2018/19

Annual Report

Medical Indemnity Protection Society Ltd.

Financial Report
30 June 2019

Medical Indemnity Protection Society Ltd and its subsidiaries

(Limited by guarantee and shares) ACN 007 067 281

This financial report covers Medical Indemnity Protection Society Ltd as an individual entity and the group consisting of Medical Indemnity Protection Society Ltd and its subsidiaries ('Group').

Medical Indemnity Protection Society Ltd is a company limited by guarantee and shares, incorporated and domiciled in Australia. Its registered office and principal place of business is: Level 37, 55 Collins Street Melbourne VIC 3000 Australia.

A description of the nature of the group's operations and its principal activities is contained in the 'Directors' report' section of this report. The financial report has been authorised for issue by the directors on 25 September 2019.

Medical Indemnity Protection Society Ltd (MIPS) ABN 64 007 067 281 is an Australian Financial Services Licensee (AFSL 301912).

MIPS Insurance Pty Ltd (MIPSi) ABN 81 089 048 359 is a wholly owned subsidiary of MIPS and holds an authority issued by APRA to conduct general insurance business and is an Australian Financial Services Licensee (AFSL 247301).

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MIPS is proudly not-for-profit and a membership organisation first and foremost

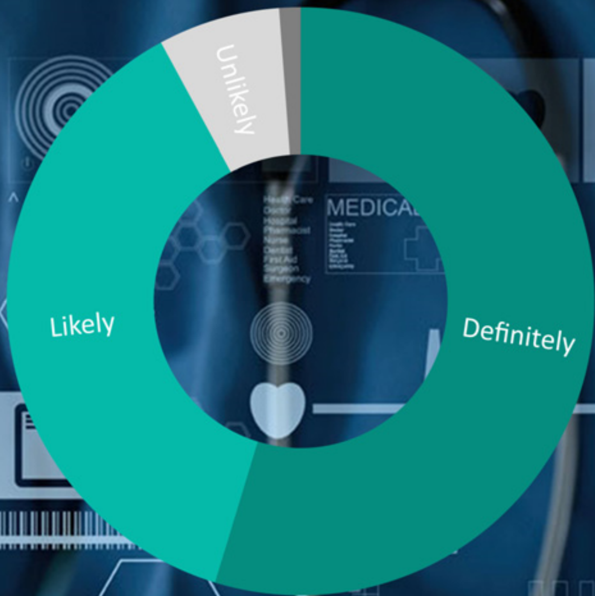
We aim to maximise the health and wellbeing of the community through our members.

We set out to inform, protect, support and empower our members.

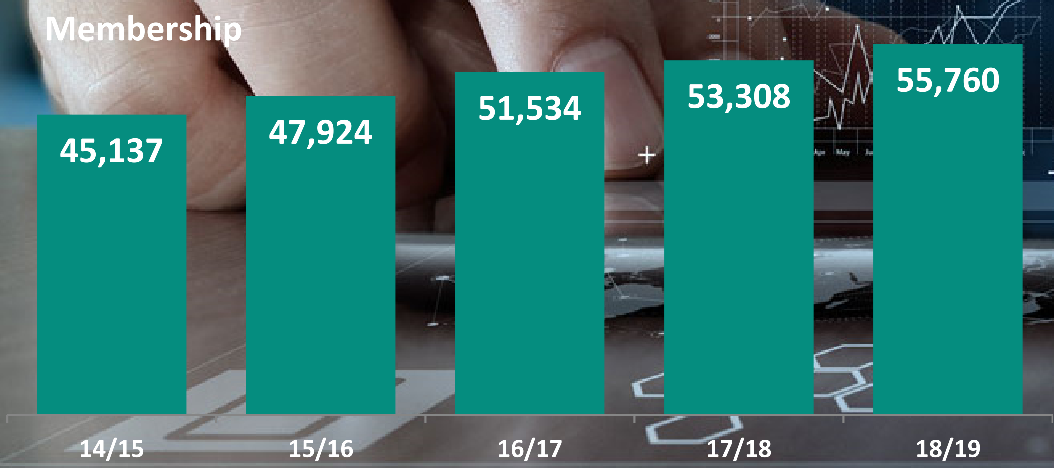
We act with fairness and integrity while ensuring financial strength and discipline.

Highlights 2018/19

92% of members are likely to or would definitely recommend MIPS to a colleague



Provided membership benefits to 55,760 members

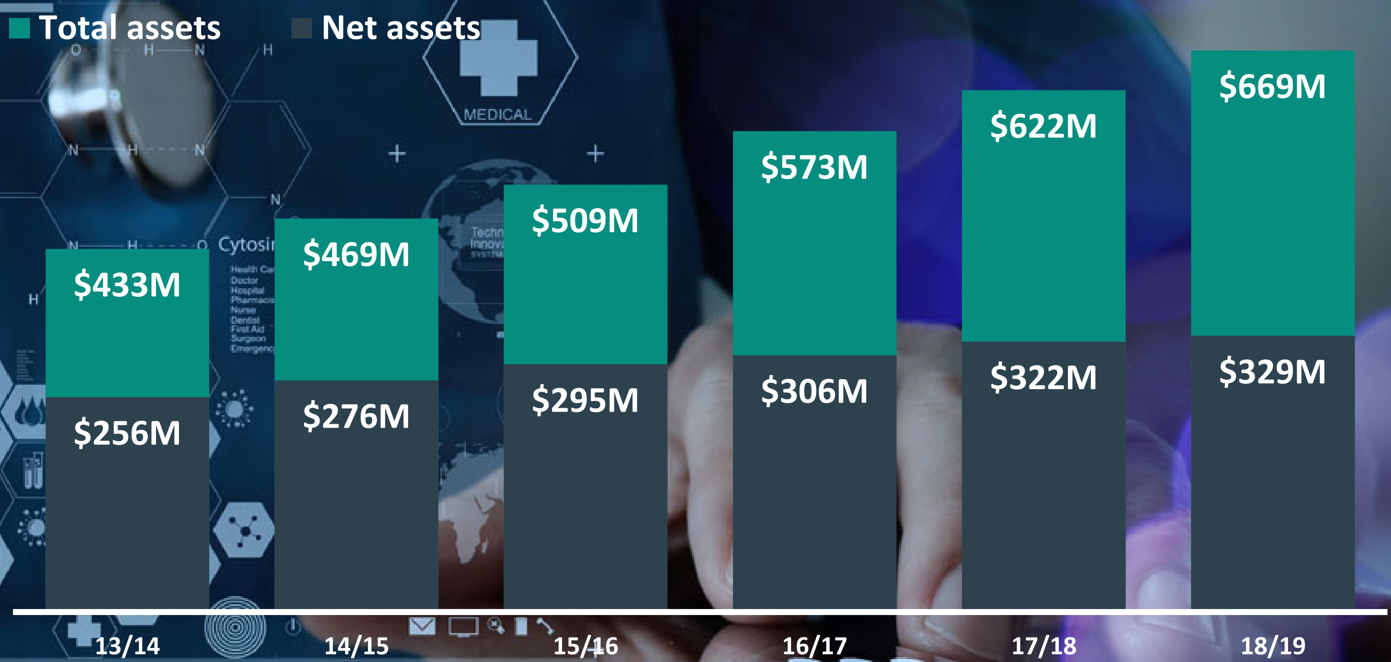


Student membership increased 3.3% to 21,518

MIPS responded to 4,873 notifications from members including 322 that escalated to claims and a further 696 under the additional discretionary cover of MIPS Protections

$47M increase in total members' assets and an increase in members' equity of $7M

An Insurance solvency ratio of 5.05, well above the industry average



Our vision

To provide on-going security through excellence and efficiency in the delivery of service and benefits

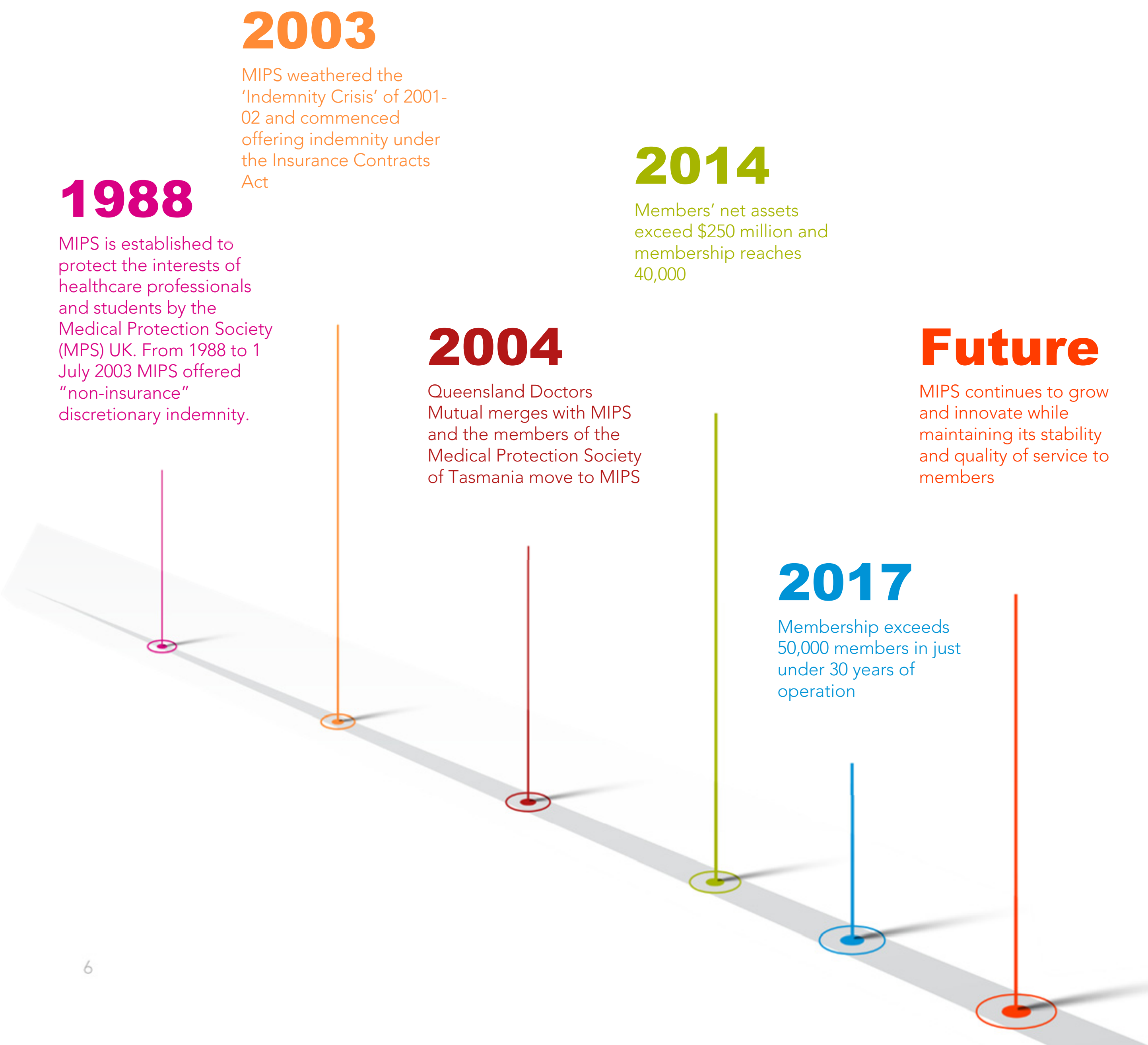
Our mission

To be pre-eminent not-for-profit provider of membership benefits to healthcare practitioners

MIPS is bound by its Constitution to support and protect the character and interests of Members.

In addition to advising, assisting, defending and granting indemnities, MIPS is further bound to promote honourable and to discourage irregular practice.

Moving into 2020, MIPS is in its strongest financial position ever and has a proven track record of defending healthcare professionals.



Chairman's Report

To the Members of Medical Indemnity Protection Society Ltd (MIPS):

MIPS has further consolidated its position as one of the market leaders in the medical indemnity industry, due to your ongoing support. The last 12 months have been challenging, due to volatile business conditions, factors beyond the control of MIPS management. MIPS current year performance, under those constraints has been strong.

In the current challenging environment, the MIPS Group's profit of $6.6 million for the year is an excellent result.

At 30 June 2019, MIPS Group had total assets of almost $669 million with members equity of $329 million, despite a deterioration in the underwriting result of our wholly owned APRA regulated insurer, MIPS Insurance Pty Ltd (MIPSi). MIPS is strongly capitalised and well placed to support each one of its members, in their time of need. As a member focused mutual, MIPS's continues to concentrate on the preservation of members' capital.

MIPSi's capital adequacy ratio significantly exceeds both the minimum Australian Prudential Regulatory Authority (APRA) Prudential Capital Requirement (PCR) ratio of one and the general industry average. As at 30 June 2019 MIPSi had a PCR ratio of 5.05. With a high PCR ratio, gross assets of $494 million and net assets of $151 million, MIPSi's financial position remains extremely sound.

In these uncertain times we protect against uncertainty. MIPSi continued to maintain a higher level of prudential margin when valuing claims than that required by either accounting standards or APRA. MIPSi gross and net outstanding claims liabilities are reserved at 92.5% prudential margin, well above the 75% APRA minimum. Note 3 to the financial statements has the actuarial assumptions and methods with Note 8 detailing the net claims incurred and Note 23 details the Outstanding Claims provision.

Full details of MIPS Group's financial performance for the year is included in the Annual Report, including the statutory financial statements.

MIPS continues to engage with many members in need of our assistance; with their claims, in regulatory and advisory matters supported by our clinical advisors, legal resources and staff.

MIPS's mission is to be the pre-eminent not-for-profit provider of membership benefits to healthcare practitioners. Our range of member benefits are designed to meet the needs of members throughout the various stages of their professional career. These include their medical indemnity insurance (essential for practice), members' practice entity insurance, members' practice entity cyber cover, privacy and media insurance, "MIPS Protections", private health insurance, individual counselling, risk education and 24-hour clinico-legal assistance provided by the MIPS team of health professionals.

Full details of members benefits are available in the MIPS Membership Benefits Handbook and the Members' Insurance Covers Handbook.

MIPS's vision is to provide on-going security through excellence and efficiency in the delivery of services and benefits. MIPS continues to advocate on behalf of members for continuing, appropriate government support that encourages sound medical practice. With the level of public expenditure coming under increasing scrutiny, MIPS actively represented your interests in the health care sector, with government, with professional working parties and in advisory committees.

MIPS has a deep understanding of the health care sector demands and challenges that lie ahead. We have been and will be continuing to build our capacity to come effectively and appropriately to your defence in matters of claims, of complaints, of disciplinary proceedings, at inquests, at inquiries and adverse regulatory proposals.

MIPS is always available to advocate in its members' interests and we always welcome your feedback and inquiries.

I would like to thank Dr AT Browning who resigned effective 30 August 2019. Dr Browning had been with the Group for 24 years; 15 years as Chief Executive Officer and the past 9 years as Managing Director. MIPS greatly appreciates the contribution Dr Browning has made to the development of MIPS. Under his leadership the membership of MIPS has grown to over 55,000 members at 30 June 2019. As Managing Director, he ensured that our membership initiatives and growth have fitted our constitutional requirements to support honourable and discourage irregular practice.

MIPS's successful and efficient delivery of membership benefits would not have been possible without our strong management and its competent and understanding staff members. On behalf of our Board, I express my thanks to the Heads of all Divisions, and to MIPS staff for their dedication and for their outstanding performance in the interests of MIPS members. Their commitment and skills have enabled our organisation to provide support and effective professional security for our members.

Finally, I would like to thank all my fellow MIPS Group board members for their enthusiastic contributions and support this year, ensuring we continue meeting your needs now and in the future, whilst satisfying the objects of the MIPS Constitution.

Mr Gary Speck, Chairman, MIPS, 25 September 2019

What we do for our members

We're here to protect and support members in some of their most difficult career moments. Medicine and dentistry are specialist careers and require equally matched specialist support and protection.

As a not-for-profit organisation, MIPS works solely to benefit its members. MIPS' measured approach has resulted in year on year strengthening of financial security, membership growth and improvements to the benefits of membership.

No sub-limits	No hidden fees	24/7 Clinico-legal support	Best legal representation
We don't have any sub-limits for indemnity insurance cover. For the policy period we simply have the one aggregate limit of $20 million per claim unless the member's registration requires an automatic reinstatement (eg dental practicioner).	All our membership benefits are part of membership. Unless members need to change their membership they only pay a membership fee once a year regardless of the services used.	When members call our 24-hour Clinico-Legal Support line, you can speak with an experienced clinician, not administrative staff or para-legals.	We choose legal representation for members from a panel of law firms, not from within MIPS. This means we can employ the best in the business to represent our members.

We respond and manage claim notifications and have a track record of successfully defending our members. We provide accredited risk education, confidential advice and most importantly ensure that MIPS is comfortably funded to cover current and future members' claims liabilities and support. All assets of MIPS are ultimately owned by MIPS members.

A core benefit of MIPS membership is indemnity insurance. Adverse or unexpected events can affect any healthcare professional. We are here to protect members in the event of complaints, legal actions (such as being sued) and investigations.

Members do not need to be under the threat of being sued to contact us. Our members-only advice and support line is available to assist even before any complaint, claim or investigation arises.

The Indemnity Insurance Policy covers practitioners for claims arising out of the provision of healthcare. It covers claims for acts, errors, breaches and omissions. This is a claims-made policy, which means it covers claims made against members and reported to MIPS in the period of insurance (or any extended reporting period). In practical terms, this means, among other things, paying the costs to defend members and damages in the event of compliants or civil suits stemming from the provision of healthcare. Crtically, it also includes represnting members at invetigtions such as those conducted by the regulators (eg AHPRA, HCCC) or other authorities (eg coroner, Medicare).

Core benefits for members

Comprehensive indemnity insurance cover for healthcare matters

Personal accident insurance cover- including travel insurance for overseas gratuitous work

Practice entity + Cyber, privacy and media insurance covers

MIPS Protections - discretionary cover for non-healthcare matters arising from professional practice

24-hour Clinico-Legal Advice and Support from experienced clinicians

Accredited professional development (CPD)

Services provided to members 2018-19

5,569

Requests for advice and assistance from members

82%

Of requests were non-liability matters and were managed with advice and assistance averting the need for legal represntation

696

Matters that were not covered under an insurance contract, yet MIPS was able to provide discretionary assistance through MIPS Protections

322

Claims from members in which MIPS provided legal defence and granted indemnity

$329M

Of members Net Assets, an increase of $6.7M

40

Accredited CPD workshops across Australia in capital cities exclusively for members

70

Accredited CPD workshops in hospitals around Austalia in support juniour doctors and medical education units

11

Webinars held during the year and 2,169 webinars succesfully completed by practitioners

Claims management

The Professional Services (Claims) Division has evolved into a new structure. We recognised that only a part of what we undertook for members related to formal claims, whereas the majority arose from their professional services. Litigation officers have been employed to work along-side clinical advisers to focus on managing formal damages claims made out against members.

We have established a Support Services Department which aims to provide members with an exceptional first point of contact experience. Staff are trained to quickly triage a notification and arrange immediate escalation where necessary. This department is also there to manage personal clinical issues such as disciplinary hearings, AHPRA investigation and Medicare audits.

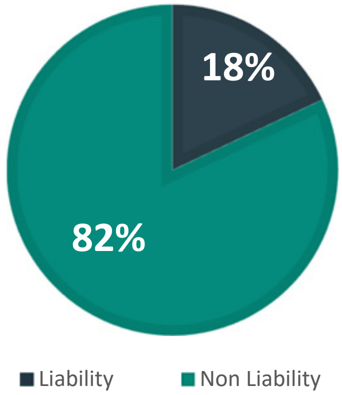
MIPS has continued to approach the litigation environment very much from the perspective of safeguarding a members' professional reputation whilst taking a hard line on claims of questionable clinical or legal merit.

Generally, MIPS does not make commercial offers to settle in circumstances where the member's evidence is likely to convince a court that the clinical facts do not meet the threshold of causation and/or liability.

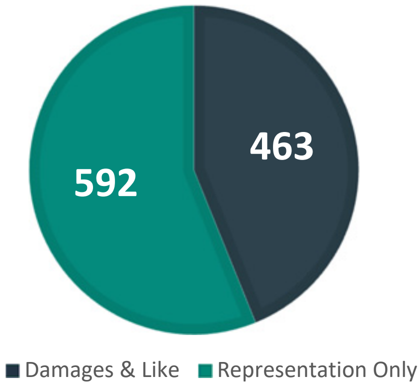
This often means that a matter will need to be run to verdict if a claimant will not walk away from their litigation. It also means that MIPS is often left with the difficult decision to pursue a claimant in an attempt to recover our defence costs outlaid in representing the members' interests.

MIPS aims to continue to represent the best interests of members, at both the individual and collective level by carefully choosing how to approach each litigated matter on a case by case basis. Members ongoing co-operation in this process is genuinely appreciated.

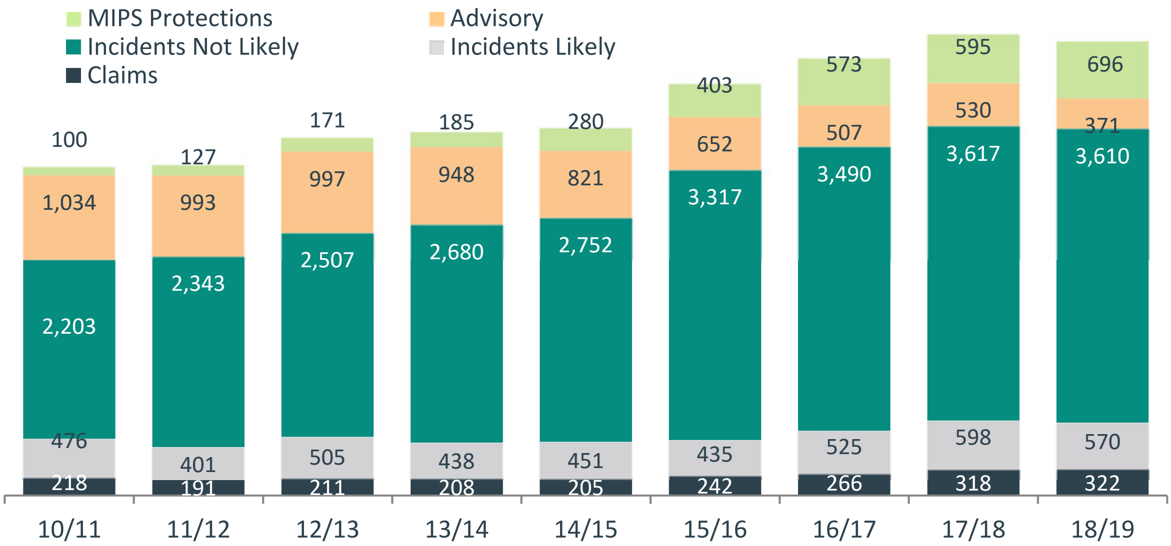
Distribution of notifications by nature of matter as at 30 June 2019



Split of Claims and Incidents likely as at 30 June 2019



Number of notifications (protections and indemnity)



Investigation and inquiry assistance

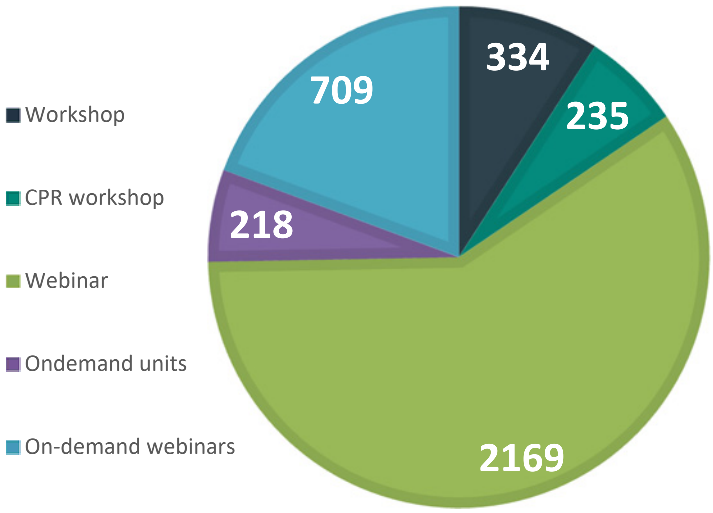
One of the key membership benefits accessed by members relates to assistance for matters involving potential conflict of interests with employing institutions or even other professional colleagues. This may be experienced in Coronial Inquests for example, where there can be dispute between respective clinicians (or even with the employing hospital) about the patient's care or for example, where the family of the deceased may have instigated civil litigation or an AHPRA complaint.

Other areas where MIPS may provide support and assistance include disputes in the workplace or with employers, collegiate conflicts and matters relating to registration and qualifications. Accepting that often very little can be done in respect of the requirements of registration bodies, MIPS' experience and knowledge of the system and having someone with those skills to provide counsel and direction can often make a significant difference for members, if only to ensure that the principles of natural justice prevail. This is often the case in employment related matters also.

Member risk education program

The benefits of MIPS membership are inclusive of accredited risk education. This is provided to minimise member clinico legal risk and assist members to meet their mandatory CPD registration standard. The education program consists of webinars, workshops and various online resources including on-demand webinars and units.

Completion of risk education 2018-19



Over 2018/19 MIPS provided a variety of webinar topics:

- Don't be caught off guard-the ins and outs of contemporary dentistry
- An IMGs journey through indemnity and practitioner risk
- AHPRA unplugged - what they do and why
- Contemporary patient communications - are they safe?
- Practising under adversity - survive and grow claims, complaints & investigations
- The heavier side of practice - A Dieticians advice on discussing obesity
- Life and times of a rural and remote practitioner
- Just tell the truth - reports, certificates and evidence
- Calamaties in Endodontics
- Improving diagnosis Part 1 & Part 2
- MIPS panel webinar: Common practice scenarios - what would you do?

MIPS also provided workshops in capital cities. Topics provided were:

- Practising under adversity- claims, complaint and investigation
- Misuse of Medications - a major health issue
- Interview Skills – get that job!
- Risks and Responsibilities to the Modern Patient
- Just tell the truth - certificates, forms and evidence
- CPR HLTAID001
- Implanon NXT Training.

MIPS continues to engage with the wider health care community by providing risk education at approximately 70 hospitals throughout as well as presentations at key industry events.

MIPS maintained its existing accreditation and obtained accreditation for new education content for the RACGP and ACRRM for the 2017 -19 triennia.

Management and governance

The key governance structures within the MIPS Group are:

- MIPS Board
- MIPSi Board
- Group Audit and Compliance Committee (GACC)
    - GACC is made up of independent directors, and is responsible, through management, for monitoring compliance with the Boards' policies, as well as prudential and statutory requirements.
- Group Risk Committee (GRC)
    - The GRC's primary responsibility is reviewing and monitoring the MIPS Groups Risk Management Strategy and Enterprise Risk Management processes
- Group Investment Committee (GIC).
    - The Group Investment Committee (GIC) is a Board and Management committee and is responsible for monitoring, guiding and making recommendations to the Boards regarding investment matters. During the year the GIC comprised four non executive directors, the Managing Director/Chief Executive Officer and the Chief Financial Officer (CFO).

The MIPS and MIPSi boards have significant depth and breadth of director experience. This includes medical, dental, hospital, accounting, insurance, capital markets and other financial sector corporate governance, executive and Board expertise and experience.

The MIPS and MIPSi boards are supported by the GACC, GRC and GIC whose members have the relevant skills and experience comprising the independent non-executive directors of both boards.

A sound corporate governance structure continues to protect members' interests through risk management and compliance management frameworks. These governance structures ensure that the MIPS Group adequately addresses its compliance related risks and meets appropriate prudential, statutory and other obligations and standards. Internal audit and the MIPS Group Investment Committee are also important elements of the governance structure.

Risks confronting the MIPS Group are regularly reviewed by management on an inherent and residual basis, and risk controls are rated according to management's assessment of their effectiveness. Strategies are developed to manage risks as appropriate.

Executive Team

During the year the MIPS Senior Executive Management team comprised:

- Managing Director / Chief Executive Officer – Dr A T Browning (resigned 30/08/2019)
- Chief Financial Officer – R J Miles
- Company Secretary / Compliance Manager – W F Berryman
- Chief Operating Officer – M Tersigni
- Head of Professional Services – D R Rayner

At the date of this report R J Miles is the Acting Chief Executive Officer and P M Jenkins is the Acting Chief Financial Officer.

Actuarial

The Group utilises the services of Lane Clark & Peacock for actuarial services.

External Audit

Ernst & Young continue to provide audit and related services.

Internal Audit

During the year the Internal Auditor was an in-house appointment, P Moloney, that also utilised the services of external providers of internal audit services as and when required. Since year end Deloitte has been appointed to the role.

Internal Audit provides independent and objective assurance and consulting services, designed to add value and improve the efficiency and effectiveness of the MIPS Group's operations.

Internal Audit's objective is to determine that the enterprise risk management framework, control and corporate governance processes are adequate and are functioning as intended. Internal Audit provides assurance to the GACC, GRC and the Boards that:

- risks are appropriately identified and managed
- significant financial, managerial and operating information is accurate, reliable and timely
- significant legislative or regulatory issues impacting the MIPS Group are recognised and addressed appropriately
- employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations
- resources are acquired economically, used efficiently and adequately protected
- programs, plans and objectives are achieved
- quality and continuous improvement are fostered in the MIPS Group's control process
- interaction with the various governance groups occurs and is effective, as needed.

Chief Risk Officer

The role of the Chief Risk Officer (CRO) is to ensure that MIPS manages the risks it is exposed to in a structured way and to ensure that the executive and the Board are kept fully informed. This is an in house appointment. During the year until 31/3/19 W F Berryman was the CRO and from 1/4/19 P Moloney (previously the in house Internal Auditor), was appointed CRO.

About the directors

Chairman

Mr Gary Speck, AM, MBBS, BMedSc (Hons), FRACS, FAOrthA, FAMA, GAICD

Gary was appointed to the position of Chairman of MIPS on 1 July 2016. Gary obtained his qualification as an orthopaedic surgeon, FRACS (Orth) in 1983 and has specialised his practice to treatment of spinal disorders. He is an active member of the Spine Society of Australia, Australian Orthopaedic Association, North American Spine Society and Royal Australasian College of Surgeons (RACS). He is a director of MIPS Insurance, a director and past vice-president of AMA and past director and past vice-president of AMA Victoria, chairing its TAC Worksafe Committee and the Joint LIV-Bar Council-AMA Committee. He was a member of the Health Innovation and Reform Council (of the Government of Victoria, advising the Health Minister) and Chairman of its Standing Committee on Health Quality, Safety and Outcomes from 2012 to 2015, and continues advisory roles to government. In 2014 he was appointed a Member of the Order of Australia (AM) for significant service to medicine as an orthopaedic surgeon, and to professional organisations.

Ms Sue Carter, BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA (UK), FAICD

Sue is a professional non-executive director and a consultant in corporate governance and board effectiveness. She is an Australian Institute of Company Directors Facilitator in directors' duties, financial reporting, decision making and board processes. She qualified as a Chartered Accountant with KPMG in the UK and holds a BA(Hons) in Economics and History together with a Master of Applied Science in Organisation Dynamics. She is a past ASIC Regional Commissioner for Victoria and a past director of the Professional Indemnity Insurance Company Australia. Sue is currently a non-executive director of ANZ Australian Staff Superannuation Pty Ltd, First State Super, First State Super Financial Services, Protect Services and the Australian Psychological Society. She is also Chair of the Compliance Committee of BlackRock Investment Management (Australia).

Mr Anthony Mason, BSocSC, FIA, Hon FFFLM

For 27 years Tony was a consulting actuary with the partnership Lane Clark and Peacock (LCP), the largest independent actuarial consultancy in the UK. Between 1996 and 2007 he was LCP's managing director. Since 1983 he has specialised in the area of medical negligence and his clients included the worldwide operations of Medical Protection Society (MPS) and the NHS Litigation Authority in England, plus many other governments and international insurers. From the mid 1980s he was heavily involved in advising medical defence organisations in Australia and in 1988 became the consulting actuary to MIPS until he left LCP to become the CEO of MPS in 2007. Since retiring from MPS, he now does part-time international consultancy for Medical Protective in the USA and he became a non-executive director of MIPS Insurance in 2012. In 2011 he was made an Honorary Fellow of the Faculty of the Faculty of Forensic & Legal Medicine.

Clinical Professor Leanne Rowe AM, MBBS, MD, FRACGP, FAICD, HonLLD Monash

Leanne is a general practitioner, who has served as a non-executive director on 15 diverse boards over the last 25 years. Her past positions include Deputy Chancellor of Monash University, Chairman of the Royal Australian College of General Practitioners, and non-executive director of Medibank Private, beyondblue: the national depression initiative and I-MED Radiology Network. She has also served on a number of community foundations as well as government taskforces related to suicide prevention, medical workforce and detention health. Her clinical leadership has been recognised by an Order of Australia for service to medicine, 'The Rose Hunt Medal' and 'The College Medal' by the Royal Australian College of General Practitioners, 'Best Individual Contribution to Health Care in Australia' by the Australian Medical Association, and a Doctor of Laws (honoris causa) by Monash University. Her international book 'Every Doctor: Healthier Doctors = Healthier Patients' was published in 2018.

Mr Kerry Roxburgh, BCom, MBA, MeSAFAA

Kerry is a director of a number of companies, including two listed public companies. He is Chairman of the Eclipx Group and a non-executive director of Ramsay Health Care. He is Chairman of Tyro Payments Ltd. He was one of the founders of online stockbroker E*Trade Australia, where for three years he was the chief executive prior to becoming chairman, a position he held from 2000-2007, when it was acquired by the ANZ Bank. Prior to E*Trade, Kerry spent 10 years as an executive director of the Hong Kong Bank of Australia Group (now HSBC), including five years as managing director of that bank's corporate finance subsidiary. Kerry qualified as a chartered accountant in 1969 and has experience in the financial management of the insurance, healthcare, technology, property and resource sectors.

Mr Charles Steadman, Assoc Prof, MBBS, MD, FRACP, FAICD, AGAF

Charles graduated in medicine from the University of Queensland in 1980. After service as a rural medical practitioner he trained in internal medicine and gastroenterology at the Princess Alexandra Hospital in Brisbane and then was a Fulbright Scholar at the Mayo Clinic in the USA. He returned to Australia as Director of Gastroenterology and Hepatology at Princess Alexandra Hospital and later entered private specialist practice in Brisbane. He is a Fellow of the Australian Institute of Company Directors, Associate Professor of Medicine with the University of Queensland, a director of Queensland Doctors' Mutual Pty Ltd and Queensland Gastroenterology Pty Ltd. Charles was a director and Honorary Treasurer of the Royal Australasian College of Physicians and has served overseas as an ADF medical officer.

Dr Bruce E Taylor, MDSc, LDS, FRACDS, FADI, FICD, FPFA, GAICD

Bruce graduated BDSc from the University of Melbourne in 1973, and entered private practice for six years. Since gaining his MDSc in 1981, he practised as a specialist orthodontist in private practice in Melbourne. In 2017 he ceased his 40 year association with the University of Melbourne as a part-time senior lecturer and consultant. He is a past president and life member of the Australian Dental Association (Vic). Bruce was a director of the Australian Dental Council for 10 years and is past chairman of the Policy Advisory Committee of the Professional Provident Fund. Based in Melbourne, he is a Director of Victorian Medical Insurance Agency Ltd and Chairman of MIPS Insurance Pty Ltd.

Directors' report

Directors present their report on the consolidated entity ('Group') consisting of Medical Indemnity Protection Society Ltd ('Society') and its subsidiaries at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of Medical Indemnity Protection Society Ltd during the whole of the financial year and up to the date of this report unless otherwise noted:

G R Speck, Chairman
A T Browning, Managing Director (resigned 30/08/2019)
S Carter
A D Mason (appointed 01/09/2018)
L Rowe
K C D Roxburgh
C J Steadman
B E Taylor

Meetings of Directors

The number of meetings of the Society's directors held during the year ended 30 June 2019, and the number attended by each director during the time the director held office during the year ended 30 June 2019 are disclosed below:

	Board Meetings held during the year	Board Meetings Attended
A T Browning	6	6
S Carter	6	5
A D Mason	5	5
L Rowe	6	6
K C D Roxburgh	6	6
G R Speck	6	5
C J Steadman	6	6
B E Taylor	6	6

Meetings of the Group Audit and Compliance Committee (GACC)

The number of meetings of the GACC held during the year ended 30 June 2019, and the number attended by each member of the GACC during the time the member of the GACC held office during the year ended 30 June 2019 are disclosed below:

	GACC Meetings held during the year	GACC Meetings Attended
S Carter	4	4
P S Kernaghan	4	4
A D Mason	4	4
N W Newbon, Chairman	4	4
K C D Roxburgh (retired 31/08/2018)	1	1
C G Wallace	4	4

P S Kernaghan, N W Newbon and C G Wallace are not directors of the Society but are directors of a wholly owned subsidiary, MIPS Insurance Pty Ltd.

Meetings of the Group Risk Committee (GRC)

The number of meetings of the GRC held during the year ended 30 June 2019, and the number attended by each member of the GRC during the time the member of the GRC held office during the year ended 30 June 2019 are disclosed below:

	GRC Meetings held during the year	GRC Meetings Attended
S Carter	4	4
P S Kernaghan	4	4
A D Mason	4	4
N W Newbon, Chairman	4	4
K C D Roxburgh (retired 31/08/2018)	1	1
C G Wallace	4	4

P S Kernaghan, N W Newbon and C G Wallace are not directors of the Society but are directors of a wholly owned subsidiary, MIPS Insurance Pty Ltd.

Meeting of the Group Investment Committee (GIC)

The number of meetings of the GIC held during the year ended 30 June 2019, and the number attended by each member of the GIC during the time the member of the GIC held office during the year ended 30 June 2019 are disclosed below. The GIC meets formally as and when required however matters were routinely and regularly communicated and discussed using electronic means.

	GIC Meetings held during the year	GIC Meetings Attended
A T Browning[1]	5	5
R J Miles[2]	5	5
K Penrose (appointed 01/09/2019)[3]	-	-
K C D Roxburgh, Chairman	5	5
G R Speck	5	5
C J Steadman	5	4
B E Taylor	5	5

[1] A T Browning resigned on 30/08/2019
[2] Up until 29 August 2019, R J Miles was the Chief Financial Officer and is not a director of the Society. From 30 August 2019, R J Miles is the Acting Chief Executive Officer and is not director of the Society.
[3] K Penrose is not a director of the Society.

Summary information about Directors

Director	Qualifications	Special responsibilities and relevant experience
A T Browning[1] (resigned on 30/08/2019)	MBBS, MBA, Grad Dip Ins, GAICD, ANZIIF (Fellow) CIP, FAIM	Managing Director of the Society Chief Executive Officer, MIPS Insurance Pty Ltd Member, Group Investment Committee Member of various Claims and Membership Committees
S Carter	BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA, FAICD	Member, GACC and GRC Director, First State Super Financial Services Pty Ltd Director, First State Super Trustee Corporation Director, State Super Financial Services Australia Ltd
A D Mason	BSocSc, FIA, Hon FFFLM	Director, Medical Indemnity Protection Society Ltd Director, MIPS Insurance Pty Ltd Director, Cardiac Risk in the Young International Consultant, Medical Protective (Consultancy excluding Australia)
L Rowe	AM, MBBS, MD, FRACGP, FAICD Doctor of Laws honoris causa	Director, MIPS Insurance Pty Ltd
K C D Roxburgh	BCom, MBA, MESAA	Member, GACC and GRC (retired on 31/08/2018) Chairman, Group Investment Committee Director, MIPS Insurance Pty Ltd Chairman, Eclipx Group Director, Ramsay Health Care Ltd Director, Tyro Payments Ltd
G R Speck Chairman	AM, MBBS, BMedSc (Hons), FRACS, FAOrthA, FAMA, GAICD	Chairman, MIPS Board Director, MIPS Insurance Pty Ltd Member, Group Investment Committee Director, MIPS Holdings Pty Ltd Director, Australian Medical Association Ltd Director, Australian Society of Orthopaedic Surgeons Director, Council of Procedural Specialists
C J Steadman	MBBS, MD, FRACP, FAICD, AGAF	Member, Group Investment Committee
B E Taylor	MDSc, LDS, FRACDS, FADI, FICD, FPFA, GAICD	Chairman, MIPS Insurance Pty Ltd Member, Group Investment Committee Director, MIPS Holdings Pty Ltd Director, Victorian Medical Insurance Agency Pty Ltd

Company Secretary	Qualifications	Special responsibilities and relevant experience
W F Berryman	FANZIIF, Grad Dip Bus (Ins), ACIS	Company Secretary, Medical Indemnity Protection Society Ltd Company Secretary, MIPS Insurance Pty Ltd Company Secretary, Asclepius Underwriting Pty Ltd Company Secretary, MIPS Holdings Pty Ltd Compliance Officer

* [1]A T Browning resigned from the Society and all other related entities of the Society and various Committees from 30 August 2019.

Principal activities

The Group's business is to protect, support and safeguard the character and interests of medical practitioners and to provide medical membership benefits including indemnity insurance to members.

Review of operations and results

Total comprehensive income

Group		Society	
2019 $'000	2018 $'000	2019 $'000	2018 $'000
6,651	16,351	9,496	15,254

Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, Corporations Act 2001, including the application of ASIC Class Order CO 10/654 allowing the disclosure of Parent entity financial statements due to Australian Financial Services Licensing obligations.

Dividends

The Society's constitution prohibits the payment of dividends. No dividend was therefore paid or proposed for the year ended 30 June 2019 (2018: $Nil).

Significant changes in state of affairs

A T Browning resigned from the position of Managing Director of the Society and all positions and committees in the Group on 30 August 2019. There have been no other significant changes in the state of affairs of the Group during the year ended 30 June 2019.

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Significant events after balance date

No matters or circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect:

a) the Group or Society's operations in future years, or
b) the results of those operations in future years, or
c) the Group or Society's state of affairs in future financial years.

Insurance of officers

During the financial year, the Society paid a premium to insure the directors and officers of the Society. In accordance with normal commercial practice, disclosure of the total amount of premium payable under the insurance contract is prohibited by a confidentiality clause in the contract. No insurance cover has been provided by the Society for the benefit of the auditors.

The liabilities insured include damages and legal costs incurred in defending a civil action brought against an insured director. Cover is also provided for legal costs incurred in the successful defence of criminal proceedings. The Society's constitution states that the Society may pay premiums to insure officers against liabilities incurred in their capacity as officers. The liabilities include the costs of defending civil or criminal proceedings regardless of their outcome.

Rounding of Amounts

The Group is of a kind referred to in ASIC (Rounding in Financial/Directors' Reports) Instrument 2017/191, issued by the Australian Securities & Investments Commission (ASIC), relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

Ernst & Young continues in office in accordance with Section 327 of the Corporations Act 2001. The Auditor's Independence Declaration is set out on page 21.

Indemnification of Auditor

As part of the Group's terms of engagement with Ernst & Young, the Group has agreed to indemnify Ernst & Young against certain liabilities to third parties arising from their engagement as auditor. The indemnity does not extend to any liability resulting from a negligent, wrongful or wilful act or omission by Ernst & Young.

Resolution of the Directors

This report is made in accordance with a resolution of the directors.

G R Speck
Chairman

B E Taylor
Director

Melbourne
25 September 2019

Auditor's independence declaration

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Auditor's Independence Declaration to the Directors of Medical Indemnity Protection Society Ltd

As lead auditor for the audit of Medical Indemnity Protection Society Ltd for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medical Indemnity Protection Society Ltd and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
26 September 2019

Statement of Comprehensive Income

For the year ended 30 June 2019

		Group		Society	
		2019	2018	2019	2018
	Notes	$'000	$'000	$'000	$'000
Revenue from contracts with customers	6	59,036	58,121	62,569	63,341
Other operating revenue	7	5,922	5,309	44	9
Reinsurance and other recoveries revenue	8	52,193	44,674	-	-
Investment results	9	19,925	11,622	10,992	6,253
Total income		137,076	119,726	73,605	69,603
Outwards reinsurance premium expense		(21,913)	(19,228)	-	-
Claims expense	8	(89,127)	(67,080)	-	-
ROCS levy		(1,920)	(1,673)	-	-
Master policy expenses		(3,466)	(2,963)	(47,363)	(41,298)
Member insurances		(367)	(334)	(367)	(334)
Indemnification expenses	10	467	(36)	467	(36)
Risk management workshop expenses		(129)	(143)	(129)	(143)
Other operating expenses	11	(14,471)	(13,823)	(15,989)	(14,906)
Total expenses		(130,926)	(105,280)	(63,381)	(56,717)
Profit before income tax		6,150	14,446	10,224	12,886
Income tax benefit/(expense)	12	501	(574)	(728)	(111)
Profit for the year		6,651	13,872	9,496	12,775
Net fair value gains/(losses) on available for sale financial assets		-	3,542	-	3,542
Income tax on items of other comprehensive income		-	(1,063)	-	(1,063)
Other comprehensive income/(loss), net of tax		-	2,479	-	2,479
Total comprehensive income for the year		6,651	16,351	9,496	15,254

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2019

		Group		Society	
		2019	2018	2019	2018
	Notes	$'000	$'000	$'000	$'000
Current assets					
Cash and cash equivalents	13	72,757	62,893	26,084	41,558
Contract assets	14	10,526	12,816	10,526	12,816
Receivables	15	-	-	3	2
Investments	16	105,467	100,527	81,022	81,300
Reinsurance and other recoveries	17	36,457	33,289	-	55
Other assets	18	36,058	32,165	51,763	45,536
Current tax asset		294	3,100	302	1,476
Total current assets		261,559	244,790	169,700	182,743
Non-current assets					
Investments	16	264,279	249,858	85,677	75,144
Reinsurance and other recoveries receivable	17	134,926	121,491	-	55
Plant and equipment	19	380	362	380	362
Investments in subsidiaries	20	-	-	36,508	36,508
Deferred tax asset	21	7,799	5,344	219	-
Total non-current assets		407,384	377,055	122,784	112,069
Total assets		668,943	621,845	292,484	294,812
Current liabilities					
Payables	22	43,796	36,610	40,824	47,467
Deferred tax liability	21	-	-	-	956
Outstanding claims liability	23	50,220	42,372	-	-
Contract liabilities	24	39,724	43,094	39,724	43,094
Provisions	25	2,250	2,599	2,250	2,599
Total current liabilities		135,990	124,675	82,798	94,116
Non-current liabilities					
Outstanding claims liability	23	203,237	173,599	-	-
Provisions	25	867	1,374	867	1,374
Total non-current liabilities		204,104	174,973	867	1,374
Total liabilities		340,094	299,648	83,665	95,490
Net assets		328,849	322,197	208,819	199,322
Equity					
Share capital	26	100	100	100	100
Investment revaluation reserve		-	3,308	-	3,308
Retained profits		328,749	318,789	208,719	195,914
Total equity		328,849	322,197	208,819	199,322

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

As at 30 June 2019

	Share Capital $'000	Investment Revaluation Reserve $'000	Retained Earnings $'000	Total $'000
Society				
As at 1 July 2017	100	829	183,140	184,069
Profit for the year	-	-	12,775	12,775
Other comprehensive income/(loss)	-	2,479	-	2,479
Total comprehensive income for the year	-	2,479	12,775	15,254
At 30 June 2018	100	3,308	195,915	199,323
Profit for the year	-	-	9,496	9,496
Other comprehensive income/(loss)	-	-	-	-
Transfer of Investment Revaluation Reserve due to reclassification	-	(3,308)	3,308	-
Total comprehensive income for the year	100	(3,308)	12,804	9,496
At 30 June 2019	100	-	208,719	208,819
Group				
As at 1 July 2017	100	829	304,918	305,847
Profit for the year	-	-	13,872	13,872
Other comprehensive income/(loss)	-	2,479	-	2,479
Total comprehensive income for the year	-	2,479	13,872	16,351
At 30 June 2018	100	3,308	318,790	322,198
Profit for the year	-	-	6,651	6,651
Other comprehensive income/(loss)	-	-	-	-
Transfer of Investment Revaluation Reserve due to reclassification	-	(3,308)	3,308	-
Total comprehensive income for the year	100	(3,308)	9,959	6,651
At 30 June 2019	100	-	328,749	328,849

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the year ended 30 June 2019

		Group		Society	
	Notes	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Cash flows from operating activities					
Receipts from members		57,071	56,412	57,071	56,412
Outwards reinsurance paid		(16,263)	(13,990)	-	-
Master policy costs paid		(3,328)	(2,970)	(59,755)	(41,298)
Claims expense paid		(47,823)	(38,734)	-	-
Reinsurance recoveries		18,844	17,460	-	-
Non-reinsurance claims recoveries		15,760	8,430	4	10
ROCS levy		-	(1,676)	-	-
Dividends received		4,637	3,240	4,637	3,240
Interest received		12,298	10,604	3,904	3,336
Other revenue received		940	817	4,461	6,026
Other expenses paid		(17,856)	(19,079)	(17,625)	(15,552)
Indemnification costs paid		(370)	(236)	(370)	(236)
Income taxes paid		853	(1,384)	(728)	(1,478)
Net cash inflow/(outflow) from operating activities	30	24,763	18,894	(8,401)	10,460
Cash flows from investing activities					
Purchase of plant and equipment		(157)	(35)	(157)	(35)
Proceeds from investments		184,045	228,240	83,159	101,673
Payments for investments		(198,787)	(266,124)	(90,075)	(122,467)
Net cash inflow/(outflow) from investing activities		(14,899)	(37,919)	(7,073)	(20,829)
Net increase/(decrease) in cash held		9,864	(19,025)	(15,474)	(10,369)
Cash and cash equivalents at the beginning of period		62,893	81,918	41,558	51,927
Cash and cash equivalents at the end of period	13	72,757	62,893	26,084	41,558

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the financial report

Note 1: Summary of significant accounting policies

This financial report covers Medical Indemnity Protection Society Ltd (MIPS) as an individual entity and the group consisting of Medical Indemnity Protection Society Ltd and its subsidiaries (Group).

Medical Indemnity Protection Society Ltd is a company limited by guarantee and shares, incorporated and domiciled in Australia. Its registered office and principal place of business is; Level 37, 55 Collins Street, Melbourne, VIC 3000.

A description of the nature of the Group's operations and its principal activities is contained in the Directors' report on pages 16-20.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Medical Indemnity Protection Society Limited as an individual entity (the Society) and the consolidated entity consisting of Medical Indemnity Protection Society Limited and its subsidiaries (the Group).

The financial report of the Society and the Group for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of the Directors on 25 September 2019.

MIPS has the power to amend and reissue the financial report, with the auditor's consent.

(a) Basis of preparation

This General Purpose Financial Report has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, including the application of ASIC Class Order CO10/654 allowing the disclosure of Parent entity financial statements due to Australian Financial Services Licensing obligations.

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

This financial report is prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value, as described in accounting policies below.

The financial report is presented in Australian dollars, which is the Group's functional and presentational currency.

(b) New Accounting Standards

Australian Accounting Standards issued but not yet effective

The Group has not applied any Australian Accounting Standards that have been issued as at balance date and applicable to the Group but are not yet operative for the year ended 30 June 2019 ("the inoperative standards").

Reference	Title	Application date of standard*	Application date for Group	Table Note
AASB 2016-6	Amendments to Australian Accounting Standards Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts	1 January 2021	1 July 2021	A
AASB 16	Leases	1 January 2019	1 July 2019	B
AASB 17	Insurance Contracts	1 January 2021	1 July 2021	A
AASB 23	Uncertainty over Income Tax Treatments	1 January 2019	1 July 2019	A

* designates the beginning of the applicable annual reporting period, on or after, unless otherwise stated.

TABLE NOTE

A. These changes are not expected to have a significant, if any, financial impact.

B. AASB 16 was issued in January 2016 and it replaces AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation-115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. The standard also includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., mobile phones) and short-term leases (i.e., leases with a lease term of 12 months or less).
At the commencement date of a lease, the Group will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group will also be using the practical expedient (permissible under the modified retrospective approach) whereby the same discount rate is applied to a portfolio of assets that are of similar characteristics, (e.g., property leases).

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Transition to AASB 16

The Group plans to adopt AASB 16 in accordance with the modified retrospective approach. The prior-year figures will not be adjusted.
In addition, the Group has decided not to apply the new standard to leases where the term will end within twelve months of the date of initial application and leases where the asset value is less than USD5,000. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense.
During 2019 the Group performed a detailed impact assessment of AASB 16. It is anticipated that the property, plant and equipment (right-of-use assets) and the lease liabilities will increase on the balance sheet. The depreciation and interest expense will increase, while the operating lease expense will decrease.

(c) Principles of consolidation

Subsidiaries

The Group consolidated financial statements comprise the financial statements of the Society and its subsidiaries as at 30 June each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Society, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and will continue to be consolidated until the date that such control ceases.

(d) Revenue from contracts with customers

Subscription revenue

The Society obtains revenue through annual subscriptions paid by its members. Subscriptions income is recognised evenly over the period of the membership, being twelve months from 1 July each year. All subscriptions expire on 30 June each year.

Subscription monies accepted prior to 1 July which relate to future membership subscription periods are recorded as current liabilities – refer Note 24.

Subscription monies accepted but not yet paid are recognised as receivables from members – refer Note 14.

Determining the Transaction Price

Membership subscriptions are determined on the basis of advice provided by external actuaries. This advice recommends a level of subscription that covers operating costs, cost of the medical indemnity master insurance policy, a profit margin, net of investment and sundry income.

Performance Obligations

In return for the payment of an annual subscription members are able to access a range of services over the period of membership. These services include:

- Members' Indemnity Insurance Policy
- Personal accident insurance cover
- Practice entity and Cyber, privacy and media insurance covers
- MIPS Protections
- 24-hour Clinico-Legal Advice and Support
- Accredited Professional Development

Members can elect to pay their subscription in ten monthly instalments.

If a member has cause to cancel their membership, they are usually paid a pro rata refund.

Revenue from government schemes

The Group receives the following revenue from the Federal Department of Human Services (DHS)

- Run-Off Cover Scheme (ROCS) administration fee – refer note 1(k)
- ROCS claims handling fee – refer note 1(k)
- Premium Support Scheme (PSS) administration levy – refer note 1(e)

ROCS administration fee

- MIPS has a contract with DHS to administer the scheme on behalf of ROCS medical indemnity practitioners. This includes the processing of new members and settling claims for ROCS members.
- During the financial year MIPS receives an administration fee based on the number of MIPS medical indemnity practitioners.

ROCS claims handling fee

- MIPSi administers / settles ROCS claims as part of the normal claims process
- ROCS claims recoveries applications (100% of the claim) are submitted to DHS by MIPS Insurance Pty Ltd (MIPSi). When claims are settled MIPSi receives a claims handling fee based on 5 % of the value of the claim recovered from DHS.

PSS administration levy

- MIPS has a contract with DHS to administer the scheme on behalf of medical indemnity practitioners who are eligible for a subsidy under the scheme. This includes the processing of applications for PSS subsidies and the annual reconciliation based on actual income.
- During the financial year MIPS receives an administration fee based on the pro rata number of MIPS PSS applicants relative to the industry pool.

Service Fees

In accordance with Service Level Agreements, the Society charges service fees to its wholly-owned subsidiaries MIPS Insurance Pty Ltd and Queensland Doctors' Mutual Pty Ltd. Refer Note 29.

(e) Premium revenue

MIPS membership provides medical indemnity insurance cover under the MIPS Members' Medical Indemnity Insurance Policy. This master policy is underwritten by a subsidiary, MIPS Insurance Pty Ltd (MIPSi) and is payable in four instalments. When the contract of insurance for the subsequent year has been signed before 30 June the Society recognises an intercompany liability and a deferred master policy expense. Similarly, MIPSi recognises an intercompany receivable and a liability for the unearned premium.

Premium income is recognised evenly over the period of the insurance policy. The policy year is twelve months from 1 July with an expiry date of 30 June each year.

Premium revenue comprises only the premium charged to provide indemnity including the amounts in the premium collected to allow the Group to meet its obligation in relation to payments due to the Commonwealth Government of Australia for the funding of the Run-Off Cover Scheme (ROCS). Premium revenue excludes stamp duty, GST and other amounts collected on behalf of third parties.

Premium Support Scheme (PSS)

The *Medical Indemnity Act 2002* establishes a Premium Support Scheme (PSS) which in general terms provides a subsidy to medical practitioners whose total indemnity costs exceed a set proportion of their income (as defined in the legislation).

The Group is responsible for administering the PSS for its members and in this role it obtains details of estimated income to determine the subsidy, if any, for each eligible member to be collected from Medicare Australia. In subsequent years, the Group obtains actual income details from participating medical practitioner members and either collects monies from the members for any amounts required to be reimbursed to Medicare Australia or seeks additional subsidies from Medicare Australia to be passed through to the eligible member.

As the Group is responsible for credit risk and is impacted by the timing of cash flows, amounts due to and from Medicare Australia and policyholders are recognised on the Statement of Financial Position.

(f) Outwards reinsurance

Amounts paid to reinsurers under reinsurance contracts held by the Group are recorded as an outward reinsurance expense and are recognised in the Statement of Comprehensive Income from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk ceded.

When reinsurance contracts are signed before 30 June, MIPSi fully accrues the reinsurance expense with a corresponding deferred reinsurance expense asset. The corresponding Quota Share commission income is also recognised as unearned income.

(g) Unexpired risk liability

At each reporting date the Group assesses whether unearned premiums are sufficient to cover all expected future cash flows relating to claims against current insurance contracts. This assessment is referred to as the liability adequacy test and is performed for MIPS Insurance Pty Ltd (MIPSi), as all insurance contracts are subject to broadly similar risks.

If the present value of the expected future cash flows relating to future claims plus the additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premiums less related intangible assets and related deferred acquisition costs then unearned premiums are deemed to be deficient.

Any such deficiency is recognised immediately and entirely in the Statement of Comprehensive Income both gross and net of reinsurance. The deficiency is recognised first by writing down any related intangible assets and then related deferred acquisition costs, with any excess being recorded in the Statement of Financial Position as an unexpired risk liability. No deficiency has been identified for either balance date or the comparative balance date.

(h) Outstanding claims liability

The liability for outstanding claims is recognised on a claims made basis and is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by MIPSi, with an additional prudential (or risk) margin to allow for the inherent uncertainty in the central estimate.

The expected future payments include those in relation to claims reported but not yet paid and anticipated claims handling costs.

Claims handling costs include costs that can be directly associated with individual claims, such as legal and professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs.

Outstanding claims are determined taking into account an actuarial valuation. A summary of the actuarial methodology and key assumptions is disclosed in Note 3.

Expected future payments are discounted to present value using a risk free rate.

Prudential margin

MIPSi includes a prudential margin in its liability for outstanding claims. Under prudential standards issued by the Australian Prudential Regulation Authority (APRA), a licensed insurer must include a prudential margin in its estimate of outstanding claims liabilities for prudential reporting so that the probability of the estimate for outstanding claims being sufficient to meet all claims is a minimum of 75%.

MIPSi has elected to increase the probability of sufficiency to well above the 75% minimum. Without a prudential margin, the liability for outstanding claims represents the central estimate for which all claims will be settled. That is, there is a 50% probability of it being either too high or too low.

The Group has elected to adopt a prudential margin that is different for accounting and prudential reporting purposes. Details of the levels adopted are disclosed in Note 23. The prudential margin is reassessed each year taking into account actuarial valuations as part of the process of determining the liability for outstanding claims of MIPSi. A summary of the level of sufficiency achieved by the prudential margin is disclosed in Note 3.

The prudential margin on Net Claims Incurred (note 8) has been split between gross and net. In the prior year, the net prudential margin was shown with the gross incurred and the amount has been reclassified to gross and net incurred in the current year's accounts.

(i) Provisions and employment benefits

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under a reinsurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Provision for indemnity obligations

The provision for indemnity obligations arises from the occurrence based discretionary indemnity provided by MIPS to members prior to 30 June 2003. In general terms, following the enactment of Medical Indemnity legislation, MIPS is not able to indemnify members other than through insurance in relation to medical indemnity incidents occurring after 30 June 2003. The discretionary indemnity provided by MIPS to its members covers incidents reported under extended reporting benefit and death, disability or retirement arrangements.

The provision for discretionary indemnity obligations, was previously based on the final (June 2016) actuarial valuation and included current case estimates plus an allowance for incidents that have occurred but for which a request for indemnity has yet to be received (IBNR). The remaining IBNR was fully amortised this year.

MIPS previously included a prudential margin in determining the fair value of the provision, as a transfer of obligations would typically include such a margin to allow for inherent uncertainty. As MIPS is no longer providing discretionary medical indemnity cover to its members for new medical indemnity incidents, and the nature of indemnity obligations is volatile, the June 2016 prudential margin for the provision was based on a 75% confidence interval plus an additional prudential margin to ensure the sum of all prudential margins is sufficient to cover a single large claim. As a result it is believed the total prudential margin adopted was greater than the 75% confidence interval for both the Society and the Group. The remaining prudential margin established at June 2016 was completely amortised this year. Further details on the assumptions supporting the estimate are disclosed in Note 2.

The overall provision also includes an estimate for the cost of the discretionary non-medical indemnity assistance offered through MIPS Protections under MIPS AFSL. This member benefit applies to matters that arise from a member's practice or their studies or profession.

Provisions for employee leave benefits

(i) Wages and salaries, annual leave and personal leave

Liabilities for wages and salaries, annual leave and accumulated personal leave expected to be settled within 12 months of the reporting date are recognised in Provisions in Note 23, in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yield at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Retirement benefit obligations

The employees' nominated superannuation funds receive contributions from the Group. Contributions to the funds are recognised as an expense monthly as they become payable.

(j) Reinsurance and other recoveries receivable

The Group has insurance risk in the normal course of business of its companies. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Any impairment loss is recorded in the Statement of Comprehensive Income.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, indemnity paid and the provision for indemnity obligations are recognised as revenue. Recoveries on reported claims not yet paid are measured as the present value of expected future receipts, calculated on the same basis as the liability for outstanding claims. Recoveries on the provision for indemnity obligations are not discounted.

High Cost Claims Scheme (HCCS)

Other recoveries include amounts due from the Commonwealth Government's High Cost Claims Scheme established by the Medical Indemnity Act 2002. Under the scheme, the Commonwealth Government makes financial contributions of 50% of the amount in excess of the HCCS threshold, currently $500,000, towards claims of the Group for each insurance or indemnification claim notified after 1 January 2003. For matters reported before 1 July 2018, the HCCS threshold was $300,000.

Recoveries under the HCCS on outstanding claims are measured at the net present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(k) Run-Off Cover Scheme

The *Medical Indemnity Act 2002* established the Run-Off Cover Scheme (ROCS) as part of a framework for providing medical indemnity insurance for medical practitioners who have ceased practice. Under the framework:

- if a practitioner has ceased practice for three years or has reached age 65 or in other specified situations such as maternity, the practitioner's most recent medical indemnity insurer must offer a ROCS policy. Any accepted claims from the practitioner under a ROCS policy will be reimbursed by the Federal Government Department of Human Services from ROCS scheme funds;
- under the terms of the contract with the Government for the first three years following cessation of practice and whilst the practitioner is under age 65, the practitioner's most recent medical indemnity insurer must make an offer to provide insurance coverage, at a nominal premium for those members with 10 or more years of qualifying membership;
- a levy is imposed on medical indemnity insurers to cover the cost of ROCS, with the rate currently set at 5% of premium received. This levy is incorporated into the premiums charged by insurers; and
- medical indemnity insurers receive a fee for handling retirement claims on behalf of ROCS and for associated policy administration under contracts with the Government.

Provision for cessation of practice claims

The Group recognises a provision for cessation of practice claims (under both ROCS and insurance) in relation to expected future payments to practitioners who have ceased practice that have not accepted a policy at balance date, based on actuarial advice. This provision is discounted to a present value at balance date and includes an allowance for the cost of handling these claims.

Retirement claim recoveries

The Group recognises recoveries in relation to expected future recoveries associated with the provision for cessation of practice claims, based on actuarial advice. Such recoveries arise under ROCS (for eligible participants only), the High Cost Claims Scheme and reinsurance contracts in place prior to balance date. The recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for retirement claims. Recoveries are also recognised in respect of claims paid but not recovered.

ROCS levy

A liability for the ROCS funding levy is recognised on business written to balance date. Levies payable are expensed on the same basis as the recognition of premium revenue, with the portion relating to unearned premium being recorded as a prepayment.

(l) Deferred acquisition costs

The acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in the Statement of Comprehensive Income in subsequent reporting periods.

The Group has not deferred any acquisition costs at year end or the comparative year end.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognised for all taxable temporary differences.

Deferred income tax assets carry-forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(n) Assets backing general insurance liabilities

The investments portfolio of MIPSi is actively managed as part of the Group's investment strategy to ensure that investments mature in accordance with the expected pattern of future cash flows arising from general insurance liabilities.

The Group has determined that all investments of MIPSi are held to back general insurance liabilities and their accounting treatment is described below. As these assets are managed under the Risk Management Statement (RMS) of MIPSi on a fair value basis and are reported to the Board of MIPSi on this basis, they have been valued at fair value through profit or loss.

(o) Investments

Investments within the scope of AASB 9 Financial Instruments: Recognition and Measurement are categorised as investments at "fair value through profit or loss". During the year the Society's investments "held-to-maturity" and "available-for-sale", were reclassified as investments at "fair value through profit or loss", this treatment resulted in transfer from investment revaluation reserve to retained earnings. The classification depends on the purpose for which the investments were acquired.

When investments are recognised initially, they are measured at fair value, plus in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and Derecognition

All regular way purchases and sale of investments are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Investments are derecognised when the right to receive cash flows from the investments have expired or been transferred.

Subsequent measurement

Investments – fair value through profit or loss

Investments classified as held for trading are included in the category of 'Investments at fair value through profit or loss'. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term with intention of making a profit. Investments designated as 'fair value through profit of loss' are re-measured to fair value at balance date. Investments backing general insurance liabilities are designated 'fair value through profit or loss'. Gains or losses on financial assets held for trading are recognised in profit or loss.

All investments are initially recognised at fair value, which is the cost of acquisition. The Group capitalises all acquisition costs. Otherwise transactions costs are capitalised on initial recognition.

Details of fair value for the different types of investments are listed below:

- Cash assets are carried at face value of the amounts deposited or drawn. The carrying amount of cash approximates to their fair value; and
- Shares, fixed interest securities, options and units in trusts listed on the stock exchange are measured at the quoted bid price of the instrument at the Statement of Financial Position date.

Where there is no quoted market price, fair value of an investment is determined by reference to the current market value of another instrument which is substantively the same or alternatively is calculated based on the expected cash flows of the underlying net asset base of the investment.

Dividends and distributions are recognised as revenue when the right to receive payment is established. Interest revenue is recognised on an accruals basis, using the effective interest rate method.

(p) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation for plant and equipment is calculated using the reducing balance method to allocate their cost, while depreciation for leasehold improvements is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives of 5 years.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each Statement of Financial Position date. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

The assets carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the Statement of Comprehensive Income.

(q) Impairment of non-financial assets

The Group conducts a bi-annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

(r) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(s) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(t) Receivables

Receivables are initially recognised at fair value, being the amounts due. They are subsequently measured at amortised cost.

A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The charge is recognised in the Statement of Comprehensive Income.

(u) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents are as defined above.

(v) Rounding of amounts

The Group is of a kind referred to in ASIC (Rounding in Financial/Directors' Reports) Instrument 2018/191, issued by the Australian Securities and Investments Commission (ASIC), relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 2: Critical accounting judgements and estimates

(a) Critical estimates and assumptions

The Group makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical estimates are applied are described below.

(i) The ultimate liability arising from claims made under insurance contracts

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Statement of Financial Position date.

The estimated cost of claims includes direct expenses to be incurred in settling claims gross of any recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, particularly in the early stages after initial notification, it is likely that the final outcome will prove to be different from the original liability established.

The medical indemnity liability class of business will typically display greater variations between initial estimates and final outcomes than other classes of insurance because there is a degree of difficulty in estimating reserves. In calculating the estimated cost of unpaid claims, the Group relies on a variety of estimation techniques, generally based on statistical analyses and review of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the value of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in Group processes which might accelerate or slow down the development and / or notification of paid or incurred claims, compared with statistics from previous periods
- Changes in legal environment
- The effects of inflation
- The impact of large losses
- Movement in industry benchmarks and
- Medical and technological developments.

Further information on the methods used in deriving the outstanding claims liability at year end are detailed in Note 3.

(ii) The ultimate obligation arising from claims made under discretionary cover

In accordance with accounting policy 1(i), MIPS recognises a liability for the estimated cost of settling discretionary medical indemnity obligations.

Given the length of time the indemnity arrangements have been in run off there is no longer the volatility discussed above in relation to insurance contracts. The liability is based on management case estimates.

Valuation approach
The provision for reported outstanding claims is based on actual case estimates and estimated recoveries.

(iii) The determination of retirement claims liabilities

Over time, an increasing proportion of reported claims will be eligible for indemnity under ROCS policies. These claims will be in relation to former MIPS members who had previously retired from medical practice over the age of 65, died or were permanently disabled and unable to work. ROCS indemnity will also cover qualifying claims against doctors on maternity leave or who are under age 65 but have ceased work for 3 years.

(iv) Assets arising from reinsurance contracts and other recoveries

Assets arising out of reinsurance contracts and other recoveries (which includes HCCS and ROCS recoveries) are also calculated using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will be ultimately received, taking into consideration factors such as counter party and credit risks. Impairment is recognised where there is objective evidence that the Group may not receive amounts due to it and these amounts can be reliably measured.

(b) Critical Judgements

It has been determined that no critical accounting judgements have been made in the year.

Note 3: Actuarial assumptions and methods

The Group provides medical indemnity insurance, which is long tail in nature and is expected to be exposed to a small number of large value claims each year. As a result, the claims experience is liable to fluctuations from year to the next and the estimates of the outstanding claims liabilities are uncertain. The process for determining the value of outstanding claims liability is described below.

The gross outstanding claims liability is estimated by considering a range of methods. The following methods are used:

- A frequency and a priori severity method which combines a projected ultimate number of claims with an a priori average claim size assumption based on an analysis of both average claims by report year and average claims by settlement year
- An aggregate paid development method which projects how the total value of paid claims develops.
- A capped/excess frequency severity method sets separate frequency and severity assumptions for small and large claims. Both the average size of settled claims and average of all claims are considered to set the severity assumptions
- A case adjustment method that adjusts individual case estimates based on detailed analyses of the factors affecting the individual reserves as well as making an allowance for late reports.
- A payment per settled claim method which projects the number of claims that will settle in each year in the future and an average size which varies based on how long they take to settle.
- The paid Bornhuetter-Ferguson method, which combines the results from the frequency and a priori severity method and the aggregate paid development method by applying a credibility weighting to the aggregate paid development, which is in line with the expected development of paid claims.

In order to project the ultimate payments that will be made, claims inflation is incorporated to allow for both general economic inflation as well as any superimposed inflation detected in the modelling of payment experience. The addition of superimposed inflation reflects the fact that over time claims inflation has exceeded both price inflation and wage inflation. Superimposed inflation may arise from non-economic factors such as developments of legal precedent.

The recoveries from HCCS and any reinsurance that has been secured are projected using a weighting of two approaches. The first approach is to compare individual claims with the appropriate threshold levels. The second approach is to apply aggregate assumptions of the percentages recoverable to the projected gross claim payments.

Unallocated claims handling expenses are included by applying a percentage assumption to the projected claims costs. Projected payments are discounted for the time value of money. Inherent uncertainties in this class of business are considered when setting the appropriate risk margin.

Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liabilities.

These assumptions represent the following:

Assumptions	2019	2018
Average net weighted term to settlement from reporting date	3.32 years	3.35 years
Expense rate	9.0%	9.5%
Discount rate	1.0%	2.2%
Inflation rate	2.8%	3.0%
Superimposed inflation rate	2.3%	2.5%
Level of sufficiency achieved by prudential margin	92.5%	92.5%

Definition of terms:

- *Average net weighted term to settlement*: The average net weighted term to settlement is based on historic settlement patterns.
- *Expense rate*: Unallocated claims handling expenses were calculated by reference to both current and projected 2019/20 claims handling costs, as a percentage of projected 2019/20 gross claims payments.
- *Discount rate*: Discount rates derived from market yields on Commonwealth Government securities as at the balance date with a term to redemption that matches as closely as possible to the term of the Group's liabilities.
- *Inflation*: Inflation assumptions are set by reference to current economic indicators and are consistent with assumptions that were adopted in previous years.
- *Superimposed inflation*: Superimposed inflation occurs due to non-economic effects such as court settlement amounts increasing at a faster rate than wages or CPI inflation. An allowance for superimposed inflation was made, after considering both the superimposed inflation present in the portfolio and industry superimposed inflation trends.

Sensitivity analysis – Insurance contracts

(i) Summary

The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group. The tables below describe how a change in each assumption will affect the insurance liabilities and show an analysis of the sensitivity of the profit / (loss) and equity to changes in the two key assumptions both gross and net of reinsurance.

Variable	Impact of movement in variable
Average net weighted term to settlement	A decrease in the average term to settlement would lead to more claims being paid sooner than anticipated. As the annual rate of claims inflation is greater than the rate of discount applied, an increase in the average term to settlement would increase the claims expense.
Expense rate	An estimate for the internal costs of handling claims is included in the outstanding claims liability. An increase or decrease in the expense rate assumption would have a corresponding impact on the claims expense.
Discount rate	The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. The methodology to be used for the valuation is prescribed by the Australian Prudential Regulation Authority (APRA) to a rate that should equal the yield on Commonwealth bonds with a term to redemption that matches as closely as possible the term of claims liabilities. As the discount rate relates to the yield on Government bonds which form a large part of the MIPSi investment portfolio backing the insurance liabilities, any movement in the yield which has the effect of increasing or decreasing the liabilities should have a matching increase or decrease in the value of the assets.
Inflation and superimposed inflation rates	Expected future payments are inflated to take account of inflationary increases including an amount for superimposed non-economic inflationary factors. An increase or decrease in the assumed levels of either economic or superimposed inflation would have a corresponding impact on claims expense, although the presence of the HCCS and the reinsurance programme will reduce the impact.

ii) Impact of changes in key variables

Variable	Movement in variable	Impact on Group equity/profit before tax $'000	Impact on Group equity/profit for the year after tax $'000
Inflation and superimposed inflation	+2.5%	(4,940)	(3,458)
	-2.5%	4,940	3,458
Claims handling costs	+1.5%	(2,591)	(1,813)
	-1.5%	2,591	1,813
Discount rate	+1.1%	1,292	904
	-1.1%	(712)	(499)

Note 4: Financial risk management objectives and policies

The financial condition and operation of the Group are affected by a number of key risks including insurance risk, interest rate risk, credit risk, liquidity risk and market risk.

In accordance with Prudential Standard GPS 110 Capital Adequacy issued by APRA, the Board and senior management have developed and implemented an Internal Capital Adequacy Assessment Process (ICAAP). The statement and objectives of the ICAAP are documented in the ICAAP Summary Statement which has been provided to APRA.

The ICAAP Summary Statement identifies and documents the policies, procedures, systems and controls in place to manage associated capital risks, including setting of capital targets that are consistent with the MIPSi's risk profile, risk appetite and relevant regulatory requirements.

In accordance with Prudential Standards CPS 220 Risk Management and GPS 230 Reinsurance Management issued by APRA, the Board and senior management have developed, implemented and maintain a sound and prudent Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS).

The RMS and REMS identify MIPSi's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by MIPSi. Annually the Board of MIPSi certifies to APRA that adequate strategies have been put in place to monitor those risks, that MIPSi has systems in place to ensure compliance with legislative and prudential requirements and that the Board of MIPSi has satisfied itself as to the compliance with the RMS and REMS. The RMS and REMS have been approved by the Board and provided to APRA.

The risk management framework that supports MIPSi's RMS and REMS is used by the Group to manage risks outside the insurance operations. This includes development of an investment strategy that includes funds held by non-insurance entities.

(a) Insurance risk

MIPSi has an objective to control insurance risks thus reducing the volatility of financial results. In addition to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, financial results from insurance business are affected by market factors, particularly competition and movements in asset values. Short term variability is, to some extent, a feature of business. Key aspects of the processes established in the RMS to mitigate insurance risk include:

- The maintenance and use of management information systems.
- Actuarial models, using information from the management information system, are used to calculate premium and monitor claims patterns. Past experience and statistical methods are used as part of the process.
- Documented procedures are followed for underwriting and accepting insurance risks.
- Reinsurance is used to limit the Group's exposure to large single claims and aggregation of claims. The Group currently uses both Excess of Loss and Quota Share reinsurance. When selecting a reinsurer, the Group only considers those companies that provide high security. In order to assess this, rating information from the public domain and information gathered through internal investigation is used.
- In order to limit concentration of credit risk, in purchasing reinsurance the Group has regard to existing reinsurance assets and seeks to limit excess exposure to any single reinsurer or grouping of related reinsurers.
- The Group does not undertake any form of alternate risk transfer.
- The mix of assets in which the Group invests is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match maturity dates of assets with the expected pattern of claim payments.
- Business is limited to only one class of insurance.

Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Group. All insurance contracts written are entered into on a standard form basis. The Group writes insurance contracts only on a claims-made basis, i.e. liabilities may arise in respect of claims reported during the term of the insurance contract, however, where retroactive cover is provided the event that gave rise to the claim could have occurred in a previous period.

There are no other special terms and conditions in any of the contracts that have a material impact on the financial statements.

Concentration of insurance risk

Apart from operating as a monoline insurer, the Groups's exposure to concentration of insurance risks is minimised as the Group is not affected by any natural disasters and mitigates its risk through comprehensive reinsurance programmes.

The Group's exposure to concentration of monoline insurance risk is mitigated by providing insurance for diversified membership categories in all Australian States and Territories. To manage the risks associated with various membership categories, a risk based pricing model is adopted.

Development and sensitivities of claims

There is a possibility that changes may occur in the estimate of the Group's obligations at the end of a contract period. The tables in Note 21 disclose the estimates of total claims outstanding for each underwriting year at successive year ends. Note 3 identifies the sensitivities associated with the determination of the liability for outstanding claims.

Reinsurance counterparty risk

When there is reliance on a few reinsurers, there is a potential credit risk. As far as appropriate and in accordance with the RMS, the Group will seek to diversify the reinsurance security it sources. This objective is tempered by the security constraint (which is absolute in relation to counter-party risk ratings) and the relative reinsurance capacity shortage in this segment particularly in relation to some types of reinsurance.

The administration costs that must be passed on to the Group if multiple reinsurers with small lines are involved in the programme must also be considered. Financially strong reputable reinsurers who have significant involvement in all areas of the reinsurance programme have the resources to add value to the operations of MIPS. As opportunities arise, the Group will seek to diversify security while respecting the long-term support offered by those well-known and established reinsurers who offer support across all programmes with whom relationships already exist. Long-term significant relationships are important in order to weather the regular cycles of a hardening reinsurance market and if unexpected adverse experience occurs in an underwriting year.

In addition, due to the nature of insurance offered by the Group, eventual realisation of recoveries from reinsurers is likely to be over an extended period of time, during which the credit quality of the reinsurer may decline. As noted above in (a), the Group reassesses the security of reinsurers each balance date based on information in the public domain and gathered through internal investigation and advice from its reinsurance broker.

(b) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss.

With respect to credit risk arising from the financial assets and liabilities of the Group, the Group's exposure to credit risk arises from potential default of a counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

The Group holds no collateral as security or any other credit enhancements. There are no financial assets that are impaired, or would otherwise be impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Group except in relation to investments in debt securities.

With respect to all other financial assets, concentration of credit risk is managed by counterparty, and by industry sector.

Counterparty risk is not considered to be significant for cash as the total cash balance is held by counter parties with an A- or AAA rating.

The split of investment by class (bank term deposits, bank bills, equity and fixed interest securities) and maturity profile is shown in Note 16. An industry sector analysis of the investments in financial assets is as follows:

Value of investments by sector

Sector	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Energy	6,547	5,581	6,547	5,581
Materials	16,081	12,384	16,081	12,384
Industrials	-	3,199	-	3,199
Consumer Staples	3,331	5,299	3,331	5,299
Health Care	6,691	5,197	6,691	5,197
Information Technology	983	1,345	983	1,345
Government	76,731	76,680	-	-
Financials	255,289	237,653	128,973	120,392
Telecommunications	1,578	939	1,578	939
Utilities	1,379	-	1,379	-
Other	1,136	2,108	1,136	2,108
Total Investments	369,746	350,385	166,699	156,444

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using Standard and Poor's rating categories, in accordance with the investment mandate of the Group. The Group's exposure in each grade is monitored on a monthly basis. This review process allows the Group to assess the potential loss as a result of risks and take corrective action.

The table below shows the credit quality by class of asset for debt instruments for the Group.

2019 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Bank term deposits	36,123	12,962	-	49,085
Floating rate notes	32,459	13,522	134,452	180,433
Government bonds	76,731	-	-	76,731
Total debt investments	145,313	26,484	134,452	306,249

2018 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Bank term deposits	5,149	43,200	12,858	61,207
Floating rate notes	44,407	23,127	82,091	149,625
Government bonds	76,680	-	-	76,680
Total debt investments	126,236	66,327	94,949	287,512

The table below shows the credit quality by class of asset for debt instruments for the Society.

2019 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Bank term deposits	14,450	7,850	-	22,300
Floating rate notes	14,067	11,507	55,238	80,902
Total debt investments	28,517	19,357	55,328	103,202

2018 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Bank term deposits	500	25,700	8,727	34,927
Floating rate notes	12,881	8,800	36,963	58,644
Total debt investments	13,381	34,500	45,690	93,571

The table below shows the credit quality by reinsurance and other recoveries receivable for the Group.

2019 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Reinsurer	64,644	32,402	-	97,046
Government scheme	74,337	-	-	74,337
Total debt investments	138,981	-	-	171,383

2018 Group	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Reinsurer	49,740	31,131	-	80,871
Government scheme	73,909	-	-	79,909
Total debt investments	123,649	31,131	-	154,780

The table below shows the credit quality by reinsurance and other recoveries receivable for the Society.

2019 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Reinsurer	-	-	-	-
Government scheme	-	-	-	-
Total debt investments	-	-	-	-

2018 Society	AAA to AA- $'000	A+ to A- $'000	BBB+ to BBB- $'000	Total $'000
Reinsurer	-	-	-	-
Government scheme	110	-	-	110
Total debt investments	110	-	-	110

(c) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet obligations to repay financial liabilities as and when they fall due.

The Group manages liquidity risk primarily through the investment strategy (discussed above) and ongoing monitoring of its capital adequacy multiple for MIPSi. MIPSi's Prescribed Capital Amount Coverage Ratio (PCR) multiple is calculated every month as well as each quarter as part of routine reporting to APRA. The Prescribed Capital Coverage Ratio serves as a measure of insurer solvency.

Trade payables and other financial liabilities of the Group and Society (excluding indemnity related provisions held by the Society) generally mature within 12 months of being incurred.

(d) Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

In accordance with its investment strategy, the Group invests in equities and hybrids with designated allocation targets. There are specified allowable ranges within which the investments portfolio may vary from the neutral/target allocation. The investment strategy includes an assessment of the risk profile of the shares in which the Group invests and also exposure restrictions based on APRA credit ratings.

There are no off-statement of financial position derivative transactions or open option positions at year end. The Group's financial assets and liabilities are carried at amounts that approximate their fair value.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Group has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Group may use derivatives to hedge against unexpected increases in interest rates.

The following table demonstrates the sensitivity of the Group's Statement of Comprehensive Income to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on changes in fair value of investments for the year, based on revaluing fixed rate financial assets at 30 June 2019.

The basis points sensitivity is based on the volatility of change in the global interest rates over the last 10 years.

Interest rate risk

		Group		**Society**	
Interest rate	Change in basis points Increase / decrease	After tax effect on Profit higher/(lower) $'000	Equity higher/(lower) $'000	After tax effect on Profit higher/(lower) $'000	Equity higher/(lower) $'000
2019	+150	(4,430)	-	-	-
	-150	658	-	-	-
2018	+150	(2,640)	-	-	-
	-150	2,496	-	-	-

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market. Equity price risk exposure arises from the Group's investment portfolio. The effect on net assets attributable to equity and operating profit before distribution due to reasonably possible changes in market factors, as represented by the equity indices, with all other variables held constant is indicated in the table below .

Accounting Assumptions – Variability of equity price

The sensitivity is based on the volatility of change in the individual composite indices over the last 10 years.

		2019		2018	
Index	Change in equity price %	After tax effect on Profit higher/(lower) $'000	After tax effect on equity $'000	After tax effect on Profit higher/(lower) $'000	After tax effect on equity $'000
Group	+20%	-	8,890	-	8,802
ASX	-20%	-	(8,890)	-	(8,802)
Society	+20%	-	8,890	-	8,802
ASX	-20%	-	(8,890)	-	(8,802)

(iii) Foreign currency risk

The Group has no foreign currency risk as all agreements and transactions are in Australian dollars.

Note 5: Fair values

All of the Group's financial assets are based upon quoted market prices. As a result all of the Group's financial assets have been classified as level 1 investments. Level 1 method is where the fair value is calculated using quoted prices in active markets. Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The financial assets and liabilities included in the Statement of Financial Position are carried at their fair value or at amounts that approximate their fair values. Refer to Note 1 for the methods and assumptions adopted in determining fair values for investments.

Note 6: Revenue from contracts with customers

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Provision of indemnity cover for members	47,859	41,722	47,859	41,722
Provision of run off cover for members	1,920	1,673	1,920	1,673
Provision of other services for members	8,378	13,871	8,378	13,871
Subscription revenue from members	58,157	57,266	58,157	57,266
Service fees	-	-	3,888	5,220
Recovery of expenses incurred	879	855	524	855
Revenue from contracts with customers	59,036	58,121	62,569	63,341

Note 7: Operating income

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Quota share commission	5,650	5,238	-	-
Sundry income	272	71	44	9
Operating income	5,922	5,309	44	9

Note 8: Net claims incurred

All insurance business is underwritten by MIPSi and all net claims incurred information relates to the Group.

	2019 Current year $'000	2019 Prior years $'000	2019 Total $'000	2018 Current year $'000	2018 Prior years $'000	2018 Total $'000
Gross claims incurred						
Undiscounted	66,297	4,247	70,544	60,140	(839)	59,301
Discount movement	(2,173)	7,498	5,325	(4,774)	3,156	(1,618)
Gross claims discounted	64,124	*11,745	75,869	55,366	*2,317	57,683
Prudential margin	18,976	(5,718)	13,258	14,663	(5,266)	9,397
Claim expense	83,100	6,027	89,127	70,029	(2,949)	67,080
Reinsurance and other recoveries						
Undiscounted	36,996	3,919	40,915	36,466	2,642	39,108
Discount movement	(1,311)	5,372	4,061	(3,371)	2,074	1,297
Reinsurance recoveries discounted	35,685	*9,291	44,976	33,095	*4,716	(37,812)
Prudential margin	10,754	(3,537)	7,217	9,086	(2,223)	6,863
Reinsurance and other recoveries	46,439	5,754	52,193	42,181	2,493	44,674
Net claims incurred	36,661	273	36,934	27,848	(5,442)	22,406

Current year amounts relate to risks borne in the current financial year. Prior period amounts relate to a reassessment of the risks borne in all previous financial years.

* These amounts are impacted by both changes in assumptions and other factors (including reassessments of individual case estimates). The significant changes in assumptions are as follows:

	2019 Gross claims $'000	2019 Recoveries $'000	2019 Net $'000	2018 Gross claims $'000	2018 Recoveries $'000	2018 Net $'000
Changes in assumptions						
Claims development	8,345	6,401	1,944	3,137	4,486	(1,809)
Discount rate/claims handling expenses	3,400	2,890	510	(820)	(230)	(590)
Total change in assumptions	11,745	9,291	2,454	2,317	4,716	2,399

Note 9: Investment result

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Investment revenue				
Interest received on bank accounts	1,018	841	428	421
Interest on investments - Held as FVTPL*	10,964	9,980	3,336	2,905
Dividends received	4,445	3,492	4,445	3,492
Total investment revenue	16,427	14,313	8,209	6,818
Gains (losses) on investments				
Realised gains/(losses) on investments at FVTPL	1,009	(1,038)	1,924	42
Unrealised gains/(losses) on investments at FVTPL	3,611	(684)	1,416	(130)
Total gains/(losses) on investment	4,620	(1,722)	3,340	(88)
Expenses on Investment not held as FVTPL*	-	(477)	-	(477)
Expenses on Investment held as FVTPL*	(1,122)	(492)	(557)	-
Investment result	19,925	11,622	10,992	6,253

*FVTPL – Fair value through profit & loss

Note 10: Indemnification expense

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
(Release)/Charge for indemnity obligations	(572)	(9)	(572)	(9)
Movement in recoveries				
- undiscounted	105	45	105	45
Indemnification (release)/expense	(467)	36	(467)	36

Note 11: Other operating expenses

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Employee remuneration	7,084	6,412	7,082	6,411
Non-executive directors' remuneration	1,403	1,310	611	546
Employment oncost	581	529	541	492
Cases committee	2,071	1,894	2,071	1,894
Professional services expense	2,055	1,753	839	546
Marketing	1,196	1,426	1,196	1,426
Lease and occupancy expense	1,045	1,006	1,045	1,006
IT and communication expense	1,136	1,168	1,136	1,168
Financial Institution charges	356	361	355	360
Travel and accommodation	380	360	298	276
Insurance	183	177	183	177
Depreciation expense	124	139	124	139
Other expenses from ordinary activities	675	588	508	465
Less Reallocation to claims expense	(3,818)	(3,300)	-	-
Other operating expenses	14,471	13,823	15,989	14,906

Note 12: Income tax

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Reconciliation between net profit before tax and tax expense				
Net profit before tax	6,150	14,446	10,224	12,886
Tax calculated at rate of 30%	**1,844**	4,334	**3,068**	3,865
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Net mutual (income)/expense	(2,369)	(3,791)	(2,369)	(3,791)
Tax deferred trust income	(14)	(4)	(14)	(4)
Entertainment and other	43	41	43	41
Adjusted Income Tax	(496)	580	728	111
Write off of deferred tax asset balance	(1)	(3)	-	-
Tax losses of prior years recouped	(1)	(3)	-	-
Under (over) provision in previous year	(3)	-	-	-
Tax charge/(benefit) for the year	**(501)**	574	**728**	111
Income tax expense				
Charge for current tax payable	(1,321)	968	358	138
Deferred tax movement	825	(391)	370	(27)
Adjustments in respect of prior years	(4)	(3)	-	-
Tax expense/(benefit) charged to Statement of Comprehensive Income	**(501)**	574	**728**	111
Tax charged to other comprehensive income				
Deferred tax related to items in other comprehensive income	-	1,063	-	1,063
Tax charged to other comprehensive income	-	1,063	-	1,063

Imputation credits and rebateable dividends have been included in profit before tax.

Note 13: Cash and cash equivalents

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Cash and cash equivalents	72,757	62,893	26,084	41,558

Cash at bank and trust account earns interest at a floating rate. As at 30 June 2019, the Group average interest rate was 1.51% (2018: 1.69%). Over the full year the Group weighted average interest rate was 1.72% (2018: 2.02%).

Note 14: Contract assets

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Premiums and subscriptions receivable				
Receivables from members*	10,081	12,365	10,081	12,365
Provision for doubtful debts	(100)	(100)	(100)	(100)
PSS receivable	545	551	545	551
Contract assets	10,526	12,816	10,526	12,816

*Receivables past due but not considered impaired are; Group $34,025 (2018: $22,945); Society $34,025 (2018: $22,945)

The ageing analysis of receivable past due but not considered impaired are as below:

		31-60 days $	61-90 days $	Over 91 days $	Total $
2019	Group	-	3,008	31,017	34,025
	Society	-	3,008	31,017	34,025
2018	Group	-	2,659	20,286	22,945
	Society	-	2,659	20,286	22,945

Other balances within receivables from members & PSS receivable do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Note 15: Receivables

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Receivable from related entities	-	-	3	2
Total receivables	-	-	3	2

Note 16: Investments

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Investments – 'fair value through profit or loss'				
Bank term deposits	49,085	61,207	22,300	34,927
Equity securities – listed entities	63,497	62,873	63,497	62,873
Floating rate notes	180,433	149,625	80,902	58,644
Fixed interest securities	76,731	76,680	-	-
Total investments	369,746	350,385	166,699	156,444
Current investments	105,467	100,527	81,022	81,300
Non-current investments	264,279	249,858	85,677	75,144
Total investments	369,746	350,385	166,699	156,444

The weighted average interest rate for interest bearing investments is 3.44% (2018: 3.49%) and the following table summarises the interest rate sensitivity (repricing profile) of the Group's exposure to fixed interest securities based on earlier of contractual maturity or repricing.

Maturity	Group 2019 Average rate	Group 2019 $'000	Group 2018 Average rate	Group 2018 $'000
Less than 12 months	-	-	1.94%	5,055
One to two years	2.13%	2,721	2.01%	10,939
Two to three years	2.59%	21,440	2.18%	13,902
Three to four years	2.27%	39,036	2.80%	17,520
Four to five years	-	-	2.27%	24,164
Over five years	2.29%	13,534	2.54%	5,100
Total fixed interest securities		76,731		76,680

Note 17: Reinsurance and other recoveries receivable

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Expected future recoveries on outstanding claims				
- from reinsurers	74,136	65,053	-	-
- from HCCS	50,551	53,623	-	-
	124,867	118,676	-	-
Discounted to present value	(3,956)	(8,017)	-	-
Prudential Margin	42,486	35,269	-	-
	163,217	145,928	-	-
Retirement claim recoveries from ROCS	8,166	7,862	-	-
Receivable from excess of loss reinsurers	-	880	-	-
Expected future recoveries on outstanding claims	171,383	154,670	-	-
Expected future recoveries on indemnity obligations				
- from insurers and reinsurers	-	110	-	110
- from ROCS	-	-	-	-
- from HCCS	-	-	-	-
Expected future recoveries on indemnity obligations	-	110	-	110
Total reinsurance and other recoveries receivable	171,383	154,780	-	110
Current reinsurance and other recoveries receivable	36,457	33,289	-	55
Non-current reinsurance and other recoveries receivable	134,926	121,491	-	55
Total reinsurance and other recoveries receivable	171,383	154,780	-	110
Movement – outstanding claim recoveries				
Brought forward	154,670	134,996	-	110
Recognised in the Statement of Comprehensive Income (refer Note 7)	44,976	37,811	-	-
Movement in prudential margin	7,217	6,863	-	-
Recoveries received/receivable during the year	(35,480)	(25,000)	-	-
Carried forward	171,383	154,670	-	110
Movement – indemnity obligation recoveries				
Brought forward	110	165	110	165
Recognised in the Statement of Comprehensive Income (refer Note 9)	(105)	(45)	(105)	(45)
Recoveries received during the year	(5)	(10)	(5)	(10)
Carried forward	-	110	-	110

Note 18: Other assets

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Deferred master policy expense	-	-	49,539	43,919
Deferred ROCS expense	1,430	1,418	-	-
Deferred reinsurance premium	24,643	21,922	-	-
Prepayments	1,559	606	1,525	587
Quota share commission receivable	6,379	5,653	-	-
Other	2,047	2,566	699	1,030
Total other assets	36,058	32,165	51,763	45,536

Note 19: Plant and equipment

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Plant and equipment – at cost	1,083	1,023	1,083	1,023
Less: Accumulated depreciation	(703)	(661)	(703)	(661)
Total plant and equipment	380	362	380	362
Movements				
Opening amount	362	484	362	484
Additions	165	47	165	47
Disposals	(8)	(8)	(8)	(8)
Write-off	(15)	(22)	(15)	(22)
Depreciation expense	(124)	(139)	(124)	(139)
Closing amount	380	362	380	362

Note 20: Investments in subsidiaries

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
MIPS Insurance Pty Ltd (MIPSi)	-	-	36,250	36,250
Professional Management Australia Pty Ltd (PMA)	-	-	250	250
Queensland Doctors' Mutual Pty Ltd (QDM)	-	-	8	8
Total investment in subsidiaries	-	-	36,508	36,508

Name of Company	Principal Activity	Country of incorporation	Class of Shares	Ownership interest 2019 %	2018 %
MIPS Insurance Pty Ltd	Insurance	Australia	Ordinary	100	100
Professional Management Australia Pty Ltd	Dormant	Australia	Ordinary	100	100
Queensland Doctors' Mutual Pty Ltd	Medical defence organisation	Australia	Ordinary	100	100
Asclepius Underwriting Pty Ltd (Subsidiary of QDM)	Insurance	Australia	Ordinary	100	100

Note 21: Deferred tax asset /(liability)

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Amounts recognised in profit or loss				
Accrual for audit fees	15	32	4	7
Provision for employee entitlements	548	526	548	526
Provision for indirect claims handling costs	4,662	4,450	-	-
Investment revaluations	(1,586)	177	(1,736)	27
Interest receivable	-	(42)	-	-
Dividend receivable	(109)	(167)	(109)	(167)
Provision for FBT	5	4	5	4
Provision for Leasehold make good	-	25	-	25
Market value adjustment Fixed interest securities	4	737	(38)	40
Amounts recognised in equity				
Investment revaluations	-	(1,418)	-	(1,418)
Deferred tax asset / (liability)	3,539	4,324	(1,326)	(956)
Amounts recognised in deferred tax losses				
Recognition of tax losses	4,260	1,020	1,545	-
Total net deferred tax asset/(liability)	7,799	5,344	219	(956)
Movements				
Opening balance at 1 July	5,344	6,833	(956)	80
Credited / (charged) to other comprehensive income	-	(1,063)	-	(1,063)
Adjustment to opening DTL/DTA	40	3	-	-
Recognition of / (recoupment of) tax losses	3,240	(820)	1,545	-
Credited / (charged) to the Statement of Comprehensive Income	(825)	391	(370)	27
Closing balance at 30 June	7,799	5,344	219	(956)
Asset to reverse within 12 months	3,137	2,312	219	574
Asset/(Liability) to reverse after 12 months	4,662	3,032	-	1,418
Net deferred tax asset/(liability)	7,799	5,344	219	(956)

Note 22: Payables

		Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Related party payables	Note 29	-	-	37,154	43,927
Trade creditors		3,820	3,330	-	67
Accrued reinsurance expense		24,643	21,923	-	-
Professional fees payable		48	109	15	29
ROCS levy payable		3,349	1,418	-	-
Net GST payable		2,772	2,665	2,911	2,841
Accruals		1,791	1,398	723	485
Other		7,373	5,768	21	118
Other payables		43,796	36,610	3,670	3,540
Total Payables		43,796	36,610	40,824	47,467

Payables are interest free and unsecured.

Note 23: Outstanding claims

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
(a) Outstanding claims liability				
Central estimate	172,683	156,125	-	-
Claims handling costs	15,541	14,832	-	-
	188,224	170,957	-	-
Discount to present value	(5,704)	(11,029)	-	-
Discounted claims liability	182,520	159,928	-	-
Prudential margin (refer Note 21(c))	64,231	50,972	-	-
	246,751	210,900	-	-
Eligible retirement claims (subject to ROCS) (refer Note 2(a)(iii))	6,706	5,071	-	-
Total gross outstanding claims liability	253,457	215,971	-	-
Current gross outstanding claims liability	50,220	42,372	-	-
Non-Current gross outstanding claims liability	203,237	173,599	-	-
Total gross outstanding claims liability	253,457	190,926	-	-
(b) Movements				
Brought forward	215,971	190,926	-	-
Recognised in the Statement of Comprehensive Income (refer Note 7)				
- Incurred claims	75,869	57,683	-	-
- Prudential margin	13,259	9,397	-	-
Claims payments during the year	(51,642)	(42,035)	-	-
Carried forward	253,457	215,971	-	-
(c) Prudential margin				
Level of sufficiency (refer Note 3)	92.5%	92.5%	-	-
Prudential margin as a percentage of the gross discounted claims liability	35.2%	31.9%	-	-

(d) Claims development table - Group

The following tables show the development of gross and net undiscounted outstanding claims relative to the ultimate expected claims for the 16 accident years since incorporation of MIPS Insurance Pty Ltd.

(i) Gross

Accident year	Up to 2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year		35,975	24,571	27,367	21,323	25,112	28,145	39,443	47,506	53,367	
One year later		29,838	23,739	24,069	22,666	24,680	36,916	44,550	52,126		
Two years later		28,323	25,333	26,569	23,897	32,787	42,696	50,262			
Three years later		16,234	20,355	26,838	30,691	32,433	41,729				
Four years later		15,839	27,300	31,875	30,554	33,259					
Five years later		18,765	32,937	33,647	28,487						
Six years later		18,406	28,556	32,111							
Seven years later		18,491	26,924								
Eight year later		22,231									
Current estimate of cumulative claims cost	121,096	22,231	26,924	32,111	28,487	33,259	41,729	50,262	52,126	53,367	461,592
Cumulative payments	(119,043)	(17,728)	(26,692)	(29,858)	(21,519)	(20,370)	(21,484)	(20,568)	(9,745)	(1,901)	(288,909)
Outstanding claims – undiscounted	2,053	4,503	231	2,253	6,967	12,889	20,245	29,694	42,382	51,466	172,683
Claims handling costs											15,541
Discount											(5,704)
ROCS claims											6,706
Prudential margin (at 92.5% confidence level)											64,230
Total gross outstanding claims											253,457

(ii) Net

Accident year	Up to 2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	Total $'000
Estimate of ultimate claims cost											
At end of accident year		26,229	15,942	9,831	8,297	9,561	10,211	13,602	16,008	20,851	
One year later		23,380	13,721	9,360	8,719	9,243	12,409	15,330	18,339		
Two years later		21,110	14,638	9,756	8,823	12,047	15,194	17,820			
Three years later		13,158	11,775	9,159	11,665	12,112	14,669				
Four years later		12,790	13,197	10,727	11,411	12,326					
Five years later		14,600	15,034	9,140	10,465						
Six years later		14,626	11,816	9,352							
Seven years later		14,792	11,264								
Eight year later		15,016									
Current estimate of cumulative claims cost	93,927	15,016	11,264	9,352	10,465	12,326	14,669	17,820	18,339	20,851	224,028
Cumulative payments	(94,509)	(14,917)	(11,057)	(10,116)	(9,495)	(9,010)	(9,291)	(10,740)	(5,642)	(1,256)	(176,032)
Outstanding claims – undiscounted	(582)	98	207	(764)	970	3,316	5,378	7,080	12,697	19,595	47,996
Claims handling costs											15,541
Discount											(1,748)
ROCS claims											(1,460)
Prudential margin (at 92.5% confidence level)											21,744
Total net outstanding claims											82,074

Note 24: Contract liabilities

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Subscription income received in advance	39,724	43,094	39,724	43,094
Total other liabilities	39,724	43,094	39,724	43,094

Note 25: Provisions

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Provision for indemnity obligations (refer Note 1(h))				
Indemnity Obligations	824	1,321	824	1,321
Prudential margin	-	444	-	444
	824	1,765	824	1,765
Employee entitlements (refer Note 1(i))	2,293	2,208	2,293	2,208
Total provisions	3,117	3,973	3,117	3,973
Current provisions	2,250	2,599	2,250	2,599
Non-current provisions	867	1,374	867	1,374
Total provisions	3,117	3,973	3,117	3,973
Movements				
Provision for indemnity obligations				
Carrying amount at start of year	1,765	2,010	1,765	2,010
Recognised in the Statement of comprehensive income (refer note 10) net indemnity charge/(credit)	(572)	(9)	(572)	(9)
Indemnity payments made	(370)	(236)	(370)	(236)
Carrying amount at end of year	824	1,765	824	1,765

Note 26: Share capital and members' guarantee

	Society 2019 Shares	Society 2018 Shares	Society 2019 $'000	Society 2018 $'000
Issued share capital				
Ordinary shares – fully paid	100,002	100,002	100	100

The Society is limited by shares and guarantee, having both shareholders and general members.

Members and Shareholders are not entitled to dividends. Each General Member has one vote at a meeting of General Members. The Shareholders in a general meeting appoint directors.

If the Society is wound up the constitution states that each Member (other than a Member who has been a Former Member for more than one year or an Honorary Member) may be required to contribute to the assets of the Society up to an amount not exceeding $5 for payment of the debts and liabilities of the Society including the costs of the winding up.

Number of members

Membership Category	Number of members 2019	2018
Ordinary	34,242	32,479
Student	21,518	20,829
Total Members	55,760	53,308

Note 27: Key management personnel

(a) Directors

The names of persons who were directors of the Society at any time during the financial year are as follows: A T Browning (resigned 30/08/2019), S Carter, A.D. Mason L Rowe, K C D Roxburgh, G R Speck, C J Steadman and B E Taylor.

(b) Remuneration

Key management personnel compensation for the years ended 30 June 2019 and 2018 is set out below. The key management personnel are: all the directors of the Society and the persons with the authority and responsibility for planning, directing and controlling the activities of the Society (A T Browning, W F Berryman and R J Miles).

Remuneration	Group 2019 $	2018 $	Society 2019 $	2018 $
Short-term benefits	2,387,106	2,246,423	1,655,946	1,540,529
Post-employment benefits	184,061	181,661	123,055	123,056
Total remuneration of key management personnel	2,571,167	2,428,084	1,779,001	1,663,585

Note 28: Remuneration of external auditors

	Group 2019 $	2018 $	Society 2019 $	2018 $
Ernst & Young				
Audit of the financial report	189,592	185,431	70,512	68,959
Audit of regulatory returns	37,960	37,131	-	-
Other audit related work	15,184	14,853	6,510	6,365
Taxation compliance services	48,360	41,715	21,320	21,115
Total remuneration of auditors	291,096	279,130	98,342	96,439

Note 29: Related parties

(a) Shareholding of the Society

MIPS Holdings Pty Ltd (MIPSH) owns 100% (2018: 100%) of the issued ordinary shares of the Society. As a shareholder, MIPSH is not entitled to a dividend or any surplus assets (except for the return of capital) in the event of a winding up.

(b) Wholly-owned Group

The wholly-owned Group consists of the Society and its wholly-owned subsidiaries MIPS Insurance Pty Ltd (MIPSi), Queensland Doctors' Mutual Pty Ltd (QDM) and Professional Management Australia Pty Ltd (PMA). Queensland Doctors' Mutual Pty Ltd (QDM) has a wholly-owned subsidiary company, Asclepius Underwriting Pty Ltd (AU).

(c) Transactions with related parties

The Group enters into transactions with its subsidiaries, associates and key management personnel in the normal course of business. Transactions are carried out on an arm's length basis.

Details of significant transactions carried out during the year with related parties are as follows;

- All insurance cover is provided to MIPS members as a member benefit by MIPS in the form of Master and Group policies. The Society has a Master Policy for insurance cover with its subsidiary MIPSi. During the year ended 30 June 2019 the Society paid $56,292,338 (2018: $38,315,945) to MIPSi
- MIPSi pays the Society a service fee for the provision of service under a Service Level Agreement (SLA). During the year ended 30 June 2019 the Society received $3,818,000 (2018: $5,150,000) from MIPSi.
- QDM pays the Society a service fee for the provision of service under a SLA. During the year ended 30 June 2019 Society received $70,000 (2018: $70,000)
- The Society provides services to AU under a SLA. No service fee is payable to the Society at this stage under the SLA.

Statement of Financial Position balances with related parties	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Receivables				
MIPSi	-	-	3	2
Payables				
Payable to MIPSi for Master Policy	-	-	37,154	43,927

Note 30: Reconciliation of net profit to net cash inflow from operating activities

	Group		Society	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Net profit	6,651	13,872	9,496	12,775
Non-cash items				
Depreciation	124	139	124	139
Asset write-off	15	22	15	22
Net (gain)/loss on investments	(4,620)	1,722	(3,340)	88
Changes in working capital				
(Increase)/decrease in recoveries receivable	(16,603)	(19,619)	110	55
(Increase)/decrease in contract assets	2,290	(4,993)	2,290	(4,956)
(Increase)/decrease in receivables	-	-	(1)	-
(Increase)/decrease in other assets	(3,881)	(3,766)	(6,227)	(6,035)
(Increase)/decrease in current tax asset	2,806	(1,236)	1,174	(1,339)
(Increase)/decrease in deferred tax asset	(2,453)	423	(1,173)	(28)
(Increase)/decrease in deferred ROCS expense	(12)	(276)	-	-
Increase/(decrease) in accounts payable	7,186	3,541	(6,643)	5,719
Increase/(decrease) in outstanding claims	37,486	25,045	-	-
Increase/(decrease) in contract liabilities	(3,370)	4,042	(3,370)	4,042
Increase/(decrease) in provisions	(856)	(22)	(856)	(22)
Net cash inflow/(outflow) from operating activities	24,763	18,894	(8,401)	10,460

Note 31: Commitments

	Group 2019 $'000	Group 2018 $'000	Society 2019 $'000	Society 2018 $'000
Operating lease commitments payable:				
Not later than one year	1,102	929	1,102	929
Later than one year but not later than two years	1,131	898	1,131	898
Later than two years but not later than five years	2,890	2,821	2,890	2,821
Later than five years but not later than ten years	2,009	3,924	2,009	3,924
Total lease commitments payable	7,132	8,572	7,132	8,572

The Group has entered into leases for office space. These leases have an average life of seven years (2018 eight years) with renewal options included in the contracts.

The Group has no capital commitments as at the Statement of Financial Position date.

Note 32: Capital adequacy

All insurance business is underwritten by MIPSi. Under APRA regulations all MIPSi capital is Tier 1.The capital adequacy information relates to MIPSi.

	2019 $'000	2018 $'000
Paid-up ordinary shares	36,250	36,250
Retained earnings brought forward	117,549	116,506
Current year earnings	(2,893)	1,044
Technical provisions in excess of liability valuation (net of tax)	9,337	6,663
Premium liability surplus / (deficit) (net of tax)	(656)	(496)
	159,587	159,967
Less: deductions	(7,577)	(6,337)
Net Tier 1 capital	152,010	153,630
Total capital base	152,010	153,630
Insurance risk charge	16,428	13,958
Insurance concentration risk charge	3,130	3,500
Asset risk charge	15,541	14,962
Asset concentration risk charge	-	5.520
Operational Risk Charge	2,783	2,385
Less: aggregation benefit	(7,793)	(7,258)
Prescribed Capital Requirement Amount	30,089	33,067
Prescribed Capital Amount coverage ratio	5.05	4.65

Technical provisions in excess of liability valuation

The liability required by GPS 110 for prudential reporting purposes differs from accounting purposes. As described in Note 1(h) MIPSi applies risk margins to the central estimate of net outstanding claims to achieve a level well above the 75% minimum as required by required by paragraph 29(a) of Attachment A of APRA standard GPS 320 Actuarial and Related Matters. A summary of the level of sufficiency achieved by the prudential margin is disclosed in Note 3.

Note 33: Contingent Liability

(a) Legal proceedings:

The Group operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigations) will have a material effect on the results of the Group or the Society and their financial position.

(b) Guarantees:

The Group has issued the following guarantees at 30 June 2019:

i) A bank guarantee of $1,600,043 (2018: $1,600,043) issued to Australia and New Zealand Banking Group (ANZ) in respect of rental bond for Level 37, 55 Collins Street, Melbourne, VIC 3000 (Head office for the Society effective 2 September 2016)

ii) A bank guarantee of $448,502 (2018: $448,502) issued to ANZ in respect of rental bond for Level 37, 55 Collins Street, Melbourne, VIC 3000 (Head office for the Society)

iii) A bank guarantee of $67,782 (2018: $67,782) issued to H A Bachrach (NOM) Pty Ltd in respect of rental bond for 67 Astor Terrace Spring Hill QLD 4000. (QLD office of the Society)

iv) A bank guarantee of $126,960.41 (2018: $15,000) issued to Trust Company (Australia) Ltd in respect of rental bond for Suite 901, Level 9, 50 Margaret Street, Sydney, NSW 2000. (NSW office of the Society)

v) A electronics pathway facility of $300,000 (2018 $300,000) issued to to ANZ in respect to the extent ANZ will assume pay away exposure on any one day)

vi) A bank guarantee of $50,000 (2018: $50,000) issued to ANZ in respect of Commercial Card Facility

vii) A bank guarantee of $1,000 (2018: $1,000) issued to ANZ in respect of Encashment Facility.

Note 34: Events occurring after balance date

No matters or circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect:

a) the Group or Society's operations in future years, or
b) the results of those operations in future years, or
c) the Group or Society's state of affairs in future financial years.

Note 35: Authorisation of the financial report

The financial report of the society for the year ended 30 June 2019 was authorised for issue in accordance with a resolution of directors on 25 September 2019.

Directors' declaration

In accordance with a resolution of the Directors of the Company, we state that:

In the opinion of the Directors:

a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1; and

c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

G R Speck
Chairman

B E Taylor
Director

Melbourne
25 September 2019

Independent auditor's report

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Independent Auditor's Report to the Members of Medical Indemnity Protection Society Ltd

Opinion

We have audited the financial report of Medical Indemnity Protection Society Pty Ltd (the Company) and its subsidiaries (collectively the Group), which comprises:

- the Group consolidated and Company statements of financial position as at 30 June 2019;
- the Group consolidated and Company statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies; and
- the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is the Chairman's report, Managing Director's report and the Directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

Independent auditor's report (continued)

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent auditor's report (continued)

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- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's or Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

T M Dring
Partner
Melbourne
26 September 2019

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