

**Supporting members  
through difficult times**

# **Annual Report 2013**

**[www.medicalprotection.org](http://www.medicalprotection.org)**

WEDNESDAY



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# Contents

## About MPS

MPS is the world's leading protection organisation for doctors, dentists and healthcare professionals. We protect and support the professional interests of more than 290,000 members around the world. Our benefits include access to indemnity, expert advice and peace of mind. Highly qualified advisers are on hand to talk through a question or concern at any time.

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

Our philosophy is to support safe practice in medicine and dentistry by helping to avert problems in the first place. We do this by promoting risk management through our workshops, E-learning, clinical risk assessments, publications, conferences, lectures and presentations.

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

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<b>4</b>	<b>Chairman's statement</b>
<b>6</b>	<b>Chief Executive's report</b>
<b>8</b>	<b>Finance Director's report</b>
<b>10</b>	<b>Here to help you</b>
<b>14</b>	<b>Officers and Members of the Council and Committees</b>
<b>17</b>	<b>Advisers and Senior Staff</b>
<b>20</b>	<b>Strategic Report</b>
<b>26</b>	<b>Report of the Council</b>
<b>30</b>	<b>Independent Auditor's report</b>
<b>31</b>	<b>Financial Statements</b>
	■ 31 Consolidated income and expenditure account
	■ 31 Consolidated statement of total recognised gains and losses
	■ 31 Note of historical cost income and expenditure
	■ 32 Consolidated and company balance sheets
	■ 33 Consolidated cash flow statement
<b>34</b>	<b>Notes to the financial statements</b>
<b>51</b>	<b>Professional Advisers</b>

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**Kay-Tee Khaw**  
Chairman of the Council

**MPS has not stood still, and has put in place a programme of change to ensure we continue to meet the needs of members.**

## Chairman's Statement

### FIGHTING YOUR CORNER

In my statement last year, which was my first since becoming Chairman of the MPS Council, I said how proud I was to represent an organisation that puts members first – and that this was the ethos that drives our business, and our strategy. During this past year, which has for a number of reasons been difficult for healthcare professionals across the world, there has been a renewed commitment to this ethos. MPS is doing more than ever to fight the corner of our members, and in this report I will outline some of the actions we have been taking.

As many of you will know, the cost and frequency of clinical negligence claims have increased further and our investment returns remain challenged under current market conditions.

MPS has not stood still, and has put in place a programme of change to ensure we continue to meet the needs of members. Across a range of services – be it our helpline for membership enquiries, the speed in which we handle and approach negligence claims, our internal processes for monitoring trends and assessing risk – we have a programme of organisational change, utilising the expertise of industry-leading thinking. Simon Kayll's report will go into this in more detail but this is just one step towards building a new MPS – the heart of which is designed to serve you, our members.

As I mentioned earlier, the cost of clinical negligence claims has continued to be a growing concern this past year. In particular, members in Ireland, the UK and South Africa have felt a significant impact in terms of the resultant increases in their subscription rates. This simply cannot continue. Fortunately we have a diligent team of public affairs experts who are fighting hard to bring these issues to the attention of politicians and decision-makers around the world.

This year MPS is embarking on a sustained campaign in Ireland to bring about a solution to the escalating cost of claims. We are holding a series of roadshows for GPs that will provide an insight into some of the reasons why patients sue, and what can be done to reduce the risk of it happening. MPS has met with key decision-makers within the Irish government to discuss ways of controlling the spiralling legal costs connected to clinical negligence claims. We have monitored closely the progress of legislation such as the Legal Services Regulation Bill and are eager to see what points will be contained in the Mediation Bill, which we hope will be published by the end of 2014. We also spoke at an event on open disclosure, which was hosted by the State Claims Agency.

In South Africa, we met with a number of specialty groups to look at their individual claims experience. Using this information, we were able to share with them specific guidance on addressing their risk and improving patient safety. In Singapore, we were asked to assist the Singapore Medical Council with their handling of complaints against doctors.

In the UK, our main focus has been on openness and the confidentiality issues of patient records going online. The importance of being open and honest was thrown into stark reality following the Francis inquiry, and MPS continues to campaign for a change in culture within the NHS, over a duty of candour. We secured a front-page article in the *Health Service Journal* and highlighted our concerns. We also hosted a parliamentary reception on online medical records. The reception was attended by MPs, members of the House of Lords and key players in healthcare and stimulated a constructive debate about some of the challenges of the government's proposals for putting records online.

Fighting your cause when it comes to defending claims continues, of course, to be a major part of what MPS does. I think members will welcome the fact that we do not settle cases purely on the grounds of financial convenience. Once we have exercised our discretion to assist with a case, we will fight it robustly if we have the expert evidence to support our belief that there is a case to defend.

Last year we successfully defended 76% of medical claims and potential claims, and we shared many of the stories in each edition of *Casebook*, in many cases detailing the complex legal minefield some doctors have to face. In such circumstances it is reassuring to know that the very best advice and support is available to members, through our team of specialist lawyers, medicolegal advisers and dentolegal advisers. They always strive to secure the best outcome. Nearly all of the remaining 24% of medical claims and potential claims were settled on an appropriate basis without the need to go to trial.

With more than 40 panel law firms across the countries in which we offer membership, MPS has the largest network of medicolegal experts in the world. We use this local knowledge to secure strong expert witnesses to make our defence preparation as robust as possible. The scope of our expertise goes far beyond merely defending claims of negligence – our legal teams assist with disciplinary procedures from employers, regulatory issues – such as fitness to practise hearings before medical councils – inquests and complaints from patients. It is not unusual for one of these situations to develop into a claim, and our intervention can often resolve matters before this happens.

It is frequently said that prevention is better than cure, and this approach underlines MPS's approach to reducing risk. Last year, a substantial range of events, workshops, conferences and training days were held for members at various locations around the world. This includes more than 350 workshops held in the UK and Ireland, covering topics such as repeat prescribing and infection control, while in Ireland we piloted masterclass sessions for doctors working in obstetrics and gynaecology, and orthopaedics.

There were more than 100 workshops in South Africa, nearly 150 in Malaysia, Singapore and Hong Kong, and more than 70 in New Zealand. In the Caribbean and Bermuda, MPS ran a regular series of presentations and specially-commissioned medicolegal talks across a range of specialties. Figures taken from the latest feedback show that 95% of attendees would recommend an MPS workshop to their colleagues.

Looking ahead to 2014, we are not anticipating a significant change to the environment we operate in, though we are closely monitoring all our new UK claims as improvements in the UK legal process initiated by the LASPO reform in 2013 may start to have an effect on our overall claims experience.

The rest of this Annual Report looks in more detail at MPS's financial position and case experience over this past year. In the meantime, members should rest assured that MPS is doing all it can to address your concerns and challenges, especially in these difficult times.

Finally I would also like to thank my colleagues on the Council of MPS and in particular Frank Attwood, Mary Favier and the Lady Vallance who finished their terms of service in 2013, welcome our new members of the Council, Sally Scutt and Richard Brennan who joined in 2013 and thank all the staff of MPS for continuing to provide these vital services for members.

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**Simon Kayll**  
Chief Executive

**Every day, we seek to provide the reassurance and support that you yourself provide to your own patients.**

# Chief Executive's Report

I mentioned in last year's report that the global financial crisis, which began in 2008, marked a turning point in MPS's business environment. I also said that the word most regularly used to describe this environment is "challenging". A year on, we are still operating in very difficult circumstances, although as the Chairman alluded to in her statement, MPS is taking significant steps to overcome the challenges facing us and our members.

The accounts show that our assets – where we invest funds on behalf of members – have grown beyond £2 billion for the first time. These funds are held to meet the potential future cost of current and future claims that may arise from requests for assistance should MPS exercise discretion to assist. The value of claims where discretion has already been exercised to assist is shown on the balance sheet and at the end of 2013 was £844.9 million, a rise of £98.4m in the year. In addition to instances where MPS has already exercised discretion to assist, there are adverse incidents that have already taken place, in years when members have paid a subscription, but for which a request for assistance has not yet been made. Should a request be made for assistance with these matters in the future and should MPS exercise discretion to assist, then the current estimate of this future cost is £1,092m (see note 23 to the financial statements). This estimate compares to surplus funds available for members of £1,201.4m at year end, which MPS can choose to use at its discretion, having regard to the interests of members as a whole and the principles set out in our Articles of Association and our desire to treat members fairly. This is the first time that MPS has disclosed an estimate of the value of assisting with potential claims, where a request for assistance has yet to be made. We believe that disclosure of this estimate helps members to understand better MPS's financial position and the value retained for the benefit of current and past members.

## Meeting your needs

Last year MPS took an unprecedented number of calls to our Member Services helpline and reflecting on the peak periods in particular – and despite considerable effort by our existing staff – we realise that our service levels dipped below what members expect. This is one reason why I have initiated an extensive programme of change at MPS.

With this in mind, there is much to be positive about for members of MPS. The organisational changes within MPS, which were set in motion last year, are designed to ensure we offer a quality service to members and meet your needs. We want the service – and the assessment of risk and subscription pricing – to be as tailored to the individual as possible.

We have significantly invested in our Member Services function responsible for administering membership, with increased staffing levels to allow us to answer your phone and email queries much more swiftly. We are working on ways to assess the individual risk of each doctor and dentist with greater precision, thus allowing us to price subscriptions more accurately and fairly. Another area of focus is the upgrading of our IT systems, which will not only allow us to analyse emerging risk patterns and trends, but will also ensure relevant information is available to all areas of the business to improve service and efficiency. Our overall claims handling process is also being overhauled, which will mean cases are dealt with more quickly – with the relevant information being sought from members at an earlier stage, for example – which ultimately makes for a less stressful experience for all concerned.

## Claims and cases experience

The stress of being the subject of a clinical negligence claim is something we are acutely aware of, and we ensure our specialist legal teams approach cases with compassion and understanding in their armoury, as well as knowledge and expertise. Of course, this is true for complaints, disciplinary hearings, inquests and regulatory body investigations, which are all situations that we can assist members with – indeed, only about 20% of our caseload worldwide consists of claims. Every day, we seek to provide the reassurance and support that you yourself provide to your own patients.

## Successful defences

We were successful in a number of trial wins, including the case of a GP claim valued at £1.5m.

MPS also successfully defended a member against a claim valued at £2m, where a GP was accused of a delay in diagnosis of DVT. Thanks in part to a robust expert, the judge found in our member's favour after a three-day trial. Another claim, valued at around £800,000, was brought against a GP member for a delayed diagnosis of meningitis in a child, leaving him with profound bilateral deafness and mobility problems. MPS was successful in defending the case at trial.

## Highest settlements

The highest UK settlement in 2013 was a claim arising out of spinal surgery. There were concerns about consent and surgical technique, and the claimant was left with severe back pain, and consequent disability, requiring constant care. The claim (pleaded at £10m) was settled for £3.9m.

The highest Irish claim involved the failure to refer a premature baby for an ophthalmology review, leading to blindness as a result of retinopathy of prematurity (ROP). Negotiations were complex as the baby also suffered some brain damage that was not caused by the negligent treatment, and we were careful to ensure that compensation was only agreed for losses consequent on the ROP. Damages were agreed at €2.3m (£1.9m).

We have continued to see some high value South African cases. The highest settled for R25m (£1.7m). However, this was a highly unusual case involving the child of a European family residing in South Africa who then relocated back to their home country. The child, who had pre-existing brain damage, suffered additional injury as a result of a misplacement of a ventricular shunt. Again, negotiations were complex as we sought to identify only the losses occurring as a result of the injury.

In the Caribbean we settled a long-standing claim for US\$5.3m (£3.2m). This was a case involving a high-earning individual who suffered irreversible brain damage after undergoing conscious sedation for dental implants in 2005. He subsequently died in 2010 and his family claimed for loss of dependency and his substantial medical expenses.

## Legal Aid, Sentencing and Punishment of Offenders Act 2012 (LASPO)

In last year's report I discussed the potential effects of LASPO in the UK, which was due to take effect on 1 April 2013. As I said, the Act significantly restricts the level of costs recoverable from an unsuccessful defendant, meaning that we suspected many claimant lawyers were exceptionally active in pushing through clinical negligence claims before LASPO was due to take effect.

We are still tracking our experience of post-April cases to determine the impact that it is having both in relation to claim frequency and also claimant lawyer behaviour, but in the meantime we expect to continue receiving notifications of pre-April 2013 cases for some time.

We have continued to see some extraordinarily high levels of costs claimed by claimants in these pre-April cases. We are challenging these costs both on a case-by-case basis, and by identifying particular claimant law firms with high cost business models. In one dental claim, settled for £15,000, the firm presented a bill of costs for over £160,000. As a result we are having all outstanding cost matters for this firm assessed by the court, and we are also gathering information with a view to reporting the firm to its regulator.

## Dedicated to service

As I have explained earlier in this report, MPS is undergoing some extensive changes to streamline internal processes and ensure our level of service is as high quality and efficient as possible. Our staff are absolutely central to these changes: they are completely dedicated and focused, and have a united ambition to continually improve our service to members. It makes my job considerably easier and I would like to take this opportunity to thank everyone for their commitment and tireless efforts in supporting all we are trying to achieve at MPS.

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Howard Kew  
Finance Director

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

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## Finance Director's Report

The statement of the Chairman and the Chief Executive's report clearly explain the environment we are operating in and it is inevitable that the effects of a general increase in the number of claims against our members, and the increasing average size of those claims, are reflected in the financial position of MPS. However, MPS has managed to steer an even course, posting a small deficit of £7.7 million on the year (2012: deficit of £27.5m).

Throughout the period we have maintained an appropriate pricing and reserving policy to reflect the financial and legal risks that our members are exposed to when undertaking their clinical practice.

During 2013, the assets of MPS moved above £2 billion for the first time, finishing the year at £2,046.3m (2012: £1,898.7m), an increase of 7.8% over the whole year. This growth in assets is a result of the market returns on the funds we invest on behalf of the members, and increased revenue as the individual levels of subscription increased against a slightly larger membership group (up 11.1% from £339.4m to £377.0m).

However, it is vital to understand that the resources of MPS are managed on a long-term basis to ensure that we are not financially impeded when exercising our discretion to support members and meet future potential obligations. In principle, the subscription income we collected in 2013 is held on behalf of the members to meet the risks arising from their clinical activities in 2013, acknowledging that these funds need to be invested in anticipation of the costs crystallising in future years.

We recognise that increasing levels of subscription are undesirable for the membership but whilst our assets have grown, so have our expectations of future indemnity and related costs, both in terms of the liabilities associated with the cases we are currently managing and our estimates of the costs that may arise from accepting requests for assistance in the future.

Meanwhile, the nature of the risks we indemnify and the services we provide to members mean that the full costs only emerge over a long period of time. There may be a considerable reporting delay followed by an extended period whilst the exact liability is established.

So whilst we paid out over £251.9m (2012: £220.6m) in indemnity-related damages and other case-related costs in the calendar year of 2013, we still hold

a further £844.9m of reserves (£746.5m at 31 December 2012) for concluding incidents where we have confirmed we will assist.

This picture is completed by our estimate of the potential future cost of requests where MPS decides to grant assistance relating to incidents that have occurred prior to 31 December 2013 but have yet to emerge as a claim against a member. As noted in the Chief Executive's report, this figure is estimated at £1,092m.

Whilst the overall picture has been one of increasing claims and subscriptions, the scale and diversity of MPS is reflected in the fact that not all countries and groups of professionals are experiencing the same levels of increase. When we are pooling the risks of nearly 300,000 members, this diversification helps in the overall management of risk. At the same time, we continue to constantly develop our understanding of much more specific risks to help ensure we can reflect these in our charges to members.

Managing an international organisation can also bring challenges when interpreting the accounts. For example, we hold substantial assets in South African Rand to match our anticipated costs in that country, which represents around 10% of our total membership. A reduction in the value of the South African Rand was a significant factor in a total loss on exchange movements of £31.9m (2012: £15.4m loss) and this was enough to prevent MPS from recording a surplus in the year. However, it is worth noting that our overall approach to matching our assets with our liabilities means that whilst a currency devaluation in Rand reduces our asset values in that currency, it also reduces our cost exposure by a corresponding amount. Some of this will be reflected in a reduction in liabilities, whilst the rest comes through as a reduction to our estimate of the potential costs of future requests for assistance in South Africa.

This is just one aspect of our overall approach to investing the membership funds. In principle, we look to create a portfolio which protects against a reduction in market value whilst seeking an inflation-related return, which in turn is also matched to the currencies of the countries where we have liabilities. This reflects the need to hold member funds from the point when subscriptions are paid until a time when they may be required to provide indemnity.

In practice this means that the largest proportion of our investments (48.9% or £922.2m at 31 December 2013) is in UK government issued index-linked gilts, with the remainder in a wide range of diversified investments. Further sophistication is employed via the careful use of interest rate and currency derivatives to reduce interest rate risk and currency mismatches. During 2013 we increased our use of interest rate protection to guard against rapid increases in interest rates and inflation in the medium to long term. Whilst the investment environment also continues to be a challenge, this approach has provided an appropriate return without taking excessive risks with our members' funds.

Our administration costs show a modest increase of 3.6% in the year to £21.4m (2012: £20.7m), which reflects the net effect of careful cost control combining with development of our systems and processes. Further investment in this area can be anticipated as we make progress in our ambition to provide a world-class service to our membership as a whole.

Finally, during 2014 we can expect to see further growth in the balance sheet as we need to set subscription rates to meet the anticipated future costs of providing indemnity and assistance. It is important that this is done in proportion to the risks that members bring to us and we will endeavour to understand these risks in as much detail as possible, and where appropriate help to mitigate some of these risks. As technology and data improves we are investing in this area to complement the continuous improvements in our services.

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## Here to help you

As a member, you have access to the expertise of our medico-legal advisers, dentolegal advisers and solicitors.

When you are in difficulty, time is of the essence – and with more than 100 members of staff available across our in-house teams, members can rest assured that they can access our expertise with no undue delay.

Stress and anxiety often walk hand in hand with claims, complaints and disciplinary hearings. While you can take our technical expertise for granted, you can also be reassured that our staff go

the extra mile to ensure you feel supported and relieved of this stress as far as possible.

You can read some of their views in this section of our Annual Report, which presents a few personal case studies from a small section of our advisory teams. Read on to find out exactly what our medicolegal advisers, dentolegal advisers and solicitors bring to the table, and how they use this to provide help and support to members.

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### **DR ANGELIQUE MASTIHI MA MB BS MFFLM** Senior Medicolegal Adviser

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I have been a medicolegal adviser at MPS for more than nine years, originally based in the London office and now in Edinburgh. Whilst working as a specialist registrar in anaesthesia I decided to take the plunge and move along an alternative career path, working first as a risk manager for an acute trust before joining MPS in 2004.

I have never looked back. The work has its challenges, but with that come rewards, such as assisting members through times of difficulty in the ever-changing field of medical law, across a number of jurisdictions. Over the years I have been in a position to enjoy other aspects of the role, which includes training new MLAs, writing (for MPS publications and the trade press), undertaking risk assessments for GP practices and speaking at conferences large and small.

Providing support to members during difficult times is central to my role, but sometimes the nature of cases we handle means this support must be sustained over a long period of time. This is challenging if the affected members are particularly stressed and anxious from their experiences – but successfully helping them through the process is also very rewarding. This was certainly the case during my involvement in the Hyponatraemia Inquiry, which was set up in Northern Ireland in 2005. The Inquiry looked at not only the management of the clinical care of four children who died of cerebral oedema secondary to hyponatraemia, but also reviewed how the adverse events were investigated; the communication of the concerns across the region and whether or not there was collusion among the medical profession to cover up the matter. There were significant delays as the PSNI (Police Service Northern Ireland) investigation only came to an end in 2008.

A large number of clinicians in Northern Ireland have assisted the Inquiry, providing detailed statements as well as live evidence. Although many have remained under the umbrella of their employing trust, doctors have also sought the advice and support of MPS. It has been an extremely emotive and stressful time for all those involved and members have been highly appreciative, not only of the medicolegal advice, support and representation by medicolegal advisers and our legal team, but also of our counselling service and press office. To date we have assisted 35 members, 20 of whom have been advised or represented by solicitors/barristers instructed by MPS.

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### **DR RICHARD STACEY MA (Medical Ethics and Law) MB ChB MRCGP MFFLM** Senior Medicolegal Adviser

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I have been a full-time medicolegal adviser at MPS since November 2003. Prior to this, I worked in general practice, mainly as a GP partner (and GP trainer from 2000) in North Leeds, England.

I enjoyed my work as a general practitioner but decided that I wanted a new challenge, which prompted me to apply for the role as a medicolegal adviser at MPS.

I derive a great deal of satisfaction from assisting doctors at a time of difficulty and the role has allowed me to expand my knowledge and skills in the field of medical law, ensuring I am well-equipped to provide the best possible level of assistance to members. I have also enjoyed other aspects of the role, which includes writing for MPS publications and the trade press. One of the aspects of general practice that I particularly miss is the doctor-patient relationship, but this has been replaced by the medicolegal adviser-MPS member relationship. I have had the great pleasure of meeting and assisting medical colleagues from a wide variety of specialties and grades (from medical students to academic professors). One thing is clear, however: no matter the grade or specialty, all doctors are potentially susceptible to the stress and anxiety of a claim, complaint or disciplinary hearing. I think a unique benefit of the medicolegal adviser role is that doctors know they are speaking to someone who has, professionally, walked in their shoes; we are familiar with the working environment, with all its quirks and challenges. This is key in building empathy with worried members and helping them through some daunting situations.

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**JANE MERIVALE BDS LLM****Dentolegal Adviser**

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In 1997 I began working for DPL as a local adviser, alongside my work as a joint principal of a general practice in south-east London. Gradually my involvement with DPL grew and I completed a Master's degree in medical law, becoming a full-time adviser just over five years ago.

I know from experience that one of the things a practitioner dreads is the arrival of an unwelcome post containing a letter of complaint from a patient, the threat of a legal claim from a firm of solicitors, or worst of all, a letter from the General Dental Council (GDC).

Reactions vary, ranging from fear, anxiety and indignation to anger. Professional integrity is challenged, which is a bewildering and often isolating experience. It can be hard to take others into your confidence and even contacting DPL may cause distress for some.

This is where my role kicks in. Having spent the vast majority of my career in general practice, I know what everyday life in busy practice is like – the rewards, challenges and the fears that can filter into restless, wakeful hours.

While in practice the focus of my care was my patients; this has now been transferred to dentists and other members of the dental team, who may need anything from a listening ear to the full support of a legal team if faced with a hearing at the GDC. I've moved from saving teeth to, in some cases, saving careers.

The skills of listening, understanding, empathy, tact, clinical analysis and decision-making acquired in a career in practice apply equally now in my new role, with an extra requirement of being able to communicate clearly, both verbally and in writing. The addition of legal knowledge enables me to bridge the gap in understanding between clinical and legal issues for those seeking advice and help.

Dealing with the range of emotions a registrant experiences requires everything my career and life has taught me to date. It's a demanding role but I believe one that makes a difference to many of those I assist. The ultimate reward is to receive a letter expressing relief that a case has concluded and, while hard lessons may have been learned or even imposed, as their adviser I have helped the practitioner incorporate these into future practice and supported them in a time of need.

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**MARTIN FOSTER BDS MPH DipHSM****Dentolegal Adviser**

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Prior to taking up my current role as an adviser, my career encompassed a range of environments including general practice, health clinics and hospital settings, stints managing services, along the way becoming a specialist in paediatric dentistry and sitting legal examinations in the Faculty of Advocates. I started as a part-time local adviser with DPL in 2000 and, in 2011, I took up my current post as a dentolegal adviser, based in the Edinburgh office four days a week. I still pull on my gloves and do a clinic on the other day.

As an adviser providing dentist-to-dentist support for members, I have become very aware that clinicians in need of assistance appreciate the reassurance that they are not alone, and that there is someone dependable in their corner. Paradoxically, busy practitioners spend many hours in close proximity with people, but dentistry can be a lonely business.

Keeping a lid on the range of emotions that a complaint, or negligence allegation, generates in a practitioner with a busy appointment book, can tax the most professional clinician. Dentistry is stressful enough without that. Doing what I can to help colleagues deal with difficulties is one of the biggest challenges of the role but it makes the job worthwhile.

In addition to providing advice and assistance to members, my role includes an involvement in the educational services provided by MPS. Prevention is better than cure so a series of risk management workshops designed to help members communicate effectively with patients – and thereby reduce the risk of complaints and claims – is available as a benefit of membership. Sharing advice and practical tips to help members prevent problems – and make life a bit easier – is a hugely positive aspect of the job.

Providing practical assistance of this type is a bit like early intervention, preventive dental care. If you deliver prevention effectively, the members, like your patients, can be spared the need for the more uncomfortable stuff. And that is always good practice.

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# Here to help you

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## **KASHIF MAHMOOD LLB (Hons)** Regulatory Solicitor

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I qualified as a solicitor in 1999 after completing a two-year training contract, and until 2007 practised largely in the field of civil litigation. Afterwards I worked at the General Medical Council (GMC) as part of their in-house legal team; my work comprised prosecuting fitness to practise panel cases, investigation committee cases and providing advice to other directorates of the GMC, such as the registrations directorate. I worked on and advised the GMC on a broad range of fitness to practise cases concerning doctors' health, misconduct, conviction and deficient performance.

In 2012 I joined MPS as an in-house regulatory solicitor, based in Leeds. My main role is advising and representing members (doctors and dentists) before their regulatory bodies in connection with fitness to practise cases. In addition, I provide general legal advice to medico-legal and dentolegal advisers as and when required.

An important part of my role is to help members prepare their response to any concerns raised by their regulatory body, which includes drafting written responses to formal allegations. In many cases, a well-prepared and appropriately-worded response can avoid a case being referred to a full fitness to practise hearing, at which sanctions such as conditions, suspension or even erasure can be made.

A career in law appealed to me from an early age – my parents would put that down to my reluctance to take no for an answer – and I feel very privileged to do the job I do; I enjoy the great responsibility that comes with it. Although I am not saving lives like many of our members, I genuinely believe that what I do (and, more importantly, how I do it) impacts positively on my clients.

It is a given that I should know the law in this area and ensure that my technical knowledge and skills remain up-to-date. In my opinion, however, the key challenge I face on every case is to ensure that I identify, as soon as possible, the specific areas of risk for the member based on the individual circumstances of the case, and prepare a defence accordingly. There is no formula, as such, for doing this but it is based on my many years of experience in dealing with complex cases.

My experience of working at the GMC is a great advantage, however, and I have made use of this first-hand experience of the processes at the GMC (which are broadly similar to the GDC) to the benefit of members. As an example of this, I recently advised a member who had been referred to the interim orders panel (IOP) by the GMC following an anonymous complaint. Using the knowledge and experience I had gained at the GMC, I was able to persuade the GMC to cancel the IOP hearing (without the need for any attendance by the doctor) and to ultimately close the case with no action. I am sure that without my intimate knowledge of the GMC, the case would have proceeded to an IOP hearing, causing unnecessary stress and hardship for the member.

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## **ANTOINETTE COLTSMANN LLB (Hons)** Claims Manager

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I trained, qualified and remained immediately post-qualification as a solicitor in a large legal aid firm in London. Thereafter, I worked in private practice for ten years, specialising in personal injury claimant and defendant litigation. I then moved in-house to the NHS Litigation Authority in 2002 before joining MPS in 2006.

I genuinely enjoy my work and my interaction with members. I enjoy providing the expertise and reassurance they need when they are faced with a claim, which is obviously a hugely stressful and difficult thing for them. I never forget that what for me is just my day job is for our members a massive deal. It's a unique area of the law because it involves a much more personal interaction with people – doctors and patients – and in many ways it is the human face of the law.

I manage a large caseload of mostly high-value multi-million pound claims in the UK, Ireland, Hong Kong, Malaysia, Singapore and the Caribbean. In addition, I manage a team of other claims managers doing a variety of work in other jurisdictions. This international work is what sets MPS apart from other defence organisations; over the last five years it has been interesting to follow the development of the claims culture outside the UK, as it increasingly moves to a more litigious mindset, following claims in the US and UK.

I deal with claims from start to finish. I may instruct a panel law firm to deal with the day-to-day legal work, while I manage the claim on behalf of the member and make the decisions, in conjunction with the member, as to how we move matters forward. Claims can range from anything like brain-damaged babies to quadriplegic young adults, and sometimes the claim relates to a tragic incident and this can deeply affect some members. It is my job to manage the logistics of the claim to minimise the stress for members and patients, and help bring the claim to resolution in a timely and efficient manner. My responsibility lies not only to the individual member but also to the membership (and the membership fund) as a whole, and sometimes it can be quite a challenge juggling the needs of both.

Don't take our word for it...

## A member's story

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After more than 30 years with no claims, I received a solicitor's letter beginning a process that was to last three years. With the help and support of MPS, we successfully defended the claim, even though this meant my appearing in the High Court to give evidence.

The sums of money involved were very large, and even though it was not my money, the guilt I felt to MPS and to other MPS members was huge. I also felt some compassion, but not guilt, for the patient (I did not feel I could have done anything different under the unusual and rare circumstances).

The MPS legal team reassured me: "This is what you pay your subscriptions for." And there was no mealy-mouthed response from MPS that may have made me feel worse; on the contrary, they were fully supportive at all times. MPS have an in-house solicitor, as well as a medicolegal adviser who is a doctor and who was always available for counselling and general support. I know that the suicide rate of doctors is often talked about; from my experience the strain was with me every day and night, even during sleep.

I found it vital not to let the stress affect my current practice, as there is also some evidence that doctors in this situation are more likely to make further mistakes because of their distraction.

My medical contact at MPS was present every day of the trial and at every meeting with solicitors and barristers. She made it clear that her role was not only to advise, but also to maintain my morale. MPS take into account the doctor's opinion on whether to defend a case – I was very sure I had not made a mistake, but I can see that many doctors would, in any case, simply ask MPS to settle so the matter goes away. I was sure this was not the right thing to do – correctly as it turned out.

As my opinion and emotional strength was important in this matter, the claimant's solicitors did manage to embark upon a series of manoeuvres designed to upset my equilibrium and to pile maximum pressure upon me personally. For example, although two other doctors were involved in this case, I was, as their employer, made vicariously liable for their actions. The claimants managed to find an excuse to come to photograph our surgery rooms and threaten to report me to the Care Quality Commission, and there were several other attempts to try to wear me down and plead for a settlement.

Although I was defending my professional reputation, I was also defending the MPS finances, and MPS was understanding that I was putting my head into the lion's mouth in order to save a lot of money. Apart from the claim itself, the claimant's legal fees would have been a seven-figure sum. In the event, we were awarded all our legal fees, and unusually I was able to claim back some locum fees too.

**Dr L, GP, London**

# Officers and Members of the Council and Committees

**President:** Sir Peter Morris AC FRS FRCS FMedSci<sup>2,3</sup>

**Vice-President:** Professor John Bonnar MA MD  
FRCPI FRCOG

**Chairman:** Kay-Tee Khaw CBE MA MB BChir MSc  
FRCP FFPHM FMedSci

**Vice-Chairman:** Simon Pashby BA(Hons) FCA

**Chief Executive:** Simon Kayll BA(Hons) FCA MBA

## Members of the Council

**Frank Attwood** BSc(Econ) FCA FRSA ACIS MAE<sup>1,2,4,5</sup>  
(Retired 10 April 2013)

**The Lord Bradley** PC BA(Hons) MPhil<sup>1,2,3</sup>

**Richard Brennan** MB BCh MICGP FRCGP LRCP&S  
(Appointed 1 July 2013)

**Professor Trevor Burke** DDS MSc BDS MDS  
FDSRCS(Eng) FDSRCS(Edin) FDSRCS(Glas)  
MGDSRCS(Edin) FFGDP(UK) (*ex officio*)<sup>6</sup>

**Ian Croxford** QC LLB<sup>1,3</sup>

**Mark Davis** MB ChB MRCP DRCOG DOccMed  
FRCPed<sup>3,7</sup>

**Yasmin Drabu** MB ChB DCH FRCPath FRCP<sup>1</sup>

**Mary Favier** MB BCh MICGP FRCGP<sup>2,3</sup>  
(Retired 12 June 2013)

**Patrick Forbes** MB ChB FRCOG<sup>8</sup>

**Taj Hassan** MD FCEM MRCP DA FRCSEd<sup>7</sup>

**Simon Kayll** BA(Hons) FCA MBA *Chief Executive*  
(*ex officio*)<sup>4,5,6,8</sup>

**Howard Kew** BSc(Hons) PGCE<sup>4,5,8</sup>

**Kay-Tee Khaw** CBE MA MB BChir MSc FRCP FFPHM  
FMedSci *Chairman*<sup>2,3,4,6,8</sup>

**Kevin Lewis** BDS LDSRCS FDSRCS(Eng) FFGDP(UK)

**Simon Pashby** BA(Hons) FCA<sup>1,2,4,8</sup>

**Sally Scutt** BA(Hons) MBA MA  
(Appointed 1 September 2013)<sup>1,2</sup>

**The Lady Vallance** JP MA MSc PhD<sup>1,2,3</sup>  
(Retired 12 June 2013)

<sup>1</sup> Members of the Audit and Risk Committee

<sup>2</sup> Members of the Remuneration Committee

<sup>3</sup> Members of the Nominations Committee

<sup>4</sup> Members of the Board of MPI (London) Limited

<sup>5</sup> Members of the Board of MPS Risk Solutions Limited

<sup>6</sup> Members of the Board of Dental Protection Limited

<sup>7</sup> Members of the Educational Advisory Committee

<sup>8</sup> Members of the Assets and Liabilities Committee

## 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 Chair of Manchester Salford and Trafford LIFT Company, Chair of Bury, Tameside and Glossop LIFT Company and is Honorary 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. He is a member of the Privy Council.

## RICHARD BRENNAN

Richard Brennan joined the Council as a non-executive director of MPS in July 2013 and submits himself for formal election by the membership at the Annual General Meeting in June 2014. He is a rural general practitioner in Ballyhale and Stoneyford, Co Kilkenny. From a medical family, he is a graduate of the Royal College of Surgeons in Ireland. He is a member of the Irish College of General Practitioners and a Fellow of the Royal College of General Practitioners (UK). He is a founding member of the South Eastern General Practice Training programme, and is an active trainer on the programme. He is a former Chairman of Council ICGP, and has represented the ICGP on: The National Taskforce on Medical Staffing (Hanly Report); The Medical Education and Training Group (Buttimer Report); and The National Primary Care Steering Group. He has also been a member of the Commission on Patient Safety and Quality Assurance, and was a member of the HSE Task Force on Emergency Departments. He has a keen interest in the general practice-hospital interface and the development of more integrated care for patients. He has recently completed his term as the ICGP nominee on the Irish Medical Council (2008-2013). Whilst on the council, he was also Chairman of the Medical Council's Health Committee, a member of the Standards in Practice and the Fitness to Practice Committees.

## TREVOR BURKE

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

## IAN CROXFORD

Ian Croxford joined the Council as a non-executive director of MPS in November 2007 and was elected by the membership at the Annual General Meeting in June 2008. He is a barrister, being

called to the Bar in 1976 (Gray's Inn), was appointed a QC in 1993 and became a Bencher at Gray's Inn in 2001. 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.

## MARK DAVIS

Mark Davis was elected to the Council as a non-executive director of MPS in June 2009. He is in general practice in Leeds and has been a principal since 1984. He acts as an occupational medical adviser to a number of companies. Until April 2013 he was on the Executive of Leeds South and East CCG, with responsibility for long term conditions. Between 2007 and 2012 he was a board member of a practice based Commissioning Consortium and from 2002 to 2006 was a member of the Professional Executive Committee of the East Leeds Primary Care Trust. He has a special interest in cardiovascular medicine and has served, or does serve, on a number of Department of Health, Primary Care and NIHC committees and working groups related to this clinical area.

## YASMIN DRABU

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

## PATRICK FORBES

Patrick Forbes was elected to the Council as a non-executive director of MPS in June 2012. He is a Consultant Urogynaecologist at Addenbrooke's Hospital, Cambridge, and previously a Consultant in Obstetrics & Gynaecology in the RAF and at Hinchingsbrooke Hospital, where he has also been Clinical Director and Royal College Tutor. He has been a regional panellist for the Confidential Enquiry into Stillbirths and Deaths in Infancy. He serves as an examiner for Final MB at Cambridge University, and is a member of the Academy of Experts and expert panel for the Speedy Resolution Scheme in Wales.

## TAJ HASSAN

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

## SIMON KAYLL

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

## HOWARD KEW

Howard Kew was elected to the Council as an executive director in June 2012. He has over 20 years' experience in financial services, having originally graduated in Mathematics from the University of Leeds. Howard also has experience in the mutual sector and with one of the UK's leading insurance companies where he was finance director of their personal finance subsidiary. He has had extensive involvement in investment, credit management and capital markets and is a qualified corporate treasurer. He has been closely involved in economic development in the Leeds city region and has promoted the financial and professional service sector internationally, including lobbying at local and national government level. Howard is also MPS's Executive Director – Finance and Risk and is responsible for overseeing all aspects of finance, investment, risk, internal audit and compliance.

## KAY-TEE KHAW

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



## Officers and Members of the Council and Committees continued

### KEVIN LEWIS

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

dence in Transplantation at the Royal College of Surgeons and the University of London and Honorary Professor. He is a fellow of the Royal Society and the Academy of Medical Sciences; and Foreign Member of both the Institute of Medicine of the National Academy of Sciences and the American Philosophical Society.

### SIMON PASHBY

Simon Pashby joined the Council as a non-executive director of MPS in November 2012 and was elected by the membership at the Annual General Meeting in June 2013. He was appointed Vice-Chairman of Council on 1 January 2014. He is a Fellow of the Institute of Chartered Accountants in England and Wales, with 30 years audit experience, and was previously a senior audit partner with KPMG, specialising in the regulated financial services sector. He has advised a range of organisations including listed investment fund managers and large UK mutuals in the insurance and healthcare sectors, with significant international operations. He has wide-ranging and recent financial experience advising Boards and their Audit Committees on financial reporting, accounting standards, risk management and internal control systems.

### SALLY SCUTT

Sally Scutt joined the Council as a non-executive director of MPS in July 2013 and submits herself for formal election by the membership at the Annual General Meeting in June 2014. She is Deputy Chief Executive of the British Bankers' Association and Managing Director of the International Banking Federation. She is a graduate in Chinese Studies from the University of Durham. She also holds further degrees in business administration and the management of human resources. She has more than 30 years' experience in international and private banking, holding a variety of senior management positions. More recently she has been focused on the development of regulatory policy in financial services both nationally and internationally. This has included a broad range of issues relevant to the banking sector from financial inclusion and financial literacy, combating financial crime, and the regulation of capital markets.

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MPS also has a President, Sir Peter Morris. This position is not a director of the board under the terms of the Companies Act, but the President is elected by the membership and is entitled to, and does, attend Council meetings, participating fully in the discussions. The role of the President is an active one that provides a valuable channel for engagement between members and the Council.

### 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 now Director of the Centre for Evi-

# Advisers and Senior Staff

## Claims Advisory Committee

### Chairman

Susan Sellers MB ChB MD FRCOG

### Vice-Chairman

Frances Cranfield MB BS MRCS LRCP DRCOG FRCGP

### Secretary

Emma Hallinan LLB(Hons) Solicitor

## Committee members

Martin Ashley MB BS MRCS LRCP FRCA MRCGP FPCert

Robert Battersby MB BS FRCS

Nicholas Boon MD FRCP(Edin) FESC FACC

Peter Campbell MB BS FRCSEd(Orth)

Nicholas Davies MA DM(Oxon) MRCP FRCA

Yasmin Drabu MB ChB DCH FRCPATH FRCP

Patrick Forbes MB ChB FRCOG

Taj Hassan MD FCEM MRCP DA FRCSEd

Huw Jenkins MA MD FRCP FRCPC

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

Keith Parsons MB ChB FRCSEd FRCS

Professor Marc Winslet MS FRCS

## Professional Services

### Executive Director – Professional Services

Priya Singh LLB(Hons) MB ChB MRCGP FFFLM

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### Head of Medical Services – Asia

Ming Keng Teoh LLM MSc MB ChB FRCS(Ed) FRCS(Eng)  
ChM FFFLM

### Head of Medical Services – Africa

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

### Head of Membership Governance

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### Senior Medicolegal Advisers

Angela Bramley LLB(Hons) MB BS MRCGP FFFLM

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David Stewart MB BS FFFLM

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### General Practice Complaints Advisers

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#### Communications Manager

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#### Hygienist and Therapist Adviser to DPL - Australia

Vicki Biddle RDH

#### Hygienist and Therapist Advisers to DPL - UK

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Shaun Howe CED DDH

## Claims and Legal Services Division

#### Director of Claims and Litigation

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#### Head of Claims Management

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#### Head of Litigation

George Dodd BA(Hons)

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Alison Clarke BA(Hons) Solicitor

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Ashley Dee LLB(Hons) Solicitor

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Catherine Hibberd BA(Hons) Dip  
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 Carlotta Pidgeon BA LLB BJuris(Aust) Solicitor  
 Jason Priston F.Inst.L.Ex  
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 Hilary Steele LLB DipLP  
 Nicola Stowe MA BSc(Hons)  
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 Chris Young LLB(Hons) Solicitor

#### *Solicitors*

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 Mark Jordan BA(Hons) LLM  
 Kashif Mahmood LLB(Hons)  
 Christina Milne LLB(Hons)  
 Susan Silk LLB(Hons) RGN  
 Jill Stevens LLB(Hons)

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## Educational Services

### *Executive Director – Member Engagement*

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### *Head of Risk Member Education*

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 FRCP(Ed)

### *Head of Member Education*

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 DCH DFSRH FRCGP T(GP) MMed (Dundee)

### *International Medical Education Consultant*

Mark O'Brien MB BS DRACOG FRACGP FACRRM AFACHSE

### *General Manager - Asia Pacific*

Matthew O'Brien B BUS COMM

### *Chair of Educational Advisory Committee*

Dr Julia Moore OBE FRCA MBA FRCPATH MRCR

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## Risk Department

### *Director of Risk*

Martin Burns BSc(Hons)

### *Head of Medical Risk and Underwriting*

Iain Barclay LLB MB ChB FFFLM MRCGP DRCOG

### *Medical Risk Managers*

Christopher Godeseth BMedSci(Hons) BM BS MRCS(Ed)  
 Alun Griffith LLB

### *Head of Pricing and Analysis*

Barry Law PhD

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## Senior Staff

### *Executive Director – Operations*

Dan Bown MSc

### *Head of Operations, Caribbean and Bermuda*

Nancy Boodhoo BDS FDSRCS

### *Internal Audit and Compliance Officer*

Simon Clutterbuck MA(Hons) PIIA Cert CII

### *Financial Controller*

Ian Cook FCCA Cert ICM

### *Director of Systems and Change*

Glen Coultish MSc

### *General Counsel*

Sarah Denton MA(Oxon) MBA Solicitor  
 David Wheeler LLB(Hons) Solicitor *Company Secretary*

### *Head of HR and Organisational Development*

Karen Ferris BA(Hons) MCIPD

### *Head of Marketing*

David Gray BSc(Hons)

### *Head of Group Operations*

Peter Lycholat BA(Hons) MBA Dip CII

### *Director of Communications and Policy*

Shelley McNicol BA(Hons)

### *Commercial Director*

Mark Randerson BSc(Hons) MSc MBA PgDipM

# Strategic Report

SPACES IN THIS REPORT ARE DUE  
TO REMOVAL OF IMAGES

## Principal activity and business review

### *Principal activity*

MPS is the leading medical defence organisation of its kind around the world. It 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 not for profit company limited by guarantee and all income and property must be applied solely towards its objects as defined by MPS's Memorandum of Association.

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

In addition to the principal activity of the holding company, the group has a number of subsidiary companies that complement and support the activities of the group.

MPI (London) Limited (MPI), which is registered in England, holds the invested assets on behalf of MPS. MPI has a separate Board which is responsible for implementing the investment strategy approved by the MPS Council. Funds are invested with third party fund managers and MPI does not undertake any direct

investment activity. The MPI Board is also responsible for overseeing the investment performance of the third party managers.

Dental Protection Limited, which is registered in England, is a non-trading company. However, it has an active Board, which is involved with the oversight of dental members within MPS.

Cognitive Consulting Group Pty Limited is registered in Australia and provides education and training in communication skills and risk management to medical practitioners.

DPL Australia Pty Limited is also registered in Australia, where it manages the administrative affairs of our dental members in Australia.

MPS Risk Solutions Limited (MPSRs) is registered in England and is a general insurance company, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In June 2012 MPS made a strategic decision that MPSRs would withdraw from the insurance market, to enable MPS to focus on its core business of providing discretionary indemnity. MPSRs provided professional indemnity, malpractice, product and public liability cover to corporate healthcare providers. Claims brought whilst policies were in force will continue to be managed to the highest standard using existing claims expertise.

MPS has a further subsidiary, The MPS Periodical Payment Trustee Limited, a Corporate Trustee, which has been appointed as Trustee to the MPS Periodical Payment Trust.

**Business purpose**

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

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

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

**Financial targets**

Despite the risk mitigation identified below on pages 22 to 25, it is impossible for MPS to eliminate risks associated with its business activities. Consequently, MPS needs to ensure that it has the financial resources to cope with the remaining unmitigated risk so that it can provide members with the assurance they need that MPS will be in a position to respond to their requests for assistance no matter when these are made.

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

**Financial performance for the year**

Subscription income has increased in the year due to rate rises and an overall increase in member numbers. In addition, a review of the calculations used to apportion income to relevant accounting years identified net amounts received of £6.5m that had continued to be deferred in prior years, but which have now been released to the income and expenditure account in 2013. Administration costs were close to expectation and investment performance was positive, if modest. Costs incurred in managing and settling claims remained high and broadly in line with our experience in 2012 as the number of reported claims, and the costs of settling them, continued to rise.

More detail of the financial performance for the year is provided within the Finance Director's report on pages 8 - 9.

**Key markets**

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

MPS's key markets are:

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

\*non-indemnity dental membership

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

MPS has a 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 2013 increase in total members, including those who are not required to pay a subscription, was 2.8% (2012: 2.7%).

### Future developments

The Chief Executive's report (see pages 6 – 7) 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 ensure these aims are met now, and in the future, MPS initiated a strategic change programme during 2013, which has resulted in a number of ongoing, and planned, projects across many key areas of our operations, designed to further improve MPS's services and its operating efficiency. The change programme is being supported by significant investment in both IT and operational systems, and is firmly aligned with MPS's vision, which, along with details of the strategic change programme, was shared with employees during a staff conference held in October 2013.

### Employees

MPS staff are vital in providing high quality service to members, and MPS focuses strongly on retaining and recruiting the best.

The extent to which the role of staff is taken seriously is borne out by one of the five pillars of the MPS Vision: "Exceptional staff". This states that MPS values an empowerment culture where all contributions are supported; there is great focus on the development of staff; key talent will be identified and nurtured; continuous training will be implemented to maintain technical excellence across MPS; and a suitable reward structure will be established.

MPS strongly believes in the value of diversity in the workforce. We seek to strengthen this commitment in a variety of

ways, including ensuring that all recruitment advertising and selection methods are as objective and free from bias as possible, that training and promotion opportunities are available to all staff and that managers are trained to recognise the importance of diversity and to deal with equal opportunities issues.

Since 2005, MPS has utilised the Staff Consultative Group in order to comply with the requirements of the Information and Consultation of Employees Regulations 2005. Our recent staff survey reflected a high engagement among staff and MPS performed well against other organisations it was benchmarked against.

MPS was reaccredited with the Investors In People Standard in June 2013.

### 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 Control in the Report of Council.

The principal risks facing MPS – and their mitigation – are:

#### Reserving risk

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

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

The value of these claims is estimated by MPS and there is a risk that the eventual payments exceed the sums estimated as the cost of the claims. The uncertainty around estimating the value of all claims is greater for unreported potential claims than

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

In addition to the variation inherent in the claims, there are also external factors – mainly changes in legislation – which can have a profound impact on claim estimates. MPS has seen a number of changes in legislation in the UK in the past, nearly all of which resulted in an increase in the cost of claims. This includes the introduction of periodical payment orders and the reduction in discount rates. The discount rate is the rate used to 'translate' future cash flows, to be paid under the settlement agreement, into a lump sum value in current money terms. The lower the discount rate, the higher the value of the lump sum. The discount rate in England and Wales is set by the Lord Chancellor and is currently 2.5%. In other countries, the rate at which future cash flows are discounted to a current value lump sum will be part of the settlement negotiations.

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

a change in any subset of the portfolio.

#### **Mitigation**

Maintaining a large geographically diverse portfolio of risk is a key step in helping to reduce the variation of outcome around the expected mean. Further steps are around ensuring the quality of the expected outcome in the first place and this relies heavily on the accuracy of data used and the quality of analysis in determining the expected outcome. MPS uses the skill of its internal staff to determine accurate estimates for individual claims. It also ensures that levels of skill are maintained by supporting ongoing training initiatives. It also has many checks and balances in its internal systems to review and monitor these estimates to achieve a high degree of consistency. MPS uses the experience of its consulting actuary, Lane Clark & Peacock LLP (LCP), to use the internal individual claim estimates and membership data to arrive at a statistical reserve for the likely cost of all reported claims, and an estimate of the costs of unreported potential requests for assistance. (See note 23 to the financial statements.)

The methodologies and assumptions used by LCP were reviewed by independent qualified actuaries at the end of 2012.

#### **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 is 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. A significant internal reorganisation was undertaken early in 2013 with the aim of improving and developing the systems and processes involved in the management of risk. MPS purchases insurance to reduce the impact of catastrophic high claims.

**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.**

#### **Market risk**

Subscriptions collected in any one year are invested until they are needed to pay the costs arising from the year in which the subscriptions were received. The greater the return MPS can achieve from investments, the less it would theoretically need to charge in subscriptions. However, the greater the investment return that MPS is trying to achieve from its invested assets, the greater will be the fluctuations in the value of those assets and thus, the greater will be the risk that MPS will see a fall in the value of its assets. Such volatility in the value of MPS's assets is, when asset values fall, damaging to the strength of the balance sheet and significant volatility in investment returns makes it more difficult to plan for the longer term.

#### **Mitigation**

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

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

#### **Currency risk**

MPS holds assets to meet the costs of reported claims and unreported potential requests for assistance. These costs are in a number of different currencies. If the assets are not held in the same currency as the costs then there is a risk that movement in exchange rates will alter the relative value of the assets to the costs.

#### **Mitigation**

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



### **Liquidity risk**

**L**iquidity 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 realise an illiquid investment before maturity, which could be costly.

### **Mitigation**

In managing liquidity risk, MPS needs to balance the ability to gain an investment return on its assets and the ability to have sufficient funds to pay liabilities as they fall due. MPS operates a sophisticated system through major clearing banks to ensure that 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**

**C**redit risk is the risk that someone who owes money to MPS will fail to pay. MPS has little risk from a failure by members to pay subscriptions, because if payments are not made, the non-paying members will not receive membership benefits. MPS's main credit risk arises from either a failure of its insurers, a failure of a bank, with which it holds deposits, 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 page 25.

### **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. Bank credit ratings are reviewed before deposits are made with specific institutions, and deposits are spread across a number of counterparties to mitigate against bank failure. MPS does not review the credit risk of counterparties in derivative financial instruments, but instead agrees parameters with its investment managers as to what security rating is acceptable for such counterparties. However, MPS does receive collateral on re-valued derivative positions when appropriate.

### **Interest rate / inflation risk**

**M**PS holds about two thirds of its invested assets in bonds. An increase in interest rates will cause a fall in the price (value) of bonds, as bond prices move inversely to changes in interest rates.

The impact on MPS's liabilities is more complicated. The main influences on the cost of large claims (in the UK) are those elements that reflect compensation for future costs or losses: these are mainly loss of earnings and cost of future care. An estimate of the lump sum required to provide for these future costs is determined by reference to a discount rate. The discount rate might be expected to change with changing interest rate expectations, but in the UK it is in fact fixed, by the Lord Chancellor, who conducted a second phase of consultation on the level of this rate, which ended on 7 May 2013. It is not currently known when the Lord Chancellor will report on his latest review. However, with the introduction in 2005 of periodical payments as an alternative to lump sum or structured settlements, compensation can be provided as a regular monthly payment for the life of the claimant. Since the determination of the Appeal in the *Thompsonstone* case, the cost of future care is subject to indexation by a wage related measure and this can make settlement by way of periodical payments a better option for claimants.

Specific comment on the interest and inflation risk in relation to derivative financial instruments is provided on page 25.

### **Mitigation**

Interest rate exposure for bond assets is mitigated firstly by having a broad range of bond holdings, with different sensitivities to interest rate movements; and secondly by holding a predominance of index-linked bonds, where increasing inflation is allowed for in the rebasing of the capital value and coupon amount. Further mitigation is provided by the ability to reduce the tax charge as a result of indexation. In addition, in early 2013 MPS began using interest rate swaps as a means of protecting bond assets against the potential impacts of rising interest rates. MPS's response to the risk inherent in periodical payment orders 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, flood, 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, supported by the Internal Audit function, 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 mitigate the risks of fraud and theft.

**Derivative Financial Instruments**

MPS maintains a currency hedging programme to mitigate currency risks where it does not hold sufficient assets in a particular currency to match its liabilities in that currency. These are treated as off balance sheet, however details of the hedges and valuations are shown in note 11d to the financial statements.

MPS also maintains a UK interest rate swap programme to mitigate potential losses from its index linked bonds portfolio which may arise should UK interest rates rise as expected. Unrealised movements in these swaps are taken through the statement of total recognised gains and losses as gains/losses on revaluation (included in note 11a to the financial statements under surplus on revaluation of investments and derivatives). Realised gains and losses are taken through the income and expenditure account.

Additionally, the company's investment managers held derivative financial instruments to enhance investment returns. The net recognised gains and losses arising from holding these contracts are included in note 4 to the financial statements under other investment income.

**Risk characteristics of derivative financial instruments****Interest rate risk**

Some of MPS's derivatives, such as the UK interest rate swap programme, are sensitive to interest rate movements so it is necessary to determine the interest rate risk to which such contracts will be exposed. This is done by comparing the risk of the underlying asset against the risk of the derivative using a formula to determine the number of contracts that need to be held. This risk is then considered together with the risk of interest rate sensitive investments where derivatives are held for full or partial hedging of the risk.

**Credit risk**

Credit risk encompasses all forms of counterparty risk. The company manages this risk through its investment policy, which sets out the type and quality of investments that can be held and the maximum exposure to any particular investment. Derivatives held to enhance returns are short term in nature with low credit risk. For longer term derivative contracts, credit risk is managed by utilising collateral accounts between the respective counterparties, which are selected in agreement with the investment managers.

**Approval**

This report was approved by the Council on 9 April 2014 and signed on its behalf by:



David Wheeler  
Company Secretary  
33 Cavendish Square, London, W1G 0PS

# Report of the Council

The Council, which for the purposes of the Companies Act 2006 is the Board of Directors, presents its annual report for the year ended 31 December 2013.

## Members of the Council

The names of the members of the Council of MPS who served during the year are set out on page 14.

## Governance of MPS

The Listing Rules of the Financial Conduct Authority require listed companies to apply the Main Principles of the UK Corporate Governance Code (the Code) prepared by the Financial Reporting Council and report to their shareholders on how they have done so. As MPS is not a listed company, and does not have any shareholders, it is not required to comply with the Code. However, MPS believes that it should apply the appropriate level of governance in running its business, and as such the Council constituted a temporary sub-committee to undertake a full review of its governance arrangements during 2013. The following sections set out the governance structure that it has in place and the steps MPS takes to meet its aims in this area.

## The Council

The Council, which is the Board of Directors of MPS, currently consists of a non-executive Chairman, a non-executive Vice-Chairman, the MPS Chief Executive, two further executive members (being the MPS Executive Director – Finance and Risk and the Dental Director) and nine other non-executive members. MPS's constitution requires that the majority of Council members are Medical or Dental Members of MPS and that the Chairman is either a Medical or Dental Member.

As noted above, during 2013, a temporary Council sub-committee reviewed MPS's corporate governance arrangements. One of the outcomes of this review was recognition that MPS lacked identification of a senior independent director; someone to assist the Chairman, help facilitate effective working relationships between executive and non-executive Council members and someone to lead the performance review of the Chairman. Consequently, MPS decided to appoint such an individual, Simon Pashby, and to give the title of Vice-Chairman. As Vice-Chairman, the role is not Chairman in waiting.

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

MPS continues to review the transparency of the independence of its non-executive directors and to provide appropriate guidelines for all directors on their ethical conduct as a director of MPS. To this end, MPS introduced in 2008, for MPS and its subsidiary Boards, a register of interests and also publishes internally a Code of Ethical Conduct for all staff, which applies equally to members of the Council.

MPS has separate posts of Chairman and Chief Executive to

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

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

The Council usually meets formally eight or nine times during the year but may meet more often if required (ten times in 2013). The additional two meetings in 2013, compared to 2012, were used to address strategic change and the Council's review of its governance arrangements. In addition to its regular meetings, the Council will usually devote one meeting to conduct a detailed review of the organisation's business objectives and strategy. The attendance record of members of the Council at the ten meetings is shown in the table below (eligible meetings for attendance shown in brackets):

Member of the Council	Appointed or Retired	Meetings Attended	
		2013	2012
Frank Attwood	Retired 10 April 2013	4 (4)	7 (8)
Keith Bradley		9 (10)	7 (8)
Richard Brennan	Appointed 1 July 2013	5 (5)	-
Trevor Burke		8 (10)	5 (8)
Ian Croxford		9 (10)	8 (8)
Mark Davis		8 (10)	7 (8)
Yasmin Drabu		9 (10)	7 (8)
Mary Favier	Retired 12 June 2013	5 (5)	7 (8)
Patrick Forbes		9 (10)	8 (8)
Taj Hassan		8 (10)	6 (8)
Simon Kayll		10 (10)	8 (8)
Howard Kew		10 (10)	4 (4)
Kay-Tee Khaw		10 (10)	7 (8)
Kevin Lewis		10 (10)	7 (8)
Simon Pashby		10 (10)	2 (2)
Sally Scutt	Appointed 1 September 2013	3 (4)	-
Elizabeth Vallance	Retired 12 June 2013	4 (5)	8 (8)

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

at MPS's expense.

Non-executive members of the Council met on occasions during the year without the executive members and have the provision to meet without the executive at any time that such a meeting may be required. There is also the provision for the non-executive members to meet without the Chairman and executive if they wish – this was not thought necessary during 2013.

### **Sub-Committees of the Council**

The Council has a Nominations, Remuneration, Audit and Risk and Assets and Liabilities Committee, the members of which are listed on page 14.

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 a non-executive member of the Council, Keith Bradley, and is responsible for making recommendations to the Council concerning matters relating to remuneration policy. See 'Remuneration report' below.

The Audit and Risk Committee is chaired by the Vice-Chairman of Council, Simon Pashby (formerly a senior audit partner with KPMG), and met three times in the year. MPS's external auditors, Chairman, Chief Executive, Executive Director – Finance and Risk, 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 may attend for specific agenda items at the request of the Committee. The Audit and Risk Committee reviews the adequacy and effectiveness of risk management and control systems and reviews the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the auditors. It also reviews, prior to publication, the annual financial statements and the other information included in the Annual Report. The Audit and Risk Committee also meets annually with, and reviews the work of, the independent consulting actuaries.

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

Member of the Audit and Risk Committee	Appointed or Retired	Meetings Attended	
		2013	2012
Frank Attwood	Retired 10 April 2013	1 (1)	3 (3)
Keith Bradley		3 (3)	3 (3)
Yasmin Drabu	Appointed 1 July 2013	2 (2)	-
Ian Croxford		3 (3)	3 (3)
Simon Pashby		3 (3)	1 (1)
Sally Scutt	Appointed 1 September 2013	1 (1)	-
Elizabeth Vallance	Retired 12 June 2013	1 (1)	3 (3)

In 2014 the Audit and Risk Committee plan to meet four times as its responsibilities are increased to include referrals for ethical guidance, oversight of MPS's anti-bribery and corruption policies, 'anti-bribery' risk assessment including the risk of management override, and oversight of the whistleblowing policy. These matters

were previously considered by the Ethical Conduct Committee, which ceased to be a formal Committee of Council in 2013, but which will continue as an internal MPS Committee with revised terms of reference. These changes were made following the governance review carried out by the Council in 2013.

The Audit and Risk Committee is also 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.

As part of the governance review undertaken in the year, a new sub-Committee of Council was formed; the Assets and Liabilities Committee, which is chaired by Howard Kew, Executive Director – Finance and Risk, and provides governance oversight of the strategic management of the assets and liabilities of MPS.

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 previously provided general insurance contracts to corporate healthcare providers. The Board of MPI (London) Limited is chaired by the Chairman of the Council. The other Council members of the Boards are listed on page 14.

### **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 relation to its Medical members; and it has delegated authority to exercise discretion on its behalf in such cases for its Dental members to the Board of Dental Protection Limited, subject to reporting to and oversight by the Council.

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

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

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

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

### **Board Evaluation**

The Council undertakes an evaluation of its performance in each financial year. To date this has been based upon a questionnaire

## Report of the Council continued

and the invitation for members of the Council to speak to the Chairman on performance issues. The results of the 2013 evaluation have been reported to the Council by the Chairman and debated. The Council was satisfied as a result of the review that the Council and its sub-committees functioned effectively during the review period.

### Internal Control

The Council has overall responsibility for MPS's system of internal controls and for reviewing its effectiveness whilst the role of management is to implement the Council's policies on risk and control. 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. This has been in place for the full financial year and up to the date of approval of the Annual Report.

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

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

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

MPS has an Internal Audit team whose responsibilities include providing assurance over a wide range of issues including financial, corporate and operational risks. Assurance is provided through reporting and the provision of opinion following a range of monitoring activities, discussion and review. The Internal Audit

function is independent from all operational departments and its work is overseen and coordinated by the Internal Audit and Compliance Officer, who also works closely with the external auditors and attends the Audit and Risk Committee meetings. The Audit and Risk Committee is responsible for monitoring and reviewing the work of the Internal Audit team: the 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; the Committee also monitors and, where appropriate, challenges the business's timely progress in the clearance of agreed audit recommendations.

The Council recognises the need to regularly review and monitor the appropriateness of its approach to overseeing the systems of risk management and control operated at MPS. With this in mind, the Council has continued to adapt its approach during the year to take into account: the economic climate of the last five years; the revisions and ongoing consultations relating to corporate governance standards and guidance; and the recommendations of the Sharman Inquiry ("Going Concern and Liquidity Risks"). The Audit and Risk Committee itself maintained focus on the many facets of risk management and control through a third annual meeting during the year, the key remit of which was to review and assess management's approach to strategic risks.

### Remuneration report

The Remuneration Committee met four times in 2013 and comprises Keith Bradley (Chairman), Kay-Tee Khaw, Simon Pashby, Peter Morris and Sally Scutt. In addition, the Chief Executive and the Head of HR and Organisational Development attend the meetings.

The Committee's primary responsibility is to recommend to the Council the overarching principles of reward for MPS and to work with management to oversee the operation of a reward approach in line with these principles. More specifically, the Committee is responsible for establishing the salary and performance reward for the Executive directors, and for receiving and reviewing the salary and performance reward for other senior staff.

During 2013, the Committee undertook a review of reward within MPS. To assist in this review, the Committee appointed Inneco, an independent reward consultant. The Committee's review comprised a benchmarking exercise of current base pay against suitable market comparators and a review of the suitability of MPS's current reward approach to attract, retain and incentivise staff, ensuring the best possible value for the money spent on reward.

These reviews are on-going and will be concluded in 2014.

During the year MPS reviewed its provision of a pension benefit, partly prompted by MPS's obligation in 2013 to comply with the new auto enrolment rules. As a result of the review, it was decided to close the existing defined benefit scheme to new entrants and to increase the employee contributions to the scheme. To comply with its auto enrolment obligations, MPS opened a defined contribution scheme, to which MPS contributes 12% of an employee's pensionable salary and the employee contributes 3%.

Since 2008 MPS has operated an incentive scheme paying a modest reward to the 30 most senior staff, based on performance against a range of criteria. It remains that the non-executive members of the Council do not receive any incentive or

performance-related remuneration.

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

### **Relations with members**

MPS values its dialogue with members throughout the year on a diverse range of subjects. In particular, the Council uses the Annual General Meeting to communicate financial performance to members and encourage their participation. Members of the Audit and Risk, Nominations, Remuneration and Asset and Liabilities 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.

### **Going concern**

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

In forming this view, members of the Council have considered the recommendations, and the further ongoing consultations, arising from the Sharman Inquiry ("Going Concern and Liquidity Risks").

### **Auditors**

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

### **Statement of the Council's responsibility for the Financial Statements**

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

Company law requires the Council to prepare financial statements for each financial year. Under that law the Council has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the Council must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and the net contribution available to meet future liabilities and charges of the company and group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis

unless it is inappropriate to presume that the company will continue in business.

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

The Council members confirm that:

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

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

### **Approval**

This report was approved by the Council on 9 April 2014 and signed on its behalf by:



David Wheeler  
Company Secretary  
33 Cavendish Square, London, W1G 0PS

# Independent Auditor's Report to the Members of The Medical Protection Society Limited

We have audited the financial statements of The Medical Protection Society Limited for the year ended 31 December 2013 which comprise the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated note of historical cost income and expenditure, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of the Council and auditor

As explained more fully in the Statement of Council's Responsibilities for the Financial Statements set out on page 29, the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2013 and of the group's net contribution available to meet future liabilities and charges of the group for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

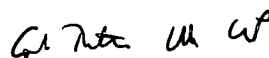
## Opinion on other matter prescribed by the Companies Act 2006

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

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

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

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



Michael Redfern  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP,  
Statutory Auditor, Chartered Accountants  
Sheffield  
9 April 2014

# Financial Statements

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
<b>Income: continuing operations</b>			
Members' subscriptions and other income		<b>376,997</b>	339,414
<b>Expenditure</b>			
Claims costs and associated legal costs (including costs of insurance)	16	<b>292,592</b>	289,340
Movement in projected insurance recoveries		<b>4,310</b>	1,002
Advisory costs and associated legal costs	16	<b>57,638</b>	54,510
Education, publications and external relations	3a	<b>9,409</b>	9,516
Administration expenses	3b	<b>21,423</b>	20,683
Impairment of assets	13	-	1,250
Loss on exchange movements	3c	<b>31,947</b>	15,364
		<b>417,319</b>	391,665
<b>Deficit of members' subscriptions and other income over expenditure: continuing operations</b>		<b>(40,322)</b>	(52,251)
Income from investments	4	<b>31,081</b>	29,109
Other finance income	8	<b>708</b>	474
Surplus/(loss) on disposal of investments		<b>871</b>	(1,054)
<b>Contribution from ordinary activities before taxation: continuing operations</b>		<b>(7,662)</b>	(23,722)
Tax credit/(charge) on investment income and (losses)/gains	5a	<b>12</b>	(3,771)
<b>Net contribution for the year to funds available for members</b>	18	<b>(7,650)</b>	(27,493)

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2013 £'000	2012 £'000
Net contribution for the financial year		<b>(7,650)</b>	(27,493)
Surplus on revaluation of investments	17	<b>48,368</b>	55,001
Actuarial gains/(losses) on defined benefit pension scheme	8	<b>1,922</b>	(4,407)
Tax on investment revaluation movements	5a	<b>6,546</b>	2,183
<b>Total recognised gains</b>		<b>49,186</b>	25,284

## NOTE OF HISTORICAL COST INCOME AND EXPENDITURE

	Notes	2013 £'000	2012 £'000
Reported net contribution before tax		<b>(7,662)</b>	(23,722)
Realisation of valuation gains of previous years	17	<b>32,836</b>	9,983
<b>Historical cost net contribution before tax</b>		<b>25,174</b>	(13,739)
<b>Historical cost net contribution after tax</b>		<b>31,732</b>	(15,327)



## Financial Statements continued

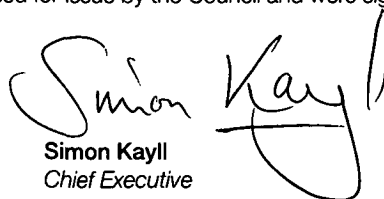
**CONSOLIDATED AND COMPANY BALANCE SHEETS**  
**At 31 December 2013**

	Notes	2013 Group £'000	2012 Group £'000	2013 Company £'000	2012 Company £'000
<b>Fixed assets</b>					
Intangible assets	9	-	-	324	342
Tangible assets	10	23,202	22,244	23,174	22,195
Investments	11a	1,886,228	1,783,599	1,141,050	1,071,050
		<b>1,909,430</b>	<b>1,805,843</b>	<b>1,164,548</b>	<b>1,093,587</b>
<b>Current assets</b>					
Asset held for resale	13	-	2,500	-	2,500
Debtors - due within one year	14	23,282	11,086	111,016	97,128
- due after one year	14	14,028	20,229	14,028	20,229
Bank deposit accounts		144,965	111,788	31,546	23,330
Cash at bank and in hand		9,310	9,768	9,181	9,662
		<b>191,585</b>	<b>155,371</b>	<b>165,771</b>	<b>152,849</b>
Creditors: amounts falling due within one year	15	(59,650)	(60,910)	(57,357)	(59,654)
<b>Net current assets</b>		<b>131,935</b>	<b>94,461</b>	<b>108,414</b>	<b>93,195</b>
<b>Total assets less current liabilities</b>		<b>2,041,365</b>	<b>1,900,304</b>	<b>1,272,962</b>	<b>1,186,782</b>
Provision for liabilities	16	(844,871)	(746,492)	(829,105)	(733,020)
<b>Net assets excluding pension asset/(liability)</b>		<b>1,196,494</b>	<b>1,153,812</b>	<b>443,857</b>	<b>453,762</b>
Pension asset/(liability)	8	4,945	(1,559)	4,945	(1,559)
<b>Net assets</b>		<b>1,201,439</b>	<b>1,152,253</b>	<b>448,802</b>	<b>452,203</b>
<b>Accumulated funds</b>					
Revaluation reserve	17	327,920	312,388	-	-
Income and expenditure	17	873,519	839,865	448,802	452,203
<b>Funds available for members</b>	18	<b>1,201,439</b>	<b>1,152,253</b>	<b>448,802</b>	<b>452,203</b>

The financial statements were approved and authorised for issue by the Council and were signed on its behalf on 9 April 2014.



Kay-Tee Khaw  
Chairman of the Council



Simon Kayll  
Chief Executive

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 December 2013**

	Notes	2013 £'000	2012 £'000
Net cash inflow from operating activities	19	79,809	94,507
Returns on investment and servicing of finance	20	31,081	29,109
Taxation		(1,619)	(12,341)
Acquisition of subsidiary company		-	(363)
Capital expenditure and financial investment	21	(77,296)	(74,540)
		<b>31,975</b>	<b>36,372</b>
Net cash outflow from management of liquid resources (comprising bank deposits and investment deposits)		<b>(32,433)</b>	<b>(35,049)</b>
<b>(Decrease)/increase in cash in the period</b>		<b>(458)</b>	<b>1,323</b>
<b>Analysis of changes in net funds</b>			
	At 1/1/2013 £'000	Cash flow movement £'000	At 31/12/2013 £'000
Cash at bank and in hand	9,768	(458)	9,310
Bank deposit accounts	111,788	33,177	144,965
Cash with investment managers	36,588	(744)	35,844
<b>Net funds</b>	<b>158,144</b>	<b>31,975</b>	<b>190,119</b>
<b>Reconciliation of net cash flow to movement in net funds</b>			
		2013 £'000	2012 £'000
(Decrease)/increase in cash		(458)	1,323
Cash flow from increase in net liquid resources		32,433	35,049
		<b>31,975</b>	<b>36,372</b>
Net funds at 1 January		158,144	121,772
<b>Net funds at 31 December</b>		<b>190,119</b>	<b>158,144</b>

Of the net funds of £190.1m held by MPS, £14.9m (2012: £8.7m) is held in trust on behalf of the MPS Periodical Payments Trust, which was established to provide security for payments to be made in satisfaction of periodical payments orders. The Trust's funds, which are invested in a segregated managed cash portfolio, can only be used to meet liabilities resulting from periodical payment orders and are not available to settle any other MPS liabilities.

# Notes to the financial statements

## 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 derivatives at valuation, but in all other respects, have been prepared in accordance with the historical cost convention. The principal accounting policies adopted by MPS within that convention are set out below.

## 2 Accounting policies

### (a) Consolidation

The Group financial statements comprise a consolidation of the financial statements of the parent company (the "Company") and all its subsidiary undertakings (together, the "Group") as at 31 December and as identified in note 12. As a consolidated income and expenditure account is published, a separate income and expenditure account for the parent company is omitted from the group financial statements by virtue of Section 408 of the Companies Act 2006. The parent company net contribution for the year to 31 December 2013 was a deficit of £5.3m (2012: deficit of £40.9m), as shown in note 17.

### (b) Subscriptions

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

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

### (c) Intangible fixed assets and amortisation

Intangible fixed assets are included at cost. Amortisation is provided evenly on the cost of intangible fixed assets, to write them down to nil value over their expected useful lives. Where there is evidence of impairment, intangible assets are written down to their current valuation, with any such write down being charged to operating profits. The annual amortisation rate used is:

Copyrights - 4.5% per annum

The life of the copyright is based on the tax life of the asset in Australia, where it was acquired, and is in excess of 20 years. As a result, a review was carried out at the end of 2013 to ensure the value of the asset was not impaired, which it was found not to be.

### (d) Tangible fixed assets and depreciation

All tangible fixed assets are included at cost. Depreciation is provided evenly on the cost 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.

The principal rates used for other assets are:

Freehold buildings	- 2% per annum
Leasehold property	- over life of leases
Furniture and fittings	- 5% per annum
Office equipment	- 15% per annum
Computers	- 33.3% per annum
Motor vehicles	- 20% per annum

### (e) Translation of foreign currency transactions

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

### (f) Interest receivable and dividends

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

### (g) Investments

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

Unlisted investments, for which an independent market valuation is available, are included in the balance sheet at market valuation. Other 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.

### (h) Derivative financial instruments

Interest rate swaps are held at market value, with unrealised gains or losses taken to the statement of total recognised gains and losses. Any collateral payments or receipts are kept off balance sheet to follow ownership, but are disclosed in note 11c.

Foreign exchange forward contracts are held off balance sheet, with only realised gains and losses taken to the income and expenditure account. The fair value of these contracts, at the year end, is shown in note 11d.

In addition, the Group's investment managers are permitted to hold derivative financial instruments to enhance investment returns, with

gains or losses credited or charged to the income and expenditure account.

#### (i) Costs and damages for claims

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

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

No provision is made in the financial statements for the potential claims that may arise from incidents that occurred before 31 December but had not been reported to MPS at that date. This is a key judgment area, which the Council has considered in detail, concluding that these potential claims do not constitute a liability as recognition is dependent on the exercise of discretion by the Council; and there is no constructive or legal obligation to recognise them until such discretion is exercised. The exercise of discretion by the Council is set out in the Articles of Association in paragraph 40. In reaching this judgment, the Council considered whether members have a valid expectation that assistance will be provided in full with regards all submitted claims. Having considered how discretion is exercised by MPS, the Council conclude that there cannot be a valid expectation that all requests for assistance will be met in full, and that it is not appropriate to make a provision for potential claims that have not been reported by 31 December. However, the Council believes it is appropriate to make an estimate of the cost of these potential claims when assessing the adequacy of MPS's funding position. This estimate is disclosed and discussed in note 23.

#### (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 derivatives and on other investments disposed of during the year.

No deferred tax liability 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at

the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

#### (k) Pensions

MPS operates two pension schemes, a defined benefit scheme and a defined contribution scheme.

The assets of both schemes are invested and managed independently of MPS's finances. For the defined benefit scheme, the assets are measured using market values and the 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.

Defined benefit 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.

Contributions to the defined contribution pension scheme are charged to the income and expenditure account in the year to which they relate.

#### (l) Operating lease agreements

Leases where substantially all of the risks and rewards of ownership are not transferred to the group are treated as operating leases. Rentals under operating leases are charged against profits on a straight-line basis over the period of the lease.

Operating lease incentives are recognised, on a straight-line basis, as a reduction of the rental expense over the shorter of the lease term and the period to the first rent review where market rentals will be payable.

#### (m) Going Concern

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

In forming this view, members of the Council have considered the recommendations, and the further ongoing consultations, arising from the Sharman Inquiry ("Going Concern and Liquidity Risks").

## Notes to the financial statements continued

### 3a Education, publications and external relations

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

	2013 £'000	2012 £'000
<b>3b Administration expenses</b>		
Included under this classification are:		
Operating lease rentals		
- Land and buildings	2,420	2,936
- Motor vehicles	192	157
- Office equipment	160	95
Depreciation of fixed assets	2,294	2,037
 Auditors' remuneration		
<i>Services to the Company and its subsidiaries</i>		
Fees payable to the Company's auditor for the audit of the annual financial statements	85	76
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	19	14
Other services:		
- Taxation - compliance and advice	59	44
- Accounting advice	13	18
 <i>Services to the Company's associated pension scheme</i>		
Audit of the financial statements of the Scheme pursuant to legislation	5	5

### 3c Exchange movements

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

<b>4 Net income from investments</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Bond and gilt interest	<b>27,312</b>	26,493
Bank interest	<b>1,419</b>	1,208
Other investment income	<b>2,350</b>	1,408
	<b>31,081</b>	29,109

Other investment income includes net realised gains/(losses) arising from certain derivative financial instruments, which are discussed in more detail in the Strategic Report on page 25.

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

#### **5a Tax on income and gains/(losses) from investments**

<b>Tax on income and gains/(losses) included in the income and expenditure account for the year</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Current tax:		
UK corporation tax on income and gains/(losses) for the year at 23% (2012: 24%)	<b>(35)</b>	3,749
Adjustment in respect of prior years	<b>39</b>	8
Foreign tax	<b>33</b>	27
Double taxation relief	<b>(11)</b>	(13)
<b>Current tax charge for the year (see note 5b)</b>	<b>26</b>	3,771
Deferred tax:		
Origination and reversal of timing differences	<b>(38)</b>	-
<b>Tax on investment income and gains/(losses) in the income and expenditure account for the year</b>	<b>(12)</b>	3,771

#### **Tax on other (losses)/gains included in the statement of total recognised gains and losses for the year**

Current tax:		
UK corporation tax on (losses)/gains for the year at 23% (2012: 24%)	-	(2,183)
Deferred tax:		
Origination and reversal of timing differences	<b>(6,546)</b>	-
<b>Tax on other (losses)/gains included in the statement of total recognised gains and losses for the year</b>	<b>(6,546)</b>	(2,183)

## Notes to the financial statements 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 23% (2012: 24%) are explained below:

	2013 £'000	2012 £'000
Contribution before tax per accounts	(7,662)	(23,722)
Non-taxable contribution	8,487	39,275
Income and net gains/(losses) from investments included in the income and expenditure account for the year	825	15,553
Income and net gains/(losses) from investments multiplied by the standard rate of corporation tax in the UK of 23% (2012: 24%)	190	3,733
Effects of:		
Depreciation in excess of capital allowances	3	3
Non-taxable dividend income	(269)	(294)
Double tax relief	(11)	(13)
Adjustment in respect of prior years	39	8
Other short term timing differences	-	(8)
Change in tax rate	(3)	75
Infrastructure investment partnership income not recognised	-	240
Foreign tax	33	27
Unutilised losses	44	-
<b>Current tax charge/(credit) for the year</b>	<b>26</b>	<b>3,771</b>

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

**5c Deferred taxation**

An unprovided £26.3m (2012: £22.6m) tax charge would arise should MPS's equity investments be sold at the market values at which they are included in the balance sheet.

In accordance with accounting policy 2(j), a deferred tax asset has been recognised as detailed below:

	2013 £'000	2012 £'000
Short term timing differences	6,584	-
<b>Provision for deferred tax</b>	<b>6,584</b>	<b>-</b>
Provision at 1 January	-	-
Deferred tax credit in the income and expenditure account for the period	38	-
Deferred tax credit in the statement of total recognised gains and losses for the period	6,546	-
<b>Provision at 31 December</b>	<b>6,584</b>	<b>-</b>

### 6 Emoluments of members of the Council

The standard remuneration for all non-executive members of the Council (other than the Chairman) was £20,485 (2012: £20,485). During 2013 no increase was applied to the standard remuneration. The total fees payable to members of Council are analysed below:

	Salary/ fees £'000	TB £'000	TRA £'000	PR £'000	AP £'000	Total £'000	2012 £'000
<b>Executive members</b>							
Simon Kayll (Chief Executive)	228	14	30	24	15	<b>311</b>	309
Howard Kew (Executive Director – Finance and Risk)	152	14	-	19	2	<b>187</b>	151
Kevin Lewis (Dental Director)	159	13	-	12	3	<b>187</b>	189
<b>Non-executive members</b>							
Kay-Tee Khaw (Chairman)	50	-	-	-	-	<b>50</b>	36
Frank Attwood (Retired 10 April 2013)	11	-	-	-	-	<b>11</b>	37
Keith Bradley	28	-	-	-	-	<b>28</b>	24
Richard Brennan (Appointed 1 July 2013)	10	-	-	-	-	<b>10</b>	-
Trevor Burke	41	-	-	-	-	<b>41</b>	41
Ian Croxford	30	-	-	-	-	<b>30</b>	26
Mark Davis	24	-	-	-	-	<b>24</b>	23
Yasmin Drabu	29	-	-	-	-	<b>29</b>	27
Mary Favier (Retired 12 June 2013)	12	-	-	-	-	<b>12</b>	24
Patrick Forbes	26	-	-	-	-	<b>26</b>	24
Taj Hassan	27	-	-	-	-	<b>27</b>	27
Simon Pashby	34	-	-	-	-	<b>34</b>	5
Sally Scutt (Appointed 1 September 2013)	9	-	-	-	-	<b>9</b>	-
Elizabeth Vallance (Retired 12 June 2013)	14	-	-	-	-	<b>14</b>	27
	<b>884</b>	<b>41</b>	<b>30</b>	<b>55</b>	<b>20</b>	<b>1,030</b>	<b>970</b>

**Key:**

TB – Taxable benefits – includes car allowance and medical benefits

TRA – Taxable relocation allowance

PR – Performance reward

AP – Alternative pension arrangements

During 2013 there were 3 (2012: 3) executive members of the Council who were members of MPS's defined benefit pension scheme, details of which are set out in note 8. During the same period, no members of Council were members of the defined contribution pension scheme, which was introduced on 1 November 2013.

The highest paid director, the Chief Executive, has accrued annual defined benefit pension rights of £47,000 (2012: £43,000).

In addition, as stated in the Report of the Council on page 26, seven members of the Council had personal membership of MPS.



## Notes to the financial statements continued

### 7 Employees

The average number of people employed by the Group and the Company in the provision of services to members during the year was 592 (2012: 553).

<b>Costs in respect of these employees were:</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Wages and salaries	<b>27,286</b>	25,527
Social security costs	<b>2,762</b>	2,545
Pension costs	<b>4,992</b>	4,294
	<b>35,040</b>	32,366

### 8 Pensions

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

The defined benefit scheme was closed to new entrants on 1 November 2013, at which time the defined contribution scheme was introduced.

The funding of the defined benefit scheme is based on triennial valuation; the last full actuarial valuation as at 31 December 2011 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.

The next full actuarial valuation is due to be carried out as at 31 December 2014.

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

<b>Principal actuarial assumptions:</b>	<b>At 31 December 2013 % pa</b>	<b>At 31 December 2012 % pa</b>
Price RPI inflation	<b>3.6</b>	3.3
Discount rate	<b>4.6</b>	4.6
Pension increases (LPI 5%)	<b>3.4</b>	3.2
Pension increases (LPI 3%)	<b>2.6</b>	2.5
Salary growth	<b>5.1</b>	4.8
Expected return on assets at start of year	<b>5.4</b>	5.3

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 29.0 years (2012: 28.9 years). Allowance is made for future improvements in life expectancy.

**8 Pensions (continued)**

	<b>At 31 December 2013 £'000</b>	At 31 December 2012 £'000
<b>Balance sheet:</b>		
Fair value of scheme assets	<b>102,897</b>	84,816
Defined benefit obligation	<b>(97,952)</b>	(86,375)
<b>Pension asset/(liability) in the balance sheet</b>	<b>4,945</b>	(1,559)

		<b>At 31 December 2013 £'000</b>		At 31 December 2012 £'000
<b>The current allocation of pension scheme assets is as follows:</b>	%		%	
Equities	<b>34</b>	<b>34,954</b>	40	34,031
Index linked gilts	<b>21</b>	<b>21,998</b>	20	16,884
Liability driven investment	<b>14</b>	<b>14,546</b>	17	14,418
Property	-	-	1	631
Diversified growth fund	<b>31</b>	<b>31,307</b>	22	18,436
Cash	-	<b>92</b>	-	416
<b>Total</b>	<b>100</b>	<b>102,897</b>	100	84,816

	<b>2013 £'000</b>	2012 £'000
<b>The following amounts are recognised in the income and expenditure account:</b>		
Current service cost	<b>4,688</b>	4,059
Interest cost	<b>4,063</b>	3,660
Expected return on pension scheme assets	<b>(4,771)</b>	(4,134)
<b>Total expense recognised in income and expenditure account</b>	<b>3,980</b>	3,585

Within the income and expenditure account, current service costs are recognised within administration expenses, and the net of interest costs and the expected return on pension scheme assets is recognised as other finance income. For 2013 this was an income of £708,000, and for 2012, an income of £474,000.

	<b>2013 £'000</b>	2012 £'000
<b>The defined benefit obligation moved over the year as follows:</b>		
Opening defined benefit obligation	<b>86,375</b>	74,577
Current service cost	<b>4,688</b>	4,059
Interest cost	<b>4,063</b>	3,660
Contributions by scheme members	<b>821</b>	775
Actuarial losses	<b>3,578</b>	4,747
Benefits paid	<b>(1,573)</b>	(1,443)
<b>Closing defined benefit obligation</b>	<b>97,952</b>	86,375

## Notes to the financial statements continued

**8 Pensions (continued)**

	2013 £'000	2012 £'000
<b>The fair value of the scheme assets moved over the year as follows:</b>		
Opening fair value of scheme assets	84,816	76,092
Expected return on scheme assets	4,771	4,134
Actuarial gains	5,500	340
Contributions by the employer	8,562	4,918
Contributions by scheme members	821	775
Benefits paid	(1,573)	(1,443)
<b>Closing fair value of scheme assets</b>	<b>102,897</b>	<b>84,816</b>
<b>The actual return on scheme assets was</b>	<b>10,271</b>	<b>4,474</b>

Over the year to 31 December 2013, MPS made contributions of £8.6m (2012: £4.9m) to the scheme. It has been agreed that from 1 June 2013 future employer contributions will be at a rate of 22.8% (22.0% from 1 April 2014) of pensionable salaries for 80th scale members and 31.1% (29.3% from 1 April 2014) of pensionable salaries for other scale members. A payment of £1.9m was made in June 2013 to backdate the change in contribution rates to 31 December 2011. In addition, from 1 June 2013, MPS increased its contributions to fund the deficit revealed by the 31 December 2011 actuarial valuation to £2.8m pa from £1.5m pa. All contributions will be reviewed following the completion of the next actuarial valuation effective as at 31 December 2014.

Estimated total contributions payable to the defined benefit scheme by MPS for 2014, including deficit funding contributions, are £7.5m.

<b>The following amounts are recognised in the statement of total recognised gains and losses:</b>	2013 £'000	2012 £'000
<b>Actuarial (gains)/losses</b>	<b>(1,922)</b>	<b>4,407</b>

<b>Five year history:</b>	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fair value of scheme assets	102,897	84,816	76,092	67,780	55,682
Defined benefit obligation	(97,952)	(86,375)	(74,577)	(64,332)	(57,495)
<b>Surplus/(deficit)</b>	<b>4,945</b>	<b>(1,559)</b>	<b>1,515</b>	<b>3,448</b>	<b>(1,813)</b>
Experience adjustments on scheme liabilities	1,215	745	(258)	(172)	(385)
Experience adjustments on scheme assets	5,500	340	(269)	4,182	4,478

**9 Intangible fixed assets**Copyright  
£'000**Company****Cost**

At 1 January 2013	394
<b>At 31 December 2013</b>	<b>394</b>

**Amortisation**

At 1 January 2013	52
Provided in year	18
<b>At 31 December 2013</b>	<b>70</b>

**Net book value**

<b>At 31 December 2013</b>	<b>324</b>
At 31 December 2012	342

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

<b>10 Tangible fixed assets</b>	Freehold property £'000	Leasehold property £'000	Computers, furniture, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
<b>Group</b>					
<b>Cost or valuation</b>					
At 1 January 2013	16,115	2,323	14,710	34	33,182
Additions	319	-	2,961	-	3,280
Disposals	-	-	(406)	-	(406)
<b>At 31 December 2013</b>	<b>16,434</b>	<b>2,323</b>	<b>17,265</b>	<b>34</b>	<b>36,056</b>
<b>Depreciation</b>					
At 1 January 2013	200	1,396	9,335	7	10,938
Provided in year	325	154	1,804	11	2,294
Released on disposals	-	-	(378)	-	(378)
<b>At 31 December 2013</b>	<b>525</b>	<b>1,550</b>	<b>10,761</b>	<b>18</b>	<b>12,854</b>
<b>Net book value</b>					
<b>At 31 December 2013</b>	<b>15,909</b>	<b>773</b>	<b>6,504</b>	<b>16</b>	<b>23,202</b>
At 31 December 2012	15,915	927	5,375	27	22,244
<b>Company</b>					
<b>Cost or valuation</b>					
At 1 January 2013	16,115	2,323	14,418	34	32,890
Additions	319	-	2,958	-	3,277
Disposals	-	-	(406)	-	(406)
<b>At 31 December 2013</b>	<b>16,434</b>	<b>2,323</b>	<b>16,970</b>	<b>34</b>	<b>35,761</b>
<b>Depreciation</b>					
At 1 January 2013	200	1,396	9,092	7	10,695
Provided in year	325	154	1,780	11	2,270
Released on disposals	-	-	(378)	-	(378)
<b>At 31 December 2013</b>	<b>525</b>	<b>1,550</b>	<b>10,494</b>	<b>18</b>	<b>12,587</b>
<b>Net book value</b>					
<b>At 31 December 2013</b>	<b>15,909</b>	<b>773</b>	<b>6,476</b>	<b>16</b>	<b>23,174</b>
At 31 December 2012	15,915	927	5,326	27	22,195

All the leasehold properties held at 31 December 2013 are short leaseholds.

#### Capital commitments

Capital expenditure approved and contracted for amounted to £nil (2012: £nil).

## Notes to the financial statements continued

	2013 Group £'000	2012 Group £'000	2013 Company £'000	2012 Company £'000
<b>11a Investments</b>				
Valuation or cost at 1 January	1,783,599	1,677,431	1,071,050	1,011,050
Investment additions	451,844	193,669	-	-
Subsidiary undertaking additions	-	-	70,000	60,363
Disposals at carrying value	(374,404)	(140,078)	-	-
Provision for impairment of investment in subsidiary undertakings	-	-	-	(363)
Movement in cash	(744)	9,065	-	-
Foreign exchange losses on investments	(22,435)	(11,489)	-	-
Surplus on revaluation of investments and derivatives	48,368	55,001	-	-
<b>At 31 December</b>	<b>1,886,228</b>	<b>1,783,599</b>	<b>1,141,050</b>	<b>1,071,050</b>
<b>Investments comprise</b>				
Listed on UK Stock Exchange:				
- Equities	293,976	253,152	-	-
- Government and other bonds	922,175	972,256	-	-
Listed on overseas Stock Exchanges:				
- Equities	249,932	266,343	-	-
- Government and other bonds	194,172	205,477	-	-
Unlisted	173,917	49,783	-	-
Shares in group undertakings	-	-	1,141,050	1,071,050
Derivative financial instruments – assets (11b)	16,546	-	-	-
Derivative financial instruments – liabilities (11b)	(334)	-	-	-
Cash	35,844	36,588	-	-
	<b>1,886,228</b>	<b>1,783,599</b>	<b>1,141,050</b>	<b>1,071,050</b>
Historical cost of investments	<b>1,598,562</b>	<b>1,489,030</b>	<b>1,141,050</b>	<b>1,071,050</b>

**11b Derivative Financial Instruments**

The following derivative financial instruments, recognised in note 11a above, were held at the end of the year:

**Interest Rate Swaps**

Duration	Nature of contract	Notional value £'000	Asset £'000	Liability £'000
2yrs-20yrs	Pay fixed for floating	643,840	16,546	(334)

As noted in the Strategic Report on page 25, the interest rate swaps programme was introduced by MPS to mitigate potential losses from its UK index linked bonds portfolio, which may arise should UK interest rates rise as predicted in future. However, some risk is still retained by MPS as the programme does not provide an exact match for the potential losses that could arise from the assets should interest rates rise. In addition, the programme does not seek to address inflation rate risk.

**11c Collateral amounts given/received**

The following collateral balances (at market value) were held at the end of the year, relating to amounts given/received against unrealised losses/gains respectively on derivative financial instruments shown in note 11b above. These amounts are not recognised on the balance sheet as ownership has not been transferred pending the maturity or trade of the underlying derivative contract.

Derivative held	Form of collateral	Given £'000	Received £'000
Interest Rate Swap	Cash	-	1,520
Interest Rate Swap	UK Government Bonds	-	14,992
		-	<b>16,512</b>

**11d Derivative Financial Instruments – off balance sheet**

The following derivative financial instruments were held off balance sheet at the end of the year:

**Forward Foreign Exchange Contracts**

Duration	Nature of contract	Notional value	Asset £'000	Liability £'000
3 months	Sell GBP Buy EUR	£15.5m	-	(61)
3 months	Sell USD Buy HKD	\$100.2m	-	(8)
3 months	Sell USD Buy MYR	\$34.4m	-	(42)
3 months	Sell USD Buy SGD	\$66.5m	57	-
			<b>57</b>	<b>(111)</b>

As noted in the Strategic Report on page 25, MPS maintains a currency hedging programme to mitigate currency risks where it does not hold sufficient assets in a particular currency to match its liabilities in that currency. As this is not an exact hedge, and there is inherent volatility in the liabilities that MPS is seeking to match, a degree of currency risk will be retained.

**12 Investments in subsidiary undertakings**

MPS has the following direct interests in subsidiary undertakings:

Name	Parent and group interest in ordinary shares and voting rights	Cost of parent investment £'000	Country of incorporation or registration	Nature of business
Dental Protection Limited	100%	-	England	To provide oversight of dental members within MPS
MPI (London) Limited	100%	1,130,001	England	To manage the investment portfolio.
DPL Australia Pty Limited	100%	-	Australia	To manage the administrative affairs of dental members in Australia.
MPS Risk Solutions Limited	100%	11,000	England	The provision of general insurance contracts to organisations in the healthcare sector.
MPS Periodical Payment Trustee Limited	100%	40	England	Corporate Trustee.
MPS Holdings Australia Pty Limited	100%	9	Australia	Holding company.
The Cognitive Consulting Group Pty Limited*	100%	-	Australia	To provide communication skills and risk management training to healthcare professionals in Australia.

\* Indirectly owned by MPS.

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

As noted in the Strategic Report on page 20, MPS Risk Solutions Limited withdrew from the insurance market during 2012. Consequently, at the end of 2013 a review was carried out to ensure that MPS's investment in the company was not impaired, which it was found not to be.

## Notes to the financial statements continued

	<b>2013 Group £'000</b>	<b>2012 Group £'000</b>	<b>2013 Company £'000</b>	<b>2012 Company £'000</b>
<b>13 Asset held for resale</b>				
Freehold property	-	2,500	-	2,500
	-	2,500	-	2,500

The above freehold property was sold during 2013.

	<b>2013 Group £'000</b>	<b>2012 Group £'000</b>	<b>2013 Company £'000</b>	<b>2012 Company £'000</b>
<b>14 Debtors</b>				
<b>Receivable within one year</b>				
Deferred tax asset	<b>6,622</b>	-	-	-
Trade debtors	<b>7,595</b>	200	<b>7,543</b>	136
Recoverable insurance claims	<b>3,507</b>	5,057	<b>3,507</b>	5,057
Amounts owed by subsidiary undertakings	-	-	<b>94,421</b>	86,571
Other debtors	<b>265</b>	613	<b>256</b>	156
Prepayments	<b>5,293</b>	5,216	<b>5,289</b>	5,208
	<b>23,282</b>	11,086	<b>111,016</b>	97,128
<b>Receivable after one year</b>				
Recoverable insurance claims	<b>14,028</b>	20,229	<b>14,028</b>	20,229
<b>Total debtors</b>	<b>37,310</b>	31,315	<b>125,044</b>	117,357

	<b>2013 Group £'000</b>	<b>2012 Group £'000</b>	<b>2013 Company £'000</b>	<b>2012 Company £'000</b>
<b>15 Creditors: amounts falling due within one year</b>				
Corporation tax	-	1,555	-	1,545
Other taxes and social security	<b>1,886</b>	1,963	<b>1,879</b>	1,962
Other creditors and accruals	<b>9,599</b>	10,094	<b>7,313</b>	9,497
Deferred subscription income	<b>48,165</b>	47,298	<b>48,165</b>	46,650
	<b>59,650</b>	60,910	<b>57,357</b>	59,654

<b>16 Provision for liabilities</b>	Reported negligence claims £'000	Reported other claims £'000	Claims handling £'000	Total £'000
<b>Group</b>				
At 1 January 2013	667,683	44,366	34,443	746,492
Movements in the year:				
Charged to the income and expenditure account				
Reported negligence claims	276,784	-	15,808	292,592
Reported other claims	-	34,175	23,463	57,638
Paid	(184,618)	(32,470)	(34,763)	(251,851)
<b>At 31 December 2013</b>	<b>759,849</b>	<b>46,071</b>	<b>38,951</b>	<b>844,871</b>
<b>Company</b>				
At 1 January 2013	654,853	44,366	33,801	733,020
Movements in the year:				
Charged to the income and expenditure account				
Reported negligence claims	274,194	-	15,679	289,873
Reported other claims	-	34,175	23,463	57,638
Paid	(184,213)	(32,470)	(34,743)	(251,426)
<b>At 31 December 2013</b>	<b>744,834</b>	<b>46,071</b>	<b>38,200</b>	<b>829,105</b>

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

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

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 £17.2m (2012: £25.1m) 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.



## Notes to the financial statements continued

<b>17 Movement on reserves</b>	Revaluation £'000	Income and expenditure £'000	Accumulated funds £'000
<b>Group</b>			
At 1 January 2013	312,388	839,865	1,152,253
Surplus on revaluation of listed investments and derivatives	48,368	-	48,368
Realised on disposal of investments	(32,836)	32,836	-
Actuarial gains recognised in pension scheme	-	1,922	1,922
Tax credit on recognised investment losses	-	6,546	6,546
Net contribution for the year after taxation	-	(7,650)	(7,650)
<b>At 31 December 2013</b>	<b>327,920</b>	<b>873,519</b>	<b>1,201,439</b>

**Company**

At 1 January 2013	452,203	452,203
Actuarial gains recognised in pension scheme	1,922	1,922
Net contribution for the year after taxation	(5,323)	(5,323)
<b>At 31 December 2013</b>	<b>448,802</b>	<b>448,802</b>

<b>18 Reconciliation of movements in funds available for members</b>	2013 £'000	2012 £'000
Net contribution for the financial year	(7,650)	(27,493)
Other recognised gains relating to the year	50,290	50,594
Tax credit on investment losses	6,546	2,183
Total recognised gains	49,186	25,284
Opening funds available for members	1,152,253	1,126,969
<b>Closing funds available for members (see note 23)</b>	<b>1,201,439</b>	<b>1,152,253</b>

<b>19 Reconciliation of deficit of income over expenditure to operating cash flows</b>	2013 £'000	2012 £'000
Deficit of income over expenditure	(40,322)	(52,251)
Depreciation charges	2,294	2,037
Loss on disposal of tangible fixed assets	13	580
Profit on disposal of asset held for resale	(38)	-
Impairment of assets	-	1,250
Increase in provisions	98,379	123,246
Decrease in debtors	627	1,699
Increase in creditors	295	7,316
Foreign exchange losses on investments	22,435	11,489
Cash pension contributions more than current service cost	(3,874)	(859)
<b>Net cash inflow from operating activities</b>	<b>79,809</b>	<b>94,507</b>

<b>20 Returns on investment and servicing of finance</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Interest received	<b>1,419</b>	1,208
Bond and gilt interest received	<b>27,312</b>	26,493
Other interest	<b>2,350</b>	1,408
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>31,081</b>	29,109

<b>21 Capital expenditure and financial investment</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Purchase of tangible fixed assets	<b>(3,280)</b>	(19,908)
Purchase of investments	<b>(451,844)</b>	(193,669)
Proceeds from sale of fixed assets	<b>15</b>	13
Proceeds from sale of investments	<b>375,275</b>	139,024
Proceeds from sale of asset held for resale	<b>2,538</b>	-
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(77,296)</b>	(74,540)

<b>22 Commitments</b>	<b>2013 Group £'000</b>	<b>2012 Group £'000</b>	<b>2013 Company £'000</b>	<b>2012 Company £'000</b>
<b>Operating lease commitments</b>				
Land and buildings, leases expiring:				
Within one year	-	82	-	82
Two to five years	<b>2,179</b>	1,297	<b>2,179</b>	1,297
Greater than five years	<b>247</b>	1,090	<b>247</b>	1,090
	<b>2,426</b>	2,469	<b>2,426</b>	2,469
Motor vehicles, leases expiring:				
Within one year	<b>24</b>	7	<b>24</b>	7
Two to five years	-	15	-	15
	<b>24</b>	22	<b>24</b>	22
Office equipment, leases expiring:				
Within one year	<b>4</b>	18	<b>4</b>	18
Two to five years	<b>139</b>	129	<b>139</b>	129
	<b>143</b>	147	<b>143</b>	147

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 £20m.

## Notes to the financial statements continued

### 23 Members' funds

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

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

MPS Council has engaged an independent firm of consulting actuaries to help model and determine likely levels of future claims in accordance with relevant actuarial guidance. It is, however, an estimate, and given the long term nature of these potential requests, the actual costs of assisting with those matters where assistance is granted could vary considerably. MPS retains the absolute right not to assist, but seeks to act in the interests of members as a whole when deciding to accept liability for claims emerging, and for the purposes of this disclosure has modelled the acceptance of requests at levels projected in line with prior years.

At the end of 2013, the Council's estimate of this potential cost, if it agrees to assist, was £1,092m (2012: £988m).

These potential costs do not constitute a liability, contingent or otherwise, and are therefore not recognised in the balance sheet, because recognition of the liability is subject to MPS exercising its discretion to assist or not (see accounting policy note 2(i) for further details). These potential requests may, to the extent to which the Council exercises that discretion to indemnify, become an MPS liability over time under the occurrence basis of indemnity that MPS provides to its members.

### 24 Obligations of Members

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

### 25 Guarantee

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

### 26 Related Party Transactions

The Parent company has taken advantage of the exemption in Financial Reporting Standard 8 from disclosing transactions with other companies in The Medical Protection Society Group.

As noted in the Report of the Council on page 26, seven members of the Council have personal membership of MPS, which is purchased on a basis consistent with that of other members.

# Professional Advisers

## Solicitors

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

## Bankers

Barclays Bank plc  
1 Churchill Place  
London  
E14 5HP

HSBC Bank plc  
Yorkshire Corporate Banking Centre  
4th Floor, City Point  
29 King Street  
Leeds  
LS1 2HL

## Investment Managers

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

Investec Asset Management SA  
36 Hans Strijdom Avenue  
Foreshore  
Cape Town 8001  
South Africa

M&G Investment Management Limited  
Laurence Poutney Hill  
London  
EC4R 0HH

Schroder Investment Management Limited  
31 Gresham Street  
London  
EC2V 7QA

Baring International Fund Managers (Ireland) Ltd  
Georges Court  
54-62 Townsend Street  
Dublin 2, Ireland

Macquarie Capital Funds (Europe) Limited  
Level 35, CityPoint  
1 Ropemaker Street  
London  
EC2Y 9HD

## Insurance Brokers

Miller Insurance Services Limited  
Dawson House  
5 Jewry Street  
London  
EC3N 2PJ

## Auditors

Grant Thornton UK LLP  
No 1 Whitehall Riverside  
Leeds, LS1 4BN

## Actuaries

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95 Wigmore Street  
London, W1U 1DQ

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125 West 55th Street  
Level 22  
New York  
NY 10019  
United States of America

Newton Investment Management Ltd  
Bank of New York Mellon Centre  
160 Queen Victoria Street  
London  
EC4V 4LA

Ruffer LLP  
80 Victoria Street  
London  
SW1E 5JL

AllianceBernstein Limited  
1 Mayfair Place  
London  
W1X 6JJ

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