents are short-term, highly liquid assets, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(k) Provisions for liabilities

Costs and damages for claims

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

The discounted future settlement values are deemed to be the best estimate of these costs. The unwinding of the discount is separately identified in the claims provision (note 17) and is disclosed within finance costs in net contribution to funds. The principal financial assumption used in the calculation of the finance cost is that the rate used to unwind the discount is 4.5% (2018: 4.3%) per annum.

The principal financial assumptions used in the calculation of the claims provision are that average claims inflation will be 6.7% (2018: 6.7%) per annum over the period to payment where claims inflation assumptions are estimated and applied by territory by the internal actuarial team, having been approved by the Asset and Liability Committee. Investment return, used to discount future claims payments back to the balance sheet date, will be the UK risk-free rate published by the European Insurance and Occupational Pensions Authority (EIOPA) as at the year end, plus 2.9% (2018: 3%) for all territories other than South Africa. The South Africa risk-free rate published by EIOPA plus -0.3% is used (2018: -0.2%). The average period to payment is estimated as 2.4 years (2018: 2.4 years). The payment delay is estimated by territory by the internal actuarial team.

Incurred but not reported (IBNR)

Provisions are created, as appropriate, for estimated future claims costs which are expected to arise from reinsurance contracts where incidents have not been reported at 31 December, but which are expected to be valid claims. The value of such claims is based on actuarial estimates which take into consideration the average settlement period. Due to the nature of these policies, these claims are not discounted, however, claims inflation was estimated to be 8.9%.

Dilapidations

Provisions are created, as appropriate, for the estimated future costs of restoring leasehold property assets back to their original condition. The estimate is based on the present value of the expected cost required to settle the obligation, discounted at a rate which is linked to the Group's return on investments.

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4 Principal accounting policies (continued)

(l) Tax

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

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

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

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

(m) Pensions

MPS operates two types of pension scheme: defined contribution and defined benefit.

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions and provides no guarantee as to the quantum of retirement benefits that those contributions will ultimately purchase. A defined benefit scheme is one that is not a defined contribution scheme. The assets of both schemes are invested and managed independently of MPS's finances.

Defined benefit schemes

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

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

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

The defined benefit pension asset, or liability, in the balance sheet comprises the total present value of the defined benefit obligation, calculated using a discount rate based on UK gilts, less the fair value of plan assets, out of which the obligations are to be settled. Fair value is based on market price information, and in the case of quoted securities, is the published bid price.

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

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4 Principal accounting policies (continued)

(m) Pensions

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

Further information on the structure of the defined benefit scheme is contained within note 9.

Defined contribution schemes

The cost of the defined contribution pension schemes (the contributions), are charged to the statement of comprehensive income in the year to which they relate.

(n) Operating leases

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

(o) Current assets and liabilities

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

5a Education, publications and external relations

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

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5b Administration expenses

	2019	2018
	£'000	£'000
Included under this classification are:		
Operating lease rentals:		
- Land and buildings	2,723	2,473
- Motor vehicles	150	136
- Office equipment	251	227
Depreciation of tangible assets	2,010	1,953
Amortisation of intangible assets	3,049	2,300
Loss on disposal of subsidiary	-	2,114
Employer contributions to defined contribution pension schemes	7,047	4,868
Auditor's 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	141	144
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	55	24
<i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	<u>11</u>	<u>16</u>

The loss on disposal of subsidiary recognised in 2018 relates to the sale of MPS Risk Solutions Limited on 31 December 2018. This was not classified as discontinued operations as the activities of MPS Risk Solutions Limited were deemed to be immaterial to the Group. The sale proceeds were received by the Group in the year ended 31 December 2019.

5c Exchange movements

The majority of the (gains)/losses on exchange movements relate to the restatement of cash assets held to match those liabilities denominated in foreign currencies. These (gains)/losses are substantially offset by a corresponding increase/decrease within international claim liabilities, which are included in claims costs and associated legal costs in the consolidated statement of comprehensive income.

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6 Net income from investments

	2019	2018
	£'000	£'000
Bond and gilt interest	47,426	27,249
Bank interest	3,948	2,268
Other investment income	12,772	11,884
Derivative payments	(1,838)	(5,374)
	<u>62,308</u>	<u>36,027</u>

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

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

7a Tax charge/(credit) on income and gains from investments

	2019	2018
	£'000	£'000
Current tax:		
UK corporation tax	28,437	59
Adjustments in respect of prior years	459	(925)
Overseas taxation	(8)	14
Double taxation relief	-	(3)
Total current tax	<u>28,888</u>	<u>(855)</u>
Deferred tax:		
Origination and reversal of timing differences	979	(8,461)
Adjustment in respect of prior years	2,168	32
Total deferred tax	<u>3,147</u>	<u>(8,429)</u>
Tax charge/(credit) on investment income and gains in the consolidated statement of comprehensive income for the year	<u>32,035</u>	<u>(9,284)</u>

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7b Factors affecting tax charge for the year

	2019 £'000	2018 £'000
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the United Kingdom at 19% (2018: 19%). The differences are explained as follows:		
Contribution before tax	<u>(76,133)</u>	<u>127,463</u>
Income and net gains from investments multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	(14,465)	24,218
Other permanent differences	-	5
Indexation allowances	(5,851)	-
RPI linked indexation	(1,221)	(2,212)
Losses not utilised	181	-
Adjustment in respect of prior years – current tax	459	(925)
Adjustment in respect of prior years – deferred tax	2,168	32
Utilisation of brought forward losses	(189)	-
Disallowable mutual trade losses/non-taxable contribution	51,973	(31,305)
Difference in tax rates	(212)	996
Foreign tax	7	11
Transfer pricing adjustments	2	8
Non-taxable dividends	(749)	-
Deferred tax not recognised	(68)	(112)
Tax charge/(credit) for the year	<u>32,035</u>	<u>(9,284)</u>

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

The aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income is £nil (2018: £nil).

7c Factors that may affect future tax charges

The UK corporation tax rate for the year is 19% (2018: 19%). Subsequent to the year end, following Budget 2020 announcements, the proposal is to retain the main rate of UK corporation tax at 19% rather than implement a reduction to 17%. Deferred tax has been provided at 17% in these financial statements (2018: 17%). Subsequent to the year end, the planned reduction in corporation tax to 17% was cancelled. Both the deferred tax liability and the tax charge will increase by £7.5m when recalculated at the 19% rate.

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8 Directors and employees

The average number of people, including Directors and all members of the Council, employed in the provision of services to members during the year was 976 for the Group (2018: 936) and 960 for the Company (2018: 922). Costs in respect of these employees were:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Wages and salaries	47,669	48,120	46,344	47,065
Social security costs	5,107	5,192	5,059	5,178
Pension costs	7,137	1,892	7,007	1,674
	59,913	55,204	58,410	53,917

A detailed analysis of Directors' remuneration, including salaries, fees, benefits, bonuses and pension contributions, is provided in the Remuneration and Nominations report, which forms part of these financial statements (on page 50).

9 Pensions

MPS operates two types of pension scheme: a funded defined benefit pension scheme, which is administered under Trust and a defined contribution pension scheme, which is overseen by the Defined Contribution Oversight Committee. The assets of both schemes are held independently of MPS's finances.

Contributions to the defined contribution scheme are charged to the net contribution to funds in the year to which they relate. Contributions to the defined benefit scheme are paid to the scheme in accordance with the Schedule of Contributions agreed between the Trustees and MPS.

The defined benefit scheme was closed to new entrants on 1 November 2013, at which time the defined contribution scheme was introduced. On 30 September 2018, the defined benefit scheme was closed to future accrual, meaning that no additional service has been accrued since that date, and that pension increases until retirement will be limited to RPI rather than any assumptions on pay increases.

The funding of the defined benefit scheme is based on a triennial valuation. The last full actuarial valuation completed and agreed was as at 31 December 2017. This valuation has then been further updated to the accounting date by an independent qualified actuary. The next full actuarial valuation as at 31 December 2020 has not yet been agreed, however, the underlying membership data has been updated to reflect scheme membership as at 31 December 2019.

The following tables set out, as at the reporting date, the key assumptions used for the defined benefit scheme, the fair values of the assets, analysed by asset class, the present value of the scheme liabilities and the resulting pension surplus. Since the closure of the scheme to future accrual, any asset would not be recoverable through a reduction in future contributions to the scheme, however, it is recoverable on the winding up of the scheme, typically when the final member of the scheme dies.

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9 Pensions (continued)

Amounts recognised in the balance sheet

	At 31 December 2019 £'000	At 31 December 2018 £'000
Fair value of scheme assets	198,903	179,088
Present value of obligations	(173,119)	(151,153)
Net defined benefit asset	25,784	27,935
Restriction on value of asset recognised	-	(27,935)
Pension asset recognised in the balance sheet	25,784	-

As reported in the prior year Annual Report and Financial Statements, the Group restricted the value of the asset recognised, and as such, did not recognise a net defined benefit asset on the balance sheet as at 31 December 2018 due to the certainty of recovery of the asset over an extended period of time.

During the year ended 31 December 2019, MPS obtained external legal advice with regard to the recognition of a pension asset under FRS 102. This advice concluded that recognition of a surplus is appropriate on the basis that the Group has an unconditional right to a refund of a surplus and the Trustees are not able to enhance benefits without the Director's approval. As a result, the net defined benefit asset has been disclosed within fixed assets, on the balance sheet, as at 31 December 2019.

Movement in net defined benefit asset

	At 31 December 2019 £'000	At 31 December 2018 £'000
Opening net defined benefit asset	27,935	10,168
Gain in net contribution to funds	810	3,241
Employer contributions	-	3,596
Amount recognised in other comprehensive income	(2,961)	10,930
Closing net defined benefit asset	25,784	27,935

Amounts recognised in the statement of comprehensive income

	2019 £'000	2018 £'000
Employer's part of current service cost	-	4,515
Net interest income	(810)	(345)
Past service cost and settlements	-	(7,411)
Total gain recognised in net contribution to funds	(810)	(3,241)
Re-measurements	(2,961)	10,930
Recognition/(de-recognition) of defined benefit asset	27,935	(27,935)
Amounts recognised in other comprehensive income	24,974	(17,005)

In the year ended 31 December 2018, the Group recognised a provision of £7.4m for the equalisation of pension benefits for men and women in relation to guaranteed minimum pension benefits. For the MPS scheme, this equalisation was relatively small given the retirement age rules in the scheme. No further provision has been recognised in the current year.

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9 Pensions (continued)

Assets

	At 31 December 2019		At 31 December 2018	
	%	£'000	%	£'000
Equities	17	33,444	16	27,489
Liability driven investment	66	132,251	62	111,222
Diversified growth fund	17	33,023	22	39,705
Cash and net current assets	-	185	-	672
Total	100	198,903	100	179,088

Movement in fair value of plan assets

	2019 £'000	2018 £'000
Opening fair value of scheme assets	179,088	186,853
Interest on assets	5,140	4,490
Contributions by scheme members	-	11
Contributions by the employer	-	3,596
Benefits paid	(3,700)	(4,071)
Actual return on plan assets less interest	18,375	(11,791)
Closing fair value of scheme assets	198,903	179,088
Actual return on assets	23,515	(7,301)

Liabilities

The defined benefit obligation moved over the year as follows:

	2019 £'000	2018 £'000
Opening present value of obligations	151,153	176,685
Interest on obligation	4,330	4,145
Employer's part of current service cost	-	4,515
Contributions by scheme members	-	11
Benefits paid	(3,700)	(4,071)
Past service cost and settlements	-	(7,411)
Actuarial gain/(loss)	21,336	(22,721)
Closing present value of obligations	173,119	151,153

Actuarial assumptions

	At 31 December 2019	At 31 December 2018
	% pa	% pa
Price RPI inflation	3.2	3.4
Discount rate	2.1	2.9
Pension increases (LPI 5%)	3.1	3.2
Pension increases (LPI 3%)	2.5	2.5

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.1 years (2018: 29.0 years) and a female pensioner currently aged 60 would be expected to live for a further 30.3 years (2018: 31.1 years). Allowance is made for future improvements in life expectancy.

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9 Pensions (continued)

As the scheme was closed to future accrual in September 2018, MPS did not make contributions during the year to 31 December 2019 (2018: £3.6m). No contributions are payable under the current schedule of contributions as agreed with the Trustees.

10 Intangible assets	Software £'000	Copyrights £'000	Total £'000
Group			
Cost			
At 1 January 2019	27,304	16	27,320
Additions	5,192	-	5,192
Disposals	(1,613)	-	(1,613)
At 31 December 2019	30,883	16	30,899
Amortisation			
At 1 January 2019	6,818	13	6,831
Charge in year	3,047	2	3,049
Disposals	(970)	-	(970)
At 31 December 2019	8,895	15	8,910
Net book value			
At 31 December 2019	21,988	1	21,989
At 31 December 2018	20,486	3	20,489
	Software £'000	Copyrights £'000	Total £'000
Company			
Cost			
At 1 January 2019	27,289	394	27,683
Additions	5,192	-	5,192
Disposals	(1,613)	-	(1,613)
At 31 December 2019	30,868	394	31,262
Amortisation			
At 1 January 2019	6,815	160	6,975
Charge in year	3,044	18	3,062
Disposals	(970)	-	(970)
At 31 December 2019	8,889	178	9,067
Net book value			
At 31 December 2019	21,979	216	22,195
At 31 December 2018	20,474	234	20,708

Software additions include £4.9m (2018: £3.9m) of capital expenditure relating to the build phase of a new member administration IT system. The remaining amortisation relating to this asset at the end of 2019 is £20.4m which will be released over the next eight years.

The Group's intangible assets include intellectual property rights acquired by a group company, The Cognitive Consulting Group Pty Limited (CCG) (note 13).

The Company's intangible assets include copyrights for educational training material purchased by the parent company, The Medical Protection Society Limited, from CCG.

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11 Tangible assets

	Investment property £'000	Freehold land and buildings £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Group						
Cost or valuation						
At 1 January 2019	2,868	31,384	3,933	8,686	41	46,912
Additions	-	14	1,222	595	-	1,831
Disposals	-	-	(46)	(1,531)	-	(1,577)
Revaluation	(223)	-	-	-	-	(223)
At 31 December 2019	2,645	31,398	5,109	7,750	41	46,943
Depreciation						
At 1 January 2019	-	2,859	934	6,193	13	9,999
Charge in year	-	801	273	925	11	2,010
Disposals	-	-	(46)	(1,489)	-	(1,535)
At 31 December 2019	-	3,660	1,161	5,629	24	10,474
Net book value						
At 31 December 2019	2,645	27,738	3,948	2,121	17	36,469
At 31 December 2018	2,868	28,525	2,999	2,493	28	36,913

	Investment property £'000	Freehold land and buildings £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Company						
Cost or valuation						
At 1 January 2019	2,868	31,384	3,933	8,624	41	46,850
Additions	-	14	1,222	595	-	1,831
Disposals	-	-	(46)	(1,531)	-	(1,577)
Revaluation	(223)	-	-	-	-	(223)
At 31 December 2019	2,645	31,398	5,109	7,688	41	46,881
Depreciation						
At 1 January 2019	-	2,859	934	6,149	13	9,955
Charge in year	-	801	273	925	11	2,010
Disposals	-	-	(46)	(1,489)	-	(1,535)
At 31 December 2019	-	3,660	1,161	5,585	24	10,430
Net book value						
At 31 December 2019	2,645	27,738	3,948	2,103	17	36,451
At 31 December 2018	2,868	28,525	2,999	2,475	28	36,895

All of the leasehold properties held at 31 December 2019, by the Group and by the Company, are short leaseholds.

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11 Tangible assets (continued)

The investment property was acquired in 2017 in an open market, arm's length transaction. The revaluation was conducted by an independent third-party valuer, Jones Lang LaSalle, on an open market basis at 31 December 2019.

The historical cost of investment properties held at fair value is £4.7m (2018: £4.7m)

Capital commitments

Capital expenditure approved and contracted for amounted to £1.2m for the new member administration system included within intangible assets (2018: £3.9m).

12a Investments and derivatives

Group

	Total investments £'000	Total derivatives £'000
Valuation at 1 January 2019	2,926,341	2,810
Investment additions	673,192	-
Disposals at carrying value	(1,283,244)	-
Movement in cash balances	14,194	-
Fair value adjustments	152,400	(2,891)
At 31 December 2019	2,482,883	(81)

Company

	Total investments £'000
<i>Investment in subsidiaries (note 13)</i>	
Cost as at 1 January 2019	1,660,051
Additions	29,550
Disposals	(430,000)
As at 31 December 2019	1,259,601

The Company disposal of £430m comprise redemption of redeemable preference shares, at cost, in one of its subsidiaries, MPI (London) Limited. This subsidiary remains wholly owned by MPS.

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12a Investments and derivatives (continued)

Investments comprise:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Listed investments	1,275,890	1,953,116	-	-
Unlisted investments	1,002,501	782,928	-	-
Shares in group undertakings	-	-	1,259,601	1,660,051
	2,278,391	2,736,044	1,259,601	1,660,051
Cash	204,492	190,297	-	-
	2,482,883	2,926,341	1,259,601	1,660,051

Derivative financial instruments (12b):

- assets	9,798	7,218	-	-
- liabilities	(9,879)	(4,408)	-	-
	(81)	2,810	-	-

For further information on derivative financial instruments, see note 12b.

All other fixed asset investments are measured at fair value with changes in value reflected in the contribution to funds.

The Group was committed to further long-term investment contributions with existing investment managers and funds of £44m as at 31 December 2019 (2018: £79.5m).

12b Derivative financial instruments

The following derivative financial instruments, recognised in note 12a above, were held at the end of the year:

Interest rate swaps

Duration	Nature of contract	Notional value £'000	Asset £'000	Liability £'000
2yrs-10yrs	Pay fixed for floating	169,953	5,744	(2,838)

Forward foreign exchange contracts

Duration	Nature of contract	Notional value '000	Asset £'000	Liability £'000
3 months	Sell USD Buy HKD	USD 1,500,000	900	-
3 months	Sell USD Buy ILS	USD 122,000	247	-
3 months	Sell USD Buy MYR	USD 111,999	607	-
3 months	Sell USD Buy SGD	USD 122,000	1,663	-
2 months	Sell GBP Buy ZAR	GPB 4,873	-	(41)
3 months	Sell USD Buy GBP	USD 24,025	637	-
3 months	Sell ZAR Buy GBP	ZAR 40,401	-	(831)
3 months	Sell EUR Buy GBP	EUR 116,999	-	(6,169)
			4,054	(7,041)
Total derivative financial instruments			9,798	(9,879)

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12c Collateral amounts given/received

The following collateral balances at fair value were held at the end of the year, relating to amounts given/received against unrealised losses/gains respectively on derivative financial instruments shown in note 12b above.

Derivative held	Form of collateral	Given £'000	Received £'000
Interest rate swaps	Cash	-	5,448

12d Fair value hierarchy

Financial assets at fair value through net contribution to funds

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2019				
Equities	410,895	-	-	410,895
Government and other bonds	487,710	-	-	487,710
Infrastructure	-	-	153,882	153,882
Multi-asset credit	377,285	-	227,468	604,753
Inflation opportunities portfolio	-	-	236,440	236,440
Real estate and ground rent	-	-	103,955	103,955
Direct lending	-	-	280,756	280,756
	1,275,890	-	1,002,501	2,278,391
Derivative financial instruments	-	9,798	-	9,798
	1,275,890	9,798	1,002,501	2,288,189
At 31 December 2018				
Equities	727,089	-	-	727,089
Government and other bonds	695,081	-	-	695,081
Infrastructure	-	-	153,894	153,894
Multi-asset credit	530,946	-	48,151	579,097
Inflation opportunities portfolio	-	-	219,127	219,127
Real estate and ground rent	-	-	90,180	90,180
Direct lending	-	-	271,576	271,576
	1,953,116	-	782,928	2,736,044
Derivative financial instruments	-	7,218	-	7,218
	1,953,116	7,218	782,928	2,743,262

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12d Fair value hierarchy (continued)

Financial liabilities at fair value through net contribution to funds

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000

At 31 December 2019

Derivative financial instruments	-	(9,879)	-	(9,879)
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At 31 December 2018

Derivative financial instruments	-	(4,408)	-	(4,408)
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Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

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

Fair value measurements

The key assumptions underlying fair value estimates for certain level 3 investments are derived by our investment managers and for the year ended 31 December 2019 include:

Unobservable inputs	Range based on weighted average
Discount rate	11% - 14%
Growth rate	7% - 11%
Exit multiple	13x - 16x
Leverage ratio	37% - 46%

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13 Investments in subsidiary undertakings

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

Name	Interest¹	Cost (£'000)	Registered office address	Nature of business
Dental Protection Limited	100%	-	32 London Bridge Street, SE1 9SG, England.	To provide insight on dental issues which impact MPS.
MPI (London) Limited	100%	1,230,001	32 London Bridge Street, SE1 9SG, England.	To manage the investment portfolio for MPS.
DPL Australia Pty Limited	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To manage the administrative affairs of dental members in Australia.
The MPS Periodical Payments Trustee Limited	100%	40	32 London Bridge Street, SE1 9SG, England.	Corporate Trustee.
MPS Holdings Australia Pty Limited	100%	10	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	Holding company.
The Cognitive Consulting Group Pty Limited ²	100%	-	Level 26, 181 William Street, Melbourne, Vic 3000 Australia.	To provide communication skills and risk management training to healthcare professionals in Australia.
Victoria Place Management Company (Leeds) Limited ³	100%	-	32 London Bridge Street, SE1 9SG, England.	To oversee the management of the common areas of Victoria Place, Leeds.
The Dental Protection Society Limited	100%	-	32 London Bridge Street, SE1 9SG, England.	Dormant company.
MP Properties Limited	100%	-	32 London Bridge Street, SE1 9SG, England.	Dormant company.
MPS (Singapore Services) Pte. Ltd	100%	-	10 Changi Business Park Central 2, #05-01, Hansapoint @CBP, Singapore (486030).	To provide administration, training and oversight functions relating to Singapore members of MPS.
MPS South Africa (Pty) Ltd	100%	-	Executive City, Cnr Cross Str and Charmaine Ave, President Ridge, Randburg, Gauteng, 2194, South Africa.	To provide administration, training and oversight functions relating to South Africa members of MPS.
MPS (Hong Kong Services) Pte Ltd	100%	-	Units 1603-4, 16th Floor, Causeway Bay, Plaza 1, 489 Hennessy Road, Hong Kong.	To provide administration, training and oversight functions relating to Hong Kong members of MPS.
MPS Claims Services Limited ⁴	100%	-	32 London Bridge Street, SE1 9SG, England.	To provide claims services for the policies sold by MPSUW Limited.
MPSUW Limited ⁵	100%	500	32 London Bridge Street, SE1 9SG, England.	An approved Lloyd's of London Coverholder; distributing medical malpractice insurance policies to corporate healthcare providers.

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Name	Interest¹	Cost (£'000)	Registered office address	Nature of business
MPSCM Limited ⁶	100%	29,050	32 London Bridge Street, SE1 9SG, England.	A Corporate Member of Lloyd's of London; supporting the underwriting activities of the MPS Special Purpose Arrangement Lloyd's syndicate.
		1,259,601		

¹ Parent and Group interest in ordinary shares and voting rights

² Indirectly owned by MPS

³ Not included in consolidation on the grounds of materiality

⁴ Acquired on incorporation of the Company on 8 November 2018

⁵ Acquired on incorporation of the Company on 2 October 2018

⁶ Acquired on incorporation of the Company on 2 October 2018

All of the subsidiaries listed operate in their country of registration.

14 Debtors

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
<i>Receivable within one year</i>				
Corporation tax	-	1,527	13,538	191
Membership debtors	22,719	16,509	22,719	16,509
Other trade debtors	7,395	1,165	6,976	646
Recoverable insurance claims	2,147	8,086	4,155	8,086
Amounts owed by subsidiary undertakings	-	-	71,444	136,746
Other debtors	3,781	16,906	3,609	16,897
Prepayments	6,509	7,924	6,486	7,896
	42,551	52,117	128,927	186,971
<i>Receivable after one year</i>				
Recoverable insurance claims	31,539	65,420	31,539	65,420
	31,539	65,420	31,539	65,420
Total debtors	74,090	117,537	160,466	252,391

One of the loan balances within amounts owed by subsidiary undertakings is interest bearing at a rate of LIBOR +3% (2018: LIBOR +3%) and is subject to a fixed charge over the investments, interest, dividends and other income of the subsidiary as well as a floating charge over the whole of that company's undertakings. Such arrangements are repayable on demand.

All other amounts are non-interest bearing, unsecured and repayable on demand.

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15 Creditors: amounts falling due within one year

	2019	2018	2019	2018
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Corporation tax	14,207	-	-	-
Other taxes and social security	3,017	3,103	2,960	3,050
Other creditors and accruals	27,067	21,224	28,891	18,787
Amounts owed to subsidiary undertakings	-	-	1,425	624
Deferred subscription income	88,580	78,375	88,580	78,375
	132,871	102,702	121,856	100,836

Amounts owed to subsidiary undertakings from the Company are unsecured and repayable on demand.

16 Creditors: amounts falling due after one year

	2019	2018	2019	2018
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Other creditors and accruals	568	512	568	512

17 Provision for liabilities

	Deferred tax	Reported negligence claims	Reported other claims	Claims handling	IBNR	Dilapidations	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Group							
At 1 January 2019	60,749	799,897	75,393	100,613	-	-	1,036,652
Movements in the statement of comprehensive income:							
- Claims costs and associated legal costs	-	497,792	-	(3,386)	4,533	-	498,939
- Advisory costs and associated legal costs	-	-	22,848	36,316	-	-	59,164
- Deferred taxation	3,147	-	-	-	-	-	3,147
- Finance cost (unwinding of discount)	-	27,645	4,814	-	-	-	32,459
- Dilapidations costs	-	-	-	-	-	550	550
Paid	-	(832,485)	(27,475)	(57,996)	-	-	(917,956)
At 31 December 2019	63,896	492,849	75,580	75,547	4,533	550	712,955

There are no amounts charged in the year for deferred tax relating to items of other comprehensive income (2018: £nil).

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17 Provision for liabilities (continued)

<i>Company</i>	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Dilapidations £'000	Total £'000
At 1 January 2019	799,897	75,393	100,613	-	975,903
Movements in the statement of comprehensive income:					
- Claims costs and associated legal costs	503,964	-	(3,419)	-	500,545
- Advisory costs and associated legal costs	-	22,848	36,316	-	59,164
- Finance cost (unwinding of discount)	27,645	4,814	-	-	32,459
- Dilapidations costs	-	-	-	550	550
Paid	(838,663)	(27,475)	(57,996)	-	(924,134)
At 31 December 2019	492,843	75,580	75,514	550	644,487

The provision for reported negligence claims is the estimated discounted future settlement values for damages and legal costs in respect of all negligence claims notified by 31 December. Included within paid amounts for reported negligence claims is the payment to DHSC in respect of consideration for the ELS arrangement which transferred the economic costs of English and Welsh General Medical Practitioner claims for existing incidents, up to April 2019, to the respective agencies in England and Wales.

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

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

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

Dilapidations provisions relate to the estimated cost for restoring leasehold property assets back to their original condition.

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18 Deferred tax

Deferred tax provided at 17% (2018: 17%) in the financial statements is set out below:

	2019 Group	2018 Group	2019 Company	2018 Company
Timing differences on fixed asset equity investments	63,896	60,749	-	-

The Group and Company have unused miscellaneous losses of £nil (2018: £0.1m). Deferred tax has not been recognised on these losses as it is not likely that taxable profits or gains will be made to offset these losses in the near future.

19 Commitments

Capital commitments are disclosed in note 11. For operational commitments, the future minimum operating lease payments for the Group and Company under ordinarily non-cancellable commitments are as follows:

	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Operating lease annual commitments				
Land and buildings:				
Within one year	2,712	2,543	2,662	2,523
Between one and five years	9,799	9,359	9,797	9,359
Over five years	15,117	17,357	15,117	17,357
	27,628	29,259	27,576	29,239
Office equipment:				
Within one year	209	212	207	212
Between one and five years	74	280	73	280
	283	492	280	492

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

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20 Financial assets and liabilities

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
<i>Financial assets measured at fair value through net contribution to funds</i>				
- Listed investments	1,425,283	1,953,116	-	-
- Unlisted investments	853,108	782,928	-	-
- Interest rate swaps	5,744	5,697	-	-
- Forward foreign exchange contracts	4,054	1,521	-	-
	<u>2,288,189</u>	<u>2,743,262</u>	<u>-</u>	<u>-</u>
<i>Financial assets that are debt instruments measured at amortised cost</i>				
- Amounts due from subsidiary undertakings	-	-	71,444	136,746
- Cash held within fixed asset investments	175,527	190,297	-	-
- Bank deposit accounts	172,697	104,990	30,006	49,433
- Cash at bank and in hand	30,006	11,235	23,362	10,674
- Membership debtors	22,719	16,509	22,719	16,509
- Trade debtors	7,335	1,165	302	646
- Other debtors	3,613	16,906	3,609	16,897
	<u>411,897</u>	<u>341,102</u>	<u>151,442</u>	<u>230,905</u>
<i>Financial liabilities at fair value through net contribution to funds</i>				
- Interest rate swaps	(2,838)	(1,290)	-	-
- Forward foreign exchange contracts	(7,041)	(3,118)	-	-
	<u>(9,879)</u>	<u>(4,408)</u>	<u>-</u>	<u>-</u>
<i>Financial liabilities measured at amortised cost</i>				
- Amounts owed to subsidiary undertakings	-	-	(1,425)	(624)
- Other creditors	(6,609)	(7,467)	(5,791)	(7,401)
- Accruals	(17,177)	(5,881)	(13,336)	(3,709)
	<u>(23,786)</u>	<u>(13,348)</u>	<u>(20,552)</u>	<u>(11,734)</u>

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

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21 Financial risk management

The Group has a centralised treasury function which manages the investment strategy, liquidity and other financial risks in accordance with the Council approved Liquidity and Rebalancing Policy. The objective of the policy and controls that are established is to mitigate the risk of an adverse impact on the performance of the Group as a result of its exposure to financial risks arising from the Group's operations. It is the Group's policy not to engage in speculative trading of financial instruments.

The Council retains ultimate responsibility for treasury activity and is involved in key decision making. The Asset and Liability Committee is established to provide governance and oversight to treasury activity within delegated authority limits and formally reports to the Council.

Market risk

Subscriptions collected in any one year are invested until such time as they may be needed to pay the costs arising from the year in which the subscriptions were received. The greater the investment return that we try to achieve from these invested assets, the greater the fluctuations in the value of those assets, and thus, the greater the risk that MPS will see a fall in the value of its assets. Such volatility in the value of MPS's assets is, when asset values fall, damaging to the strength of the balance sheet, and significant volatility in investment returns makes it more difficult to plan for the longer-term.

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

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

Interest rate/inflation risk

MPS currently holds a significant, though reducing, portion of its invested assets in bonds. An increase in interest rates will cause a fall in the price (value) of bonds, as bond prices move inversely to changes in interest rates.

Interest rate exposure for bond assets has historically been mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements, and secondly by holding a predominance of index-linked bonds, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount. Further mitigation is provided by the ability to reduce the tax charge as a result of indexation.

The impact on MPS's liabilities is more complicated. The main influences on the cost of large claims, particularly in the UK, are those elements that reflect compensation for future costs or losses; these are mainly loss of earnings and the cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to the personal injury discount rate. The discount rate might be expected to change with changing interest rate expectations, but, as noted in the Reserving Risk section page 90, in the UK it is in fact fixed, by the Lord Chancellor.

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21 *Financial risk management (continued)*

MPS's response to the risk inherent in our liabilities is firstly to ensure that we have an appropriate investment make-up to closely match the liabilities and secondly to ensure that we have sufficient assets to allow a margin in case of unexpected changes in interest and inflation rates. As the proportion of bonds in the portfolio is reduced under the revised strategy, so too are exposures to interest rate and inflation movements, which could increase the risk that the asset portfolio does not adequately match the associated risks arising from our liabilities. A derivative swap programme has been introduced to ensure that the overall portfolio maintains an appropriate level of interest rate and inflation expectation exposure matching for the associated liability risks.

Credit risks

This is the risk that a third-party, who owes money to MPS, will fail to pay. MPS has little risk from a failure by members to pay subscriptions, because if payments are not made, the non-paying members will not be entitled to the benefits of membership (such as advice or assistance with claims). MPS's main credit risk arises from a failure of our insurers, a failure of a bank with which we hold deposits, or a failure of some of the counterparties involved in certain investments, including defaults within the direct lending portfolio and derivative financial instruments that form part of the investment portfolio.

MPS has a stated policy on the acceptable risk profile for its insurers. This policy states the requirement to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. Bank credit ratings are reviewed before deposits are made with specific institutions, and deposits are spread across a number of counterparties to mitigate against bank failure. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties. However, MPS does receive collateral on revalued derivative positions, when appropriate. For the direct lending fund, the main mitigant against default risk is that the fund aims to be, and is, heavily weighted to senior secured debt, and as such direct lending benefits from better recovery rates than bond investors.

During the current year, MPS has maintained its position in credit funds in order to achieve modest increases to contractual returns and reduce market risk. These portfolios are held with experienced credit fund managers. Credit risk is managed by careful portfolio selection and diversification across managers.

Foreign currency risk

MPS holds assets to meet the costs of reported claims and potential future requests for assistance. Given that MPS supports members in several different countries, these costs may fall due in a number of different currencies. If the assets are not held in the same currency as the costs, then there is a risk that movement in exchange rates will alter the relative value of the assets to the costs.

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

Liquidity risk

This is the risk that MPS may have insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to meet a required payment or the need to realise an illiquid investment before maturity, which could be costly.

In managing liquidity risk, MPS needs to balance the ability to gain an investment return on assets and the ability to have sufficient funds to pay liabilities as they fall due. MPS operates a sophisticated system through major clearing banks to ensure that an appropriate level of funds is available on a daily basis when required, but that these are invested in pooled money market and liquidity funds at other times. In addition, these cash funds are supplemented by substantial holdings in liquid assets.

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21 *Financial risk management (continued)*

Reserving risk

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

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

The uncertainty around estimating the value of all claims is greater for unreported potential claims than for those that have been reported. For unreported potential claims, the uncertainties include the number and severity of claims arising, how long it is likely to take from the date of an adverse incident to the reporting of a claim, and how many of these may become large claims. The uncertainties for the reported claims are a little narrower, but still considerable.

In addition to the variation inherent in the claims, there are also external factors – mainly changes in legislation – which can have a profound impact on claim estimates. MPS has seen a number of changes in legislation in the UK in the past, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodical payment orders and the reduction in the UK personal injury discount rate. This is the interest rate used to 'translate' future cash flows, to be paid under the settlement agreement, into a lump sum value in current money terms: the lower the discount rate, the higher the value of the lump sum.

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

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

A further step relates to ensuring the accuracy of the expected outcome in the first place and this relies heavily on the accuracy of data used and the quality of analysis in determining the expected outcome. At MPS, we use the skill of our internal staff to determine accurate estimates for individual claims and ensure that levels of skill are maintained by supporting ongoing training initiatives.

We also have many checks and balances in our internal systems to allow regular review and monitoring of these estimates to help ensure a high degree of accuracy and consistency. MPS's internal actuarial team use the internal individual claim estimates and relevant membership data to advise on an appropriate statistical reserve for the likely cost of all reported claims, and estimates of the potential future costs of unreported requests for assistance (see note 22 to the financial statements).

Underwriting risk

MPS charges a subscription based, in part, on the expected volume and value of claims and cases that may arise against those members paying the subscription. There is a risk that the volume or value of claims and cases brought against those members will exceed the expectations contained within the subscriptions, with the result that MPS will not have collected sufficient subscription income.

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21 Financial risk management (continued)

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

22 Funds available for members

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

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

The Council engages its internal actuaries to help model and determine likely levels of future claims in accordance with relevant actuarial guidance. The work performed is peer-reviewed by an external actuarial consultancy for material segments of business including all UK business. The level of future claims is, however, an estimate, and given the long-term nature of these potential requests, the actual costs of assisting with those matters, where assistance is granted, could vary considerably. MPS retains the absolute right not to assist but seeks to act in the interests of members as a whole when deciding to accept liability for claims emerging, and for the purposes of this disclosure has modelled the acceptance of requests at levels projected in line with prior years.

As at 31 December 2019, the Council's estimate of this potential future cost, if it agrees to assist, was £1,259m (2018: £1,739m). This estimate includes the full impact attributable to the change in the Personal Injury Discount Rates for England and Wales which was implemented in August 2019. Our disclosure as at 31 December 2019 is based on -0.25% PIDR for England and Wales (2018: -0.75%). The PIDR for Northern Ireland is currently subject to statutory consultation and expected to decrease from 2.5% to -1.75%. This has not been factored into the estimate of potential future costs detailed above as the change has not yet been enacted.

These potential costs do not constitute a liability, contingent or otherwise, and are therefore not recognised in the balance sheet, because recognition of the liability is subject to MPS exercising its discretion to assist, or not, (see accounting policy note 4(k) for further details). These potential requests may, to the extent to which the Council exercises that discretion to indemnify, become an MPS liability over time, under the occurrence basis of indemnity which MPS provides to members.

23 Obligations of Members

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

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24 Guarantee

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

25 Related party transactions

The parent company has taken advantage of the exemption in Section 33.1A of FRS 102 from disclosing transactions with wholly owned subsidiaries of The Medical Protection Society Limited.

As noted in the Report of the Council on page 41, ten (2018: ten) Non-Executive members of the Council have personal membership of MPS, which is purchased on a basis consistent with that of other members.

MPS considers the Council and the Executive Committee together to be its Key Management Personnel. The Executive Committee includes the Executive members of Council (as detailed on page 38), plus other Executive Directors of MPS that are not members of Council. This combined Group has aggregate remuneration of £3.5m (2018: £3.3m).

26 Events after the end of the reporting period

In line with FRS 102 section 32 'Events after the End of the Reporting Period', the Group discloses events that it considers material and where the non-disclosure of which could influence the decisions of users of the financial statements.

On 30 January 2020, the International Health Regulations Emergency Committee of the World Health Organisation declared the COVID-19 pandemic a "Public Health Emergency of International Concern". Nonetheless investment markets did not react until over a month later, when they dramatically declined by over 30% in fear of a global economic downturn, the consequences of governmental steps worldwide to limit human contact and non-essential economic activity. Whilst the measures applied were intended to be short-term, the scale and length of the economic shock is uncertain.

The Council has considered the impact to date and, although the impact on the asset valuations has been estimated (see below), the Group cannot fully quantify the long-term financial impact of the COVID-19 pandemic on income, expenditure, assets or liabilities at this current time.

The Council have also considered the significant risks and uncertainties looking forward. These have been covered briefly below:

Investment market risks

As set out in note 12, MPS has a diverse investment portfolio which seeks a modest return over inflation, which is held for the long-term. The Asset and Liability Committee, as delegated authority of the Council, have reviewed the portfolio since 31 December 2019 and do not consider any material adjustment is needed to the investment strategy and therefore the portfolio has been largely maintained, although we continue to monitor the situation closely.

The underlying risks and uncertainties that are impacted are:

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26 Events after the end of the reporting period (continued)

Investment class	% of total		Investment markets impact of COVID-19 pandemic, and MPS's response
Equities	18	Listed	<p>Global equity markets fell by 30% from the middle of February to early March 2020. Equity performance improved marginally in April and further in May 2020, however, MPS have yet to see the full impact of the COVID-19 pandemic across the portfolio.</p> <p>MPS does not expect the need to make any equity sales during this distressed period but may seek to re-balance between different geographies where recovery indicators are stronger.</p>
Government and other bonds	21	Listed	<p>UK gilt yields tightened as the markets fled to safety.</p> <p>However South African bonds, which comprise about 10% of total fund, have seen yields widen significantly following rating downgrades by c.£17m, compounded by the adverse foreign exchange movement of the South African Rand of c.25% since the year end (c.£50m).</p> <p>MPS holds South African assets in part to match members' claims in South Africa and continues to monitor the most appropriate investment strategy to match assets to liability development.</p>
Infrastructure	7	Unlisted	<p>These are long-term investments, typically 10-year funds in large infrastructure build and development stages. Build and development may be prolonged before returns are realised. The impact of the crisis on the financial and operational performance on the companies within the infrastructure portfolio will vary from asset to asset. However, the portfolio has been built with resilience and has a defensive long-term profile.</p>
Multi asset credit (listed) Real estate debt (unlisted) Direct lending (unlisted)	43 (16% listed, 27% unlisted)	Mixture of listed and unlisted	<p>These comprise funds which make direct lending to underlying businesses. Listed funds fell significantly by the end of March 2020. Unlisted funds are loans to diverse sectors in high quality businesses, but the level of default could rise beyond levels originally anticipated because of the economic shutdown. Government measures are designed to assist short-term financial distress to good businesses, and our investments should be regarded as such. MPS continues to work with the fund managers who actively manage the portfolio to minimise credit losses.</p>

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26 Events after the end of the reporting period (continued)

Investment class	% of total		Investment markets impact of COVID-19 crisis, and MPS's response
Inflation opportunities	11	Unlisted	The inflation opportunity funds invest in a variety of Sterling denominated assets that provide a linkage to UK inflation. Latest forecasts depict inflation dropping to 1.4% during 2020 (2019: 1.8%) and then climbing to 2.0% during 2021. The funds are designed to part hedge our inflation exposures on the liability side and may not track claims inflation.
Other: derivatives and cash	-	-	<p>MPS mitigates against interest rate exposures through derivative contracts to hedge against interest rate risk. The volatile and uncertain economic issues during the crisis may increase the cost of such hedging strategies or reduce their effectiveness. Governmental and central bank support for economies in the health crisis could lead to higher inflation in the longer term, however the portfolio is designed to meet inflationary risks.</p> <p>Cash is held in diverse currencies to match the different geographies where MPS has member claims (principally the UK, Ireland and South Africa), supplemented by currency hedging to mitigate the risks of foreign exchange exposures. Foreign exchange differences could be more volatile, but MPS seeks to hedge out such exposures by actively matching against liability expectations.</p>
Total investments	100		

Liquidity risks

MPS has no external borrowings and is able to meet the expected value of claims through its substantial liquid portfolio. As at 31 December 2019, MPS held £202m in cash and cash like funds at the year end and a further £176m is regarded as available for short-term needs. At that same date, MPS has access to £899m high-quality, liquid assets in the form of equities and government bonds. It is expected that current year claims costs can continue to be paid from working capital, whilst maintaining long term funding levels appropriate for our occurrence based discretionary indemnity model.

Impact on members and subscription income

A further consequence of the spread of COVID-19 has been the impact on members' income around the world. COVID-19 is changing the shape of clinical practice. In all countries in which MPS operates there is virtually no dentistry other than emergency treatment, and very little private medical work, yet primary care and public hospitals are at the forefront of patient care. The consequence of this is that many members have seen a significant decline in both their clinical work and in their earnings. In response to the crisis, many members will receive an initial two-month subscription holiday (announced in March 2020 for the first group of members), to assist those most financially affected by the crisis.

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26 Events after the end of the reporting period (continued)

The Council considers that it is in the best interests of all members to allow a short-term subscription holiday, and that the loss of such income does not impact on the Group's ability to continue to meet expenses and claims costs for the foreseeable future, or on our viability in the longer-term when subscriptions can be normalised in line with clinical activity.

Operational resilience

MPS is confident that the plans to maintain service to its members are robust in the current climate. In response to the UK Government's lockdown orders, MPS invoked its business continuity plan, which had to be adapted as it was assumed that our main Leeds and London offices would provide mutual cover in the event of one being out of action. MPS enabled all of its colleagues to be able to work from home and has successfully managed to ensure key activities are not unduly compromised. Operations continue to be adapted to adjust to a more prolonged lock-down, whilst planning for potential future changes in business practices that may be required where social distancing may become entrenched. To date MPS has not needed to call upon any UK Government assistance schemes, but management continue to assess the business activities which are needed to continue to serve members' needs.