

**MIGA**

The Medical Insurance Group

# Annual Report

and Summary Financial Reports

June 2011

*Always* on your side

**MIGA** Medical Defence Association of South Australia Limited  
ABN 41 007 547 588

Medical Insurance Australia Pty Ltd  
ABN 99 092 709 629

**MDASA Limited**  
(Board as at September 2011)

Dr John O'Loughlin AO – Chairman  
Dr Martin Altmann – Deputy Chairman  
Mr Henry Botha  
Dr Michael Carr  
Ms Virginia Hickey  
Mr Alon Jellett  
Dr Robert Singleton

**Medical Insurance Australia Pty Ltd**  
(Board as at September 2011)

Dr John O'Loughlin AO – Chairman  
Dr Martin Altmann – Deputy Chairman  
Ms Amanda Anderson – Managing Director  
Mr Henry Botha  
Mr David Henderson  
Ms Virginia Hickey  
Mr Alon Jellett  
Dr Robert Singleton

**Chief Executive Officer and  
Managing Director** Ms Amanda Anderson

**Key professional advisors**

**Actuaries** Finity Consulting Pty Ltd, Sydney  
**Auditors and Tax Advisors** KPMG, Adelaide  
**Corporate Legal Advisors** Dibbs Barker, Sydney and Iles Selley Lawyers, Adelaide  
**Principal Medico-legal Advisors** Wallmans Lawyers, Adelaide  
**Reinsurance Brokers** Guy Carpenter Pty Ltd, Sydney and London  
**Graphic Designer and Advisor** Harlen Graphics Pty Limited, Adelaide  
**Investment Advisors** Morgan Stanley Smith Barney Pty Ltd  
**Internal Auditor** PricewaterhouseCoopers, Adelaide

**Report date** – Tuesday 20 September 2011

## Contents

- Reducing our Environmental Impact . . . . . 3
- Directors' Report . . . . . 4
- Corporate Governance . . . . . 6
- The Board and Board Committees . . . . . 8
- Directors' Information . . . . . 11
- MDASA – Summary Financial Report . . . . . 13
- Medical Insurance Australia –  
Summary Financial Report . . . . . 23
- Obituary . . . . . 31

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# Reducing our Environmental Impact



**Like all public companies, we are required to provide our members with a copy of our Annual Report which, until 3 years ago, was distributed in printed form.**

To help reduce our operating costs and environmental impact, for the year ended June 2011 we have again produced the following:

An **Annual Review** which:

- Has been printed and provided to all members, policy holders and key stakeholders
- Incorporates an overview of the Group's financial results and key developments in the last year
- Is much shorter than the full Annual Report and Summary Financial Reports
- We believe is a more valuable method of communicating key information about MIGA

This **Annual Report** and **Summary Financial Reports** which:

- Are available on our website, unless members specifically ask for a printed copy
- Includes all of the Group's statutory reporting requirements, such as the Directors' Report, the Summary Financial Reports and the external auditor's report.

**The information in this Report is to be read in conjunction with the MIGA 2011 Annual Review** which is also available on our website.

Making the Annual Report (including Summary Financial Reports) only available via the website and printing a shorter Annual Review supports the Group's Environmental Policy and helps us reduce our environmental impact and the costs of running our business.

# Directors' Report

The Directors present their report together with the financial report of the Medical Defence Association of South Australia Limited (MDASA) and the consolidated financial report of the Consolidated Entity, being MDASA, and its controlled entity Medical Insurance Australia Pty Ltd (Medical Insurance Australia), for the financial year ended 30 June 2011.

The principal activity of MDASA during the financial year was to provide:

- A range of membership benefits and services to members
- Discretionary indemnity assistance to members in relation to discretionary indemnity granted on or before 30 June 2003.

The principal activity of MDASA's insurance subsidiary, Medical Insurance Australia, was to provide:

- Medical indemnity insurance to doctors and medical students throughout Australia
- Medical indemnity insurance to corporate entities involved in the provision of healthcare services
- Professional indemnity insurance to midwives under the Federal Government's Midwives Insurance Scheme, and
- Medical indemnity insurance to MDASA, to cover its liabilities where it is required to indemnify its members for prior claims incurred indemnity as per its Constitution. The indemnity provided to MDASA is through an insurance contract which is underwritten on a claims made basis with full retroactive indemnity.

Membership of MDASA is governed by the terms and conditions of the Constitution of MDASA, and doctors and medical students must maintain membership of MDASA in order to access the insurance cover provided by Medical Insurance Australia. No membership requirements apply to corporate entities or midwives.

On 5 May 2010, MIGA was awarded the contract from the Federal Government to be the sole provider under a Government supported Scheme for Professional Indemnity Insurance to privately practising midwives across Australia. The scheme started on 1 July 2010.

No other significant changes in the nature of the activities of the Consolidated Entity occurred during the year.

## Operating result

The Consolidated Entity reported a profit of \$6.684m for the financial year ended 30 June 2011, after providing for income tax. This compares very favourably with the budget of \$3.588m for the year.

The Consolidated Entity has a surplus in net assets of \$79.801m as at 30 June 2011.

(Amounts shown as \$m)	Budget	Actual	Variance
Subscription, premium revenue and other income	32.758	32.924	0.166
Net finance income	7.695	9.930	2.235
Underwriting expenses	24.321	23.749	(0.572)
Operating expenses (including net loss on sale of assets)	12.635	11.797	(0.838)
Profit before tax	3.497	7.308	3.811
Tax	(0.091)	0.624	0.715
Net profit	3.588	6.684	3.096

The 2011 result is above budget because of the following key reasons:

- **Premium and subscription revenue** was \$340k above budget, driven by growth across all policy types
- **Net finance income** was \$2.235m above budget as a result of higher interest rate returns and increases in the value of equity investments
- **Underwriting expenses** were lower than expected, mainly as a result of negotiated savings in the cost of reinsurance
- **Operating expenses** (including net loss on sale of assets) were below budget by \$838k as a result of stringent expense control across all areas.

These positive results were offset by claims costs being \$1.723m higher than expected. The movement is predominantly driven by the fact that the reported costs in the latest notification years were more than expected. We continue however to realise savings in the older years. Claims frequency and the average size of claims continue to be stable.

## Directors

The names of Directors in office at any time during or since the end of the financial year are outlined in the Section entitled "Directors' Information".

## Board Committees

The Committees established to assist the Boards of MDASA and Medical Insurance Australia with discharging their responsibilities are outlined in the section entitled "Board Committees".

## Review of Operations

The Review of Operations is outlined throughout this Report and in the MIGA 2011 Annual Review.

As at the date of this Report, there are no proceedings which have been brought, or which are pending, against the Consolidated Entity or its Directors.

During the financial year the Directors have sought assistance from actuaries, lawyers, accountants, auditors, reinsurance brokers and other key advisors. The degree of consultation was an essential component of the ongoing implementation of the Group's Strategic Plan.

## Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of the Consolidated Entity during the financial year, other than disclosed under Review of Operations.

## Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years, other than as disclosed under Review of Operations.

## Future developments

The Directors are not aware of any other matters or circumstances which may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years, other than as disclosed under Review of Operations.

# Directors' Report – continued

## Company secretary

Ms Amanda Anderson has been company secretary since May 2000. Ms Anderson is the CEO of MDASA and the Managing Director of Medical Insurance Australia and has previously held senior executive roles in the insurance industry.

## Audit independence

Copies of the auditor's independence declaration as required under Section 307C of the Corporations Act are included on pages 22 and 30 of this Annual Report.

## Indemnifying officers

During or since the end of the financial year the Consolidated Entity has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums to insure its Directors against liability for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as Directors of the Consolidated Entity other than conduct involving a wilful breach of duty to the Consolidated Entity. The premium covers all Directors and Officers of the Consolidated Entity.

## Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Signed in accordance with a resolution of the Board of Directors.



**Dr J A O'Loughlin** Director



**Mr A J Jellett** Director

Adelaide

Dated this 20th day of September 2011

# Corporate Governance



## Role of the Boards

The Boards are responsible for the overall corporate governance of MIGA including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

They are also responsible for approving and monitoring financial and other reporting.

The Boards have delegated responsibility for operation and administration of the Company to the CEO and management. Responsibilities are delineated by formal authority delegations.

## Director education

The Group has a process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of Directors. Directors also have the opportunity to meet with management to gain a better understanding of business operations. Directors can access continuing education opportunities to update and enhance their skills and knowledge.

## Independent professional advice and access to company information

Each Director has the right of access to all relevant Group information and to the Group's key staff and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified advisor at the Group's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. If this occurs, a copy of the advice received by the Director is to be made available to all other members of the Boards.

## Risk management

### Oversight of the risk management system

The Boards oversee the establishment, implementation, and annual review of the Group's Risk Management Strategy. Management has established and implemented the Risk Management Strategy for assessing, monitoring and managing operational, financial reporting, and compliance risks for the Group. The CEO and the Corporate Services Manager have declared, in writing to the Board, that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating efficiently and effectively.

All risk assessments covered the whole financial year and the period up to the signing of the Annual Financial Report for all material operations in the Group.

## Risk profile

Each business unit is responsible and accountable for implementing, monitoring and ensuring compliance with the Group's Risk Management Strategy and Business Continuity Framework.

Major risks arise from such matters as actions by competitors, government policy changes, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

## Risk management and compliance and control

The Boards are responsible for the overall internal control framework, but recognise that no cost effective internal control system will preclude all errors and irregularities. The Group's policies on internal control are comprehensive.

The Group has a Risk Management Strategy (RMS) which documents the strategies adopted by the Boards for managing risk. The RMS defines and outlines the processes implemented by the Group to identify and manage risks that may affect the operations of the organisation. It recognises the importance of corporate governance and provides the basis by which the Group proactively manages both strategic and operational risks.



# Corporate Governance – continued

Comprehensive policies have been established to ensure:

- Investments, capital expenditure and other commitments above a certain size require prior Board approval
- Investments are controlled and monitored by means of a comprehensive Investment Strategy
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations
- Business transactions are properly authorised and executed
- The quality and integrity of personnel
- Financial reporting accuracy and compliance with the financial reporting regulatory framework
- Environmental regulation compliance.

## Quality and integrity of personnel

Formal appraisals are conducted annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and management. A Succession Policy is in place for the Boards and the CEO, and all Directors and managers are required to comply with the Group's Fit and Proper Policy. In addition, the Group has a Board Performance Review Policy which requires regular reviews of Board and Director performance. The Group's recruitment strategies ensure that competent and knowledgeable employees fill senior positions when retirements or resignations occur.

## Financial reporting

The CEO and the Corporate Services Manager have declared in writing to the Boards that the Group's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Boards.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

## Environmental Policy

The Group is committed to achieving a high standard of environmental performance and has implemented an Environmental Policy which is supported by an Environmental Initiatives Action Plan (EIAP).

The EIAP outlines the Group's commitment and requirements in relation to:

- Setting and communicating environmental objectives and quantified targets
- Monitoring progress against these objectives and targets
- Regular monitoring of performance against the targets and clarification of responsibilities.

The Consolidated Entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth, a State or a Territory.

## Internal audit

The internal auditors assist the Boards in ensuring compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the Group's compliance and control systems.

The Audit and Corporate Risk Committee is responsible for approving the program of internal audits to be conducted each financial year and for the scope of the work to be performed. An independent review to assess and evaluate the quality of the internal audit function is undertaken once every year. The Audit and Corporate Risk Committee has the authority delegated to it to appoint and dismiss the Internal Auditor.

## Code of Practice

MIGA is committed to providing high quality, professional service and personal care to our clients.

As a tangible measure of this commitment, MIGA has voluntarily adopted the General Insurance Code of Practice (the Code) and has also developed our own Service Commitment.

These reflect our genuine desire to be open, caring and honest in our relationships with our clients.

MIGA monitors compliance with the Code by regular Compliance Reviews conducted by MIGA's Risk and Compliance Officer and periodic Internal Audits by the Group's Internal Auditor, PricewaterhouseCoopers. All Compliance Review Reports and Internal Audit Reports are provided to the Audit and Corporate Risk Committee. The Financial Ombudsman Service also conducts an annual review of MIGA's compliance with the Code.

MIGA has established policies and procedures that ensure compliance with the Code. The Directors of MIGA have requested PricewaterhouseCoopers to conduct an independent review to provide assurance that MIGA materially complies with selected standards of the Code that are relevant to MIGA and are capable of being objectively measured by applying audit testing procedures for the period 1 July 2010 to 30 June 2011. PricewaterhouseCoopers's report did not contain any exceptions.

This is a very pleasing outcome for the Group, particularly given the strict service standards that underpin the Code.

The favourable outcomes from the reviews in the last year demonstrate our genuine commitment to the highest standards of service and transparency in our dealings with all of our clients.

## Ethical standards

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

## Conflict of interest

Directors must keep the Boards advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Boards have developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Boards believe that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

# The Board & Board Committees



## Meetings of Directors

During the financial year, 9 meetings of Directors of MDASA were held. In addition, 30 Committee meetings and a number of strategy meetings were held.

The MDASA Board meetings are run in conjunction with the Medical Insurance Australia Pty Ltd Board meetings.

The agenda for meetings of the Boards are prepared by the Chairman and the CEO.

Standing items included financial reports, strategic matters and governance and compliance. Information and Papers are circulated in advance of meetings, and Directors have a number of opportunities for contact with a wider group of employees.

The number of meetings held during the time in which the Directors held office during the year and their attendance were as follows:

Director	Directors' Meetings				Committee Meetings	
	MDASA		Medical Insurance Australia		Number of meetings held	Number attended
	Number of meetings held	Number attended	Number of meetings held	Number attended		
JA O'Loughlin AO – Chairman	9	8	9	8	30	29
M Altmann – Deputy Chairman	9	8	9	8	11	10
AJ Anderson	9	9	9	9	18	17
H Botha	9	8	9	8	7	7
M Carr	8	8	–	–	4	4
DC Henderson	–	–	9	9	7	7
VS Hickey	9	9	9	9	13	12
AJ Jellett	9	8	9	8	13	11
RJ Singleton	9	9	9	9	5	5
SJ Lipman	–	–	4	3	5	3
JF Maxwell OAM	–	–	–	–	3	2

### Note:

- Dr Jillian Maxwell, former Chairman of the Group resigned on 19 August 2010
- Mr Scipio Lipman resigned from the Board of MIA on 30 November 2010.



# The Board & Board Committees – continued

## Board Committees

To assist in the execution of their responsibilities, the Boards of Medical Insurance Australia and MDASA have established the following Committees:



## The purpose of each Committee

The purpose of each Committee is as shown below:

Committee	Purpose	Meetings
<b>Claims Committee</b>	To monitor and continually review claims developments for the Group, to review and agree estimates for and the classification of certain matters which are either claims for compensation or deemed likely to develop into claims for compensation against the Group and to consider any issues arising in relation to large claims in particular	Meets at least monthly
<b>Risk Management Committee</b>	To review and assess the progress and effectiveness of the Group's IRM Program and consider and agree risk management strategies for issues of significant concern for the Group in relation to individual members and trends identified within the portfolio  Issues of significant concern are those that have the potential to have a significant financial, legal or reputational impact on the Group and which are identified through the Members' Risk Management Protocol	Meets at least four times a year
<b>Audit and Corporate Risk Committee</b>	To monitor, review and make recommendations to the Boards of MDASA and Medical Insurance Australia on the Group's financial affairs, operational and balance sheet risk and legal/regulatory compliance	Meets at least eight times a year
<b>Governance Committee</b>	To consider and agree remuneration for Directors and the CEO, to monitor the Group's compliance with the Board Performance and Review Policy and to consider the Group's succession plan and compliance with APRA's Fit and Proper requirements	Meets at least four times a year

# The Board & Board Committees – continued

## Medical Advisory Panel

For some years MIGA has had a national Medical Advisory Panel which meets in Adelaide. It is comprised of predominantly South Australian doctors with some interstate members as well.

In October 2010, the Group established Medical Advisory Panels in New South Wales and Victoria. The aim of these Panels is to better canvas the views of our national doctor membership and to facilitate engagement with a larger group of doctors nationally.

The members of the Panels are doctors and medical students who are representative of our growing and diverse membership.

The key functions of the Panels include:

Key function	Purpose
<b>Insurance and membership advice</b>	<ul style="list-style-type: none"><li>• To be a reference point for advice on insurance and membership matters as they relate to the profession</li><li>• To keep us informed on the views of our members about the organisation and our services and products</li><li>• To provide opinions on issues which arise in relation to our insurance policy to ensure it continues to respond to our members' needs</li><li>• To be a source of medical review of the IRM Program</li></ul>
<b>Medical advice</b>	<ul style="list-style-type: none"><li>• To be consulted either individually or collectively on claims involving complex medical matters</li></ul>

The Medical Advisory Panels are important to the Group as they ensure we maintain extended member involvement in the business and that we are kept informed about members' views.

Member participation on the Panels is on a voluntary basis and we would like to record our thanks for their contribution and commitment on behalf of all members.

# Directors' Information

(Directors in office as at 30 June 2011 or appointed since then)



Dr John A O'Loughlin AO



Dr Martin Altmann



Ms Amanda J Anderson



Mr Henry Botha



Dr Michael Carr



Mr David C Henderson



Ms Virginia S Hickey



Mr Alon J Jellett



Dr Robert J Singleton

## Medical Insurance Australia

The Board of Medical Insurance Australia comprises eight Directors, the majority of whom (five) are non medical with expertise in the following areas:

- Professional indemnity, insurance and risk management
- Actuarial and life insurance
- Legal and corporate governance
- Accounting.

All medical Directors on the Board of Medical Insurance Australia are also Directors of MDASA.

## MDASA

The Constitution of MDASA requires that:

- The majority of the Directors must be medical members of MDASA
- At all times there must be at least three non-medical Directors who are appointed by the Board and whose appointment is subject to review every three years.

The medical Directors are elected by the membership and are subject to re-election by rotation in accordance with the Constitution.

The Board of MDASA comprises seven members, four of whom are medical Directors.

The non-medical representation on the MDASA Board ensures that we maintain an important broad blend of expertise, given the corporate and insurance related issues that the organisation must consider.

## 2010 AGM

The Annual General Meeting was held on 27 November 2010 and included the election of Directors to the Board of MDASA.

Dr Michael Carr retired by rotation (as per the Constitution) and as there was only one nomination for the vacancy no election was required and Dr Carr was re-elected at the AGM (under Article 48A(b) of the Constitution).

## Directors' Information – continued

Director	Industry and sector experience	Age	MIGA Board appointments			MIGA Board Committees				Qualifications
			MDASA Limited	Medical Insurance Australia Pty Ltd	Medical Insurance Group Australia Pty Ltd	Audit and Corporate Risk	Risk Management	Claims	Governance	
<b>Dr John Augustine O'Loughlin AO</b>	Obstetrician and Gynaecologist	73	Chairman	Chairman	Chairman	Member	Member	Chairman	Member	MB, BS, MS, FRCOG, FRANZCOG, FRNZCOG (Hon), FACOG (Hon) Graduate Member, Australian Institute of Company Directors (GAICD)
<b>Dr Martin Altmann</b>	General Practitioner Rural and Obstetric	47	Deputy Chair	Deputy Chair			Chairman		Member	MB, BS (Adelaide), DRANZCOG (Advanced), MRCGP (UK), FACRRM
<b>Ms Amanda Jayne Anderson</b>	Insurance, risk management and corporate governance	49	CEO	Managing Director	Director	Attends by invitation	Member		Attends by invitation	<ul style="list-style-type: none"> <li>Bachelor of Arts, Social Sciences</li> <li>Senior Associate – Australian and New Zealand Institute of Insurance and Finance (ANZIF)</li> <li>Business Certificate in Insurance</li> </ul>
<b>Mr Henry Albertyn Botha</b>	Chartered Accountant	55	Director	Director		Member				<ul style="list-style-type: none"> <li>Bachelor of Commerce, University of Natal, South Africa</li> <li>MBA, University of Cape Town, South Africa</li> </ul>
<b>Dr Michael William Carr</b>	Radiologist	65	Director							MBBS, FFARACS, FANZCA, DRANZCR, FRANZCR, MAICD
<b>Mr David Charles Henderson</b>	General Insurance	67		Director		Member				Senior Associate – Australia and New Zealand Institute of Insurance and Finance Graduate Member, Australian Institute of Company Directors (GAICD)
<b>Ms Virginia Sue Hickey</b>	Lawyer and corporate governance consultant	54	Director	Director		Member			Chairman	BA (Monash), LLB (Melb), Fellow, Australian Institute of Company Directors (FAICD)
<b>Mr Alon John Jellett</b>	Actuary	67	Director	Director		Chairman			Member	Fellow of the Institute of Actuaries of Australia (FIAA) Fellow of the Institute of Actuaries (London) (FIA)
<b>Dr Robert Jon Singleton</b>	Consultant Anaesthetist	49	Director	Director			Member			MB, BS – Bachelor of Medicine, Bachelor of Surgery, Fellow, Australian and New Zealand College of Anaesthetists

Director	General information	Other Board appointments – Current	Current professional memberships and committees and Awards
<b>Dr J A O'Loughlin AO</b>	Dr O'Loughlin was elected to the Board of MDASA in November 2000 and to the Board of Medical Insurance Australia in August 2003. He was elected Chairman of the Boards of MDASA and MIA in August 2010.	Nil	Recipient of Queen's Birthday Honours, 2001 – AO (General Division) Member – MIGA Medical Advisory Panel
<b>Dr M Altmann</b>	Dr Altmann was elected to the Board of MDASA on 23 May 2007 and appointed to the Board of Medical Insurance Australia with effect 1 July 2010. He was elected Deputy Chairman of the Boards of MDASA and MIA in August 2010.	<ul style="list-style-type: none"> <li>Deputy Chairperson – Bridge Clinic</li> </ul>	Representative – SA Obstetric Services Committee/Healthy Start Task Group, Rural GP Representative – Sub Committees – Hand Held Pregnancy Record, Perinatal Protocols, Maternity Services Committee
<b>Ms A J Anderson</b>	Ms Anderson was appointed Chief Executive Officer of MDASA in February 2000, Managing Director of Medical Insurance Australia in August 2003 and as Director of Medical Insurance Group Australia in 2005.	Nil	Member – Australian Insurance Law Association (AILA) Certified Insurance Professional (CIP) – ANZIF Member – Australian Institute of Company Directors – AICD Member – Australasian Society for Healthcare & Risk Management – AuSHRM
<b>Mr H A Botha</b>	Mr Botha was appointed to the Boards of Medical Insurance Australia and MDASA in September 2008.	<ul style="list-style-type: none"> <li>Chairman – CPR Pharma Services Pty Ltd</li> </ul>	Member – Australian Institute of Chartered Accountants Member – Australian Institute of Company Directors Registered Company Auditor (Aust) Registered Tax Agent (Aust)
<b>Dr M W Carr</b>	Dr Carr was appointed to the Board of MDASA on 25 August 2010.	Director, Medical Imaging Royal Hobart Hospital	Southern Tasmania Area Health Service Credentialing Committee Chairman, Tasmanian Radiation Advisory Council Member, Royal Hobart Hospital Radiation Safety Committee, Private Practice Scheme Committee, Vascular Access Advisory Group, Medical Executive and Medical Advisory Committee
<b>Mr D C Henderson</b>	Mr Henderson was appointed to the Board of Medical Insurance Australia in November 2007.	<ul style="list-style-type: none"> <li>Board Member – Meals on Wheels (SA) Inc</li> </ul>	Member – Finance, Audit and Governance Committee – Meals on Wheels (SA) Inc
<b>Ms V S Hickey</b>	Ms Hickey was appointed to the Boards of MDASA and Medical Insurance Australia in October 2001. Ms Hickey was elected Chairman of the Governance Committee in August 2010.	<ul style="list-style-type: none"> <li>Chairman – TransAdelaide</li> <li>Chairman – Telecommunications Industry Ombudsman Council</li> <li>Board Member – Flinders Ports Pty Ltd</li> <li>Councillor – National Competition Council</li> <li>Board member – SafeCom</li> </ul>	Member – Australian Institute of Company Directors – AICD Member – Audit Committee of TransAdelaide Member – Audit Committee of National Competition Council
<b>Mr A J Jellett</b>	Mr Jellett was elected to the Board of MDASA in 1999 and to the Board of Medical Insurance Australia in May 2000.	Nil	
<b>Dr R J Singleton</b>	Dr Singleton was elected to the MDASA Board in 1999 and to the Medical Insurance Australia Board in May 2000.	Nil	Member – Australian Society of Anaesthetists Honorary Clinical Lecturer in Anaesthesia at the University of Adelaide Member – MIGA Medical Advisory Panel

# Medical Defence Association of South Australia Limited

## Summary Financial Report Year Ended 30 June 2011

### **Medical Defence Association of South Australia Limited**

A C N 007 547 588

The Directors present their Summary Financial Report of the Medical Defence Association of South Australia Limited (MDASA) and the consolidated summary financial report of the entity (Consolidated Entity), being MDASA and its controlled entity Medical Insurance Australia Pty Limited (Medical Insurance Australia), for the financial year ended 30 June 2011 and the independent audit report thereon.

### **Contents**

Statement of Financial Position / 14

Statement of Cash Flows / 15

Statement of Comprehensive Income / 16

Statement of Changes in Equity / 17

Notes to and forming part of the Summary Financial Report / 18

Independent Auditor's Report / 22



# Statement of Financial Position

Summary Financial Report as at 30 June 2011

	Consolidated Entity	
	2011 \$'000	2010 \$'000
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	38,043	42,776
Trade and Other Receivables	2,565	3,085
Reinsurance and Other Recoveries Receivable	5,566	4,641
Investments	11,847	3,614
Income Tax Receivable	929	141
Other Assets	282	320
<b>TOTAL CURRENT ASSETS</b>	<b>59,232</b>	<b>54,577</b>
<b>NON-CURRENT ASSETS</b>		
Reinsurance and Other Recoveries Receivable	52,498	45,109
Investments	125,713	114,658
Deferred Tax Assets	1,097	948
Property, Plant and Equipment	831	994
<b>TOTAL NON-CURRENT ASSETS</b>	<b>180,139</b>	<b>161,709</b>
<b>TOTAL ASSETS</b>	<b>239,371</b>	<b>216,286</b>
<b>CURRENT LIABILITIES</b>		
Trade and Other Payables	3,271	3,681
Outstanding Claims Provision	22,574	19,841
Employee Benefits	792	663
Other Liabilities	15,493	15,175
<b>TOTAL CURRENT LIABILITIES</b>	<b>42,130</b>	<b>39,360</b>
<b>NON-CURRENT LIABILITIES</b>		
Outstanding Claims Provision	117,400	103,763
Employee Benefits	40	46
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>117,440</b>	<b>103,809</b>
<b>TOTAL LIABILITIES</b>	<b>159,570</b>	<b>143,169</b>
<b>NET ASSETS</b>	<b>79,801</b>	<b>73,117</b>
<b>EQUITY</b>		
Retained Profits	79,801	73,117
<b>TOTAL EQUITY</b>	<b>79,801</b>	<b>73,117</b>

## Discussion and Analysis of the Statement of Financial Position

### Consolidated Entity

Total Assets have increased in the Consolidated Entity by \$23.085m from 30 June 2010 to 30 June 2011.

This movement is predominantly due to a:

- \$8.314m increase in Reinsurance and Other Recoveries Receivable in line with the increased cost of claims in the Controlled Entity
- \$14.555m increase in the investment portfolio (including Cash and Cash Equivalents and Other Investments).

Total Liabilities have increased in the Consolidated Entity by \$16.401m from 30 June 2010 to 30 June 2011. This is predominately due to an increase in the cost of claims from policies issued by the Controlled Entity.

The movement in Total Equity of the Consolidated Entity of \$6.684m, from 30 June 2010 to 30 June 2011, reflects the Net Profit After Tax for the year.

The accompanying discussion and analysis form part of the summary financial report.

# Statement of Cash Flows

Summary Financial Report for the year ended 30 June 2011

	Consolidated Entity	
	2011 Inflows (Outflows) \$'000	2010 Inflows (Outflows) \$'000
<b>Cash Flows from Operating Activities:</b>		
Subscriptions Received	4,750	5,395
Premium Received	27,393	29,215
Sundry Income Received	638	781
Reinsurance and Other Recoveries Received	721	7,406
Reinsurance Paid	(6,855)	(8,114)
Claims Paid	(9,135)	(17,527)
Payments to Suppliers and Employees	(11,170)	(11,650)
Cash Generated From Operations Before Tax	6,342	5,506
Income Tax Paid	(1,560)	(2,636)
<b>Net Cash from/(used in) Operating Activities</b>	<b>4,782</b>	<b>2,870</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from Sale of Property, Plant and Equipment	–	–
Acquisition of Property, Plant and Equipment	(210)	(152)
Interest Received	9,385	8,353
Dividends Received	440	331
Proceeds from Sale or Maturity of Investments	15,727	34,000
Acquisitions of Investments	(34,857)	(79,221)
<b>Net Cash (used in)/from Investing Activities</b>	<b>(9,515)</b>	<b>(36,689)</b>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,733)	(33,819)
Cash and Cash Equivalents at 1 July	42,776	76,595
<b>Cash and Cash Equivalents at 30 June</b>	<b>38,043</b>	<b>42,776</b>

## Discussion and Analysis of the Statement of Cash Flows

### Consolidated Entity

Premium Received during the year to 30 June 2011 was lower by \$1.822m. This is predominately due to the reduction in average premiums for the Doctor Policy in 2010/2011. The impact of this reduction is offset by growth in policies issued across all policy types.

Reinsurance Paid during the year to 30 June 2011 was less by \$1.259m as the Company increased its retained risk and restructured its reinsurance programs.

Claims Paid during the year to 30 June 2011 were \$8.392m lower than during the year to 30 June 2010 as there were less large claim settlements.

The Net Cash used in Investing Activities has decreased by \$27.174m for the year ended 30 June 2011 from the year ended 30 June 2010. This is due to the continued placement of funds in investments with a longer term to maturity, to more closely align the average term to settlement of claims to the average term to maturity of investments. This results in less investments maturing across the year.

The accompanying discussion and analysis form part of the summary financial report.

# Statement of Comprehensive Income

Summary Financial Report for the year ended 30 June 2011

	Note	Consolidated Entity	
		2011 \$'000	2010 \$'000
<b>Premium Revenue</b>	3	27,339	31,056
		27,339	31,056
Gross Claims Expense - Risks borne in the Current Year		(33,952)	(29,084)
Gross Claims Expense - Risks borne in Prior Years		1,984	25,873
Reinsurance and Other Recoveries Undiscounted		13,249	(5,816)
Discount to Present Value		2,249	(1,122)
<b>Net Claims Incurred</b>		<b>(16,470)</b>	<b>(10,149)</b>
Outward Reinsurance and Medical Indemnity Insurance Expense		(6,773)	(8,364)
Professional Fees Expense		(1,374)	(1,266)
Employment Expenses		(6,099)	(5,673)
General and Administrative Expenses		(4,307)	(4,314)
Other Underwriting Expenses		(506)	(598)
<b>Underwriting Result</b>		<b>(8,190)</b>	<b>692</b>
Subscription Revenue	3	4,960	4,830
Other Income	3	625	744
Net Loss on the Sale of Property Plant and Equipment		(17)	(8)
<b>Results from Operating Activities</b>		<b>(2,622)</b>	<b>6,258</b>
Finance Income		9,982	9,856
Finance Costs		(52)	(60)
<b>Net Finance Income</b>		<b>9,930</b>	<b>9,796</b>
<b>Profit Before Tax</b>		<b>7,308</b>	<b>16,054</b>
<b>Income Tax Expense</b>		<b>624</b>	<b>2,841</b>
<b>Total Comprehensive Income Attributable to Members</b>		<b>6,684</b>	<b>13,213</b>

The accompanying discussion and analysis form part of the summary financial report.

## Discussion and Analysis of the Statement of Comprehensive Income

### Consolidated Entity

Premium Revenue is \$3.717m less in the year ended 30 June 2011 due to the reduction in average premiums for the Doctor Policy in 2010/2011. The impact of this reduction is offset by growth in policies issued across all policy types.

Gross Claims Expense has increased by \$28.757m and is offset by an increase in Reinsurance and Other Recoveries of \$19.065m and a movement in Discount to Present Value of \$3.371m. Net Claims Incurred has increased by \$6.321m. The increase in Gross Claims Expense and associated Reinsurance and Other Recoveries at 30 June 2011 reflects a consistent outcome for Risks Borne in the Current Year and a significantly smaller adjustment to the valuation of prior year claims.

### Performance Ratio Comparisons

	Consolidated Entity	
	2011 %	2010 %
Underwriting Result to Net Premium	(39.8)	3.0
Net Claims Incurred to Net Premium	80.1	44.7
Reinsurance Expense to Premium	24.8	26.9
Profit Before Tax to Premium	26.7	51.7

Net Premium is Premium Revenue less Outward Reinsurance and Medical Indemnity Insurance Expense.

The deterioration in the Underwriting Result to Premium and Net Claims Incurred to Premium ratios is due to the significantly smaller adjustment to the valuation of prior year claims and a reduction in the average premiums for the Doctor Policy in the 2010/2011 year.

The movement in the Reinsurance Expense to Premium Ratio reflects a restructure in the reinsurance programs.

The movement in the Profit Before Tax ratio has reduced significantly and reflects the combined impact of the ratios outlined above.

# Statement of Changes in Equity

Summary Financial Report for the year ended 30 June 2011

Consolidated Entity		
\$'000	Retained Earnings	Total Equity
Balance at 1 July 2010	73,117	73,117
Total Comprehensive Income for the Period	6,684	6,684
<b>Balance at 30 June 2011</b>	<b>79,801</b>	<b>79,801</b>
Balance at 1 July 2009	59,904	59,904
Total Comprehensive Income for the Period	13,213	13,213
<b>Balance at 30 June 2010</b>	<b>73,117</b>	<b>73,117</b>

## Discussion and Analysis of the Statement of Changes in Equity

The movement in Total Equity of the Consolidated Entity and the Company solely reflects the movement in Profit for the Period which is detailed in the discussion and analysis of the Statement of Comprehensive Income.

The accompanying discussion and analysis form part of the summary financial report.

## Notes

to and forming part of the Summary Financial Report for the year ended 30 June 2011

### Note 1

#### Basis of preparation of Summary Financial Report

The financial statements and specific disclosures have been derived from the Consolidated Entity's full Financial Report. The Summary Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities as the Consolidated Entity's full Financial Report. A copy of the Consolidated Entity's full Financial Report will be sent to members on request.

Medical Defence Association of South Australia Limited ("the Parent Entity") is a company limited by guarantee and is incorporated and domiciled in Australia. The consolidated

Summary Financial Report of the Consolidated Entity for the year ended 30 June 2011 comprise the Parent Entity and its subsidiaries (together referred to as the "Consolidated Entity").

The Summary Financial Report is presented in Australian dollars, which is the Parent Entity's and Consolidated Entity's functional currency. The Parent Entity is of the kind referred to in ASIC class order 98/100 dated 10 July 1998 and in accordance with that class order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The Summary Financial Report is prepared on the historical cost basis except that financial instruments held for trading are stated at their fair value.

A full description of the accounting policies adopted by the Consolidated Entity may be found in the Consolidated Entity's full Financial Report. These accounting policies have been consistently applied by each entity in the Consolidated Entity and are consistent with those of the previous year.

### Note 2

#### Accounting Estimates and Judgments

The Consolidated Entity makes estimates and judgements in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors. These include expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgments are applied are described below.

##### The liability arising from claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claim payments plus a risk margin.

The determination of the amounts that the Parent Entity and Consolidated Entity will ultimately pay arising under insurance contracts and prior discretionary indemnity arrangements involves a number of critical assumptions. Further detail on each component of the outstanding claims provision is provided below.

These financial statements record as a liability the present value of expected future payments to be made in respect of reported outstanding claims and incidents to 30 June 2011.

Ultimate numbers of claims are determined after reviewing past reporting patterns. Expected future payments are determined after reviewing average claim sizes for each year and the expected development of incurred costs.

The expected future payments are estimated on the basis of the ultimate cost of settling claims and includes allowance for such factors as trends in court awards (superimposed inflation) and the impact of normal inflation over the period that settlements are expected. The expected future cash flows are discounted to their present value at balance date using a risk free rate.

##### Assets arising from reinsurance contracts and other recoveries

Reinsurance and Other Recoveries are actuarially determined each year and carried in the accounts at the estimated recoverable amount, using the discount rate.

##### Reinsurance

Reinsurance receivables are determined in line with entitlements to recoveries under the reinsurance arrangements.

Allowance is made for expected recoveries on future development of claims reported to date.

##### Other Recoveries

###### • High Cost Claims Scheme (HCCS)

The HCCS was introduced by the Federal Government on 1 January 2003 as a means to stabilise medical indemnity premiums by reducing the cost of large claims to medical indemnity insurers. The Federal Government will reimburse the Parent Entity and the Controlled Entity 50% of individual claims above a legislated level. Finity Consulting Pty

Ltd (Finity) has included an estimate of the impact of the legislative commitment of the Federal Government, under the HCCS, in the estimate of net outstanding claims.

Allowance is made based on analysis of past and expected future experience.

###### • Run-off Cover Scheme (ROCS)

The Federal Government has legislated, under the *Medical Indemnity Act 2002*, to reimburse medical indemnity insurers for the cost of eligible Run-off Cover Claims under ROCS. This legislation applies to eligible ROCS claims notified on or after 1 July 2004. Finity has included in the estimate of net outstanding claims liability the value of the recoveries expected under ROCS against eligible claims which are notified on or after 1 July 2004 or are expected to be notified in the future.

Allowance is made based on analysis of past and expected future experience.

###### • Other Recoveries

Other Recoveries reflect deductible amounts recoverable from policy holders.



## Note 3

	Consolidated Entity	
	2011 \$'000	2010 \$'000
<b>Revenue</b>		
Operating Activities		
– Subscriptions Revenue	4,960	4,830
– Premium Revenue	27,339	31,056
– Reinsurance and Other Recoveries	9,036	(3,220)
– Interest Income	8,921	7,798
– Dividend Income	390	338
– Management Fee Within Group	–	–
– Other Income	625	744
<b>Total Revenue and Income</b>	<b>51,271</b>	<b>41,546</b>

## Note 4

### Capital Management and Requirements

The Consolidated Entity's policy is to maintain a strong capital base so as to maintain member, policy holder and creditor confidence. The Boards of the Parent Entity and the Controlled Entity monitor the capital base against the requirements of the Consolidated Entity's Capital Management Plan.

The Consolidated Entity updates its Funding Plan twice a year and projections show that the Consolidated Entity expects to continue to exceed APRA's minimum capital requirement.

The Consolidated Entity has exceeded the minimum capital requirement of APRA and the Capital Management Plan as at 30 June 2011.

As at 30 June 2011, the capital base, minimum capital requirements and the capital adequacy position of the Controlled Entity are as follows:

	Controlled Entity	
	2011 \$'000	2010 \$'000
<b>Tier 1 Capital</b>		
Paid up Capital	28,614	23,358
Retained Profits	(2,450)	–
Premium liability surplus	47,503	45,477
	73,667	68,835
Less Deductions	(850)	(745)
Net Tier 1 Capital	72,817	68,090
Total Capital Base	72,817	68,090
Minimum Capital Requirement	26,223	24,027
Capital Surplus to Regulatory Requirements	46,594	44,063
Capital Adequacy Multiple	2.78	2.83

Notes to and forming part of the Summary Financial Report  
for the year ended 30 June 2011

## Note 5

**Segment Reporting**

Prior to 1 July 2003 the Parent Entity, a medical defence organisation, offered discretionary indemnity to its members and used its Controlled Entity (a general insurer) as a vehicle to access reinsurance. Due to legislative changes, since 1 July 2003 the Parent Entity can no longer offer indemnity cover but continues to collect subscription income for member services. The Controlled Entity offers general insurance to the Parent Entity, doctors, medical students and corporate entities involved in the provision of health care services and professional indemnity to privately practicing midwives.

The Parent Entity operates solely to support and protect the character, status and interests of the members of the Medical Defence Association of South Australia Limited.

The Consolidated Entity operates solely in Australia and therefore is not considered to have a secondary segment or distinguishable geographical segments.

The Discretionary Indemnity segment reflects the result and financial position for the Parent Entity. The General Insurance segment reflects the result and the financial position for the Controlled Entity.

	Discretionary Indemnity		General Insurance		Eliminations		Consolidated Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Premium Revenue	–	–	27,535	31,495	(196)	(439)	27,339	31,056
	–	–	27,535	31,495	(196)	(439)	27,339	31,056
Gross Claims Expense – Risks borne In the Current Year	(733)	(95)	(33,303)	(28,988)	84	(1)	(33,952)	(29,084)
Gross Claims Expense – Risks borne In Prior Years	4,781	6,631	250	21,325	(3,047)	(2,083)	1,984	25,873
Reinsurance and Other Recoveries Undiscounted	(3,178)	(3,189)	13,465	(4,712)	2,962	2,085	13,249	(5,816)
Discount to Present Value	(112)	(718)	2,361	(403)	–	(1)	2,249	(1,122)
Net Claims Incurred	758	2,629	(17,227)	(12,778)	(1)	–	(16,470)	(10,149)
Outward Reinsurance and Medical Indemnity Insurance Expense	(196)	(439)	(6,773)	(8,364)	196	439	(6,773)	(8,364)
Professional Fees Expense	(16)	(20)	(1,358)	(1,246)	–	–	(1,374)	(1,266)
Management Fee Charged by Parent	–	–	(6,015)	(5,512)	6,015	5,512	–	–
Employment Expenses	(5,461)	(5,066)	(638)	(607)	–	–	(6,099)	(5,673)
General and Administrative Expenses	(1,039)	(1,132)	(3,268)	(3,182)	–	–	(4,307)	(4,314)
Other Underwriting Expenses	–	–	(506)	(598)	–	–	(506)	(598)
Underwriting Result	(5,954)	(4,028)	(8,250)	(792)	6,014	5,512	(8,190)	692
Subscription Revenue	4,960	4,830	–	–	–	–	4,960	4,830
Management Fee Income within the Group	6,015	5,512	–	–	(6,015)	(5,512)	–	–
Other Income	–	–	625	744	–	–	625	744
Net Loss on the Sale of Property Plant and Equipment	(17)	(8)	–	–	–	–	(17)	(8)
Results from Operating Activities	5,004	6,306	(7,625)	(48)	(1)	–	(2,622)	6,258
Finance Income	519	617	9,463	9,239	–	–	9,982	9,856
Finance Costs	(5)	(14)	(47)	(46)	–	–	(52)	(60)
Net Finance Income	514	603	9,416	9,193	–	–	9,930	9,796
Profit Before Tax	5,518	6,909	1,791	9,145	(1)	–	7,308	16,054
Income Tax Relating to Ordinary Activities	152	189	472	2,652	–	–	624	2,841
Total Comprehensive Income for the Period	5,366	6,720	1,319	6,493	(1)	–	6,684	13,213

(Note 5 continues on next page)

Note 5 (continued)	Discretionary Indemnity		General Insurance		Eliminations		Consolidated Entity	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current Assets	19,048	22,000	45,815	40,793	(5,631)	(8,216)	59,232	54,577
Total Assets	57,976	58,173	222,278	197,414	(40,883)	(39,301)	239,371	216,286
Current Liabilities	12,248	14,640	38,774	34,765	(8,892)	(10,045)	42,130	39,360
Total Liabilities	25,677	31,240	146,162	127,873	(12,269)	(15,943)	159,570	143,169
Net Assets	32,299	26,933	76,116	69,541	(28,614)	(23,358)	79,801	73,117
Contributed Equity	–	–	28,614	23,358	(28,614)	(23,358)	–	–
Retained Profits	32,299	26,933	47,502	46,183	–	–	79,801	73,117
Total Equity	32,299	26,933	76,116	69,541	(28,614)	(23,358)	79,801	73,117

# Independent auditor's report

Summary Financial Report – Year Ended 30 June 2011

## Report on the summary financial report

The accompanying summary financial statements which comprise the summary statement of financial position as at 30 June 2011, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial report of Medical Defence Association of South Australia Limited ("the Company") for the year ended 30 June 2011. We expressed an unmodified audit opinion on that financial report in our report dated 21 September 2011.

The summary financial statements do not contain all the disclosures required by Australian Accounting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial report of Medical Defence Association of South Australia Limited.

## Director's Responsibility for the Summary Financial Statements

The director's of the Company are responsible for the preparation of the summary of the audited financial report.

## Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.

## Opinion

In our opinion, the summary financial statements derived from the audited financial report of Medical Defence Association of South Australia Limited for the year ended 30 June 2011 are consistent, in all material respects, with the audited financial report.

KPMG

## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To the Directors of Medical Defence Association of South Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Darren Scammell  
Partner

Melbourne  
Dated 20th day of September 2011

Darren Scammell  
Partner

Melbourne  
Dated 20th day of September 2011

## Summary Financial Report Year Ended 30 June 2011

### **Medical Insurance Australia Pty Ltd**

A C N 092 709 629

The Directors present their Summary Financial Report of Medical Insurance Australia Pty Ltd for the financial year ended 30 June 2011 and the independent audit report thereon.

### **Contents**

Statement of Financial Position / 24

Statement of Cash Flows / 25

Statement of Comprehensive Income / 26

Statement of Changes in Equity / 27

Notes to and forming part of the Summary Financial Report / 28

Independent Auditor's Report / 30



# Statement of Financial Position

Summary Financial Report as at 30 June 2011

	<b>2011</b> \$'000	2010 \$'000
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	26,646	25,845
Trade and Other Receivables	6,144	8,839
Reinsurance and Other Recoveries Receivable	2,106	2,060
Investments	11,847	3,614
Income Tax Receivable	844	184
Other Assets	228	251
<b>TOTAL CURRENT ASSETS</b>	<b>45,815</b>	<b>40,793</b>
<b>NON-CURRENT ASSETS</b>		
Reinsurance and Other Recoveries Receivable	49,901	41,219
Investments	125,713	114,658
Deferred Tax Assets	849	744
<b>TOTAL NON-CURRENT ASSETS</b>	<b>176,463</b>	<b>156,621</b>
<b>TOTAL ASSETS</b>	<b>222,278</b>	<b>197,414</b>
<b>CURRENT LIABILITIES</b>		
Trade and Other Payables	4,398	4,284
Outstanding Claims Provision	21,541	17,903
Income Tax Payable	–	–
Other Liabilities	12,835	12,578
<b>TOTAL CURRENT LIABILITIES</b>	<b>38,774</b>	<b>34,765</b>
<b>NON-CURRENT LIABILITIES</b>		
Outstanding Claims Provision	107,388	93,108
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>107,388</b>	<b>93,108</b>
<b>TOTAL LIABILITIES</b>	<b>146,162</b>	<b>127,873</b>
<b>NET ASSETS</b>	<b>76,116</b>	<b>69,541</b>
<b>EQUITY</b>		
Contributed Equity	28,614	23,358
Retained Profits	47,502	46,183
<b>TOTAL EQUITY</b>	<b>76,116</b>	<b>69,541</b>

## Discussion and Analysis of the Statement of Financial Position

Total Assets have increased by \$24.864m from 30 June 2010 to 30 June 2011. This movement is due to a:

- \$18.089m increase in the investment portfolio reflected by a decrease in the Cash and Cash Equivalents of \$1.199m and an increase in Other Investments of \$19.288m. This has been funded, in part, by the equity contribution of the Parent and by the increase in retained earnings and lower Trade and Other Receivable balances
- \$2.695m decrease in Trade and Other Receivables which is predominantly owing from the Parent. This is due to the timing of premium and other transfers between the Parent and the Company at year end
- \$8.728m increase in Reinsurance and Other Recoveries Receivable in line with the increased cost of claims.

Total Liabilities have increased by \$18.289m from 30 June 2010 to 30 June 2011. This movement is primarily due to the increase in Outstanding Claims Provision of \$17.918m due to the increase in cost of claims.

The movement in Total Equity of \$6.575m, from 30 June 2010 to 30 June 2011 reflects the net profit after tax for the year and an increase in contributed equity of \$5.256m for the year.

The accompanying discussion and analysis form part of the summary financial report.

# Statement of Cash Flows

Summary Financial Report for the year ended 30 June 2011

	<b>2011</b>	2010
	Inflows (Outflows)	Inflows (Outflows)
	\$'000	\$'000
<b>Cash Flows from Operating Activities:</b>		
Premium Received	28,383	29,654
Sundry Income	638	781
Reinsurance Paid	(6,855)	(8,114)
Reinsurance and Other Recoveries Received	472	3,814
Claims Paid	(8,507)	(11,729)
Management Fees Paid to Parent Entity	(5,752)	(4,266)
Payments to Suppliers and Employees	(3,775)	(7,686)
Cash Generated From Operations Before Tax	4,604	2,454
Income Tax Paid	(1,236)	(2,241)
<b>Net Cash (used in)/from Operating Activities</b>	<b>3,368</b>	<b>213</b>
<b>Cash Flows from Investing Activities</b>		
Interest Received	8,867	7,736
Dividends Received	440	331
Proceeds from Sale or Maturity of Investments	15,727	32,000
Acquisitions of Investments	(34,857)	(77,221)
<b>Net Cash Used In Investing Activities</b>	<b>(9,823)</b>	<b>(37,154)</b>
<b>Cash Flows from Financing Activities</b>		
Parent Entity Equity Contribution	5,256	8,276
<b>Net Cash Provided by Financing Activities</b>	<b>5,256</b>	<b>8,276</b>
Net (Decrease)/Increase in Cash Held	(1,199)	(28,665)
Cash and Cash Equivalents at 1 July	25,845	54,510
<b>Cash and Cash Equivalents at 30 June</b>	<b>24,646</b>	<b>25,845</b>

## Discussion and Analysis of the Statement Cash Flows

Premium received during the year to 30 June 2011 was lower by \$1.271m. This is predominately due to the reduction in average premiums for the Doctor Policy in 2010/2011. The impact of this reduction is offset by growth in policies issued across all policy types.

Reinsurance Paid during the year to 30 June 2011 was less by \$1.259m as the Company increased its retained risk and restructured its reinsurance programs.

Claims Paid during the year to 30 June 2011 were \$3.222m lower than during the year to 30 June 2010 as there were less large claim settlements.

The Net Cash used in Investing Activities has decreased by \$27.331m for the year ended 30 June 2011 from the year ended 30 June 2010. This is due to the continued placement of funds in investments with a longer term to maturity, to more closely align the average term to settlement of claims to the average term to maturity of investments. This results in less investments maturing across the year.

The accompanying discussion and analysis form part of the summary financial report.

# Statement of Comprehensive Income

Summary Financial Report for the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Continuing Operations</b>			
Premium Revenue	3	27,535	31,495
		27,535	31,495
Gross Claims Expense - Risks Borne in the Current Year		(33,303)	(28,988)
Gross Claims Expense - Risks Borne in Prior Years		250	21,325
Reinsurance and Other Recoveries Undiscounted		13,465	(4,712)
Discount to Present Value		2,361	(403)
Net Claims Incurred		(17,227)	(12,778)
Outward Reinsurance Expense		(6,773)	(8,364)
Professional Fees Expense		(1,358)	(1,246)
Management Fee Charged by Parent Entity		(6,015)	(5,512)
Employment Expenses		(638)	(607)
General and Administrative Expenses		(3,268)	(3,182)
Other Underwriting Expenses		(506)	(598)
<b>Underwriting Result</b>		<b>(8,250)</b>	<b>(792)</b>
Other Income	3	625	744
Results from Operating Activities		(7,625)	(48)
Interest Income	3	8,402	7,181
Dividend Income	3	390	338
Unrealised Gains on Investments		802	1,720
Realised Losses on Investments		(131)	-
Finance Costs		(47)	(46)
<b>Net Finance Income</b>		<b>9,416</b>	<b>9,193</b>
<b>Profit Before Tax</b>		<b>1,791</b>	<b>9,145</b>
<b>Income Tax Expense</b>		<b>472</b>	<b>2,652</b>
<b>Total Comprehensive Income Attributable to Shareholders</b>		<b>1,319</b>	<b>6,493</b>

## Discussion and Analysis of the Statement of Comprehensive Income

Premium Revenue is \$3.960m less in the year ended 30 June 2011 due to the reduction in average premiums for the Doctor Policy in 2010/2011. The impact of this reduction is offset by growth in policies issued across all policy types.

Gross Claims Expense has increased by \$25.390m. Reinsurance and Other Recoveries have also increased by \$18.177m and there has been a movement in Discount to Present Value of \$2.764m. Net Claims Incurred has increased by \$4.449m. The increase in Gross Claims Expense and associated Reinsurance and Other Recoveries at 30 June 2011 reflects a consistent outcome for Risks Borne in the Current Year and a significantly smaller adjustment to the valuation of prior year claims.

## Performance Ratio Comparisons

	2011 %	2010 %
Underwriting Result to Net Premium	-39.7	-3.4
Net Claims Incurred to Net Premium	83.0	55.2
Reinsurance Expense to Premium	24.6	26.6
Profit Before Tax to Premium	6.5	29.0

Net Premium is Premium Revenue less Outward Reinsurance Expense.

The deterioration in the Underwriting Result to Premium and Net Claims Incurred to Premium ratios is due to the significantly smaller adjustment to the valuation of prior year claims and a reduction in the average premiums for the Doctor Policy in the 2010/2011 year.

The movement in the Reinsurance Expense to Premium ratio reflects a restructure in the reinsurance programs.

The movement in the Profit Before Tax ratio has reduced significantly and reflects the combined impact of the ratios outlined above.

The accompanying discussion and analysis form part of the summary financial report.

# Statement of Changes in Equity

Summary Financial Report for the year ended 30 June 2011

\$'000	Share Capital	Retained Earnings	Total Equity
Balance at 1 July 2010	23,358	46,183	69,541
Total Comprehensive Income for the Period	–	1,319	1,319
Transactions with owners, recorded directly in equity			
Issue of ordinary shares	5,256	–	5,256
<b>Balance at 30 June 2011</b>	<b>28,614</b>	<b>47,502</b>	<b>76,116</b>
Balance at 1 July 2009	15,082	36,690	54,772
Total Comprehensive Income for the Period	–	6,493	6,493
Transactions with owners, recorded directly in equity			
Issue of ordinary shares	8,276	–	8,276
<b>Balance at 30 June 2010</b>	<b>23,358</b>	<b>46,183</b>	<b>69,541</b>

## Discussion and Analysis of the Statement of Changes in Equity

The movement in the Total Equity reflects the movement in Profit for the Period which is detailed in the discussion and analysis of the Statement of Comprehensive Income and an increase in Contributed Equity of \$5.256m from the Parent Entity.

The accompanying discussion and analysis form part of the summary financial report.

## Notes

to and forming part of the Summary Financial Report for the year ended 30 June 2011

### Note 1

#### Basis of preparation of Summary Financial Report

The financial statements and specific disclosures have been derived from the Company's full Financial Report. The Summary Financial Report does not, and cannot be expected to, provide as full an understanding of the financial performance, financial position and financing and investing activities as the Company's full Financial Report.

The Summary Financial Report is presented in Australian dollars, which is the Company's functional currency. The Company is of the

kind referred to in ASIC class order 98/100 dated 10 July 1998 and in accordance with that class order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The Summary Financial Report is prepared on the historical cost basis except that financial instruments held for trading are stated at their fair value.

A full description of the accounting policies adopted by the Company can be found in the

Company's full Financial Report. These accounting policies have been consistently applied.

### Note 2

#### Accounting Estimates and Judgments

The Company makes estimates and judgments in respect of certain key assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors. These include expectations of future events that are believed to be reasonable under the circumstances. The key areas in which critical estimates and judgments are applied are described below.

##### The liability arising from claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claim payments plus a risk margin.

The determination of the amounts that the Company will ultimately pay arising under insurance contracts involves a number of critical assumptions. Further detail on each component of the outstanding claims provision is provided below.

These financial statements record as a liability the present value of expected future payments to be made in respect of reported outstanding claims and incidents to 30 June 2011.

Ultimate numbers of claims are determined after reviewing past reporting patterns. Expected future payments are determined after reviewing average claim sizes for each year and the expected development of incurred costs.

The expected future payments are estimated on the basis of the ultimate cost of settling claims and includes allowance for such factors as trends in court awards (superimposed inflation) and the impact of normal inflation over the period that settlements are expected. The expected future cash flows are discounted to their present value at balance date using a risk free rate.

##### Assets arising from reinsurance contracts and other recoveries

###### Reinsurance

Reinsurance receivables are determined in line with entitlements to indemnity under the Company's reinsurance arrangements. Allowance is made for expected recoveries on future developments of claims reported to date.

###### Other Recoveries

- *High Cost Claims Scheme (HCCS)*

The HCCS was introduced by the Federal Government on 1 January 2003 as a means to stabilise medical indemnity premiums by reducing the cost of large claims to medical indemnity insurers. The Federal Government will reimburse the Company 50% of individual claims above a legislated level. The Appointed Actuary, Finity Consulting Pty Ltd ("Finity") has included an estimate of the impact of the legislative commitment of the Federal Government, under the HCCS, in the valuation of net outstanding claims. Allowance is made based on analysis of past and expected future experience.

- *Run-off Cover Scheme (ROCS)*

The Federal Government has legislated, under the *Medical Indemnity Act 2002*, to reimburse medical indemnity insurers for the cost of eligible Run-off Cover Claims under ROCS. This legislation applies to eligible ROCS claims notified on or after 1 July 2004. Finity has included in the estimate of net outstanding claims liability the value of the recoveries expected under ROCS against eligible claims which have been notified on or since 1 July 2004 or which are expected to be notified in the future. Allowance is made based on analysis of past and expected future experience.

- *Other Recoveries*

Other Recoveries reflect deductible amounts recoverable from policy holders.

**Note 3**

	<b>2011</b> \$'000	2010 \$'000
<b>Revenue</b>		
Operating Activities		
– Premium Revenue	27,535	31,495
– Reinsurance and Other Recoveries	9,200	(2,623)
– Interest Income	8,402	7,181
– Dividend Income	390	338
– Other Income	625	744
<b>Total Revenue and Income</b>	<b>46,152</b>	<b>37,135</b>

**Note 4****Segment Reporting**

The Company has one reportable segment which is located in Australia.

**Note 5****Capital Management and Requirements**

The Board's policy is to maintain a strong capital base so as to maintain investor, policy holder and creditor confidence. The Board of the Company monitors the capital base against the requirements of the Capital Management Plan.

The Company updates its Funding Plan twice a year and projections show that the Company expects to continue to exceed APRA's minimum capital requirement.

The Company has exceeded the minimum capital requirement of APRA and the Capital Management Plan as at 30 June 2011.

As at 30 June 2011, the capital base, minimum capital requirements and the capital adequacy position of the Company are as follows:

	<b>2011</b> \$'000	2010 \$'000
<b>Tier 1 Capital</b>		
Paid up Capital	28,614	23,358
Retained Profits	(2,450)	–
Premium liability surplus	47,503	45,477
	73,667	68,835
Less deductions	(850)	(745)
Net Tier 1 Capital	72,817	68,090
Total Capital Base	72,817	68,090
Minimum Capital Requirement	26,223	24,027
Capital Surplus to Regulatory Requirements	46,594	44,063
Capital Adequacy Multiple	2.78	2.83

# Independent auditor's report

Summary Financial Report – Year Ended 30 June 2011

## Report on the summary financial report

The accompanying summary financial statements, which comprise the summary statement of financial position as at 30 June 2011, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial report of Medical Insurance Australia Pty Limited ("the Company") for the year ended 30 June 2011. We expressed an unmodified audit opinion on that financial report in our report dated 21 September 2011.

The summary financial statements do not contain all the disclosures required by Australian Accounting Standards. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial report of Medical Insurance Australia Pty Limited.

## Director's Responsibility for the Summary Financial Statements

The directors of the Company are responsible for the preparation of the summary of the audited financial report.

## Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Auditing Standard ASA 810 Engagements to Report on Summary Financial Statements.

## Opinion

In our opinion, the summary financial statements derived from the audited financial report of Medical Insurance Australia Pty Limited for the year ended 30 June 2011 are consistent, in all material respects, with the audited financial report.



KPMG

## Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

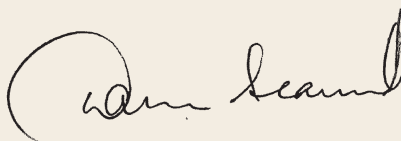
To the Directors of Medical Insurance Australia Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

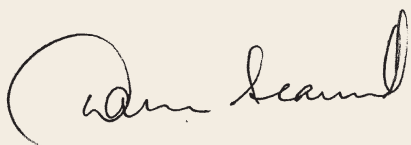


KPMG



Darren Scammell  
Partner

Melbourne  
Dated 20th day of September 2011



Darren Scammell  
Partner

Melbourne  
Dated 20th day of September 2011

# Obituary

The deaths of the following members  
in the past year are recorded with regret

Dr Genevieve Anderson

Dr Michael T Carlton

Dr Noel B Davidson

Dr Margaret J B Dickson

Dr John E S Hardy

Dr Allan A Jessup

Dr Gemunu W Karunaratna

Dr Abdul G Khan

Dr Paul S Lehmann

Dr Philip W S Messent

Dr Jack M Nicholls

Dr Robert Renton

Dr Mark A Robertson

Dr Samuel H Robinson

Dr Lesley Shorne

Dr Tomasita J Sia Smith

Dr Jahar L Sinha

Dr Leila Sinha

Dr George J Smibert

Dr Stephen J Somers

Dr Jonathan Sporne

Dr Wendy A Wickes

Members who passed away  
between September 2010 – August 2011



## How to contact Us

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**MIGA**  
The Medical Insurance Group

Always on your side

Annual Report date:  
Tuesday, 20 September 2011

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