

# 2020 CMPA Annual Report

## Financial performance



Physicians pay membership fees for occurrence-based assistance, which means members are eligible for assistance and protection from the date the patient care was provided, irrespective of when the claim is made. Given the nature of our occurrence-based protection, the Association carries a potential liability for medical liability matters arising from its current and prior members' medical professional work. This includes the work undertaken in 2020 and from all preceding years.

The Association's long-term financial objective is to hold at least one dollar of assets available for claims for each dollar of discounted liabilities. This approach provides physicians

and their patients with confidence that, in the event of harm resulting from negligent medical care (fault in Québec), resources will be available to provide the appropriate protection and compensation to patients on behalf of members. As of December 31, 2020, we held \$5,688 million in assets against \$4,244 million in liabilities, \$3,864 million of which represents the accumulated provision for outstanding claims.

The [consolidated financial statements](#) include the accounts of the Association and our wholly owned subsidiaries **Dow's Lake Court Inc.** (operating under the name Saegis) and **CMPA Investment Corporation**, which hold a number of investment assets.

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# Highlights of the CMPA's 2020 financial statements

with comparative figures  
for the previous four years

(\$ millions)	2020	2019	2018	2017	2016
<b>Statement of financial position</b>					
Assets					
Investment portfolio	<b>\$5,616</b>	\$5,346	\$4,681	\$4,480	\$3,872
Other assets	<b>72</b>	78	82	87	103
Liabilities					
Provision for outstanding claims	<b>3,864</b>	3,860	3,769	3,682	3,579
Other liabilities	<b>380</b>	384	349	244	190
Net assets	<b>1,444</b>	1,180	645	641	206
<b>Statement of operations</b>					
Revenues					
Membership revenue	<b>568</b>	596	637	690	566
Net investment income	<b>249</b>	581	3	415	204
Expenses					
Compensation to patients on behalf of members, legal and experts	<b>416</b>	432	453	433	347
Insurance	<b>25</b>	24	25	57	68
Increase (decrease) in the provision for outstanding claims	<b>4</b>	91	87	103	(6)
Other expenses	<b>93</b>	88	75	69	68
<b>Excess of revenues over expenses</b>	<b>\$279</b>	\$542	\$0	\$443	\$293

For more information, see the [consolidated financial statements](#) for the year-ended December 31, 2020, along with the Independent Auditors' Report and related notes.

# Investment portfolio

The CMPA has a responsibility to invest prudently to maintain adequate funding to ensure we can, on behalf of members, compensate patients harmed by negligent care (fault in Québec) and support physicians now and decades into the future. We are also committed to containing growth in medical liability protection costs.

Our portfolio investments are held by the Association to fund the unpaid claims resulting from members' professional practice. The performance objectives of the portfolio are to:

- on behalf of members, appropriately compensate injured patients harmed by negligent care (fault in Québec), and provide sufficient returns to reduce members' fees, by matching or exceeding the long-term return expectation of 5.5%;
- achieve positive value-added returns (over a passive benchmark return) after deducting management fees; and,
- contribute to a sustainable medical liability system by supporting a predictable member fee structure for our members.

The Association has adopted investment policies, goals, and procedures to manage the investment risk to which it is exposed. Our investment practices are designed to avoid undue risk of loss and impairment of assets and to provide a reasonable expectation of fair return given the nature of the investments. We continue to believe that appropriate diversification is the most effective means of managing investment risk.

2020 was a challenging year for investments with the impact of the pandemic. Given this environment, we are pleased the portfolio produced positive returns during the year and the net investment portfolio value of \$5,565 million represents an overall increase of \$305 million over the year-end 2019 position (see "Net Investment Income" for more information).

Public assets are valued using the closing market price for each security at year end. Private assets (including private debt, equity, and real assets) are valued at their original cost, less any accumulated impairments or estimated reductions in value.

Unrealized gains on private assets are not recorded in the financial statements. It is estimated that net unrealized gains in the value of the private investments totaled \$346 million at December 31, 2020; this is not reflected in the net carrying value of the portfolio.



# Provision for outstanding claims



The provision for outstanding claims is an actuarial estimate of the total resources required by the Association to provide medical liability protection to its members related to occurrences up to and including December 31, 2020. At December 31, 2020, the actuarial estimate for the provision for all accumulated outstanding claims was \$3,864 million, an increase of \$4 million from December 31, 2019.

The provision for outstanding claims is the estimated amount of funds CMPA needs to, on behalf of members, appropriately compensate patients harmed by negligent care (fault in Québec) in the future and manage future legal and administrative expenses.

The difference in the provision for outstanding claims represents the year-over-year change in the estimated value of all unpaid claims resulting from the care already provided by our members. The table below illustrates the change in the liability from the beginning of the year to the end of the year, broken down between the updated experience of prior occurrence years, the addition of the current occurrence year, and the impact of insurance contracts used to transfer risk.

The provision for outstanding claims is the estimated amount of funds CMPA needs to, on behalf of members, appropriately compensate patients harmed by negligent care (fault in Québec) in the future and manage future legal and administrative expenses.

The provision is prepared annually by the Association's Chief Actuary, subjected to peer review by external actuaries, and audited by the external auditor. The provision is valued on a discounted basis of 5.0%.

## Five-year comparison of change in the provision for outstanding claims

(\$ millions)	2020	2019	2018	2017	2016
Provision for outstanding claims, beginning of year	\$3,860	\$3,769	\$3,682	\$3,579	\$3,585
Payments on claims relating to occurrences in prior years	(412)	(400)	(447)	(416)	(331)
Revaluation of the provision for outstanding claims relating to occurrences in prior years	(138)	(81)	72	11	(174)
Change in provision for outstanding claims in respect of occurrences in current year	599	591	537	573	541
Potential risk transfer from insurance contracts	(45)	(19)	(75)	(65)	(42)
Provision for outstanding claims, end of year	3,864	3,860	3,769	3,682	3,579
Increase (decrease)	\$4	\$91	\$87	\$103	(\$6)



# Net assets

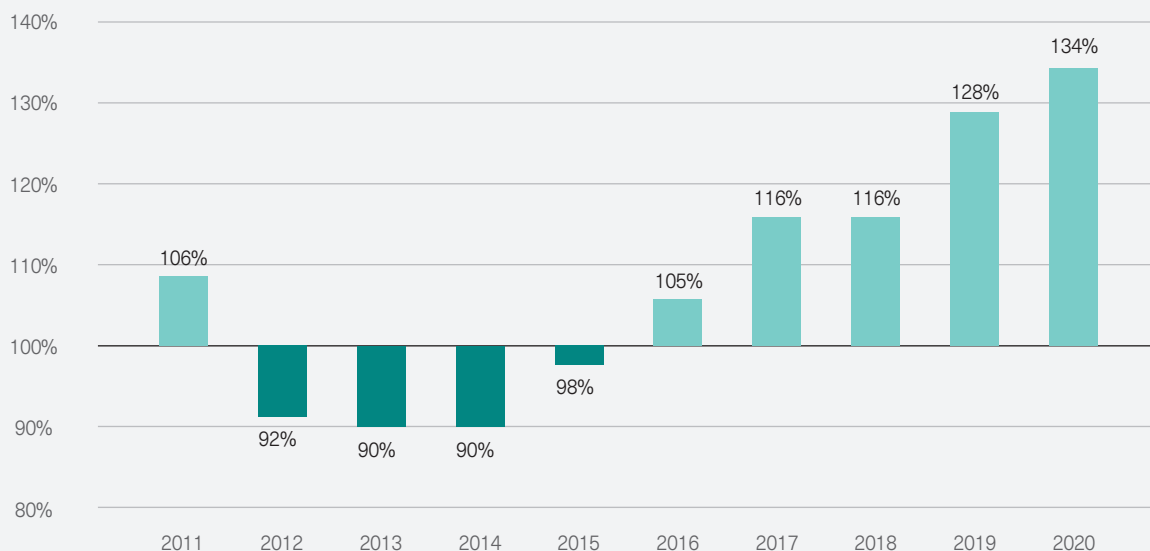
Net assets are the difference between assets and estimated liabilities and provide a point-in-time measure as to whether the Association has the resources necessary to meet its estimated liabilities. The overall net asset position can be expected to change from one year to the next, largely as a result of externally driven factors such as investment returns and/or compensation to patients paid on behalf of members. As of December 31, 2020, the Association had net assets of \$1,444 million; due to significant returns on the investments held in our portfolio, the net asset position improved by \$264 million over 2019.

The CMPA strives to maintain a reasonable net asset position. We use fee debits and credits to manage our

financial position over time. Our current strong financial position allows us to continue to, on behalf of members, compensate patients harmed by negligent medical care (fault in Québec), support members and provides an opportunity to reduce member fees using fee credits.

During 2020 the Association's Council approved the application of net aggregate fee credits of \$99.5 million across its four fee-setting regions for 2021. Also in 2021, the Association's Council approved an aggregate fee credit of \$200 million for the 2022 membership year. Moving forward, if the financial position is above a reasonable level, management plans to reduce membership fees through the use of fee credits to draw down its net asset position.

## Ten-year view of the CMPA funded ratios (Total assets/total liabilities)



# Membership revenues

The CMPA strives to resolve cases and compensate patients on behalf of members when appropriate as quickly as possible. However, in some instances, the full costs of medical liability protection, including patient compensation, may take up to 35 years or more to be fully known.

For example, if a baby is compromised at birth in 2000, a lawsuit may not be launched until decades later. This lawsuit may result in a trial and an appeal, which can take significant time. In this instance, the full cost of protection will not be known until everything has been settled.

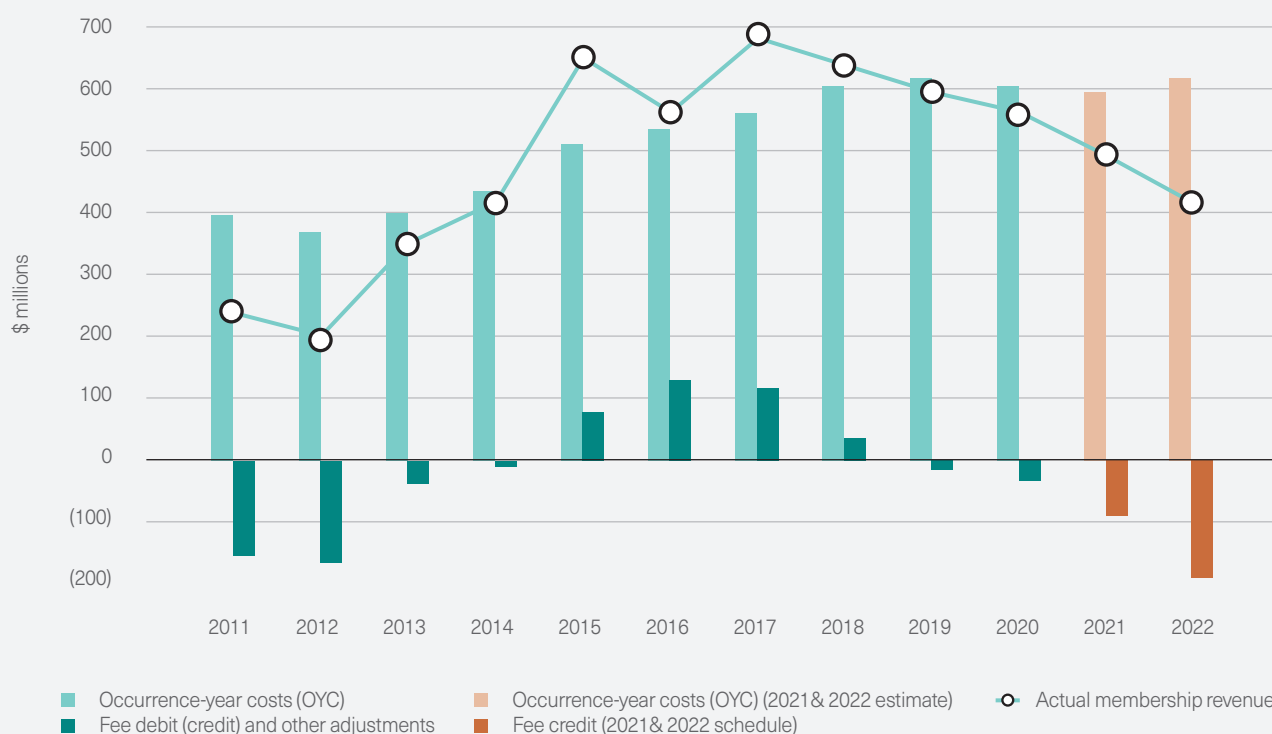
As such, the CMPA seeks to collect, as fees, sufficient funds from our members to cover the anticipated liabilities arising from care they will have delivered in that year. Given the nature of our occurrence-based protection, the fees collected in 2020 will be used to pay out protection costs (including appropriate compensation to patients on behalf of members)

resulting from care provided in 2020 over the next three to four decades. With the goal of members paying the costs of protection for the year in which the care was delivered, the CMPA estimates the expected occurrence-year costs<sup>1</sup> as a basis for membership fees.

In the event the actual experience is different from the predicted values, future fees may be adjusted (either increased or reduced) to address the difference. As illustrated in the graph below, the growth of occurrence-year costs is flattening due to a slowdown in the growth of medico-legal cost trends. This flattening has resulted in slower growth in the provision for outstanding claims which, along with strong investment returns, has resulted in our current favourable net asset position and will lead to an increase in fee credits in 2021 and 2022.

1. Expected occurrence-year costs are actuarially estimated costs for compensation to patients on behalf of members, and legal and administrative expenses arising from medical events in the year of occurrence.

## Review of occurrence-year costs and membership revenues



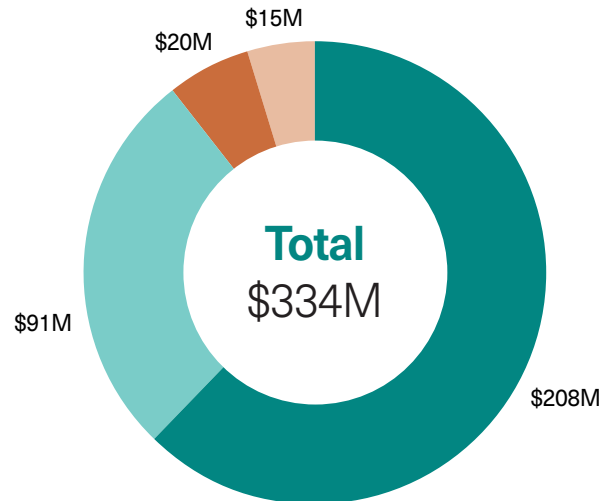


# Net investment income

Portfolio investment income is the combination of interest, dividends and securities lending income, unrealized and realized gains and losses earned on securities, and impairments or recoveries of impairments in the year. Net investment income is comprised of portfolio investment income less investment expenses. The investment expenses represent monies spent, whether with external fund managers or internally within the CMPA, to generate investment income. After recording significant losses in the first quarter of 2020, the investment portfolio went on to generate income of \$334 million before expenses for the year. After taking into account investment expenses of \$86 million, the net investment income was \$248 million.

## Portfolio investment income (\$ millions)

- Net realized/unrealized gains/losses and impairment expense
- Interest income
- Other
- Dividend income



## Portfolio investment return

5-year average  
6.3%

10-year average  
7.9%

Long-term return assumption  
5.5%

2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
0.4%	10.2%	17.5%	11.2%	7.8%	3.4%	11.4%	0.7%	11.3%	4.8%

# Compensation to patients, legal, expert, and insurance costs

Compensation to patients on behalf of members, along with the cost of legal services, expert consultants, and insurance are CMPA's largest expenditures, accounting for 83% of annual expenditures in 2020 (excluding the change in provision for outstanding claims). The specific timing of individual compensation payments can be difficult to predict and the totals may fluctuate from year to year.

The level of patient compensation on behalf of members varies greatly from year to year due to a number of factors such as: the number of high value cases settled, the balance of medico-legal outcomes towards physicians or patients and the duration of those cases. Cumulatively over the last 5 years, the CMPA has provided **\$1.1 billion** in compensation to patients on behalf of members. In 2020, the \$206 million in

payments to patients was \$17 million less than in 2019. When compared to the prior year, this decrease was driven largely by lower average value per case (severity). The 2020 average payment per case decreased by 1% and the number of cases closed with payments declined by 7% over 2019. The following graph highlights the year-over-year variability in payment totals, both at the regional level and when considered nationally.

**Compensation to patients by region**



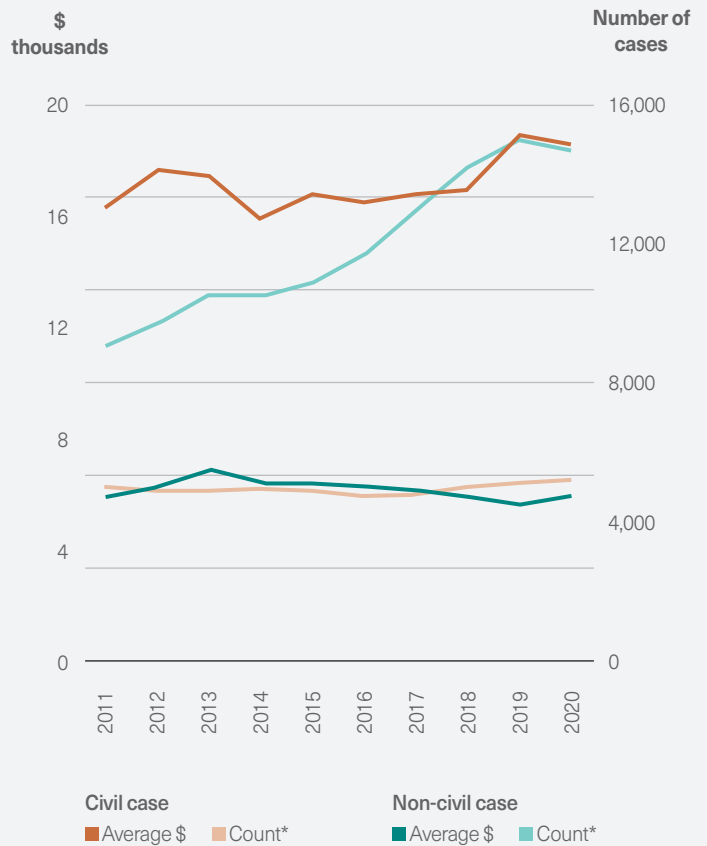


With the objective of reducing the volatility inherent in the compensation to patients component of the provision for outstanding claims, the CMPA has an insurance program to help protect the Association from unexpected costs for occurrences prior to December 31, 2020. At the end of 2020, the Association held insurance policies that provide \$853 million of protection against rising costs, subject to policy limits and thresholds.

Legal fees and disbursements are broken down into two categories: legal costs related to civil actions and threats (i.e. those that might lead to compensation to patients), and non-civil matters, which include advice, College complaints, hospital matters, and other forms of medico-legal assistance. The slight increase of 1% in legal expenditures from 2019 is primarily due to an increase in costs of non-civil cases. While the case count for non-civil cases is down 2%, the increase is driven by higher legal hours in advice cases attributable to the impact of increased advice calls due to the pandemic.

The count of civil cases has been relatively consistent over the past decade whereas it has increased for non-civil cases. Meanwhile, the average legal costs per case have remained constant for non-civil cases and are starting to rise for civil cases as illustrated in this graph.

### Average Legal Costs Per civil case and non-civil case



\* Only cases with legal costs incurred have been included in the count

## Excess of revenue over expenses

In 2020, the Association's revenues exceeded expenses by \$279 million.

## Financial summary

The CMPA's net asset position stands at \$1,444 million, an improvement of \$264 million from 2019 that was driven by lower than expected growth in the provision for outstanding claims and strong returns from our investment portfolio. This positive funded position should provide members and their patients with confidence that the CMPA has the resources to meet the medical liability protection needs of our over 100,000 members and the compensation requirements of patients injured as a consequence of negligent medical care (fault in Québec). This strong financial position will also allow us to continue to support the sustainability of the medical liability system and reduce member fees in the coming years.