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THE MEDICAL PROTECTION SOCIETY LIMITED
PROFESSIONAL SUPPORT AND EXPERT ADVICE

Annual Report and Accounts

YEAR ENDED DECEMBER 2008

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About MPS

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

We are a mutual, not-for-profit organisation offering more than 260,000 members help with legal and ethical problems that arise from their professional practice. This includes clinical negligence claims, complaints, medical council inquiries, legal and ethical dilemmas, disciplinary procedures, inquests and fatal-accident inquiries.

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

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

Chairman's report

Nicholas Davies, Chairman of MPS Council

MPS members can reflect on their organisation's achievements in 2008 with a sense of pride. Membership has grown by 3.5% to over 264,000 and assets held on your behalf have increased by 9.3%. Looking back over five years, these assets have more than doubled in value. The results set out in the following pages point to a continuing robust health. In the current setting of a severe world-wide economic downturn members should be reassured that, when they need to seek professional help, they are turning to a strong and thriving organisation.

We are well aware of the difficulties presently faced by so many financial organisations. MPS has avoided the worst of these difficulties in three main ways. Firstly, through a conservative investment policy, keeping the majority of assets in index-linked government bonds. Secondly, by taking care to set subscriptions that are sensible in the light of current and projected claims experience, while striving to be fair to all sectors of our membership. This is no easy task and we take detailed advice from leading actuaries in this highly specialised field. Thirdly, by taking care to ensure our liabilities in overseas countries are balanced by assets held in their currencies. This provides security that exchange rate movements will not work to our disadvantage.

Over the last year, this consideration has proved of particular importance as sterling weakened sharply against the US dollar and euro. However, as last year, there has been an appreciable increase in the number of members seeking assistance from MPS. The number of files opened for both civil negligence claims and other matters, such as investigations by regulatory authorities, has risen in the year by about 10% worldwide for medical and dental. More money has therefore needed to be set aside to pay for costs and damages.

The growth in MPS membership is a tribute to its reputation and the excellence of its service. We recognise we cannot afford to stand still in this regard. We have therefore expanded our office space in London and Leeds, and will open a new office in Edinburgh in 2009 to provide a better service to all our UK members. We have recruited additional professional advisers in most countries where we are active to continue to improve the quality of local advice. The international nature of MPS is also a potential benefit to members wishing to work outside their home country, and may assume more importance as doctors and dentists become more mobile over the course of their careers.

Sitting on the various committees that advise MPS on the merit or otherwise of legal actions against doctors and dentists, I am struck by the thoroughness with which cases are prepared,

presented and considered. Many of our medicolegal and dentolegal advisers have worked in senior clinical posts before taking up a new career with MPS, and most have seized the opportunity to acquire additional legal qualifications. When a member requests assistance, these advisers are the first point of contact. They in turn can call upon our lawyers for their specialist knowledge and experience in all aspects of medical law. Members can be reassured that if the worst happens and their professional standards are seriously questioned, they will be in the very best of hands.

Our advisers and lawyers undertake one other role on behalf of members. As our professions are subject to ever-shifting regulatory controls, they need to lobby proactively for the most constructive outcomes to projected legislation, and be at the forefront of promoting a better general understanding of clinical risk. Their wise counsel has often helped shape new regulations to the wider benefit of society.

MPS has the discretion to help members under circumstances that would rule out assistance if constrained to act within the small print of, for example, an insurance policy. This discretion is applied consistently in accord with the memorandum and articles. It almost always results in benefit to the member, the patient, the wider interests of the professions, and often to all three. Its value is to allow the individual circumstances of a case to be taken into account with sympathy and flexibility. MPS is convinced that it has never been a more useful tool.

I am delighted that Lord Bradley and Ian Croxford QC, who were appointed to the Council in 2007, were duly elected at the AGM last June. Looking ahead, all commentators agree that 2009 will be a time of great financial difficulty, but MPS is fully justified in facing next year with a considerable degree of assurance.

Nicholas Davies
Chairman of the Council

Chief Executive's report

Tony Mason, Chief Executive of MPS

It has been an extraordinary last 12 months. The unprecedented turmoil in the world financial markets has had a major, sometimes devastating, impact on many financial institutions but I am pleased to say that MPS has been comparatively unscathed. Our membership, subscription income and assets all grew in 2008 and, although there are still troubled times ahead, we enter 2009 in a strong and sound position.

The current financial strength is due, primarily, to our conservative investment policy. We have managed to avoid exposure to all the headline disasters of 2008 as most of our assets are held in government bonds and cash, with only a relatively small proportion exposed to international equity markets. More importantly, we have pursued a policy whereby our liabilities around the world are matched by assets in the same or linked currencies, so the dramatic fluctuations in exchange rates have been largely cost neutral to us.

Members can be confident that our prudent investment strategy will continue. The security of MPS and the subscriptions we collect to meet future claims will always be of paramount importance. I am sure members will be pleased to know that we are not chasing speculative investment opportunities, with the associated risk of having to go back to members at a later date to make good losses if the gamble fails.

At the start of last year we announced that there would be no increase in subscriptions during 2008 for many of the countries in which we operate. This was following the annual actuarial analysis of claims experience and my desire to ensure that all members are treated as fairly as possible. For 2009, I am pleased to say that subscriptions for nearly all membership categories will not increase in New Zealand, Singapore and Hong Kong, whilst for Malaysia and South Africa the increases will be around the level of local consumer price inflation.

Unfortunately, the number of claims reported for both doctors and dentists in the UK and Ireland saw an unwelcome increase in 2008 following several years of flat experience and, after the subscription freeze last year, it has been necessary to increase our rates for 2009. For our dental members in England and Wales, the rise is particularly steep at around 10%, due to a surge in calls for assistance over the last 12 months.

Last year was a particularly busy time for MPS, with the expansion of our offices in both London and Leeds to meet the growing needs of our members and to ensure that we continue to give a first class service. We also announced the establishment of a new office in Edinburgh to service our Scottish members, which will open in May.

Another development I wanted to highlight this year is our Membership Governance Programme ("MGP"), which in the UK has now been operating for two years. The purpose of this programme is to identify those of our members who have had a significantly worse experience of claims and complaints than their colleagues and then to offer them practical help and support to see if there are ways to reduce the likelihood of future cases arising. This is a sensitive area involving less than 1% of our membership, but I have been extremely impressed by the professional manner in which our MGP team approaches their work.

There have now been more than 300 members through the MGP in the UK and, after what is often an initial reaction of suspicion and occasional hostility, we have received numerous letters of gratitude from those who have completed the programme. Overall, we are confident that the MGP is helping our members understand how they can interact more effectively with their patients and over the long term this will help reduce claims, thereby safeguarding the assets of MPS to the benefit of all our members. Similar membership governance programmes were started in Singapore and the West Indies in 2008 and we will be commencing another in South Africa in 2009. I trust that all members will support these initiatives to provide assistance to their colleagues who need guidance in certain areas of their practice.

I mentioned in my report last year that MPS was embarking on some exciting new initiatives to extend our educational offerings and this gives me an opportunity to give you news on progress. In the UK we have now completed the recruitment and training of two faculties. The first are individuals to run the highly regarded Cognitive Institute workshops, which concentrate on managing risk and communication between clinicians, their staff and patients. These commenced in March 2009 and the first workshops were fully subscribed. The second faculty will be carrying out clinical risk assessments, primarily for GP practices in the UK and Ireland. The number of these we undertake will be increasing from 40 to over 250 each year.

Cognitive Institute workshops have already started in Singapore and the West Indies and will also be commencing in South Africa during 2009. We are regularly in contact with the deans of medical and dental schools in all major countries in which we operate and we are increasingly working in partnership to deliver seminars and other educational material on medicolegal issues. Our recent ethics seminar in Cape Town was open to all healthcare professionals and was attended by over 500 individuals. In addition to the above, our medicolegal team continues to deliver over 200 lectures each year and we are always happy to consider requests for speakers at conferences.

The security of MPS and the subscriptions we collect to meet future claims will always be of paramount importance.

On the dental side, in 2008 there were successful roadshows in South Africa, Ireland, Australia and the UK, plus lectures in Hong Kong and New Zealand. Further CD-ROMs were also introduced in the successful "Communication in Dentistry" series.

Since becoming Chief Executive I have increased the focus on our international operations and we will continue to strive to improve the level of service to our membership, wherever they are based. During 2008 I was fortunate to visit many of the countries in which MPS has members and I have returned with two main thoughts. First, I have been impressed by the high quality of the legal teams and our local medicolegal consultants, who provide first-class support to our members when they require assistance. It can be a stressful experience for a clinician faced for the first time with a claim for negligence or a disciplinary hearing, and I have been told on several occasions that the calm, professional approach adopted by the MPS and DPL teams is a great comfort to members.

The second thing that has struck me is that nearly everywhere regulators of the medical and dental professions are carrying out an increasing number of investigations and prosecutions in response to complaints from patients or employers. I understand that the regulators have a duty to protect the public from individuals who are not fit to practise, in order to raise confidence in the medical and dental professions. However, I believe the contrary could become true and we are reaching the position where too many cases are being brought, to the detriment of all.

Everyone, whatever work they do, makes mistakes from time to time but I believe that no other professions face such detailed and sustained scrutiny with such serious consequences as do doctors and dentists. The most vital issue is that we all learn from errors when they occur. Patients need to be properly informed when things go wrong but also be made to understand better that perfect outcomes can never be guaranteed. Fair compensation for avoidable harm should be an unarguable consequence of a proven error. However, the exhaustive investigation of a clinician after a single adverse event and with an otherwise excellent record can take months if not years to resolve, is costly, stressful for all concerned and can often result in an unsatisfactory outcome, with cases dropped at a late stage without clearing the individual's name; by then untold damage has been done.

Clearly, regulators have an important job to do but too often cases are inadequately prepared, do not follow due process and can drag interminably. On such occasions MPS will defend with vigour and we regularly challenge hearings that are unfair

or flawed. I will continue to speak to regulators around the world to impress upon them the need to proceed with care; we all want to raise public confidence in the professions and undoubtedly there are a few doctors and dentists who should not be practising. However, if heavy-handed regulation results in a deluge of hearings of little merit, fuelling the media attacks on the professions, public confidence will be further eroded and many caring and conscientious individuals will either leave or decide not to enter the medical or dental profession.

I finished my report last year with the prediction that 2008 would be exciting and enjoyable. It was certainly both of those, although I would have preferred to have avoided global financial meltdown in order to achieve the excitement. I will be less dramatic with my predictions for 2009 and restrict them to a quiet confidence that MPS will continue to do what it does best – never forgetting that we are here for our members and that your interests must always come first.

Tony Mason
Chief Executive

Statistics

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NON STATUTORY INFORMATION (GRAPHS) NOT REQUIRED BY
COMPANIES HOUSE HAVE BEEN REMOVED.

Finance Director's report

Simon Kayll, Finance Director of MPS

MPS's finances are managed to give members the greatest possible assurance that MPS will be able to fully meet all future appropriate requests for assistance. For some, this could be many years into the future. For example, last year, MPS received requests for assistance with three claims all related to incidents that occurred 18 years ago. So MPS's continued financial stability is of paramount importance.

FINANCIAL TURMOIL OF 2008

As touched on by both the Chairman and Chief Executive in their respective reports, 2008 has seen significant turmoil in the financial markets and banking sectors. During the year there were falls in excess of 30% in UK and US stock market indices, a fall in UK base rates of 3.5 percentage points to 2% and the depreciation of sterling against the euro of 23% and against the US dollar of 28%. In addition, we have seen state intervention in UK high street banks and the collapse of US investment banks.

Whilst it is unrealistic to expect MPS's financial position to have come through 2008 completely unscathed, the impact of the recent turmoil on MPS's financial position has been modest.

It is true that 2008 has seen a slight fall in MPS's measure of financial strength, but members should be fully reassured that MPS's financial position is still better at the end of 2008 than it was at the end of 2006. MPS continues to maintain more than sufficient financial resources to meet all of its reported and potential claim responsibilities and will continue to provide, subject to discretion, assistance to members whenever they need it, now and in the future.

So, whilst other organisations have been severely battered by the financial climate of 2008, to what does MPS owe its financial robustness? The answer, in short, is sound financial management.

SOUND FINANCIAL MANAGEMENT

Sound financial management for MPS encompasses three main areas:

- prudent investment strategy
- security of assets
- matching the currency of reported and potential claims.

PRUDENT INVESTMENT STRATEGY

The majority of subscription income received in the year is to pay for the future costs arising from adverse incidents that occurred during 2008. On average it will take about seven

years from the date of incident to payment, but for some large claims it could take much longer. Thus, the majority of subscription income is invested until it is needed to pay future costs. At the end of 2008, MPS had just under £1.2 billion invested to meet future costs.

The way these funds are invested can have a significant bearing on MPS's financial strength. MPS takes a cautious approach when it comes to investment risk and invests the majority of its funds in government bonds and short-term money markets. A minority of funds is invested in more risky asset classes to achieve a better return but, even then, MPS spreads such investments across a diverse range of these assets to help mitigate the risks.

Due to a well-timed decision, MPS's exposure to risky assets was at a low point in mid-2008; with the writing already on the wall, MPS has continued to maintain this relatively low exposure. This approach has served to protect a greater proportion of MPS's funds from the falls in value of the risky asset classes seen most markedly in the last quarter of 2008.

Some may ask why MPS retained any exposure to risky assets as equity markets fell during 2008. MPS's investment approach is to select an investment portfolio that is quite cautious and which has a good diversity of different types of assets, and hold it through the "good" and the "bad" times, such that in the long run it produces a reasonable rate of return.

Deciding to invest in risky assets is only sensible if you can afford to take a long-term view. MPS can afford to do so on two accounts. Firstly, as a mutual, it is not subjected to short-term pressures that often apply to listed entities and, secondly, MPS can pay all its costs from its annual income, meaning that it can continue to hold its investments for many years to come, with the expectation that they will eventually regain any value that has recently been lost.

SECURITY OF ASSETS

MPS does not invest its assets directly as this is a very specialist and highly-regulated area; instead, it invests through third party financial institutions. However, this presents some risks, which need to be managed.

A key way to manage such risks is to ensure that the invested assets are independent of the financial institution that has responsibility for their management. So, if the manager fails, the investments are not at risk. However, this is not always possible, especially with bank deposits. In such cases, it is

Finance Director's report

Continued

vital to ensure the financial stability of the financial institution through which assets are being invested.

It is pleasing to report that MPS has not lost any funds during the year due to the collapse of any third party financial institution.

MATCHING THE CURRENCY OF REPORTED AND POTENTIAL CLAIMS

The majority of MPS's members outside of the UK pay their subscription in local currency, and when costs arise as a result of MPS assisting members these will be paid in the local currency. If MPS maintains the assets to meet the future costs on behalf of non-UK members in sterling, then MPS is exposed to the risk of exchange rate fluctuations between sterling and the local currency. MPS recognises this risk and is scrupulous in eliminating it, by ensuring that all non-UK reported and potential claims are matched with assets held in appropriate currencies. In 2008, sterling depreciated against nearly all currencies and this depreciation was significant against the euro and South East Asian currencies. By matching the currency risk of non-sterling reported claims, MPS has managed to protect itself from an additional £36 million in claims costs during the year.

FINANCIAL STRENGTH

The balance sheet shows that MPS's total assets less current liabilities, that is, the value of funds available to meet future potential claims, stands at £1,191m (2007: £1,091m) at the end of the year: an increase of £100m (2007: £165m) during the year. This is, however, only half the story when assessing MPS's financial strength. The assets are used to meet the claims that MPS has accepted, or may accept in the future, subject to discretion, on behalf of members. The increase in the outstanding value of claims and non-claims for which MPS has already exercised discretion and thus assumed responsibility (reported claims) rose by £52m (2007: £17m) in the year, to end the year at £398m (2007: £346m).

As the increase in reported claims was lower than the increase in assets, the net result is an increase in net assets of £50m (2007: £151m) to £797m (2007: £747m) at the year end. Thus, by this absolute measure, MPS reports an increase in its financial strength at the end of 2008. However, traditionally, financial strength has been expressed as the relationship between assets and reported claim obligations. In this respect there has been a slight decline in MPS's financial strength, because at the start of the year the assets represented 315% of the reported claim obligations and at the end of the year this was 299%.

FINANCIAL PERFORMANCE

SUBSCRIPTION AND OTHER INCOME

Subscription and other income increased by £20m, 8.7% (2007: £18m, 8.3%) during the year, which is a pleasing result as UK medical and UK and Irish dental rates did not increase in 2008 and subscription increases in Singapore and New Zealand were 2% or below. Some of this increase in income was due to the strengthening of international currencies against sterling, but increasing member numbers in all major countries in which MPS operates also played an important part in the overall income growth in 2008.

CLAIMS COSTS AND ASSOCIATED LEGAL COSTS

These costs represent all the legal costs and settlements paid out in the year for claims of negligence, together with the change in value during the year of all claims of negligence that have been reported to MPS, and for which discretion has been exercised to provide assistance. These costs have increased by £60m, or 60% (2007: decreased by £15m, 13%).

This is a significant increase in the year and there are two explanatory factors. Firstly, HM Revenue and Customs deemed that MPS has an ongoing UK VAT liability on some international expenditure, contrary to a ruling received by MPS from the tax authorities in 1998. In addition, HM Revenue and Customs have levied a retrospective charge on MPS for this tax relating to the last three years. Although MPS is disputing this retrospective charge, it is appropriate to include it in the accounts as no decision has yet been reached by HM Revenue and Customs. The total impact of this additional tax charge is £11m. Secondly, the depreciation of sterling against most other currencies during the year means that, in sterling terms, the outstanding reported claims have a higher value at the end of the year than at the start of the year. The exchange rate movements have increased the sterling value of reported claims by £36m. (This is not a net cost to MPS, as the non-sterling assets held to match these non-sterling claims similarly increased in value due to the exchange rate movements and this is accounted for as "Profit on exchange movements" – see below.)

If these two unusual items are excluded, then the increase is £13m, or 13%. Given MPS's continued growth in membership and the fact that claims and associated legal costs for 2007 were exceptionally low, then a 13% increase is in line with long-term expectations. As intimated in my report last year, we are beginning to see an end to the trend over the last few years of falling claim frequencies – especially in the UK and

It is pleasing to report that MPS has not lost any funds during the year due to the collapse of any third party financial institution.

Ireland – and it is likely that some of the increase in 2008 is due to rising claim frequencies and this might be expected to continue over the coming years.

ADVISORY AND ASSOCIATED LEGAL COSTS

These are the costs associated with assisting members with claims for matters other than negligence, and for the increase over the year of the outstanding value of such claims that have been reported and where discretion has been exercised. These costs have increased by £11m, or 36% (2007: £10m, 42%).

As with the claims costs above, the advisory costs have been distorted this year by the change in tax treatment for some international costs and the impact of exchange rate movements. The combined effect of these two accounts for about £5m of the £11m increase, leaving £6m, or 19%, as a true reflection of the increased cost of assisting a growing membership population and a growing demand from the membership for such assistance.

EDUCATION, PUBLICATIONS AND EXTERNAL RELATIONS

MPS is spending increasing time and money in developing and delivering education and risk management services to members, with the aim of reducing risk. Whilst there are many new initiatives in this area, the general description above also encompasses MPS's many publications for members, some of them, such as the premier publications of Casebook for medical members and Riskwise for dental members, have been produced for many years.

MPS also spends considerable time and effort liaising with regulators, legislators and professional representative bodies around the world on behalf of its members and the wider professions in matters that are relevant to MPS's business and in the interest of its members. Associated with this is the need to promote MPS to such organisations so that they are aware of our credentials and appreciate and value our input. As this is an important and growing part of the service that MPS provides for and on behalf of members, it is appropriate that it should be recognised as such and, accordingly, costs associated with these activities are shown separately for the first time.

The costs associated with these activities in 2008 were £3m – an increase of 49% on the previous year.

ADMINISTRATION EXPENSES

The remaining costs of running the organisation, such as

office accommodation, customer services, IT, HR and finance are included under the heading of administrative expenses. These have increased by £4m, 35% in the year (2007: £0.5m, 3%).

MPS has been very successful in attracting new members over the years and as such it has been necessary to increase its resource to manage the growing membership and ensure that the quality of service is maintained. To achieve this, MPS has increased the number of employees by 86 over the last five years. One of the consequences of this has been a growing shortage of office accommodation and in 2008 it became necessary to take on additional space. This was done by renting further office space in London and building an extension to our freehold office in Leeds. Both of these have resulted in an increase in costs in 2008. In addition, MPS has increased its medicolegal and dentolegal resources and continues to invest in a major three-year IT and operational project aimed at improving the efficiency and quality of service that MPS delivers to its members.

PROFIT ON EXCHANGE MOVEMENTS

This represents the profit that MPS has made in sterling terms during the year from holding non-sterling assets. This profit is the difference in sterling terms of those non-sterling assets at the start of the year and the end of the year. This is a significant sum because of the exceptional fall in the value of sterling during the year against most other currencies, as referred to at the start of this report. By example, €100 at the start of the year was worth £73.44 and at the end of the year was worth £96.67.

However, MPS does not hold these non-sterling assets for speculation, but as a match for its non-sterling claim obligations. The movement in value due to exchange rate movements on the non-sterling claim obligations has been referred to above and is included in the claims costs and associated legal costs.

INVESTMENTS

MPS's investments increased by £117m, or 12% (2007: £181m, 22%) during the last year, ending the year at £1,132m. This represents an after-tax return of a little over 1% (2007: 5.6%).

The increase in the value of investments during the year includes the investment of surplus subscription income over costs of £93m, plus investment income before tax of £27m. This means that the capital change in the value of investments

Finance Director's report

Continued

held was a fall of £3m. Bond performance was positive, with returns on international bonds being enhanced by favourable exchange rate movements. However, these positive returns were cancelled out by negative returns on equities, even after allowing for favourable exchange rate returns.

CONCLUSION

The past year has been characterised by a steady underlying business, albeit with a tick up in claim-related and administration costs, overlaid with great volatility in capital markets and exchange rates, which have tested MPS's management of financial risk. That MPS has come through the last 12 months relatively unscathed is testimony to its robust financial management.

We have not seen the end of the volatility in capital markets and exchange rates and the added difficulty for 2009 is that these financial problems have led to economic problems. However, I am confident that MPS is financially strong and can withstand the tests that 2009 will undoubtedly bring and will, in due course, emerge from the current financial and economic problems in good shape; nothing will diminish our ability and determination to assist members when they need it.

Simon Kayll

Finance Director

Members of the Council and Committees

IMAGE REMOVED

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Sir Peter Morris AC FRS FRCS FMedSci³

VICE-PRESIDENTS

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ISRAEL
NEW ZEALAND

Professor John Bonnar MA MD FRCP FRCOG
Professor Shmuel Penchas MSc MD DIC
Professor Sir John Scott KBE MD FRCP FRACP FRSNZ BMedSc

CHAIRMAN OF THE COUNCIL

Nicholas Davies MA DM(Oxon) MRCP FRCA

CHIEF EXECUTIVE

Tony Mason BSocSc FIA

MEMBERS OF THE COUNCIL

Frank Attwood BSc(Econ) FCA FRSA ACIS MAE^{1,2,4,5}
The Lord Bradley PC BA(Hons) MPhil
Ian Croxford QC LLB
Nicholas Davies MA DM(Oxon) MRCP FRCA Chairman^{2,3,4,5}
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Mary Favier MB BCH MICGP MRCGP²
Kathryn Harley BDS MSc FDSRCS(Edin) FDSRCS(Eng) FDSRCS(Glas) FFGDP(UK) (ex officio)⁷
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Tony Mason BSocSc FIA Chief Executive (ex officio)^{3,4,5}
The Lady Vallance JP MA MSc PhD^{1,3}
Richard Youell JP MA^{2,4}

- 1 Members of the Audit Committee
- 2 Members of the Remuneration Committee
- 3 Members of the Nominations Committee
- 4 Members of the Board of MPI (London) Limited
- 5 Members of the Board of MPS Risk Solutions Limited

Members of the Council and Committees

Continued

FRANK ATTWOOD

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

KEITH BRADLEY

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

IAN CROXFORD

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

NICHOLAS DAVIES

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

MARK DINWOODIE

Mark Dinwoodie was elected to the Council as a non-executive director of MPS in June 2005. Since 1993 he has been a GP principal in a practice in Bath. He is also a GP trainer. He also acts as the senior educational programme consultant for MPS helping to develop and deliver a number of educational and risk management workshops, products and courses.

MARY FAVIER

Mary Favier was elected to the Council as a non-executive director of MPS in June 2005. She works as a GP principal and partner in a practice in Cork. She is Chair of Education for the Irish College of General Practitioners and a member of its executive. She is on the editorial board of Forum, the ICGP general practice magazine, a member of the editorial board of a health information consumer website and visiting lecturer in the family medicine training programme in Bahrain.

KATHRYN HARLEY

Kathy Harley was appointed to the Council in July 2006 as an ex officio non-executive director of MPS following her appointment as Chair of Dental Protection Ltd. She has been a member of the Dental Protection Board and Advisory Committee for Dental Claims since 2000. Kathy is a Consultant and Honorary Clinical Senior Lecturer in Paediatric Dentistry at the Edinburgh Dental Institute where she is Clinical Lead for Paediatric Dentistry. She is a board member and currently Chair of the Postgraduate Education Committee of the Faculty of Dental Surgery, The Royal College of Surgeons of England.

TAJ HASSAN

Taj Hassan was elected to the Council as a non-executive director of MPS in June 2006. He has been a member of the MPS Claims Advisory Committee since 2004 and is a consultant in emergency medicine at Leeds General Infirmary, Leeds Teaching Hospitals NHS Trust. He is presently a council member of the newly merged College of Emergency Medicine (CEM) as Regional Chair for Yorkshire & Humber. He has also been the national Clinical Lead for eLearning for the College since 2005 and is an examiner for Fellowship of the CEM.

LEELA KAPILA

Leela Kapila was elected to the Council as a non-executive director in June 2003. Until 2002 she was a consultant paediatric surgeon at the University and City Hospitals, Nottingham. She was visiting professor at a number of international hospitals and a council member of the Royal College of Surgeons from 1992 to 2004. She was Chairman of the Children's Surgical Forum at the Royal College of Surgeons and Senior Vice-President of the Royal College of Surgeons from 2003 to 2004.

SIMON KAYLL

Simon Kayll was elected to the Council as an executive director in June 2003. He is a Fellow of the Chartered Institute of Accountants in England and Wales. He joined MPS in February 1994 as Chief Accountant and was successively appointed as Financial Controller and finally Finance Director in January 1999. He was also appointed Company Secretary for MPS and most of its subsidiary companies in March 2000. His current responsibilities include finance, investment management, reinsurance, internal audit, marketing, membership and oversight of MPS Risk Solutions Limited.

KEVIN LEWIS

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

RAVINDER MAINI

Tiny Maini was elected to the Council as a non-executive director of MPS in May 2001. He is Emeritus Professor of Rheumatology at the Kennedy Institute of Rheumatology Division, Imperial College, London and was Honorary Consultant Physician at the Charing Cross Hospital, Hammersmith Hospitals Trust, London until the end of 2007. Between 1990 and 2002 he was Head of the Kennedy Institute of Rheumatology Division and Rheumatology Department, Charing Cross Hospital and has held a number of posts on national and international committees representing rheumatology. He has served on editorial boards, has been a co-recipient of international prizes for research and received a Knighthood in 2003 for services to rheumatology.

TONY MASON

Tony Mason joined the Council as Chief Executive of MPS in October 2007. He is a Fellow of the Institute of Actuaries. Before joining MPS, he was a partner at Lane Clark & Peacock LLP a firm of consulting actuaries. He was appointed a partner in 1985, was appointed Managing Partner in 1997 and Chairman in 2006. He specialised in all matters concerning professional indemnity cover arising from clinical negligence, including the NHS in England and Scotland, MPS and several Australian organisations. Prior to his appointment as Chief Executive, he was an actuarial adviser to MPS for more than 20 years.

ELIZABETH VALLANCE

Elizabeth Vallance joined the Council as a non-executive director of MPS in February 2005 and was elected by the membership at the Annual General Meeting in June 2005. She is a member of the board, and senior independent director, of Charter Pan-European Trust plc, Chairman of the Council of the Institute of Education, University of London and a Fellow of Queen Mary, London. She is also Chairman of ICAN, the children's communication charity and was formerly Vice-Chairman of the Health Foundation, Chairman of St George's Healthcare NHS Trust and of the Advisory Committee on Clinical Excellence Awards. She is also a magistrate on the Inner London Bench and was appointed High Sheriff of Greater London for 2008 to 2009.

RICHARD YOEUELL

Richard Youell was elected to the Council as a non-executive director of MPS in June 2003. He is a commercial arbitrator specialising in insurance disputes and spent most of his working life as a Lloyd's underwriter, from which he is now retired. He is also a non-executive director of Britannia Steam Ship Insurance Association Limited, Tindall Riley (Britannia) Limited and Liberty Syndicate Management Ltd.

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

PETER MORRIS

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

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Professor Dan Ncayiyana MB ChB(Groningen) FACOG

CLAIMS ADVISORY COMMITTEE

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Alan Crouch MB ChB FRCGP DOBstRCOG

Vice-Chairman

Susan Sellers MB ChB MD FRCOG

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Professor Marc Winslet MS FRCS

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Head of Membership

Carol Sherlock BSc(Hons)

Director of Educational Services

John Tiernan BA BDentSc DGDP(UK)

Report of the Council

The Council, which for the purposes of the Companies Acts is the Board of Directors, presents its annual report for the year ended 31 December 2008.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

PRINCIPAL ACTIVITY

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

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

In addition to the principal activity of the holding company, the group has two principal trading subsidiaries, MPS Risk Solutions Limited, and Cognitive Consulting Group Pty Limited. MPS Risk Solutions Limited is a general insurance company, regulated by the Financial Services Authority, which provides professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Cognitive Consulting Group Pty Ltd provides education and training in communication skills and risk management to medical practitioners. There is a further major subsidiary, MPI (London) Limited (MPI), which holds the invested assets on behalf of MPS. MPI has a separate board (see page 9) and the board is responsible for agreeing an appropriate investment strategy, having regard to the development of liabilities and risk, which is then approved by MPS Council and subsequently implemented by MPI. Funds are invested with third party fund managers and MPI does not undertake any direct investment activity. The MPI board is responsible for overseeing the investment performance of the third party managers.

BUSINESS PURPOSE

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

In providing services to members, subject to discretion and the scope of the benefits of membership, MPS will meet the costs of assisting members provided that the request stems from an

incident that occurred at a time when the member was paying an appropriate subscription.

This means that if a member seeks advice or an indemnity relating to an incident in 2008, providing the member was paying an appropriate subscription during 2008 and assistance is granted when the application is made, then MPS will pay all reasonable costs related to that incident. These costs may include representation at a regulatory council, assistance with disciplinary proceedings and full indemnity for damages and costs in cases of negligence. Payment will be made even though it may be years after the incident before costs are incurred and the issues are resolved. Applying for the benefits of membership years after the adverse incident, subject only to having paid the appropriate subscription for the period of the adverse incident, is known as claims-incurred cover.

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

PRINCIPAL RISKS AND RISK MANAGEMENT

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

The principal risks facing MPS and their mitigation are:

■ Reserving risk

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

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

The value of these claims is estimated by MPS and there is a risk that the eventual payments exceed the sums provided for the settlement of the claims. The uncertainty around

Report of the Council

Continued

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

In addition to the variation inherent in the claims, there are also external factors, mainly changes in legislation which can have a profound impact on claim estimates. MPS has seen a number of changes in legislation in the UK over the last ten years, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodicals and the reduction in discount rates.

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

Mitigation

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

■ **Underwriting risk**

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

Mitigation

Again, the skill of staff and advisers is important as are the quality of internal systems. In addition, MPS carefully reviews all applications and makes an assessment on those risks

that it is willing to accept. MPS also runs an internal programme to identify individual members who appear to represent a higher than normal risk and tries to work with them to reduce their risk. MPS also purchases insurance for the risk that claims experience will be worse than was allowed for when setting subscriptions.

■ **Market risk**

Subscriptions collected in any one year are invested until they are needed to pay the costs arising from the year in which the subscriptions were received. The greater the return MPS can achieve from investments, the less it would theoretically need to charge in subscriptions. However, the greater the investment return, the greater the risk of significant fluctuations in the value of MPS's assets and thus the return from investments. Not only is such volatility damaging to the strength of the balance sheet, but it also makes planning for the longer term more difficult if there is uncertainty over the expected levels of investment returns.

Mitigation

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

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

■ **Currency risk**

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

Mitigation

MPS ensures that all major non-sterling claim liabilities are fully matched with assets to the same value in the same currency. This is fully complied with for euro and Rand claim

liabilities. For currencies where the liabilities are smaller, it is not practical to operate a local currency designated investment portfolio, so MPS uses US dollar denominated assets to act as a proxy match for such liabilities. Many of these currencies are closely linked to the US dollar anyway.

■ Liquidity risk

Liquidity risk is the risk that there will be insufficient liquid assets available to meet payments when they fall due. This could either result in an inability to make the payment or the need to terminate an illiquid investment at an inopportune time, which could be costly.

Mitigation

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

■ Credit risk

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

Specific comment on this risk in relation to derivative financial instruments is provided on pages 23–24.

Mitigation

MPS has a stated policy on the acceptable risk profile for its insurers. This policy states the need to spread the risk across a number of insurers and dictates the acceptable financial security rating for insurers. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties.

■ Interest rate/inflation risk

MPS holds about 70% of its invested assets in bonds and bond prices move inversely to changes in interest rates, thus an increase in interest rates will cause a fall in the price of bonds. The impact on MPS's liabilities is more complicated.

The main influence on the cost of large claims (in the UK) is that element to reflect compensation for future costs or losses, these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to a discount factor. The discount factors might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor. However, with the introduction in 2005 of periodical payments as an alternative to lump sum settlements or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant, and these payments are to be indexed according to the retail price index. Since the determination of the Appeal in the *Thompsonstone* case, it is increasingly likely that for settlements subject to periodicals, the cost of future care will be subject to indexation by a wage measure and not the retail price index.

Specific comment on this risk in relation to derivative financial instruments is provided on pages 23–24.

Mitigation

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

■ Operational risk

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

Mitigation

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

Report of the Council

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FINANCIAL TARGETS

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

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

Such a situation where the value of invested assets is lower than expected has been the case in 2008. Equity markets around the world have fallen by anything from 25% to 60%, with the UK FTSE All Share and US Dow Jones markets falling about 31% each. Whilst these markets' falls have had an impact on the value of MPS's invested assets, the cautious investment approach and the diversity of return-seeking assets has meant that the impact of market falls has been less than might otherwise have been the case. At 31 December 2008, MPS was still very strongly funded, being more than capable of meeting the estimated total outstanding costs of all reported and unreported potential claims.

More detail is provided on the financial targets in the Finance Director's report on pages 6–8.

FINANCIAL PERFORMANCE FOR THE YEAR

As mentioned above, MPS has experienced a set back in its move to improve the level of its assets compared to its reported and potential claims, with a view to ensuring the long term viability of the business. However, the set back is relatively minor considering the recent financial turmoil and MPS does not consider there to be a long lasting impact on its financial strength.

More detail of the financial performance for the year is provided within the Finance Director's report on pages 6–8.

KEY MARKETS

MPS operates in a number of different international markets. This international perspective allows many members to practise around the world and still enjoy the benefits of MPS

membership. It also allows MPS to use its wide and diverse experience for the benefit of all its members.

MPS's principal markets are:

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

In addition, MPS is able to provide the benefits of membership in many other countries (although not much of continental Europe, USA and Canada) and if members intend to work abroad, they should contact their membership administrator to see if continued membership of MPS is possible.

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

MEMBER NUMBERS

The business aim is to grow membership in a controlled manner without increasing the overall risk exposure of the organisation. The increase in member numbers in 2008 was 3.5% (2007: 3.8%), giving a total membership at 31 December 2008 of 264,201. MPS experienced growth in all of its main markets listed above, but growth in member numbers was particularly strong in UK, Ireland and West Indies.

In addition to the growth in member numbers, internal measurements also show that the risk profile of the membership for 2008 compared to 2007 improved in all but one area, and the one area that did not improve accounted for less than 2% of total subscription income.

STAFF AND THE PROVISION OF SERVICES

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

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

FUTURE DEVELOPMENTS

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

For the coming year, MPS's main focus will continue to be the delivery of a high-quality, cost-effective service to members, the delivery of education and risk management courses to members and the continued strengthening of our relationship with regulators, legislators and professional representative bodies. To this end, MPS will continue to ensure that it has the internal resources necessary to meet demand from members and will continue to develop its IT and operational systems to improve their efficiency and cost effectiveness.

More specifically, MPS will be opening a new office in Edinburgh in the first half of 2009, which will help in delivering an improved level of service to our members in Scotland and assist in the building of stronger links with those involved in regulation and legislation of healthcare in Scotland. In a similar vein, MPS will, during 2009, undertake a review of the delivery of its services to its non-UK members to determine whether improvements are possible.

As mentioned in the Chief Executive's report, 2009 will see a significant increase in the delivery of educational and risk management workshops to members. Using the workshops and courses developed by the Cognitive Institute in Australia, a member of the MPS group of companies, MPS plans to deliver these courses initially to members in UK, Ireland, South Africa, Singapore and New Zealand and expand this to our members in other countries thereafter. This is a significant undertaking, requiring the identification and training, in each major country, of doctors and dentists to deliver these workshops and courses, as well as the recruitment of a dedicated resource to continually update existing courses and develop new ones.

DONATIONS

Charitable donations made by MPS during the year amounted to £11,000 (2007: £14,000): £1,000 in favour of the Royal Medical Benevolent Fund; and £10,000 in favour of the Charities Aid Foundation in lieu of fees waived by a Director of MPI (London) Limited. No political donations were made during the year (2007: £nil).

EMPLOYEES

During the year MPS continued to provide employees with relevant information and seek their views on matters of common concern through the Staff Consultative Group, staff briefings and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting MPS's trading position and of any significant organisational changes. MPS also seeks regular feedback from its employees and a number of different mechanisms exist for this, including a company-wide staff survey that is conducted every two years.

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

MPS has also sponsored the establishment of a group of staff to investigate ways that MPS can be more energy efficient and reduce waste. This group has sought advice from external consultants and issued its initial report in 2008. The report was subsequently discussed by the Senior Management Group and relevant actions were adopted to try and reduce consumption of energy and materials.

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

MEMBERS OF THE COUNCIL

The names of the members of the Council of MPS who served during the year are set out on page 9.

CORPORATE GOVERNANCE

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

COUNCIL

The Council, which is the Board of Directors of MPS, consists of a non-executive Chairman, a Chief Executive, two further executive members and eleven other non-executive members. MPS's constitution requires that the majority of Council members are doctors or dentists and that the Chairman is a doctor or dentist.

Of the non-executives (including the Chairman), seven are doctors or dentists and five are not. The non-executives are considered to be independent. The five non-executives who are not a doctor or dentist have no financial interest in MPS other than their fees as members of the Council. The seven non-executives who are a doctor or dentist have varying financial interests in MPS, but these are not felt sufficient to compromise their independence. They receive fees as members of the Council and, in addition, two received fees for acting as expert witnesses on behalf of MPS members, one received fees for

Report of the Council

Continued

providing risk management services to members and six had personal membership with MPS.

MPS continues to review the transparency of the independence of its non-executive directors and to provide appropriate guidelines for all directors on their ethical conduct as a director of MPS. To this end, MPS introduced this year, for MPS and its subsidiary boards, a register of interests and also published internally a Code of Ethical Conduct for all staff, which will apply equally to members of the Council.

MPS has separate posts of Chairman and Chief Executive to differentiate the running of the Council from the executive responsibility for the running of the business. The Council considers that the non-executive members of the Council as a group are of a sufficient calibre and number to bring strength and independence to the Council and does not propose to nominate any one non-executive to be a senior independent member of the Council. In stating this, the Council recognises that this is not in accordance with the relevant provision of the Combined Code.

The normal retirement age for executive members of the Council is 65, a change made in 2006, prior to which normal retirement age was 60. Transition provisions have been made for those within 10 years of retirement at the date of the change. The same legislation prompted a review of the retirement requirements for non-executives and, in 2007, members voted at the Annual General Meeting to change the Articles of

Association, to remove any upper age limit for non-executive directors.

All Council members, except for the Chief Executive and the Chairman of Dental Protection Limited, are subject to election by members at the first opportunity after their appointment by the Council and to re-election (excepting the Chief Executive and the Chairman of Dental Protection Limited) at general meetings at least every three years. The Chief Executive is appointed by the Council and can be removed by the Council. The Council recognises that not subjecting the Chief Executive to re-election is a departure from the relevant section of the Combined Code, but believes that it does not compromise the independence or integrity of the Council. The Chairman of Dental Protection Limited is a member of the Council *ex officio*, and is elected to the post by the Board of Dental Protection Limited. Directors of Dental Protection Limited are elected by the shareholder of the company, which is MPS and thus the Council of MPS has the ability to appoint and remove directors of Dental Protection Limited. Non-executive members of the Council are limited to an eight-year term.

The Council met formally eight times during the year (nine times in 2007). In addition to these regular meetings, the Council also devoted the better part of a day for an additional meeting to consider and review the organisation's business objectives and strategy. The attendance record of members of the Council at the eight meetings (nine meetings in 2007) is shown in table 1 below:

Member of the Council	Appointed/Retired	Meetings Attended	
		2008	2007
Frank Attwood	Appointed 11 July 2007	8	8
Keith Bradley		7	4
Ian Croxford		5	2
Nicholas Davies		7	8
Mark Dinwoodie	Appointed 14 November 2007	8	9
Mary Favier		8	8
Kathryn Harley		7	9
Taj Hassan		6	7
John Hickey	Retired 30 September 2007	N/A	7
Leela Kapila		8	9
Simon Kayll		8	9
Kevin Lewis		7	8
Ravinder Maini	Appointed 16 October 2007	6	7
Tony Mason		8	2
Elizabeth Vallance		7	8
John Leighton Williams		N/A	4
Richard Youell	Retired 13 June 2007	8	9

TABLE 1
Attendance record of the members of the Council at Council meetings.

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

Non-executive members of the Council met once during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman and executive if they wish – this was not thought necessary during 2008.

SUB-COMMITTEES OF THE COUNCIL

The Council has a Nominations, Remuneration and Audit Committee, the members of which are listed on page 9.

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

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

The Audit Committee is chaired by a non-executive member of the Council, Frank Attwood, (a former audit partner of an international firm of Chartered Accountants) and met twice in the year. MPS's external auditors, Chairman, Chief Executive, Finance Director, Financial Controller and Internal Audit and Compliance Officer also attend the meetings and the Committee has an opportunity to meet the external auditors without management present. Other senior managers attend for specific agenda items as required. The Audit Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and

objectivity of the auditors. It also reviews prior to publication the annual financial statements and the other information included in the Annual Report. The Audit Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

The attendance record of members of the Audit Committee is shown in table 2 below. The Committee meets in March and November.

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

Several members of the Council are members of the Board of MPI (London) Limited, which manages MPS's investment portfolio, and of the Board of MPS Risk Solutions Limited, which provides general insurance contracts to corporate healthcare providers. Both Boards are chaired by the Chairman of the Council and the members are listed on page 9.

THE ROLE OF THE COUNCIL

The Council's principal focus is the overall strategic direction, development and control of the MPS group. In addition, it is also ultimately responsible for the exercising of discretion in response to requests for assistance. In practice, this is delegated on a daily basis to the executive management and employees. However, the Council is specifically involved in exercising discretion related to potentially controversial, expensive or unusual requests for assistance.

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

Member of Audit Committee	Appointed/Retired	Meetings Attended	
		2008	2007
Frank Attwood	Appointed 13 July 2007	2	2
Mark Dinwoodie		2	2
Taj Hassan		2	1
Leela Kapila		2	2
Ravinder Maini		1	2
Elizabeth Vallance		2	2

TABLE 2
Attendance record of the members of the Audit Committee at Committee meetings.

Report of the Council

Continued

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

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

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

BOARD EVALUATION

The Council undertakes an annual evaluation of its performance based upon a questionnaire and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the 2008 evaluation were presented to the Council by the Chairman in its February 2009 meeting and resulting actions were approved by the Council.

INTERNAL CONTROL

The Council has overall responsibility for MPS's system of internal controls and for reviewing its effectiveness whilst the role of management is to implement the Council's policies on risk and control. The system is designed to manage, rather than eliminate, the risk of failure to achieve the business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

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

- Discusses with the external auditors their audit approach, and agrees any particular aspect of internal control or risk management to be reviewed by them beyond their statutory responsibilities
- Discusses with independent consulting actuaries their approach to statistical reserving of reported claims and potential claims that have yet to be reported
- Considers the results of the external auditors' work with them and with management
- Initiates as necessary and considers reports from management on systems of internal control and on the effectiveness of risk management
- Reports the results of its work, with any necessary recommendations, to the Council and ensures that actions required by the Council are implemented. One such report is made at the year-end before producing this statement.

MPS has an Internal Audit and Compliance Officer whose responsibilities include internal audit. Internal audit is concerned with providing assurance over a wide range of issues, including financial, corporate and operational risks. The Internal Audit and Compliance Officer works closely with the external auditors and also attends the Audit Committee meetings. The Audit Committee is responsible for monitoring and reviewing the internal audit function undertaken by the internal audit and compliance officer. The Audit Committee receives summaries of all internal audit reports, is involved in approving the annual internal audit plan and is able to question the Internal Audit and Compliance Officer about his work at each committee meeting.

REMUNERATION REPORT

The Remuneration Committee is responsible for recommending to the Council, fees for members of the Council, Committees and directors of subsidiaries as well as deciding the remuneration of senior staff and receiving recommendations from the Chief Executive for the remuneration of other employees. In framing its policy, the Remuneration Committee aims to attract and retain senior staff to run MPS successfully without making excessive payments. In 2008 MPS, for the first time, instigated an incentive scheme paying a modest reward to the nine most senior staff (excluding the Chief Executive) based on performance of a range of criteria. This has proved successful and a similar scheme will, in 2009, be introduced to the next layer of management, comprising about a further 21 staff. It remains as in the past, that the non-executive members of the Council do not receive any incentive or performance-related remuneration. Because MPS is not a listed company, this report is not required to comply with the rules on Remuneration Reports.

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

RELATIONS WITH MEMBERS

The provisions of the Combined Code relate to communication by companies with their shareholders and thus some of the details do not apply to the different relationship that MPS has with its members. However, the general tenor of the provisions is applicable to MPS and MPS values its dialogue with members. The Council also uses the Annual General Meeting to communicate financial performance with members and encourages their participation. Members of the Audit, Nomination and Remuneration committees will be present at the Annual General Meeting to respond to any relevant questions if necessary.

The notice for the Annual General Meeting is sent to members at least 20 working days before the meeting date.

DERIVATIVE FINANCIAL INSTRUMENTS

During the year MPS's investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses of these contracts are included in note 4 under other investment income. These instruments were held to take advantage of short-term changes in bond market

prices. During the year this was achieved by entering into a number of contracts, which involve the purchase or sale of an underlying asset at a price fixed today for delivery at some date in the future. Table 3 below shows the contracts that were entered into during the year.

RISK CHARACTERISTICS OF DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate risk

Derivatives are sensitive to interest rate movements so it is necessary to determine the interest rate risk that such contracts will be exposed to. This is done by comparing the risk of the underlying asset against the risk of the derivative. For an asset such as a bond the risk is calculated by multiplying the dirty price (the price of the bond plus accrued interest) of the bond by its modified duration. The bond future risk is then calculated by multiplying the bond risk by a conversion factor used in the pricing of the contract. The bond risk and future risk are then compared to determine the number of futures contracts that need to be held.

Credit Risk

Credit risk encompasses all forms of counterparty risk. MPS manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the

Currency	Contract Type	Currency	Contract Type
GBP	Long Gilt future	JPY	10 year bond future (TSE)
GBP	90 day sterling future	JPY	10 year bond future (LIF)
GBP	3 month Libor option	JPY	3 month Euroyen TFX
GBP	Interest rate swap	JPY	10 year bond future (mini JGB)
GBP	Inflation swap	EUR	Inflation swap
CAD	10 year bond future	EUR	Interest rate swap
CAD	Bank Acceptance Note	EUR	Euro-Bobl option
CAD	Interest rate swap	EUR	Euro-Bobl future
CHF	3 month bond future	EUR	Euro-Schatz option
NOK	Interest rate swap	EUR	Euro-Schatz future
USD	2 year note future (CBT)	EUR	Euro-Bund option
USD	10 year note future	EUR	Euro-Bund future
USD	90 day Eurodollar future	EUR	3 month Euribor future
ZAR	Interest rate swap	EUR	Euribor option
ZAR	Bond future		
AUD	3 year bond future		
AUD	10 year bond future		

TABLE 3
Contracts entered into
during the year

Report of the Council

Continued

maximum exposure to any particular investment. Credit risk is further managed by all such derivative contracts being of short-term duration.

GOING CONCERN

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

AUDITORS

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

STATEMENT OF THE COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Council is responsible for preparing the Annual Report 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 the law the Council are required to prepare financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practices). The financial statements are required by law to give a true and fair view of the state of affairs of MPS and the Group and of the surplus or deficit of the Group for that period. In preparing these financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of MPS and the Group and to enable it to ensure that the financial statements comply with the Companies Act 1985. It is also responsible for safeguarding the

assets of MPS and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This Annual Report is available on MPS's website. The maintenance and integrity of MPS's website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in the annual reports may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITORS

At the date of making this report, each of the Members of the Council, as set out on page 9, confirm the following:

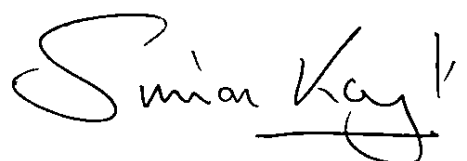
- so far as each Council Member is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware; and
- the Council Members each have taken all the steps that they ought to have taken as a Council Member in order to make themselves aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

APPROVAL

This report was approved by the Council on 8 April 2009 and signed on its behalf by:

Simon Kayll

Company Secretary
33 Cavendish Square, London, W1G 0PS



Independent Auditor's report

to the Members of The Medical Protection Society Limited

We have audited the group and company financial statements (the 'financial statements') of The Medical Protection Society Limited for the year ended 31 December 2008 which comprise the principal accounting policies, the group income and expenditure account, the group and company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses and notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

The Council's responsibility for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) is set out in the Statement of the Council's Responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Council's report is consistent with the financial statements. The information given in the Council's report includes specific information presented in the Chief Executive's report and the Finance Director's report that is cross-referenced from the financial performance for the year section in the Council's report.

In addition, we report to you if, in our opinion, the group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Council members' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial

statements. The other information comprises only the Chairman's statement, the Chief Executive's report, the Finance Director's report and the report of the Council. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and MPS's affairs as at 31 December 2008 and of the net contribution available to meet future liabilities and charges of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Council's report is consistent with the financial statements.

Grant Thornton UK LLP

Grant Thornton UK LLP

Registered Auditor
Chartered Accountants
Leeds, England
8 April 2009

Financial statements

Year ended 31 December 2008

Notes	CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT YEAR ENDED 31 DECEMBER 2008	2008	2007
		£'000	£'000
	Income: continuing operations		
	Members' subscriptions and other income	252,377	232,142
	Expenditure		
14	Claims costs and associated legal costs (including costs of insurance)	160,472	100,461
	Insurance recoveries	(1,013)	(1,661)
14	Advisory costs and associated legal costs	42,906	31,521
3a	Education, publications and external relations	3,139	2,102
3b	Administration expenses	15,453	11,431
3c	Profit on exchange movements	(48,940)	(11,206)
10	Impairment of subsidiary company investment	–	1,764
		172,017	134,412
	Excess of members' subscriptions and other income over expenditure continuing operations	80,360	97,730
4	Income from investments	31,415	25,581
8	Other finance income	467	522
	Realised gains/(losses) from disposal of investments	476	(957)
	Contribution from ordinary activities before taxation	112,718	122,876
5a	Tax on investment income and gains	(16,314)	(10,284)
16	Net contribution for the year available to meet future liabilities and charges	96,404	112,592

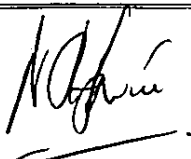
Notes	STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	2008	2007
		£'000	£'000
	Net contribution for the financial year	96,404	112,592
15	(Deficit)/surplus on revaluation of investments	(38,592)	35,759
15	(Deficit)/surplus on revaluation of fixed assets	(1,763)	6
8	Actuarial gains on defined benefit pension scheme	683	3,049
5a	Tax charge on investment gains	(7,073)	(385)
	Total recognised gains	49,659	151,021
Notes	NOTE OF HISTORICAL COST INCOME AND EXPENDITURE	2008	2007
		£'000	£'000
	Reported net contribution before tax	112,718	122,876
15	Realisation of valuation gains of previous years	6,187	1,119
15	Difference between a historical cost depreciation charge and the actual depreciation charge of the year calculated on the revalued amount	72	69
	Historical cost net contribution before tax	118,977	124,064
	Historical cost net contribution retained after tax	95,590	113,395

Financial statements

Year ended 31 December 2008

CONSOLIDATED AND COMPANY BALANCE SHEETS		2008 GROUP £'000	2007 GROUP £'000	2008 COMPANY £'000	2007 COMPANY £'000
Notes	AT 31 DECEMBER 2008				
	Fixed assets				
9	Tangible assets	8,705	7,999	8,537	7,885
10	Investments	1,132,392	1,015,393	766,056	31,009
		1,141,097	1,023,392	774,593	38,894
	Current assets				
12	Debtors – due within one year	5,223	6,098	89,773	732,726
12	– due after one year	13,692	13,115	13,692	13,115
	Bank deposit accounts	93,995	104,611	16,321	26,354
	Cash at bank and in hand	1,199	3,496	868	3,295
		114,109	127,320	120,654	775,490
13	Creditors – amounts falling due within one year	(64,099)	(60,051)	(41,143)	(50,280)
	Net current assets	50,010	67,269	79,511	725,210
	Total assets less current liabilities	1,191,107	1,090,661	854,104	764,104
14	Provision for liabilities and charges	(398,306)	(346,395)	(396,064)	(345,608)
	Net assets excluding pension asset	792,801	744,266	458,040	418,496
8	Pension asset	3,965	2,841	3,965	2,841
	Net assets	796,766	747,107	462,005	421,337
15	Accumulated funds				
	Revaluation reserve	76,595	123,209	1,058	2,893
	Income and expenditure	720,171	623,898	460,947	418,444
16	Funds available to meet future liabilities and charges	796,766	747,107	462,005	421,337

Nicholas Davies
Chairman of the Council
8 April 2009



CONSOLIDATED CASH FLOW STATEMENT

Notes YEAR ENDED 31 DECEMBER 2008

	2008 £'000	2007 £'000
17 Net cash inflow from operating activities	90,577	111,712
18 Returns on investment and servicing of finance	31,415	25,581
Taxation	(10,367)	(3,531)
Acquisition of subsidiary company	(243)	(664)
19 Capital expenditure and financial investment	(120,537)	(145,040)
	(9,155)	(11,942)

Net cash inflow from management of liquid resources
(comprising bank deposits and investment deposits)

6,858 13,128

(Decrease)/increase in cash in the period**(2,297)** 1,186**Analysis of changes in net funds**

	At 1/1/2008 £'000	Cash flow movement £'000	At 31/12/2008 £'000
Cash at bank and in hand	3,496	(2,297)	1,199
Bank deposit accounts	104,611	(10,616)	93,995
Cash with investment managers	7,250	3,758	11,008
Net funds	115,357	(9,155)	106,202

Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
(Decrease)/increase in cash	(2,297)	1,186
Cash flow from decrease in net liquid resources	(6,858)	(13,128)
	(9,155)	(11,942)
Net funds at 1 January	115,357	127,299
Net funds at 31 December	106,202	115,357

Notes to the accounts

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

CONVENTION

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

2 ACCOUNTING POLICIES

(a) CONSOLIDATION

The Group financial statements comprise a consolidation of the financial statements of the parent company (the "Company") and all its subsidiary undertakings (together, the "Group") as at 31 December and as identified in note 11. In accordance with the exemptions given by Section 230 of the Companies Act 1985, the Company does not publish its own income and expenditure account.

(b) SUBSCRIPTIONS

Subscription income comprises amounts receivable during the year, apportioned to accounting periods on a time basis and stated at the fair value of the consideration receivable. It is recognised when the Company has performed its obligations and in exchange obtained the right to consideration. 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) TANGIBLE FIXED ASSETS AND DEPRECIATION

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

The principal annual rates used for other assets are:

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

(d) TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Income and expenditure in foreign currencies are translated to their sterling equivalent at the rate ruling at the transaction date. Monetary assets and liabilities appearing in the balance sheet are translated at the rate of exchange ruling at 31 December or at a rate fixed in advance by way of a forward exchange contract. Any gains or losses are taken to the income and expenditure account, except for those arising from international equities, which are taken to the statement of total recognised gains and losses.

(e) INTEREST RECEIVABLE AND DIVIDENDS

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

(f) INVESTMENTS

Listed investments (which include cash held by the investment managers awaiting investment) are included in the balance sheet at market valuation. The net surplus or deficit on revaluation is credited or charged to the revaluation reserve. In accordance with FRS3, on disposal the proceeds are compared with the carrying value and the gain or loss credited or charged to the income and expenditure account.

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

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

(g) DERIVATIVE FINANCIAL INSTRUMENTS

The Group's investment managers are permitted to hold derivative financial instruments to enhance investment returns. Realised gains and losses are taken directly to the income and expenditure account.

(h) COSTS AND DAMAGES FOR CLAIMS OF NEGLIGENCE

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

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

(i) COSTS RELATED TO ALL OTHER CLAIMS

Provision is made at discounted future settlement values for estimated future costs of these claims that have been notified to MPS by 31 December in respect of which the Council has exercised or is expected to exercise its discretion to provide assistance.

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

(j) TAX

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

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

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

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

Notes to the accounts

Continued

2 ACCOUNTING POLICIES: continued

(k) PENSIONS

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

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

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

(l) LEASING

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

3a EDUCATION, PUBLICATIONS AND EXTERNAL RELATIONS

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

3b ADMINISTRATION EXPENSES

Included under this classification are:

Operating lease rentals – Land and buildings
– Motor vehicles

Loss on disposal of tangible fixed assets

Depreciation of fixed assets

Auditor's remuneration

Services to the Company and its subsidiaries

Fees payable to the Company's auditor for the audit of the annual financial statements

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
– Other services relating to taxation – compliance and advice

Services to the Company's associated pension scheme

– Audit of the financial statements of the scheme pursuant to legislation

2008	2007
£'000	£'000
1,751	1,083
90	93
40	163
910	735
60	59
12	12
79	41
4	4

3c EXCHANGE MOVEMENTS

The majority of the gains on exchange movements relate to the restatement of international bonds and cash assets held to match international liabilities. These gains are substantially offset by a corresponding increase in international claim liabilities, which are included in costs through an increase in the overall claims provisions (note 14).

4 NET INCOME FROM INVESTMENTS	2008 £'000	2007 £'000
Bond and gilt interest	24,608	19,072
Bank interest	4,865	6,439
Other investment income	1,942	70
	31,415	25,581

Other investment income includes net gains arising from derivative financial instruments, which are discussed in more detail in the Report of the Council on pages 23–24.

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

5a TAX ON INCOME AND GAINS FROM INVESTMENTS

Tax on income and gains included in the income and expenditure account for the year	2008 £'000	2007 £'000
UK corporation tax:		
Current tax on income and gains for the year at 30%/28% (2007: 30%)	16,209	10,277
Adjustment in respect of prior years	89	1
Double taxation relief	(14)	(12)
	16,284	10,266
Foreign tax:		
Current tax on income for the year	30	18
Tax on investment income and gains in the income and expenditure account	16,314	10,284
Tax on other gains included in the statement of total recognised gains and losses for the year		
UK corporation tax:		
Current tax charge on gains for the year at 30%/28% (2007: 30%)	7,073	385
Tax on other gains included in the statement of total recognised gains and losses for the year	7,073	385

Notes to the accounts

Continued

5b FACTORS AFFECTING TAX CHARGE FOR THE YEAR

Current tax reconciliation

Differences between the current tax charge for the period and the expected tax charge based on the current rate of 28% (2007: 30%) are explained below:

	2008 £'000	2007 £'000
Contribution before tax per accounts	112,718	122,876
Less: non-taxable contribution (see below)	(41,437)	(88,623)
Income and net losses from investments included in the income and expenditure account for the year	71,281	34,253
Income and net losses from investments multiplied by the standard rate of corporation tax in the UK of 28% (2007: 30%)	19,959	10,276
Effects of:		
Depreciation in excess of capital allowances	7	–
Expenses not deductible for tax purposes	69	1
Loan relationship losses brought forward	(4,390)	–
Effects of standard tax rate change	354	–
Tax on income from unlisted investments not yet recognised	210	–
Current tax charge for the year	16,209	10,277

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

5c UNPROVIDED DEFERRED TAXATION

A £3.7 million (2007: £17.3 million) tax charge would arise should MPS's equity investments and freehold property be sold at the market values at which they are included in the balance sheet.

6 EMOLUMENTS OF MEMBERS OF THE COUNCIL

	2008 £'000	2007 £'000
Aggregate amount of emoluments paid to members of the Council (including executive members)	941	861
Chairman	49	45
Highest paid member of the Council		
Chief Executive:		
– John Hickey to 30 September 2007 – emoluments and taxable benefits	–	160
– accrued annual defined benefit pension rights	–	98
– Tony Mason from 16 October 2007 – emoluments and taxable benefits	245	50
– accrued annual defined benefit pension rights	2	1
– employer contributions to defined contribution pension scheme	28	–

There are 3 (2007: 3) executive members of the Council who are members of MPS's defined benefit pension scheme, details of which are set out in note 8.

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £18,925 (2007: £18,100). An increase of £825 per annum was implemented on 1 March 2008. The following members of the Council, who were members of other Boards and Committees, received additional remuneration as detailed below.

Council Member	Additional Remuneration (£)	Council Member	Additional Remuneration (£)
Frank Attwood	13,650	Leela Kapila	4,567
Mark Dinwoodie	4,567	Ravinder Maini	4,567
Mary Favier	2,283	Elizabeth Vallance	2,283
Kathryn Harley	18,158	Richard Youell	2,283
Taj Hassan	6,850		

In addition, and as stated in the Report of the Council on pages 19–20, 2 members of the Council received fees for acting as expert witnesses on behalf of MPS, 1 received fees for providing risk management services to members and 6 had personal membership of MPS.

7 EMPLOYEES

The average number of people employed by the Group and the Company during the year was 333 (2007: 304)

Costs in respect of these employees were	2008 £'000	2007 £'000
Wages and salaries	14,539	12,491
Social security costs	1,453	1,292
Pension costs	2,395	2,333
	18,387	16,116

8 PENSIONS

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

The last full actuarial valuation as at 31 December 2005 was updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, the value of the defined benefit liabilities has been measured using the projected unit method.

A further full actuarial valuation is being carried out as at 31 December 2008.

The following tables set out the key FRS17 assumptions used for the scheme. The tables also set out, as at the accounting date, the fair values of the assets, analysed by asset class, the present value of the scheme liabilities and the resulting pension surplus. FRS17 requires that this surplus be shown as "Pension asset" on the face of the balance sheet.

Notes to the accounts

Continued

8 PENSIONS: continued

Principal actuarial assumptions	2008 % pa	2007 % pa
Price inflation	3.1	3.5
Discount rate	6.4	5.7
Pension increases (LPI 5%)	2.9	3.4
Pension increases (LPI 3%)	2.5	2.7
Salary growth	4.6	5.0
Expected return on assets at start of year	6.3	6.4

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 28.0 years (2007: 26.7 years). Allowance is made for future improvements in life expectancy.

Balance sheet

	2008 £'000	2007 £'000
Defined benefit obligation	40,987	44,831
Fair value of scheme assets	(44,952)	(47,672)
Pension asset in the balance sheet	(3,965)	(2,841)

The current allocation of pension scheme assets is as follows

	%	2008 £'000	%	2007 £'000
Equities	51	22,681	59	28,197
Bonds	23	10,315	38	18,231
Liability driven investment	24	10,920	—	—
Property	1	635	2	865
Cash	1	401	1	379
Total	100	44,952	100	47,672

The following amounts are recognised in the income and expenditure account

	2008 £'000	2007 £'000
Current service cost	2,279	2,317
Interest cost	2,607	2,257
Expected return on pension scheme assets	(3,074)	(2,779)
Total expense recognised in income and expenditure account	1,812	1,795

Within the income and expenditure account current service costs are recognised within administration expenses and the net of interest costs and the expected return on pension scheme assets are recognised as other finance income of £467,000 (2007: £522,000).

The defined benefit obligation moved over the year as follows	2008 £'000	2007 £'000
Opening defined benefit obligation	44,831	43,654
Current service cost	2,279	2,317
Interest cost	2,607	2,257
Contributions by scheme members	500	442
Actuarial gains	(8,286)	(2,283)
Benefits paid	(944)	(1,556)
Closing defined benefit obligation	40,987	44,831

The fair value of the scheme assets moved over the year as follows	2008 £'000	2007 £'000
Opening fair value of scheme assets	47,672	43,211
Expected return on scheme assets	3,074	2,779
Actuarial (losses)/gains	(7,603)	766
Contributions by the employer	2,253	2,030
Contributions by scheme members	500	442
Benefits paid	(944)	(1,556)
Closing fair value of scheme assets	44,952	47,672
The actual return on scheme assets was	(4,529)	3,545

Over the year to 31 December 2008, MPS made contributions of £2,252,737 (2007: £2,029,699) to the scheme. It has been agreed that future employer contributions will be at a rate of 20% of pensionable salaries.

The following amounts are recognised in the statement of total recognised gains and losses	2008 £'000	2007 £'000
Actuarial gains	(683)	(3,049)

Five year history	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Defined benefit obligation	40,987	44,831	43,654	39,451	30,945
Fair value of scheme assets	(44,952)	(47,672)	(43,211)	(38,191)	(26,541)
(Surplus)/deficit	(3,965)	(2,841)	443	1,260	4,404
Experience adjustments on scheme liabilities	–	–	814	–	–
Experience adjustments on scheme assets	7,603	(766)	(1,595)	(3,554)	(1,272)

Notes to the accounts

Continued

9 TANGIBLE FIXED ASSETS	Freehold property	Leasehold property	Computers, furniture, fittings and office equipment	Total
	£'000	£'000	£'000	£'000
<i>Group</i>				
Cost or valuation				
At 1 January 2008	6,300	410	6,239	12,949
Additions	614	1,162	1,679	3,455
Disposals	–	(2)	(740)	(742)
Revaluation	(1,914)	–	–	(1,914)
At 31 December 2008	5,000	1,570	7,178	13,748
Depreciation				
At 1 January 2008	–	405	4,545	4,950
Provided in year	151	32	727	910
Released on disposals	–	–	(666)	(666)
Released on revaluation	(151)	–	–	(151)
At 31 December 2008	–	437	4,606	5,043
Net book value				
At 31 December 2008	5,000	1,133	2,572	8,705
At 31 December 2007	6,300	5	1,694	7,999
<i>Company</i>				
Cost or valuation				
At 1 January 2008	6,300	406	6,043	12,749
Additions	614	1,109	1,614	3,337
Disposals	–	–	(700)	(700)
Revaluation	(1,914)	–	–	(1,914)
At 31 December 2008	5,000	1,515	6,957	13,472
Depreciation				
At 1 January 2008	–	405	4,459	4,864
Provided in year	151	31	666	848
Released on disposals	–	–	(626)	(626)
Released on revaluation	(151)	–	–	(151)
At 31 December 2008	–	436	4,499	4,935
Net book value				
At 31 December 2008	5,000	1,079	2,458	8,537
At 31 December 2007	6,300	1	1,584	7,885

All the leasehold properties held at 31 December 2008 are short leaseholds.

9 TANGIBLE FIXED ASSETS: continued**ASSETS INCLUDED AT VALUATION**

The freehold property was originally revalued on 31 December 1999 on the basis of the Existing Use Value including notional directly attributable acquisition costs. The valuation was independent and external and was carried out by DTZ Debenham Tie Leung, Chartered Surveyors, in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. In the intervening period further full and interim valuations have been carried out by the above Chartered Surveyors in accordance with FRS15, Tangible Fixed Assets. The last full valuation was carried out on 3 December 2004 and the latest interim valuation was carried out as at 31 December 2008.

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

	£'000
Cost	4,972
Depreciation	(1,029)
At 31 December 2008	3,943
At 31 December 2007	3,490

Capital commitments

Capital expenditure approved and contracted for amounted to £ nil (2007: £ nil).

10 INVESTMENTS

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Valuation or cost at 1 January	1,015,393	834,116	31,009	31,001
Additions	337,910	279,954	735,610	1,772
Disposals at carrying value	(220,316)	(136,715)	-	-
Provision for impairment of subsidiary company investment	-	-	(563)	(1,764)
Movement in cash	3,758	(5,892)	-	-
Foreign exchange gains on listed investments	34,239	8,171	-	-
(Deficit)/surplus on revaluation of listed investments	(38,592)	35,759	-	-
At 31 December	1,132,392	1,015,393	766,056	31,009
Investments comprise				
Listed on UK Stock Exchange:				
- Equities	81,434	104,094	-	-
- Government and other bonds	657,255	553,877	-	-
Listed on overseas Stock Exchanges:				
- Equities	126,223	187,852	-	-
- Government and other bonds	221,443	152,621	-	-
Unlisted	35,029	9,699	-	-
Shares in group undertakings	-	-	766,056	31,009
Cash	11,008	7,250	-	-
	1,132,392	1,015,393	766,056	31,009
Historical cost of investments	1,020,066	892,527	766,056	31,009

Notes to the accounts

Continued

11 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

MPS has the following interests in subsidiary undertakings.

Name	Parent and group interest in ordinary shares and voting rights	Cost of parent investment £'000	Country of incorporation or registration	Nature of business
Dental Protection Limited	100%	–	England	To manage the advisory and administrative affairs of the dental division of MPS.
MPS Risk Consulting Limited	100%	1,507	England	To provide risk management advice and consultancy and claims management to NHS trusts, health authorities and other healthcare organisations.
MPI (London) Limited	100%	755,001	England	To manage the investment portfolio.
DPL Australia Pty Limited	100%	–	Australia	To manage the administrative affairs of Dental Protection Limited in Australia.
MPS Risk Solutions Limited	100%	11,000	England	The provision of general insurance contracts to organisations in the healthcare sector.
MPS Holdings Australia Pty Limited	100%	–	Australia	Holding company.
The Cognitive Consulting Group Pty Ltd (Indirectly owned by MPS)	100%	–	Australia	To provide communication skills and risk management training to healthcare professionals in existing markets (Australia, New Zealand and Singapore) and, since acquisition, for the benefit of MPS's wider membership.

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

The ownership of MPS Holdings Australia Pty Limited, formerly known as MPS Risk Consulting Australia Pty Limited, was transferred to MPS on 22 February 2008.

During the year MPS Risk Consulting Limited ceased trading and an application for striking off of the company was made on 5 January 2009.

12 DEBTORS

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Receivable within one year				
Trade debtors	410	345	-	33
Recoverable insurance claims	1,521	1,457	1,521	1,457
Amounts owed by subsidiary undertakings	-	-	85,061	727,659
Other debtors	333	1,376	276	689
Prepayments	2,959	2,920	2,915	2,888
	5,223	6,098	89,773	732,726
Receivable after one year				
Recoverable insurance claims	13,692	13,115	13,692	13,115
Total debtors	18,915	19,213	103,465	745,841

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Corporation tax	20,158	7,138	31	258
Other taxes and social security	1,094	902	1,050	868
Other creditors and accruals	9,576	20,159	7,750	18,045
Deferred subscription income	33,271	31,852	32,312	31,109
	64,099	60,051	41,143	50,280

14 PROVISION FOR LIABILITIES AND CHARGES

	Reported negligence claims £'000	Claims handling £'000	Reported other claims £'000	Total claims £'000
<i>Group</i>				
At 1 January 2008	310,623	14,089	21,683	346,395
Movements in the year:				
- Charged to the income and expenditure account				
- Reported negligence claims	152,291	8,181	-	160,472
- Reported other claims	-	-	29,481	29,481
Paid	(107,951)	(6,097)	(23,994)	(138,042)
At 31 December 2008	354,963	16,173	27,170	398,306
<i>Company</i>				
At 1 January 2008	309,873	14,052	21,683	345,608
Movements in the year:				
- Charged to the income and expenditure account				
- Reported negligence claims	150,818	8,107	-	158,925
- Reported other claims	-	-	29,481	29,481
Paid	(107,863)	(6,093)	(23,994)	(137,950)
At 31 December 2008	352,828	16,066	27,170	396,064

Notes to the accounts

Continued

14 PROVISION FOR LIABILITIES AND CHARGES: continued

For both the Group and Company reported other claims of £29.5m, shown above, are included in the income and expenditure account within advisory costs and associated legal fees of £42.9m. The difference between these two figures of £13.4m relates to costs, other than external legal costs, incurred in providing advisory services to members.

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

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

The reported negligence claims provision is stated before insurance recoveries of £15.2m (2007: £14.6m) that are estimated to be recoverable from MPS's insurers.

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

15 MOVEMENT ON RESERVES

	Revaluation reserve £'000	Income and expenditure £'000	Accumulated £'000
<i>Group</i>			
At 1 January 2008	123,209	623,898	747,107
Deficit on revaluation of listed investments	(38,592)	–	(38,592)
Deficit on revaluation of fixed assets	(1,763)	–	(1,763)
Realised on disposal of investments	(6,187)	6,187	–
Actuarial gain recognised in pension scheme	–	683	683
Tax charge on recognised investment gains	–	(7,073)	(7,073)
Release of depreciation on revalued property	(72)	72	–
Net contribution for the year after tax	–	96,404	96,404
At 31 December 2008	76,595	720,171	796,766
<i>Company</i>			
At 1 January 2008	2,893	418,444	421,337
Deficit on revaluation of fixed assets	(1,763)	–	(1,763)
Actuarial gain recognised in pension scheme	–	683	683
Release of depreciation on revalued property	(72)	72	–
Net contribution for the year after taxation	–	41,748	41,748
At 31 December 2008	1,058	460,947	462,005

	2008 £'000	2007 £'000
16 RECONCILIATION OF MOVEMENTS IN FUNDS AVAILABLE TO MEET FUTURE LIABILITIES		
Net contribution for the financial year	96,404	112,592
Other recognised (losses)/gains relating to the year	(39,672)	38,814
Tax charge on investment gains	(7,073)	(385)
Total recognised gains	49,659	151,021
Opening funds available to meet future liabilities and charges	747,107	596,086
Closing funds available to meet future liabilities and charges (see note 21)	796,766	747,107

	2008 £'000	2007 £'000
17 RECONCILIATION OF EXCESS OF INCOME OVER EXPENDITURE TO OPERATING CASH FLOWS		
Excess of income over expenditure	80,360	97,730
Depreciation charges	910	735
Impairment of subsidiary company investment	–	1,764
Loss on disposal of tangible fixed assets	40	163
Increase in provisions	51,911	17,093
Decrease/(increase) in debtors	298	(851)
(Decrease)/increase in creditors	(8,729)	2,962
Foreign exchange gains on listed investments	(34,239)	(8,171)
Cash pension contributions less than current service cost and past service gain	26	287
Net cash inflow from operating activities	90,577	111,712

	2008 £'000	2007 £'000
18 RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received	4,865	6,439
Bond and gilt interest received	24,608	19,072
Other interest	1,942	70
Net cash inflow from returns on investments and servicing of finance	31,415	25,581

	2008 £'000	2007 £'000
19 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	(3,455)	(844)
Purchase of investments	(337,910)	(279,954)
Proceeds from sale of fixed assets	36	–
Proceeds from sale of investments	220,792	135,758
Net cash outflow from capital expenditure and financial investment	(120,537)	(145,040)

Notes to the accounts

Continued

20 COMMITMENTS	2008 Group £'000	2007 Group £'000	2008 Company £'000	2007 Company £'000
Operating lease commitments				
Land and buildings, leases expiring:				
– Two to five years	1,324	1,316	1,324	1,316
– Greater than five years	815	–	815	–
	2,139	1,316	2,139	1,316
Motor vehicles, leases expiring:				
– Within one year	4	4	4	3
– Two to five years	10	10	10	10
	14	14	14	13

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

MPS has issued a letter of credit to MPS Risk Solutions Limited in the sum of £20 million.

21 POTENTIAL CLAIMS THAT HAVE NOT YET BEEN REPORTED

Unreported incidents up to 31 December may give rise to claims in the future. These potential claims, which do not constitute a contingent liability because recognition of the liability is dependent on the Council exercising its discretion, will, to the extent to which the Council exercises that discretion, become MPS's responsibility under the occurrence basis of cover MPS provides. The funds on the balance sheet at 31 December 2008 are more than sufficient to cover the cost of these potential claims based on an actuarial assessment prepared by an independent firm of consulting actuaries and detailed in a report prepared in accordance with the Guidance Note "General Insurance Business: Actuarial Reports, (GN12)" published by the Faculty of Actuaries and Institute of Actuaries.

22 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.

23 GUARANTEE

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

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