2019/20

mips

# Annual Report

Medical Indemnity Protection Society Ltd

Protect
Support
Advise

mips.com.au

# Annual Report
# 30 June 2020

Medical Indemnity Protection Society Ltd and its subsidiaries (Limited by guarantee and shares) ACN 007 067 281.

This 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 report has been authorised for issue by the directors on 23 September 2020.

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).

1800 061 113

info@mips.com.au
claims@mips.com.au

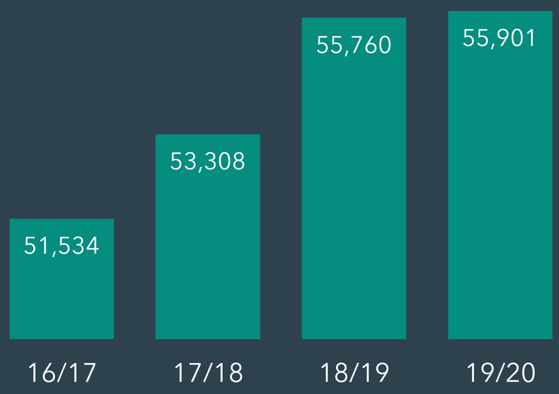
Postal address
PO Box 24240
Melbourne VIC 3001

mips.com.au

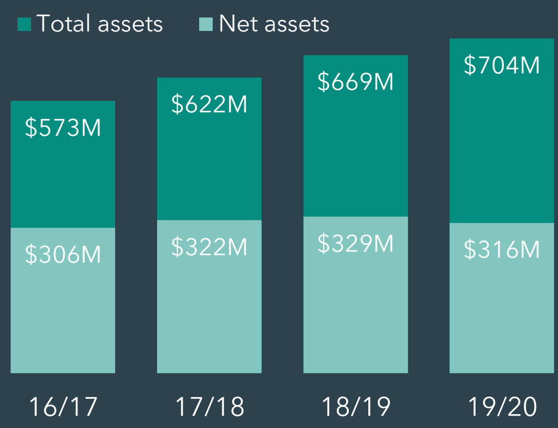
Contents

# Highlights

## Membership growth




## Total and net assets




**4.8/5**

**Rating on Google based on 195 Google reviews**

**4.7/5**

**Rating by members who have been assisted by MIPS for a claim or other notification**

## Capital strength – Prescribed capital amount coverage ratio: 3.27

Despite challenging financial conditions in the period and a decrease in net assets, MIPS remains highly stable and in a financial position which ensures adequate funds to cover claims from members now and in the future. MIPS has consistently maintained a very high amount of capital to cover claims well into the future. A hallmark of MIPS' financial strength is the consistently high prescribed capital amount coverage ratio which was 3.27 as at 30 June 2020. The minimum regulatory requirement is 1.

**5,868**

**Number of notifications rasied by members whom MIPS assisted or continues to assist.**

# Chairman and Chief Executive Officer’s report

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

2019/20 was a challenging and uncertain year for MIPS, MIPS members and the entire community as the world has grappled with the impacts from the global health and economic crisis caused by the COVID-19 pandemic.

## Support for members

MIPS has had members’ needs front of mind more so than usual. The global pandemic has materially impacted members. Some are unable to practice due to government restrictions, while others are managing a significant increase in workload. Many are working under greater personal and family stress.

MIPS’ purpose of ‘protection, support and advice from an MDO that understands your unique needs’ has given direction to our actions. MIPS has continued to support our members by:

- holding 2020/21 membership fees at the 2019/20 fee structure
- supporting members coming out of retirement to join Australian Health Practitioner Regulation Agency’s (AHPRA) pandemic response sub-register
- increasing staff numbers in our member facing teams to maintain high service levels
- extending cover to members who unknowingly transmitted COVID-19 while providing healthcare for their 2019/20 cover period
- reminding members to reflect on their current practice at membership renewal
- responding to the pandemic challenges with specific member risk education
- continuing to lobby for our members with relevant government and regulatory bodies.

## Financial position

MIPS entered the COVID-19 crisis in a strong financial position and has used this strength to support our members. The challenging environment has contributed to MIPS Group’s total comprehensive loss of $12.71 million. However, MIPS’ financial position remains extremely sound with gross assets of $704 million and net assets of $316 million which will continue to support our members.

Within the MIPS Group, an improved claims performance has resulted in MIPS’ wholly owned subsidiary, MIPS Insurance Pty Ltd (MIPSi) reversing last year’s loss and recording a profit after tax of $1.6 million.

The net claims incurred improved significantly over the previous year with a favourable run off calculated by our Appointed Actuary, on prior years claims of $11.7 million.

To protect against uncertainty in the actuarial valuation, MIPSi has continued to maintain a higher level of prudential margin than that required by either accounting standards or Australian Prudential Regulatory Authority (APRA).

MIPSi continues to focus on prudently managing MIPS members’ funds including the preservation of capital to protect the interests of MIPS members. This focus underpins the setting and maintaining of the investment strategy, purchasing reinsurance coverage and maintaining sound underwriting and pricing practices. The investment result was an excellent outcome in view of low investment yields and the impact of COVID-19 on investment markets in the final quarter.

Once again, MIPSi’s capital adequacy ratio significantly exceeds both the minimum APRA Prudential Capital Requirement (PCR) ratio of one and the general industry average. As at 30 June 2020 MIPSi had a PCR ratio of 3.27. With a high PCR ratio, gross assets of $540 million and net assets of $153 million, MIPSi’s financial position remains extremely sound.

## Operational resilience

MIPS has demonstrated operational resilience by continuing to deliver services to our members while prioritising the health and safety of MIPS people. COVID-19 has changed our ways of working and close to 100% of the MIPS team have been working remotely since late March 2020 delivering uninterrupted member services.

## Governance

Good governance is central to MIPS Group; the boards, executive and all MIPS people acknowledge and support this. Three Board committees are tasked with monitoring performance in key areas of responsibility. The Group Audit and Compliance Committee and Group Risk Committee were both chaired by Norman Newbon until his retirement on 31 December 2019. Paul Kernaghan has been appointed in the role from January 2020. The Group Investment Committee was chaired by Kerry Roxburgh until his retirement on 30 June 2020. The new chairman from July 2020 is Charles Steadman. Merran Kelsall joined the MIPS board in July 2020 and has been appointed to the Group Investment Committee.

Our thanks to the retired chairmen and members of those committees for their contributions.

## MIPS People

This financial year saw leadership changes with Natasha Anning joining as the CEO of MIPS in January 2020.  She has been supported by the MIPS leadership team and all the MIPS team during this challenging period for MIPS members, its people and the community.

Thanks to all the MIPS Group Board members and the MIPS team for their focus on protecting, supporting and advising you, our members, during one of the most defining and challenging periods.  We thank you for the confidence and trust you, our members have in MIPS.

**Mr Gary Speck**
Chairman

**Ms Natasha Anning**
CEO

23 September 2020

# What we do for members

## MIPS is here to protect, support and advise members in some of their most difficult professional moments.

A core benefit of MIPS membership is indemnity insurance. Adverse or unexpected events can affect any healthcare professional. MIPS protects 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 MIPS. MIPS' members-only advice and support line is available to assist even before any complaint, claim or investigation arises.

MIPS works to obtain the best possible outcome for each notification raised by a member. Members are provided accredited risk education, confidential advice and most importantly MIPS ensures it is comfortably funded to cover current and future members' claims liabilities. All assets of MIPS are ultimately owned by MIPS members.

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 complaints or civil suits stemming from the provision of healthcare. Critically, it also includes representing members at investigations such as those conducted by the regulators (eg AHPRA, Health Care Complaints Commission NSW) or other authorities (eg coroner, Medicare).

## Results and services provided to members 2019-20

5,868

Notifications, including claims, from members. This included over 4,000 advisory matters.

Support

MIPS held 2020/21 membership fees at the 2019/20 fee structure.

10

Webinars held during the year and 2,292 live webinars successfully completed by practitioners.

$317M

Strong net asset base with more than sufficient capital to fund claims liabilities.

1,603

71% increase in on-demand education (eg recorded webinars) completed by members, due in part to COVID-19 restrictions on events.

# Claims management

## Indemnity matters

Over 2019/20 MIPS saw a decrease in the number of civil litigation notifications, that is where a member is sued, but an increase in representational notifications, for example responding to a complaint made about a member to AHPRA.

The changing civil litigation notification pattern may have been caused by COVID-19 restrictions and increased awareness by potential plaintiffs of the need for social distancing. Equally, lawyers, medical practitioners and the courts are working differently. This has impacts for all involved parties.

The rise in telehealth and reduction of in-person patient and medical practitioner consultations represents a changing risk to the practitioner, with respect to diagnosis, treatment and telehealth Medicare billings.

The increase in representational notifications, ie complaints to AHPRA, Medicare and Professional Standards Review (PSR), reflects an increased awareness among these agencies and the sophistication of Medicare and PSR reporting.

MIPS has increased its staff of experienced lawyers who work jointly with its medical and dental advisers to achieve the best outcomes for MIPS members for civil litigation, representational notifications and claims.

## Assistance and MIPS Protections

Approximately eighty percent of matters with which MIPS assists members are resolved with either advice or assistance, for example assisting with a response to a patient complaint. Members are assisted by a multi-disciplinary team of clinicians and litigation and support specialists. MIPS has developed resources based on the thousands of members assisted.

In 2019/20 there was an increase in non-healthcare matters with which MIPS supported members. These included:

- Incorrect Medicare billing by members that had initiated an action by the PSR.
- Mandatory and/or self reporting to AHPRA where MIPS is assisting members to appropriately and properly report to AHPRA, often well ahead of an issue that could lead to investigation.
- Workplace conduct is a rising concern for members and MIPS has a specialist industrial and employment lawyer to assist and provide advice.

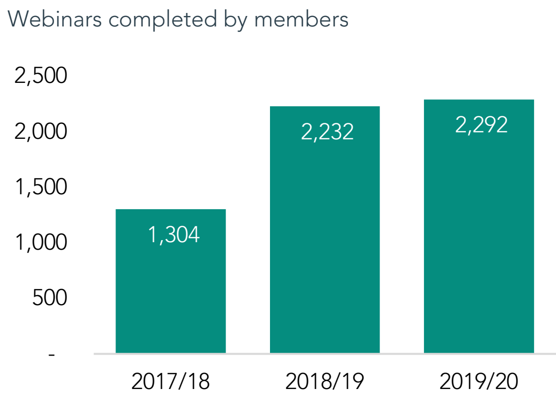
MIPS took over 11,000 calls from our members seeking advice and assistance for matters about the provision of healthcare or matters either directly or indirectly associated with the provision of healthcare. MIPS staff are trained to triage initial calls from members and refer to the appropriate professional to assist. MIPS' staff have expertise in disciplinary hearings, AHPRA investigations, Medicare audits and other healthcare related legal issues faced by members.

MIPS reminds members to contact MIPS early in the event of any potential or actual compliant, claim or investigation as this can be helpful to settling matters early which is less stressful for practitioners and a lower cost for MIPS. MIPS aims to continue to represent the best interest of members and an important part of that strategy is obtained through our Member Satisfaction Surveys sent out to over 400 members each month. Over 2019-20 our members rate their MIPS experience an average 4.7 out of 5 stars from the 5 very crucial focus points:

- Member satisfaction where MIPS provided assistance
- Timeliness of assistance
- Confidence in the support MIPS staff provided
- Our professionalism
- The overall experience

# Risk education program

Over 2019/20 MIPS continued to deliver risk education as a membership benefit. This is the provision of high quality practical education to assist members, the healthcare industry and their practices. MIPS presenters include both in-house and external clinicians, solicitors, claims manager as well as industry and regulator representatives.




MIPS has maintained a commitment to risk education for both the benefit of members and the organisation. Education can help practitioners better manage their risks, which should lead to a reduction in the number and impact of complaints, claims or investigations, the cost of which directly impacts membership fees. MIPS risk education is accredited with the Royal Australian College of General Practitioners and the Australian College of Rural and Remote Medicine.

The topics addressed in risk education vary each year and MIPS is always trying to identify ahead of time what issues will be topical for members and address immediate industry issues. In 2019/20 this included amending plans to address COVID-19 and telehealth. Professionalism, communication and regulatory codes are common themes. Topics provided included: Examination of a Coroner's Inquest, Medicare & the PSR Update and Telehealth – the Road Ahead.

MIPS observed an increase of 15% in event attendance predominantly in webinars which continue to provide quality, practical and convenient education for all members. There were considerably fewer in person events due to COVID-19 restrictions, but MIPS still provided a total of 45 workshops and webinars. All webinars are recorded and made available as an ongoing accredited resource within the on-demand section of MIPS' website. Face to face events were postponed in early 2020 due to COVID-19 and webinars enjoyed record high registration and attendance. For the same reason, on-demand accredited education offered by MIPS recorded its highest levels of use: 71% increase compared to the year prior and a total of 1,603 units and recorded webinars completed by members.

# 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)
    - 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 nonexecutive directors, the Chief Executive Officer (CEO) 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 also is an important element of the governance structure.

Risks facing 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

The MIPS Senior Executive Management team comprised:

- Chief Executive Officer – N Anning
- Chief Financial Officer – R Miles
- Company Secretary / Compliance Manager – W Berryman
- Chief Operating Officer – M Tersigni
- Head of Professional Services – D Rayner (Retired July 2020)
- Chief Risk officer – P Moloney

## Actuarial

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

## External Audit

Ernst & Young provide audit and related services.

## Internal Audit

Deloitte provides the internal audit services.

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.

# 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 and Chairman of Protect Services.

**Ms Merran Kelsall, B. Com. (Hons.), FCPA, FCA, MBA, FAICD, FFin**

Merran is an experienced, independent non-executive director and chair with expertise in finance, audit, risk, and compliance. She has a strong focus on corporate governance including financial and non-financial external reporting to include strategy and risk management and aligning performance management with strategy. Merran has worked with numerous types of organisations, including member based and those delivering public interest outcomes. She previously spent over 20 years in public practice. Her industry experience includes financial and professional services; insurance; superannuation; health; education; contract management, utilities and major infrastructure projects, including the water industry. Merran is a former Chairman and CEO of the Australian Auditing and Assurance Standards Board (AUASB) and Member of the International Auditing and Assurance Standards Board (IAASB).

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

Leanne is a general practitioner, non-executive director and author. Her current roles include Chairman of Nexus Hospital, non-executive director of Japara Healthcare, Presiding Member for Medical Panels (Victoria) and Clinical Professor at the Department of General Practice, Monash University. She has co-authored the international book, Every Doctor: healthier doctors=healthier patients, and she writes regular opinion pieces for MJA Insight Plus. Past positions include Deputy Chancellor of Monash University, Chairman of the Royal Australian College of General Practitioners, and non-executive director of Medibank Private, Beyond Blue: 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 and a Doctor of Laws (honoris causa) by Monash University.

### 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 Forensic & Legal Medicine.

### Dr Charles Steadman, MBBS, MD, FRACP, FAICD, AGAF

Charles graduated in medicine from the University of Queensland in 1980. After rural service he trained in internal medicine and gastroenterology at the Princess Alexandra Hospital in Brisbane and then was an Australian 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 becoming a director of Queensland Gastroenterology Pty Ltd. Charles is a Fellow of the Australian Institute of Company Directors, Associate Professor of Medicine with the University of Queensland and a Fellow of the American Gastroenterological Association. Charles is Chairman of Queensland Doctors' Mutual Pty Ltd and was a director and Honorary Treasurer of the Royal Australasian College of Physicians. He 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 2020.

## 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
M H Kelsall (appointed 01/07/2020)
A D Mason
K Penrose (appointed 01/01/2020, resigned 05/03/2020)
L Rowe
K C D Roxburgh (retired 31/12/2019)
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 2020, and the number attended by each director during the time the director held office during the year ended 30 June 2020 are disclosed below:

| | Board Meetings held during the year | Board Meetings Attended |
|---|---|---|
| A T Browning (resigned 30/08/2019) | 1 | 1 |
| S Carter | 6 | 5 |
| A D Mason | 6 | 6 |
| K Penrose | 1 | 1 |
| L Rowe | 6 | 6 |
| K C D Roxburgh (retired 30/06/2020) | 3 | 3 |
| G R Speck | 6 | 6 |
| 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 2020, 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 2020 are disclosed below:

| | GACC Meetings held during the year | GACC Meetings Attended |
|---|---|---|
| S Carter | 4 | 4 |
| P S Kernaghan Chairman (from 01/01/2020) | 4 | 4 |
| A D Mason | 4 | 4 |
| N W Newbon, Chairman (retired 31/12/2019) | 3 | 3 |
| C G Wallace | 4 | 4 |

P S Kernaghan, N W Newbon (retired 31/12/2019) 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 2020, 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 2020 are disclosed below:

| | GRC Meetings held during the year | GRC Meetings Attended |
|---|---|---|
| S Carter | 4 | 4 |
| P S Kernaghan Chairman (from 01/01/2020) | 4 | 4 |
| A D Mason | 4 | 4 |
| N W Newbon, (retired 31/12/2019) | 3 | 3 |
| C G Wallace | 4 | 4 |

P S Kernaghan, N W Newbon (retired on 31/12/2019) 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 2020, 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 2020 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 (resigned 30/08/2019)[1] | 1 | 1 |
| R J Miles[2] | 5 | 5 |
| N Anning (appointed 05/02/2020)[2] | 2 | 2 |
| K Penrose (appointed 01/09/2019, retired 05/03/2020)[3] | 2 | 2 |
| K C D Roxburgh, Chairman (retired 30/06/2020) | 5 | 5 |
| G R Speck | 5 | 5 |
| C J Steadman | 5 | 5 |
| B E Taylor | 5 | 4 |

[1] A T Browning, Managing Director and CEO resigned on 30 August 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 was the Acting Chief Executive Officer, until 10 January 2020 and was not director of the Society. From 13 January 2020, N Anning is the Chief Executive officer and is not a director of the Society
[3] K Penrose was 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 | Was, Managing Director of the Society<br>Was, Chief Executive Officer, MIPS Insurance Pty Ltd<br>Was, Member, Group Investment Committee<br>Was, Member of various Claims and Membership Committees |
| S Carter | BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA, FAICD | Member, GACC and GRC<br>Non-Executive Director, ANZ Australian Staff Superannuation Fund<br>Director, First State Super Trustee Corporation |
| M H Kelsall (appointed 01/07/2020) | BCom (Hons.), FCPA, FCA, MBA, FAICD, FFin | Member, Group Investment Committee<br>Deputy President, CPA Australia<br>Director, Australian Red Cross Lifeblood<br>Director, RACV Limited and Subsidiaries<br>Director, TarraWarra Museum of Art Ltd |
| A D Mason | BSocSc, FIA, Hon FFFLM | Director, Medical Indemnity Protection Society Ltd<br>Director, MIPS Insurance Pty Ltd<br>Director, Cardiac Risk in the Young<br>International Consultant, Medical Protective (Consultancy excluding Australia) |
| K Penrose (appointed 1/1/2020, resigned 05/03/2020) | BCom, CPA, FICD | Was, Director of the Society<br>Was, Member, Group Investment Committee |
| L Rowe | AM, MBBS, MD, FRACGP, FAICD<br>Doctor of Laws honoris causa | Director, MIPS Insurance Pty Ltd |
| K C D Roxburgh (retired 13/12/2019) | BCom, MBA, MESAA | Was, Chairman, Group Investment Committee (retired 30/06/2020)<br>Was, Director, MIPS Insurance Pty Ltd<br>Chairman, Eclipx Group<br>Director, Tyro Payments Ltd |
| G R Speck<br>Chairman | AM, MBBS, BMedSc (Hons), FRACS, FAOrthA, FAMA, GAICD | Chairman, MIPS Board<br>Director, MIPS Insurance Pty Ltd<br>Member, Group Investment Committee<br>Director, MIPS Holdings Pty Ltd<br>Director, Australian Medical Association Ltd<br>Director, Australian Society of Orthopaedic Surgeons<br>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 | Was Chairman, MIPS Insurance Pty Ltd (retired 31/12/2019)<br>Member, Group Investment Committee<br>Director, MIPS Holdings Pty Ltd<br>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<br>Company Secretary, MIPS Insurance Pty Ltd<br>Company Secretary, Asclepius Underwriting Pty Ltd<br>Company Secretary, MIPS Holdings Pty Ltd<br>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 | |
|---|---|---|---|
| 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| (12,709) | 6,651 | (14,369) | 9,496 |

## 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 2020 (2019: $Nil).

## Significant changes in state of affairs

A T Browning resigned from the position of Managing Director and Chief Executive Officer of the Society and all positions and committees in the Group on 30 August 2019. N Anning was appointed as Chief Executive officer of the Society on 13 January 2020. There have been no other significant changes in the state of affairs of the Group during the year ended 30 June 2020.

## Impact due to COVID-19

COVID-19 was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on global economies and equity, debt and commodity markets. In particular, there have been extensive restrictions imposed within Australia by the Commonwealth Government and additional restrictions imposed by the various State Governments. The Group has not utilised any Commonwealth or State Government assistance and has redeployed field staff to other roles within the Group.

The Group has considered the impact of COVID-19 and other market volatility in preparing its financial statements. While there are specific areas of judgement as noted in Note 2, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the dynamic and evolving nature of COVID-19 as well as limited recent experience of the economic and financial impacts of such a pandemic, changes to the estimates and outcomes that have been applied in the measurement of the Group's assets and liabilities may arise in the future.

Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

## 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

Other than the impact and potential impact of COVID-19 discussed above, no matters or circumstances have arisen since 30 June 2020 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 2016/191, 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 17.

## 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
23 September 2020

# Auditor's independence declaration

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

## 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 2020, 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
23 September 2020

# Statement of Comprehensive Income

For the year ended 30 June 2020

| | Notes | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|---|
| Revenue from contracts with customers | 6 | 60,211 | 59,175 | 63,691 | 62,598 |
| Other operating revenue | 7 | 6,444 | 5,783 | 6 | 16 |
| Reinsurance and other recoveries revenue | 8 | 56,255 | 52,193 | - | - |
| Investment results | 9 | (670) | 19,925 | (6,010) | 10,992 |
| **Total income** | | **122,240** | 137,076 | **57,687** | 73,605 |
| | | | | | |
| Outwards reinsurance premium expense | | (24,736) | (21,913) | - | - |
| Claims expense | 8 | (84,212) | (89,127) | - | - |
| Unexpired risk reserve | | (2,170) | - | - | - |
| ROCS levy | | (2,133) | (1,920) | - | - |
| Master policy expenses | | (3,905) | (3,466) | (53,444) | (47,363) |
| Member insurances | | (307) | (367) | (307) | (367) |
| Discretionary non-medical indemnity assistance expenses | 10 | (870) | 467 | (870) | 467 |
| Risk management workshop expenses | | (64) | (129) | (64) | (129) |
| Other operating expenses | 11 | (15,555) | (14,471) | (17,090) | (15,989) |
| **Total expenses** | | **(133,952)** | (130,926) | **(71,775)** | (63,381) |
| | | | | | |
| **(Loss)/Profit before income tax** | | **(11,712)** | 6,150 | **(14,088)** | 10,224 |
| Income tax benefit/(expense) | 12 | (997) | 501 | (281) | (728) |
| **Total comprehensive (loss)/ income for the year** | | **(12,709)** | 6,651 | **(14,369)** | 9,496 |

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

# Statement of Financial Position

As at 30 June 2020

| | Notes | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | 13 | 58,050 | 72,757 | 36,678 | 26,084 |
| Contract assets | 14 | 12,525 | 10,526 | 12,525 | 10,526 |
| Receivables | 15 | - | - | 3 | 3 |
| Investments | 16 | 79,446 | 105,467 | 65,342 | 81,022 |
| Reinsurance and other recoveries | 17 | 46,321 | 36,457 | - | - |
| Other assets | 18 | 34,099 | 36,058 | 53,612 | 51,763 |
| Current tax asset | | 787 | 294 | 788 | 302 |
| **Total current assets** | | 231,228 | 261,559 | 168,948 | 169,700 |
| **Non-current assets** | | | | | |
| Investments | 16 | 304,639 | 264,279 | 90,606 | 85,677 |
| Reinsurance and other recoveries receivable | 17 | 155,679 | 134,926 | - | - |
| Plant and equipment | 19 | 275 | 380 | 275 | 380 |
| Right-of-use assets | 20(i) | 5,449 | - | 5,449 | - |
| Investments in subsidiaries | 21 | - | - | 36,508 | 36,508 |
| Deferred tax asset | 22 | 6,810 | 7,799 | - | 219 |
| **Total non-current assets** | | 472,852 | 407,384 | 132,838 | 122,784 |
| **Total assets** | | 704,080 | 668,943 | 301,786 | 292,484 |
| **Current liabilities** | | | | | |
| Payables | 23 | 42,319 | 43,796 | 57,010 | 40,824 |
| Deferred tax liability | 22 | - | - | 62 | - |
| Outstanding claims liability | 24 | 60,927 | 50,220 | - | - |
| Contract liabilities | 25 | 41,235 | 39,724 | 41,235 | 39,724 |
| Lease liability | 20(ii) | 142 | - | 142 | - |
| Unexpired risk reserve | | 2,170 | - | - | - |
| Provisions | 26 | 2,642 | 2,250 | 2,642 | 2,250 |
| **Total current liabilities** | | 149,435 | 135,990 | 101,091 | 82,798 |
| **Non-current liabilities** | | | | | |
| Outstanding claims liability | 24 | 232,260 | 203,237 | - | - |
| Lease liability | 20(ii) | 5,933 | - | 5,933 | - |
| Provisions | 26 | 841 | 867 | 841 | 867 |
| **Total non-current liabilities** | | 239,034 | 204,104 | 6,774 | 867 |
| **Total liabilities** | | 388,469 | 340,094 | 107,865 | 83,665 |
| **Net assets** | | 315,611 | 328,849 | 193,921 | 208,819 |
| **Equity** | | | | | |
| Share capital | 27 | 100 | 100 | 100 | 100 |
| Retained profits | | 315,511 | 328,749 | 193,821 | 208,719 |
| **Total equity** | | 315,611 | 328,849 | 193,921 | 208,819 |

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

# Statements of Changes in Equity

As at 30 June 2020

| | Share Capital $'000 | Investment Revaluation Reserve $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Society** | | | | |
| As at 1 July 2018 | 100 | 3,308 | 195,915 | 199,323 |
| Profit for the year | - | - | 9,496 | 9,496 |
| Transfer of Investment Revaluation Reserve due to reclassification | - | (3,308) | 3,308 | - |
| Total comprehensive income for the year | - | (3,308) | 12,804 | 9,496 |
| At 30 June 2019 | 100 | - | 208,719 | 208,819 |
| Effect of adoption of IFRS 16 | - | - | (529) | (529) |
| Loss for the year | - | - | (14,369) | (14,369) |
| Other comprehensive income/(loss) | - | - | - | - |
| Transfer of Investment Revaluation Reserve due to reclassification | - | - | - | - |
| Total comprehensive loss for the year | - | - | (14,898) | (14,898) |
| **At 30 June 2020** | 100 | - | 193,821 | 193,921 |
| **Group** | | | | |
| As at 1 July 2018 | 100 | 3,308 | 318,790 | 322,198 |
| Profit for the year | - | - | 6,651 | 6,651 |
| Transfer of Investment Revaluation Reserve due to reclassification | - | (3,308) | 3,308 | - |
| Total comprehensive income for the year | - | (3,308) | 9,959 | 6,651 |
| At 30 June 2019 | 100 | - | 328,749 | 328,849 |
| Effect of adoption of IFRS 16 | - | - | (529) | (529) |
| Loss for the year | - | - | (12,709) | (12,709) |
| Other comprehensive income/(loss) | - | - | - | - |
| Transfer of Investment Revaluation Reserve due to reclassification | - | - | - | - |
| Total comprehensive loss for the year | - | - | (13,238) | (13,238) |
| **At 30 June 2020** | 100 | - | 315,511 | 315,611 |

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 2020

| | Notes | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Receipts from members | | 58,767 | 57,071 | 58,767 | 57,071 |
| Universal cover premium received | | 36 | 139 | - | - |
| Outwards reinsurance paid | | (18,334) | (16,263) | - | - |
| Master policy costs paid | | (3,901) | (3,467) | (41,054) | (59,755) |
| Claims expense paid | | (40,677) | (47,823) | - | - |
| Reinsurance recoveries | | 15,380 | 18,844 | - | - |
| Non-reinsurance claims recoveries | | 10,261 | 15,760 | 3 | 4 |
| ROCS levy | | (4,060) | - | - | - |
| Dividends received | | 3,219 | 4,637 | 3,219 | 4,637 |
| Interest received | | 11,031 | 12,298 | 3,275 | 3,904 |
| Other revenue received | | 923 | 940 | 4,440 | 4,461 |
| Other expenses paid | | (19,354) | (17,856) | (16,317) | (17,625) |
| Indemnification costs paid | | (521) | (370) | (521) | (370) |
| Income taxes paid | | (500) | 853 | (486) | (728) |
| Net cash inflow/(outflow) from operating activities | 31 | 12,270 | 24,763 | 11,326 | (8,401) |
| Cash flows from investing activities | | | | | |
| Purchase of plant and equipment | | (48) | (157) | (48) | (157) |
| Proceeds from investments | | 298,538 | 184,045 | 295,876 | 83,159 |
| Payments for investments | | (325,467) | (198,787) | (296,560) | (90,075) |
| Net cash inflow/(outflow) from investing activities | | (26,977) | (14,899) | (732) | (7,073) |
| Net increase/(decrease) in cash held | | (14,707) | 9,864 | 10,594 | (15,474) |
| Cash and cash equivalents at the beginning of period | | 72,757 | 62,893 | 26,084 | 41,558 |
| Cash and cash equivalents at the end of period | 13 | 58,050 | 72,757 | 36,678 | 26,084 |

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 12-16.

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 2020 was authorised for issue in accordance with a resolution of the Directors on 23 September 2020.

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 2020 ("the inoperative standards").

| Reference | Title | Application date of standard* | Application date for Group | Table Note |
|---|---|---|---|---|
| AASB 17 | Insurance Contracts | 1 January 2021 | 1 July 2023 | 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.
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).

All Australian Accounting Standards other than the inoperative standards, that have been issued as at balance date but are not yet operative for the year ended 30 June 2020, are considered to be not applicable to the Company.

The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Company only intends to adopt the inoperative standards at the date at which their adoption becomes mandatory.

### (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

### Fee revenue

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

Fees accepted prior to 1 July which relate to future membership fee periods are recorded as current liabilities – refer Note 25.

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

### Determining the Transaction Price

Membership fees are determined on the basis of advice provided by external actuaries. This advice recommends a level of fee 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 fee members are able to access a range of services over the specified period of membership. These services for financial year ended 2019/20 included:

- 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 fees 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
- the contract requires 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 30.

## (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. A deficiency has been identified during the current year and it is reflected in Statement of Financial Position for the year, there was no deficiency for 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 24. 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 discretionary non-medical indemnity assistance and indemnity obligations

The overall provision 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.

The provision previously also included a provision for indemnity obligations that arose 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 last 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 last year. Further details on the assumptions supporting the estimate are disclosed in Note 2.

### 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 26, 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 July 2018. 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
- 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
- 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 marketplace. 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
- 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 are 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 of use assets and lease liability for interest and lease expenses paid during the year.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 July 2018 is presented in these consolidated financial statements due to the retrospective application of accounting policies as a result of the adoption of IFRS 16 Leases, Refer to Note 20

## (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 2019/191, 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) Impact of COVID-19

The COVID-19 pandemic has increased the estimation uncertainty in preparing these financial statements. Management has:

- held 2020/21 membership fees at 2019/20 fee structure
- supported members coming out of retirement to join AHPRA's pandemic response sub-register
- redeployed staff into other areas of the Group to address members' immediate needs
- increased staff numbers to deliver services to our members
- re-evaluated whether there were any additional areas of judgement or estimation uncertainty
- updated the Group's economic outlook – principally for the purposes of inputs into the valuation of the Outstanding Claims Liabilities, the fair value disclosures of financial assets and liabilities
- assessed the carrying values of the Group's assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19
- considered the impact of COVID-19 on the Group's financial statement disclosures as outlined below.

*Consideration of the statements of financial position and further disclosures*
Key items in the statements of financial position and related disclosures that have been impacted by COVID-19 were as follows:

*Investments*
Given recent market volatility, the Group reviewed the appropriateness of its investment valuations. The determination of the investments' carrying value included a consideration of the impact of COVID-19. Given the Group's investments are measured at fair value through profit and loss (FVTPL) there has been no change in the basis of valuation as a consequence of COVID-19.

*Claims Liabilities*
The Group's actuary has reviewed the likely impact of COVID-19 on the claim valuations at 30 June 2020. The impact of changes in valuation inputs has also been considered in terms of the disclosures around changes in actuarial assumptions and the impact this has had on the Group's insurance liabilities. Refer to Note 3 for more information.

*Reinsurance and other receivables*
Management and the Group's actuary has also reviewed the recoverability of reinsurance and other receivables at 30 June 2020. The impact on recoverability has been considered in terms of the disclosures in the financial statements.

*Capital adequacy and going concern*
In assessing the capital adequacy and going concern of the Group the impacts of the macro-economic conditions arising from COVID-19 that existed at the reporting date, has been considered in its assessment that the Company will be operational in the foreseeable future.

Apart from COVID-19 the other key areas where critical estimates are applied are described below.

### (ii) 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 the 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
- uncertainty caused by the Covid-19 pandemic
- movement in industry benchmarks
- medical and technological developments.

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

#### (iii) 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.**

#### (iv) 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.

#### (v) 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

Apart from COVID-19 considerations and the actuarial assumptions and methods in Note 3, 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 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 impact of the COVID-19 pandemic on the Group's exposure to claims continues to be very uncertain. There is the potential that the 2019/20 (and 2020/21) report years may have had fewer incidents occurring or claims being reported since the onset of the pandemic compared to the same time of year in previous report years. This is in addition to the overall economic uncertainty and effect of lockdowns that may impact claims outcomes, times to settlement and associated expenses for outstanding claims across all report years. The following adjustments have been made as a consequence:

- decreased the future inflation assumption from 5% to 4.75% to reflect the current expected economic impact of COVID-19
- added a loading to the prudential margin to allow for the additional uncertainty in the 2020/21 report year due to COVID-19.

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

These assumptions represent the following:

| Assumptions | 2020 | 2019 |
|---|---|---|
| Average net weighted term to settlement from reporting date | 3.38 years | 3.32 years |
| Expense rate | 8.0% | 9.0% |
| Discount rate | 0.4% | 1.0% |
| Inflation rate | 2.5% | 2.8% |
| Superimposed inflation rate | 2.3% | 2.3% |
| 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 2020/21 claims handling costs, as a percentage of projected 2020/21 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 | +2.38% | (7,188) | (5,032) |
| | -2.38% | 7,188 | 5,032 |
| Claims handling costs | +2.0% | (3,835) | (2,684) |
| | -2.0% | 3,835 | 2,684 |
| Discount rate | +0.4% | 1,060 | 742 |
| | -0.4% | (1,043) | (730) |
| Average weighted term to settlement | +1.0% | (4,020) | (2,814) |
| | -1.0% | 3,852 | 2,696 |

## 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, market risk and COVID-19 operating 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 Group’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 24 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- to 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 | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Energy | 950 | 6,547 | 950 | 6,547 |
| Materials | 8,690 | 16,081 | 8,690 | 16,081 |
| Industrials | 832 | - | 832 | - |
| Consumer Staples | 4,887 | 3,331 | 4,887 | 3,331 |
| Health Care | 8,783 | 6,691 | 8,783 | 6,691 |
| Information Technology | - | 983 | - | 983 |
| Government | 92,657 | 76,731 | - | - |
| Financials | 262,844 | 255,289 | 127,364 | 128,973 |
| Telecommunications | 4,442 | 1,578 | 4,442 | 1,578 |
| Utilities | - | 1,379 | - | 1,379 |
| Other | - | 1,136 | - | 1,136 |
| Total Investments | 384,085 | 369,746 | 155,948 | 166,699 |

### 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.

| 2020 Group | AAA to AA- $'000 | A+ to A- $'000 | BBB+ to BBB- $'000 | Total $'000 |
|---|---|---|---|---|
| Bank term deposits | 14,663 | 2,345 | - | 17,008 |
| Floating rate notes | 25,351 | 163,417 | 42,899 | 231,667 |
| Government bonds | 92,657 | - | - | 92,657 |
| **Total debt investments** | **132,671** | **165,762** | **42,899** | **341,332** |

| 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 |

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

| 2020 Society | AAA to AA- $'000 | A+ to A- $'000 | BBB+ to BBB- $'000 | Total $'000 |
|---|---|---|---|---|
| Bank term deposits | 8,800 | - | - | 8,800 |
| Floating rate notes | 5,876 | 55,620 | 42,899 | 104,395 |
| **Total debt investments** | **14,676** | **55,620** | **42,899** | **113,195** |

| 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 | 55,328 | 80,902 |
| Total debt investments | 28,517 | 19,357 | 55,328 | 103,202 |

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

| 2020 Group | AAA to AA- $'000 | A+ to A- $'000 | BBB+ to BBB- $'000 | Total $'000 |
|---|---|---|---|---|
| Reinsurer | 47,062 | 72,923 | - | 119,985 |
| Government scheme | 87,759 | - | - | 87,759 |
| **Total debt investments** | **134,821** | **72,923** | **-** | **207,744** |

| 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 | 32,402 | - | 171,383 |

## (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 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 daily. 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 2020.

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 |
| 2020 | +150 | (5,279) | - | - | - |
| | -150 | 967 | - | - | - |
| 2019 | +150 | (4,430) | - | - | - |
| | -150 | 658 | - | - | - |

*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.

| Index | Change in equity price % | 2020 After tax effect on Profit higher/(lower) $'000 | 2020 After tax effect on equity $'000 | 2019 After tax effect on Profit higher/(lower) $'000 | 2019 After tax effect on equity $'000 |
|---|---|---|---|---|---|
| Group ASX | +20% | - | 8551 | - | 8,890 |
| | -20% | - | (8,551) | - | (8,890) |
| Society ASX | +20% | - | 8,551 | - | 8,890 |
| | -20% | - | (8,551) | - | (8,890) |

*(iii) Foreign currency risk*

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

## (e) COVID-19 operating risk

The Group's robust risk management framework continues to be applied across the Group's operations and the Group continues to monitor the impact of COVID-19 on the risk profile. Non financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers, are being identified, assessed, managed and governed through timely application of the Group's risk management framework. Due to COVID-19 the Company sees the need for conscientious management of heightened credit, liquidity and market risks.

These risks include:
- lower investment returns due to a low interest rate environment and volatile market conditions
- a reduction in fee income from a non COVID-19 environment caused by holding 2019/20 rates and members billing decreasing due to Commonwealth and State Government restrictions impacting non essential medical services
- solvency ratios and liquidity will come under pressure as asset values fall and capital requirements are stressed.

The management of liquidity risk is a key element of our investment process. The Company's approach to managing liquidity is outlined in a series of policies which are approved by the Board and implemented by Management. The Company is focused on the effects of the global COVID-19 pandemic and are monitoring it as it unfolds, specifically:
- actively managing investments in line with the long-term investment strategy
- managing the Group's cash flow on a daily basis
- preparing for events that may affect our liquidity position
- stress testing the portfolio for a range of possible scenarios

## 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 | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Provision of indemnity cover for members | 53,815 | 47,859 | 53,815 | 47,859 |
| Provision of run off cover for members | 2,135 | 1,920 | 2,135 | 1,920 |
| Provision of other services for members | 3,320 | 8,378 | 3,320 | 8,378 |
| Fee revenue from members | 59,270 | 58,157 | 59,270 | 58,157 |
| | | | | |
| Service fees | - | - | 3,875 | 3,888 |
| Universal cover premiums received | 35 | 139 | - | 29 |
| Recovery of expenses incurred | 906 | 879 | 546 | 524 |
| **Revenue from contracts with customers** | **60,211** | 59,175 | **63,691** | 62,598 |

## Note 7: Other operating income

| | Group | | Society | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Quota share commission | 6,402 | 5,650 | - | - |
| Sundry income | 42 | 133 | 6 | 16 |
| Operating revenue | **6,444** | 5,783 | **6** | 16 |

## Note 8: Net claims incurred

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

| | 2020 Current year $'000 | 2020 Prior years $'000 | 2020 Total $'000 | 2019 Current year $'000 | 2019 Prior years $'000 | 2019 Total $'000 |
|---|---|---|---|---|---|---|
| Gross claims incurred | | | | | | |
| Undiscounted | 70,928 | (5,690) | 65,238 | 66,297 | 4,247 | 70,544 |
| Discount movement | (952) | 4,127 | 3,175 | (2,173) | 7,498 | 5,325 |
| Gross claims discounted | 69,976 | *(1,563) | 68,413 | 64,124 | *11,745 | 75,869 |
| Prudential margin | 23,448 | (7,649) | 15,799 | 18,976 | (5,718) | 13,258 |
| Claim expense | 93,424 | (9,212) | 84,212 | 83,100 | 6,027 | 89,127 |
| | | | | | | |
| Reinsurance and other recoveries | | | | | | |
| Undiscounted | 40,663 | 1,931 | 42,594 | 36,996 | 3,919 | 40,915 |
| Discount movement | (589) | 2,778 | 2,189 | (1,311) | 5,372 | 4,061 |
| Reinsurance recoveries discounted | 40,074 | *4,709 | 44,783 | 35,685 | *9,291 | 44,976 |
| Prudential margin | 13,643 | (2,171) | 11,472 | 10,754 | (3,537) | 7,217 |
| Reinsurance and other recoveries | 53,717 | 2,538 | 56,255 | 46,439 | 5,754 | 52,193 |
| | | | | | | |
| Net claims incurred | 39,707 | (11,750) | 27,957 | 36,661 | 273 | 36,934 |

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:

| | 2020 Gross claims $'000 | 2020 Recoveries $'000 | 2020 Net $'000 | 2019 Gross claims $'000 | 2019 Recoveries $'000 | 2019 Net $'000 |
|---|---|---|---|---|---|---|
| **Changes in assumptions** | | | | | | |
| Claims development | (3,843) | 6,429 | (10,272) | 8,345 | 6,401 | 1,944 |
| Discount rate/claims handling expenses | 2,280 | (1,720) | 4,000 | 3,400 | 2,890 | 510 |
| **Total change in assumptions** | **(1,563)** | **4,709** | **(6,272)** | 11,745 | 9,291 | 2,454 |

## Note 9: Investment result

| | Group | | Society | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Investment revenue | | | | |
| Interest received on bank accounts | 407 | 1,018 | 197 | 428 |
| Interest on investments - Held as FVTPL* | 9,847 | 10,964 | 2,965 | 3,336 |
| Dividends received | 2,894 | 4,445 | 2,894 | 4,445 |
| Total investment revenue | **13,148** | 16,427 | **6,056** | 8,209 |
| | | | | |
| (Losses)/Gains on investments | | | | |
| Realised (losses)/gains on investments at FVTPL | (9,157) | 1,009 | (7,576) | 1,924 |
| Unrealised (losses)/gains on investments at FVTPL | (3,435) | 3,611 | (3,862) | 1,416 |
| Total gains/(losses) on investment | **(12,592)** | 4,620 | **(11,438)** | 3,340 |
| Expenses on Investment held as FVTPL* | (1,226) | (1,122) | (628) | (557) |
| Investment result | **(670)** | 19,925 | **(6,010)** | 10,992 |

*FVTPL – Fair value through profit & loss

## Note 10: Discretionary non-medical indemnity assistance expense

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Charge / (Release) - discretionary non-medical indemnity assistance and indemnity obligations | 873 | (572) | 873 | (572) |
| Movement in recoveries | | | | |
| - undiscounted | (3) | 105 | (3) | 105 |
| Discretionary non-medical indemnity assistance **charge / (release)** | 870 | (467) | 870 | (467) |

## Note 11: Other operating expenses

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Employee remuneration | 9,708 | 9,155 | 9,708 | 9,155 |
| Non-executive directors' remuneration | 1,258 | 1,403 | 579 | 611 |
| Employment on-cost | 609 | 581 | 587 | 541 |
| Professional services expense | 2,185 | 2,055 | 902 | 839 |
| Marketing | 1,060 | 1,196 | 1,060 | 1,196 |
| Lease and occupancy expense | 97 | (118) | 97 | (118) |
| Lease liability interest expense | 164 | 183 | 164 | 183 |
| Amortisation of right-for-use (leased) assets | 1,051 | 980 | 1,051 | 980 |
| IT and communication expense | 1,350 | 1,136 | 1,350 | 1,136 |
| Financial Institution charges | 363 | 356 | 362 | 355 |
| Travel and accommodation | 303 | 380 | 231 | 298 |
| Insurance | 193 | 183 | 193 | 183 |
| Depreciation expense | 107 | 124 | 107 | 124 |
| Other expenses from ordinary activities | 912 | 675 | 699 | 506 |
| Less Reallocation to claims expense | (3,805) | (3,818) | - | - |
| Other operating expenses | 15,555 | 14,471 | 17,090 | 15,989 |

## Note 12: Income tax

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Reconciliation between net profit before tax and tax expense | | | | |
| Net profit before tax | (11,714) | 6,150 | (14,088) | 10,224 |
| Tax calculated at rate of 30% | **(3,514)** | 1,844 | **(4,226)** | 3,068 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | | | |
| Net mutual (income)/expense | (154) | (2,369) | (154) | (2,369) |
| Tax deferred trust income | (7) | (14) | (7) | (14) |
| Entertainment and other | - | 43 | - | 43 |
| Lease liability interest expense | 41 | - | 41 | - |
| Amortisation- right-for-use (lease) assets | 262 | - | 262 | - |
| Rent | (276) | - | (276) | - |
| Adjusted Income Tax | (3,648) | (496) | (4,360) | 728 |
| Derecognition of income tax benefit | 3,095 | - | 3,095 | - |
| Write-off of deferred tax asset balance | 1 | (1) | - | - |
| Tax losses of prior years recouped | - | (1) | - | - |
| Write-off of deferred tax losses | 1,500 | - | 1,500 | - |
| Under (over) provision in previous year | 49 | (3) | | - |
| | | | 46 | |
| Tax charge/(benefit) for the year | **997** | (501) | **281** | 728 |
| | | | | |
| Income tax expense | | | | |
| Charge for current tax payable | 487 | (1,321) | - | 358 |
| Deferred tax movement | (1,039) | 825 | (1,265) | 370 |
| Write-off of deferred tax losses | 1,500 | - | 1,500 | - |
| Adjustments in respect of prior years | 49 | (5) | 46 | - |
| Tax expense/(benefit) charged to Statement of Comprehensive Income | **997** | (501) | **281** | 728 |
| | | | | |
| Tax charged to other comprehensive income | | | | |
| Deferred tax related to items in other comprehensive income | - | - | - | - |
| Tax charged to other comprehensive income | - | - | - | - |

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

## Note 13: Cash and cash equivalents

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| **Cash and cash equivalents** | 58,050 | 72,757 | 36,678 | 26,084 |

Cash at bank and trust account earns interest at a floating rate. As at 30 June 2020, the Group average interest rate was **0.46%** (2019: 1.51%). Over the full year the Group weighted average interest rate was **0.87%** (2019: 1.72%).

## Note 14: Contract assets

| | Group | | Society | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| **Premiums and fees receivable** | | | | |
| Receivables from members* | 12,094 | 10,081 | 12,094 | 10,081 |
| Provision for doubtful debts | (100) | (100) | (100) | (100) |
| PSS receivable | 531 | 545 | 531 | 545 |
| Contract assets | 12,525 | 10,526 | 12,525 | 10,526 |

*Receivables past due but not considered impaired are; Group $12,386 (2019: $34,025); Society $12,386 (2019: $34,025).

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

| | | 31-60 days $ | 61-90 days $ | Over 91 days $ | Total $ |
|---|---|---|---|---|---|
| 2020 | Group | - | -173 | 12,559 | 12,386 |
| | Society | - | -173 | 12,559 | 12,386 |
| 2019 | Group | - | 3,008 | 31,017 | 34,025 |
| | Society | - | 3,008 | 31,017 | 34,025 |

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 | | Society | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Receivable from related entities | - | - | 3 | 3 |
| **Total receivables** | - | - | 3 | 3 |

## Note 16: Investments

| | Group 2020 $'000 | 2019 $'000 | Society 2020 $'000 | 2019 $'000 |
|---|---|---|---|---|
| Investments – 'fair value through profit or loss' | | | | |
| Bank term deposits | 17,008 | 49,085 | 8,800 | 22,300 |
| Equity securities – listed entities | 42,753 | 63,497 | 42,753 | 63,497 |
| Floating rate notes | 231,667 | 180,433 | 104,395 | 80,902 |
| Fixed interest securities | 92,657 | 76,731 | - | - |
| Total investments | 384,085 | 369,746 | 155,948 | 166,699 |
| | | | | |
| Current investments | 79,446 | 105,467 | 65,342 | 81,022 |
| Non-current investments | 304,639 | 264,279 | 90,606 | 85,677 |
| Total investments | 384,085 | 369,746 | 155,948 | 166,699 |

The weighted average interest rate for interest bearing investments is 0.86% (2019: 3.44%) 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 2020 Average rate | 2020 $'000 | Group 2019 Average rate | 2019 $'000 |
|---|---|---|---|---|
| Less than 12 months | - | | - | - |
| One to two years | - | | 2.13% | 2,721 |
| Two to three years | 2.25% | 31,992 | 2.59% | 21,440 |
| Three to four years | 0.99% | 29,981 | 2.27% | 39,036 |
| Four to five years | 1.58% | 30,684 | - | - |
| Over five years | - | | 2.29% | 13,534 |
| **Total fixed interest securities** | | 92,657 | | 76,731 |

## Note 17: Reinsurance and other recoveries receivable

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Expected future recoveries on outstanding claims | | | | |
| - from reinsurers | 79,532 | 74,136 | - | - |
| - from HCCS | 60,119 | 50,551 | - | - |
| | 139,651 | 124,687 | - | - |
| Discounted to present value | (1,767) | (3,956) | - | - |
| Prudential Margin | 53,958 | 42,486 | - | - |
| | 191,842 | 163,217 | - | - |
| Retirement claim recoveries from ROCS | 10,158 | 8,166 | - | - |
| Expected future recoveries on outstanding claims | 202,000 | 171,383 | - | - |
| | | | | |
| Total reinsurance and other recoveries receivable | 202,000 | 171,383 | - | - |
| | | | | |
| Current reinsurance and other recoveries receivable | 46,321 | 36,457 | - | - |
| Non-current reinsurance and other recoveries receivable | 155,679 | 134,926 | - | - |
| Total reinsurance and other recoveries receivable | 202,000 | 171,383 | - | - |
| | | | | |
| Movement – outstanding claim recoveries | | | | |
| Brought forward | 171,383 | 154,670 | - | - |
| Recognised in the Statement of Comprehensive Income (refer Note 8) | 44,783 | 44,976 | - | - |
| Movement in prudential margin | 11,472 | 7,217 | - | - |
| Recoveries received/receivable during the year | (25,638) | (35,480) | - | - |
| Carried forward | 202,000 | 171,383 | - | - |
| | | | | |
| Movement – indemnity obligation recoveries | | | | |
| Brought forward | - | 110 | - | 110 |
| Recognised in the Statement of Comprehensive Income (refer Note 10) | 3 | (105) | 3 | (105) |
| Recoveries received during the year | (3) | (5) | (3) | (5) |
| Carried forward | - | - | - | - |

## Note 18: Other assets

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Deferred master policy expense | - | - | 53,094 | 49,539 |
| Deferred ROCS expense | 1,589 | 1,430 | - | - |
| Deferred reinsurance premium | 26,660 | 24,643 | - | - |
| Prepayments | 271 | 1,559 | 255 | 1,525 |
| Quota share commission receivable | 4,630 | 6,379 | - | - |
| Other | 949 | 2,047 | 263 | 699 |
| **Total other assets** | 34,099 | 36,058 | 53,612 | 51,763 |

## Note 19: Plant and equipment

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Plant and equipment – at cost | 912 | 1,083 | 912 | 1,083 |
| Less: Accumulated depreciation | (637) | (703) | (637) | (703) |
| **Total plant and equipment** | 275 | 380 | 275 | 380 |
| | | | | |
| Movements | | | | |
| Opening amount | 380 | 362 | 380 | 362 |
| Additions | 49 | 165 | 49 | 165 |
| Disposals | - | (8) | - | (8) |
| Write-off | (47) | (15) | (47) | (15) |
| Depreciation expense | (107) | (124) | (107) | (124) |
| Closing amount | 275 | 380 | 275 | 380 |

## Note 20: Right-of-use assets / lease liability

### *(i) Right-of-use assets*

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Right-of-use-assets (leased assets) | 8,897 | - | 8,897 | - |
| Less: Accumulated depreciation | (3,448) | - | (3,448) | - |
| **Total right-of-use-assets** | 5,449 | - | 5,449 | - |
| | | | | |
| Movements | | | | |
| As at June 2019 - restated | 6,499 | - | 6,499 | - |
| Additions | - | - | - | - |
| Amortisation of right-of-use assets | (1050) | - | (1050) | - |
| Closing amount | 5,449 | - | 5,449 | - |

### *(ii) Lease liability*

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Lease liability on right-to-use assets | 6,075 | - | 6,075 | - |
| **Total lease liability** | 6,075 | - | 6,075 | - |
| | | | | |
| Movements | | | | |
| As at June 2019 - restated | 7,028 | - | 7,028 | - |
| Rent paid during the year | (1,117) | - | (1,117) | - |
| Interest expense on lease liabilities | 164 | - | 164 | - |
| Closing amount | 6,075 | - | 6,075 | - |
| | | | | |
| Current lease liability | 142 | - | 142 | - |
| Non-current lease liability | 5,933 | - | 5,933 | - |
| Total lease liability | 6,075 | - | 6,075 | - |

## Note 21: Investments in subsidiaries

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'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 2020 % | Ownership interest 2019 % |
|---|---|---|---|---|---|
| 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 22: Deferred tax asset/(liability)

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| **Amounts recognised in profit or loss** | | | | |
| Accrual for audit fees | 49 | 15 | 14 | 4 |
| Provision for employee entitlements | 552 | 548 | 552 | 548 |
| Provision for indirect claims handling costs | 4,601 | 4,662 | - | - |
| Investment revaluations | (750) | (1,586) | (842) | (1,736) |
| Dividend receivable | (11) | (109) | (11) | (109) |
| Provision for FBT | 2 | 5 | 2 | 5 |
| Market value adjustment Fixed interest securities | 135 | 4 | 223 | (38) |
| **Amounts recognised in equity** | | | | |
| Investment revaluations | - | - | - | - |
| Deferred tax asset / (liability) | 4,578 | 3,539 | (62) | (1,326) |
| **Amounts recognised in deferred tax losses** | | | | |
| Recognition of tax losses | 2,232 | 4,260 | - | 1,545 |
| **Total net deferred tax asset/(liability)** | **6,810** | 7,799 | **(62)** | 219 |
| **Movements** | | | | |
| Opening balance at 1 July | 7,799 | 5,344 | 219 | (956) |
| Credited / (charged) to other comprehensive income | - | - | - | - |
| Adjustment to opening DTL/DTA | (46) | 40 | (46) | - |
| Recognition of / (recoupment of) tax losses | (482) | 3,240 | - | 1,545 |
| Write-off of deferred tax losses | (1,500) | - | (1,500) | - |
| Credited / (charged) to the Statement of Comprehensive Income | 1,039 | (825) | 1,265 | (370) |
| Closing balance at 30 June | **6,810** | 7,799 | **(62)** | 219 |
| Asset to reverse within 12 months | 2,209 | 3,137 | (62) | 219 |
| Asset/(Liability) to reverse after 12 months | 4,601 | 4,662 | - | - |
| Net deferred tax asset/(liability) | **6,810** | **7,799** | **(62)** | **219** |

## Note 23: Payables

| | | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|---|
| Related party payables | Note 30 | - | - | 53,099 | 37,154 |
| Trade creditors | | 4,433 | 3,820 | 116 | - |
| Accrued reinsurance expense | | 26,660 | 24,643 | - | - |
| Professional fees payable | | 171 | 48 | 57 | 15 |
| ROCS levy payable | | 1,583 | 3,349 | - | - |
| Net GST payable | | 2,997 | 2,772 | 3,118 | 2,911 |
| Accruals | | 1,767 | 1,791 | 542 | 723 |
| Other | | 4,708 | 7,373 | 78 | 21 |
| Other payables | | 42,319 | 43,796 | 3,911 | 3,670 |
| **Total Payables** | | **42,319** | **43,796** | **57,010** | **40,824** |

Payables are interest free and unsecured.

## Note 24: Outstanding claims

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| **(a) Outstanding claims liability** | | | | |
| Central estimate | 191,701 | 172,683 | - | - |
| Claims handling costs | 15,336 | 15,541 | - | - |
| | 207,037 | 188,224 | - | - |
| Discount to present value | (2,529) | (5,704) | - | - |
| Discounted claims liability | 204,508 | 182,520 | - | - |
| Prudential margin (refer Note 1(h)) | 80,029 | 64,231 | - | - |
| | 284,537 | 246,751 | - | - |
| Eligible retirement claims (subject to ROCS) (refer Note 2(a)(iii)) | 8,650 | 6,706 | - | - |
| Total gross outstanding claims liability | **293,187** | **253,457** | - | - |
| Current gross outstanding claims liability | **60,927** | 50,220 | - | - |
| Non-Current gross outstanding claims liability | **232,260** | 203,237 | - | - |
| Total gross outstanding claims liability | **293,187** | **253,457** | - | - |
| **(b) Movements** | | | | |
| Brought forward | 253,457 | 215,971 | - | - |
| Recognised in the Statement of Comprehensive Income (refer Note 8) | | | | |
| - Incurred claims | 68,413 | 75,869 | - | - |
| - Prudential margin | 15,798 | 13,259 | - | - |
| Claims payments during the year | (44,481) | (51,642) | - | - |
| Carried forward | 293,187 | 253,457 | - | - |
| **(c) Prudential margin** | | | | |
| Level of sufficiency (refer Note 3) | 92.5% | 92.5% | - | - |
| Prudential margin as a percentage of the gross discounted claims liability | 39.1% | 35.2% | - | - |

## (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 2011 $'000 | 2012 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | 2019 $'000 | 2020 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | | | | | | |
| At end of accident year | | 24,571 | 27,367 | 21,324 | 25,112 | 28,145 | 39,443 | 47,506 | 53,367 | 57,840 | |
| One year later | | 23,739 | 24,069 | 22,666 | 24,680 | 36,916 | 44,550 | 52,126 | 54,594 | | |
| Two years later | | 25,333 | 26,569 | 23,897 | 32,787 | 42,696 | 50,262 | 48,874 | | | |
| Three years later | | 20,356 | 26,838 | 30,691 | 32,433 | 41,729 | 48,804 | | | | |
| Four years later | | 27,301 | 31,875 | 30,554 | 33,259 | 39,505 | | | | | |
| Five years later | | 32,937 | 33,647 | 28,487 | 35,076 | | | | | | |
| Six years later | | 28,556 | 32,111 | 32,630 | | | | | | | |
| Seven years later | | 26,924 | 31,422 | | | | | | | | |
| Eight years later | | 26,705 | | | | | | | | | |
| Current estimate of cumulative claims cost | 144,389 | 26,705 | 31,422 | 32,630 | 35,076 | 39,505 | 48,804 | 48,874 | 54,594 | 57,840 | 519,839 |
| Cumulative payments | (139,596) | (26,628) | (30,429) | (26,508) | (26,371) | (24,965) | (27,471) | (16,032) | (8,660) | (1,478) | (328,138) |
| Outstanding claims – undiscounted | 4,793 | 77 | 993 | 6,122 | 8,705 | 14,540 | 21,334 | 32,842 | 45,934 | 56,362 | 191,701 |
| Claims handling costs | | | | | | | | | | | 15,336 |
| Discount | | | | | | | | | | | (2,529) |
| ROCS claims | | | | | | | | | | | 8,650 |
| Prudential margin (at 92.5% confidence level) | | | | | | | | | | | 80,029 |
| Total gross outstanding claims | | | | | | | | | | | 293,187 |

*(ii) Net*

| Accident year | Up to 2011 $'000 | 2012 $'000 | 2013 $'000 | 2014 $'000 | 2015 $'000 | 2016 $'000 | 2017 $'000 | 2018 $'000 | 2019 $'000 | 2020 $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of ultimate claims cost | | | | | | | | | | | |
| At end of accident year | | 15,942 | 9,831 | 8,297 | 9,561 | 10,211 | 13,602 | 16,008 | 20,851 | 21,950 | |
| One year later | | 13,721 | 9,360 | 8,719 | 9,243 | 12,409 | 15,330 | 18,339 | 20,564 | | |
| Two years later | | 14,638 | 9,756 | 8,823 | 12,047 | 15,194 | 17,820 | 16,955 | | | |
| Three years later | | 11,775 | 9,159 | 11,665 | 12,112 | 14,669 | 17,024 | | | | |
| Four years later | | 13,197 | 10,727 | 11,411 | 12,326 | 13,322 | | | | | |
| Five years later | | 15,034 | 9,140 | 10,465 | 13,116 | | | | | | |
| Six years later | | 11,816 | 9,352 | 10,965 | | | | | | | |
| Seven years later | | 11,264 | 9,199 | | | | | | | | |
| Eight years later | | 11,292 | | | | | | | | | |
| Current estimate of cumulative claims cost | 109,235 | 11,292 | 9,199 | 10,965 | 13,116 | 13,322 | 17,024 | 16,955 | 20,564 | 21,950 | 243,622 |
| Cumulative payments | (111,366) | (11,240) | (8,910) | (12,323) | (11,484) | (9,397) | (12,570) | (8,044) | (5,198) | (1,040) | (191,572) |
| Outstanding claims – undiscounted | (2,131) | 52 | 289 | (1,358) | 1,632 | 3,925 | 4,454 | 8,911 | 15,366 | 20,911 | 52,049 |
| Claims handling costs | | | | | | | | | | | 15,336 |
| Discount | | | | | | | | | | | (762) |
| ROCS claims | | | | | | | | | | | (1,508) |
| Prudential margin (at 92.5% confidence level) | | | | | | | | | | | 26,072 |
| Total net outstanding claims | | | | | | | | | | | 91,187 |

## Note 25: Contract liabilities

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Fee income received in advance | 41,235 | 39,724 | 41,235 | 39,274 |
| **Total other liabilities** | 41,235 | 39,724 | 41,235 | 39,274 |

## Note 26: Provisions

| | Group 2020 $'000 | Group 2019 $'000 | Society 2020 $'000 | Society 2019 $'000 |
|---|---|---|---|---|
| Provision for discretionary non-medical indemnity assistance (refer Note 1(h)) | | | | |
| Discretionary non-medical indemnity assistance | 1,175 | 824 | 1,175 | 824 |
| Prudential margin | - | - | - | - |
| | 1,175 | 824 | 1,175 | 824 |
| Employee entitlements (refer Note 1(i)) | 2,308 | 2,293 | 2,308 | 2,293 |
| Total provisions | 3,483 | 3,117 | 3,483 | 3,117 |
| Current provisions | 2,642 | 2,250 | 2,642 | 2,250 |
| Non-current provisions | 841 | 867 | 841 | 867 |
| Total provisions | 3,483 | 3,117 | 3,483 | 3,117 |
| Movements | | | | |
| Discretionary non-medical indemnity assistance: | | | | |
| Carrying amount at start of year | 824 | 1,766 | 824 | 1,766 |
| Recognised in the Statement of comprehensive income (refer note 10) charge/(credit) | 873 | (572) | 873 | (572) |
| Discretionary non-medical indemnity assistance payments made | (522) | (370) | (522) | (370) |
| Carrying amount at end of year | 1,175 | 824 | 1,175 | 824 |

## Note 27: Share capital and members' guarantee

| | Society 2020 Shares | Society 2019 Shares | Society 2020 $'000 | Society 2019 $'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 | |
|---|---|---|
| | 2020 | 2019 |
| Ordinary | 35,516 | 34,242 |
| Student | 20,385 | 21,518 |
| **Total Members** | 55,901 | 55,760 |

# Note 28: 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 30/08/2020), S Carter, A.D. Manson, K Penrose (appointed 01/01/2020, resigned 05/03/2020), 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 2020 and 2019 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 (N Anning (from 13/01/2020), W F Berryman, A T Browning (until 30/08/2019) and R J Miles).

During the year R J Miles was Acting Chief Executive officer between 30 August 2019 until 10 January 2020 and P M Jenkins was Acting Chief Financial Officer between 30 August 2019 until 10 January 2020. Remuneration for R J Miles and P M Jenkins for this period is included in key management personnel compensation, as is a termination payment to A T Browning.

| Remuneration | Group | | Society | |
|---|---|---|---|---|
| | 2020 $ | 2019 $ | 2020 $ | 2019 $ |
| Short-term benefits | 3,186,021 | 2,387,106 | 2,558,208 | 1,655,946 |
| Post-employment benefits | 174,429 | 184,061 | 123,242 | 123,055 |
| **Total remuneration of key management personnel** | 3,360,450 | 2,571,167 | 2,681,450 | 1,779,001 |

# Note 29: Remuneration of external auditors

| | Group | | Society | |
|---|---|---|---|---|
| | 2020 $ | 2019 $ | 2020 $ | 2019 $ |
| **Ernst & Young** | | | | |
| Audit of the financial report | 222,352 | 189,592 | 87,672 | 70,512 |
| Audit of regulatory returns | 47,008 | 37,960 | - | - |
| Other audit related work | 15,600 | 15,184 | 6,656 | 6,510 |
| Taxation compliance services | 54,500 | 48,360 | 24,500 | 21,320 |
| **Total remuneration of auditors** | 339,460 | 291,096 | 118,828 | 98,342 |

# Note 30: Related parties

## (a) Shareholding of the Society

MIPS Holdings Pty Ltd (MIPSH) owns 100% (2019: 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 2020 the Society paid $40,082,273 (2019: $56,292,338) 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 2020 the Society received $3,805,000 (2019: $3,818,000) from MIPSi
- QDM pays the Society a service fee for the provision of service under a SLA. During the year ended 30 June 2020 Society received $70,000 (2019: $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 | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| **Receivables** | | | | |
| MIPSi | - | - | 3 | 3 |
| **Payables** | | | | |
| Payable to MIPSi for Master Policy | - | - | 53,099 | 37,154 |

# Note 31: Reconciliation of net profit to net cash inflow from operating activities

| | Group | | Society | |
|---|---|---|---|---|
| | 2020 $'000 | 2019 $'000 | 2020 $'000 | 2019 $'000 |
| Net (loss)/ profit | (12,709) | 6,651 | (14,369) | 9,496 |
| **Non-cash items** | | | | |
| Depreciation | 107 | 124 | 107 | 124 |
| Asset write-off | 47 | 15 | 47 | 15 |
| Impact due to IFRS 16 lease standard | (529) | - | (529) | - |
| Net (gain)/loss on investments | 12,592 | (4,620) | 11,438 | (3,340) |
| **Changes in working capital** | | | | |
| (Increase)/decrease in recoveries receivable | (30,617) | (16,603) | - | 110 |
| (Increase)/decrease in contract assets | (1,999) | 2,290 | (1,999) | 2,290 |
| (Increase)/decrease in receivables | - | - | - | (1) |
| (Increase)/decrease in other assets | 2,118 | (3,881) | (1,849) | (6,227) |
| (Increase)/decrease in current tax asset | (493) | 2,806 | (486) | 1,174 |
| (Increase)/decrease in right-of-use-assets | (5,449) | - | (5,449) | - |
| (Increase)/decrease in deferred tax asset | 986 | (2,453) | 277 | (1,173) |
| (Increase)/decrease in deferred ROCS expense | (159) | (12) | - | - |
| Increase/(decrease) in accounts payable | (1,477) | 7,186 | 16,186 | (6,643) |
| Increase/(decrease) in outstanding claims | 39,730 | 37,486 | - | - |
| Increase/(decrease) in contract liabilities | 1,511 | (3,370) | 1,511 | (3,370) |
| Increase/(decrease) in provisions | 366 | (856) | 366 | (856) |
| Increase/(decrease) in lease liability | 6,075 | - | 6,075 | - |
| Increase/(decrease) in unexpired risk reserve | 2,170 | - | - | - |
| Net cash inflow/(outflow) from operating activities | 12,270 | 24,763 | 11,326 | (8,401) |

## Note 32: Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

### Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

### i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses (refer note 20) and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on
a straight-line basis over the lease term.

### ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate 2.33% (2019 2.33%), and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

## Note 33: 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.

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Paid-up ordinary shares | 36,250 | 36,250 |
| Retained earnings brought forward | 114,658 | 117,549 |
| Current year earnings | 1,655 | (2,893) |
| Technical provisions in excess of liability valuation (net of tax) | 11,351 | 9,337 |
| Premium liability surplus / (deficit) (net of tax) | (1,511) | (656) |
| | 162,403 | 159,587 |
| Less: deductions | (6,867) | (7,577) |
| Net Tier 1 capital | **155,536** | 152,010 |
| Total capital base | **155,536** | 152,010 |
| | | |
| Insurance risk charge | 18,326 | 16,428 |
| Insurance concentration risk charge | 3,130 | 3,130 |
| Asset risk charge | 17,480 | 15,541 |
| Asset concentration risk charge | 14,214 | - |
| Operational Risk Charge | 3,023 | 2,783 |
| Less: aggregation benefit | (8,672) | (7,793) |
| Prescribed Capital Requirement Amount | **47,502** | 30,089 |
| **Prescribed Capital Amount coverage ratio** | **3.27** | 5.05 |

### 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 34: 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 2020:

i) A bank guarantee of $1,600,043 (2019: $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 (2019: $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 (2019: $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 (2019: $126,960) 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) An electronics pathway facility of $300,000 (2019 $300,000) issued to ANZ in respect to the extent ANZ will assume pay away exposure on any one day)

vi) A bank guarantee of $50,000 (2019: $50,000) issued to ANZ in respect of Commercial Card Facility

vii) A bank guarantee of $1,000 (2019: $1,000) issued to ANZ in respect of Encashment Facility.

## Note 35: Events occurring after balance date

No matters or circumstances have arisen since 30 June 2020 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 36: Authorisation of the financial report

The financial report of the society for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of directors on 23 September 2020.

# 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 2020 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
23 September 2020

# Independent auditor's report

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

## 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 2020;
- 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 2020 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.

Building a better working world



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.

3

- 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
23 September 2020

# Contact Us


## General and membership enquiries
1800 061 113 or
+61 3 8620 8888 outside Australia
info@mips.com.au

## 24-hour Clinico-Legal Support
1800 021 223 or
+61 3 8620 8829 outside Australia
claims@mips.com.au

## Postal address
PO Box 24240
Melbourne VIC 3001

**mips.com.au**