



*VPIA: By veterinarians, for veterinarians, since 1987*



# ANNUAL REPORT

## 2018

# TABLE OF CONTENTS

About VPIS	03
A word from the VPIS Board Chair	04
The VPIS team	07
2018: Year in review	17
Notice of 2019 Annual General Meeting	19
Minutes of 2018 Annual General Meeting	20
Independent Auditors Report	23
Financial Statements	26



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## ABOUT VPIS

The Veterinary Professional Insurance Society (VPIS) is a membership organisation established in 1987 to provide professional liability insurance and support to the veterinary profession. We're proud to provide our members with insurance products and claims management services "by veterinarians, for veterinarians".

VPIS provides tailor made professional liability insurance exclusively for the veterinary profession. We insure the majority of New Zealand veterinary practices, including practice employees, locums and contractor veterinarians working for insured practices.

When we say we provide insurance cover that's "by veterinarians, for veterinarians" we mean it. Most of us are veterinarians too. We understand your needs, and your challenges, because we've been there.

As an incorporated society, our motivation isn't profit driven. It's doing our best to protect the interests of our veterinarian members, and the profession. Our members pay an annual subscription for access to VPIS's professional liability insurance, and member benefits. These benefits include pastoral care and support, pre and post loss risk and incident management advice, and education, and discretionary financial support.

*"While the primary role of VPIS is to provide liability insurance to the profession what makes our point of difference is the genuine focus and passion for the well-being of veterinarians, and the standard of the profession.*

*The variety of cases VPIS has dealt with gives us a real insight to many aspects of practice and allows us to have a perspective managing risk in the profession. We have used this to advocate for our members and provide guidance on a range of matters including scanning and pregnancy testing, technician employment, certification for transport, and the regulation of raw milk." Mark Gilmour, VPIS ARC Chair*

## A WORD FROM THE VPIS BOARD CHAIR



**I am pleased to report on a strong and productive year for the Society.**

As the veterinary profession continues to evolve, so too has the breadth of members' services, and subsequent claims. While membership has remained relatively stable, we saw a rise in the number and cost of claims in 2018 versus previous years.

VPIS has, to date, operated as a small insurer with respect to New Zealand insurance regulatory requirements, based on premium income which is related to members' turnover. While initial forecasts indicated that we would reach the large insurer threshold of \$1.5m premium in seven years, the latest actuarial forecast suggests that this is now anticipated within four years. Capital and compliance requirements will increase significantly at that point; therefore growth of assets and retention of capital remain high priorities for the future of the Society. We are well on track with this year's results.

One of the main ways we manage our insurance risk is through our reinsurance arrangement with our long term partner, Vero Liability. While our long term agreement has shielded VPIS from price increases this year, we are mindful of the hard international liability market, trends towards increased regulatory complaints and litigation, and VPIS's increasing loss ratio, year on year. Coupled with the pending shift to the large insurer status, effort is being put into ensuring that we are underwriting, and pricing, our risks appropriately to support the sustainability of the Society for our members.

Our broker, Crombie Lockwood, continues to do an excellent job in managing our policy placement and pricing requirements, to ensure that we can provide the veterinary profession with insurance cover, and premiums, that are second to none.

## A WORD FROM THE VPIS BOARD CHAIR CONTINUED...

VPIS has established new partnerships with Mahony Horner Lawyers and Darroch Forrest Lawyers, to provide a strong legal base to draw from, to support our members when they need it.

Alongside premium income, VPIS's annual membership subscription fees provide access to membership benefits that fall outside standard insurance cover. These benefits include pastoral care and support for veterinarians, pre and post loss risk and incident management advice, and education, and discretionary financial support beyond the scope of VPIS insurance cover. Examples in action this year include advocating on behalf of members with regard to the fitness for transportation certification and complaints process, and animal vaccination certificates, and supporting members to resolve commercial matters where there is no liability on their part.

On the personnel side of things, VPIS has remained relatively stable. Trish Thorpe, Richard Anderson and Dave Donnison have been instrumental in providing operational support to VPIS and our members. We have also appreciated the New Zealand Veterinary Association's (NZVA's) support to ensure we attained a high standard of service.

After almost a year in the role of Executive Officer, Alpha Woolrich has a firm handle on what VPIS is about. Given the pivotal stage that VPIS is at in terms of moving from a small insurer to a large insurer, the Board has identified a need to ensure VPIS has full control over the management and direction of the Society. It has therefore reached a mutual agreement with the NZVA that VPIS will appoint its own Chief Executive Officer, rather than sharing the NZVA's Chief

Executive Officer. Alpha has been appointed to this new position with effect 1st April 2019.

VPIS's Board of Directors, whose dual role is to govern the business and use their expertise to assess and manage claims alongside our members, is unchanged. This year Dr Brendon Bell (equine) and Dr Steve Cranefield (bovine/ livestock) retired by rotation and have offered themselves for re-election. The other Directors are Dr Paul Fraser (equine), Dr Mark Gilmour (production animal) and Dr Tania Bootle (companion animal) and Jim Rhynd (Association of Rural Veterinary Practices farmer representative). Dr Vince Peterson continues to provide invaluable support to the Board through his secondment.

From a process point of view, we are pleased to confirm that we are in the process of replacing our insurance management platform, and look forward to sharing it with you at the NZVA conference in May 2019.



Gavin Shepherd  
VPIS Board Chair



"Over my time with VPIS I've had a number of memorable claims. One aspect that stands out from a lot of these instances is about reassurance to younger veterinarians when something goes wrong. Veterinarians, especially newer graduates, often feel vulnerable and have a genuine concern that the mistake they made may mean they will lose their job or worse their ability to practice. VPIS indemnity insurance is there to compensate for mistakes, and advocate for the veterinarian."

Brendon Bell, VPIS Board member



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# MEET THE VPIS TEAM

## The VPIS Board

Brendon Bell

Steve Cranefield

Paul Fraser

Mark Gilmour (VPIS Board Vice Chair and Audit & Risk Committee Chair)

Tanya Page

Vince Peterson (Immediate Past Chair)

Jim Rhynd (farmer representative for the Association of Rural Veterinary Practices )

Gavin Shepherd (VPIS Board Chair)

## The rest of the VPIS Team

Alpha Woolrich (VPIS CEO)

Trish Thorpe

Richard Anderson

David (Dave) Donnison

## MEET THE VPIS TEAM



**Brendon Bell**

**BVSc Massey 1985, MS, MACVSc**

**VPIS Board member since 2000**

**Species: Equine , Speciality Equine surgery (09 Dec 1998)**

Each of us in our professional working lives face the possibility of something going wrong. Some of the things that go wrong in our job can have life changing effects. When things go wrong, if they are not managed well and with empathy the consequences for the veterinarian involved can be tragic. I had a catastrophe early in my veterinary career and know exactly the effect these instances have on people. Because of this I feel uniquely qualified to be able to assess equine 'when things go wrong' cases with the veterinarian in mind and ensure the process is quick, fair, just and empathetic.



**Steve Cranefield**

**BVSc Massey 1992, BSc**

**VPIS Board member since 2003**

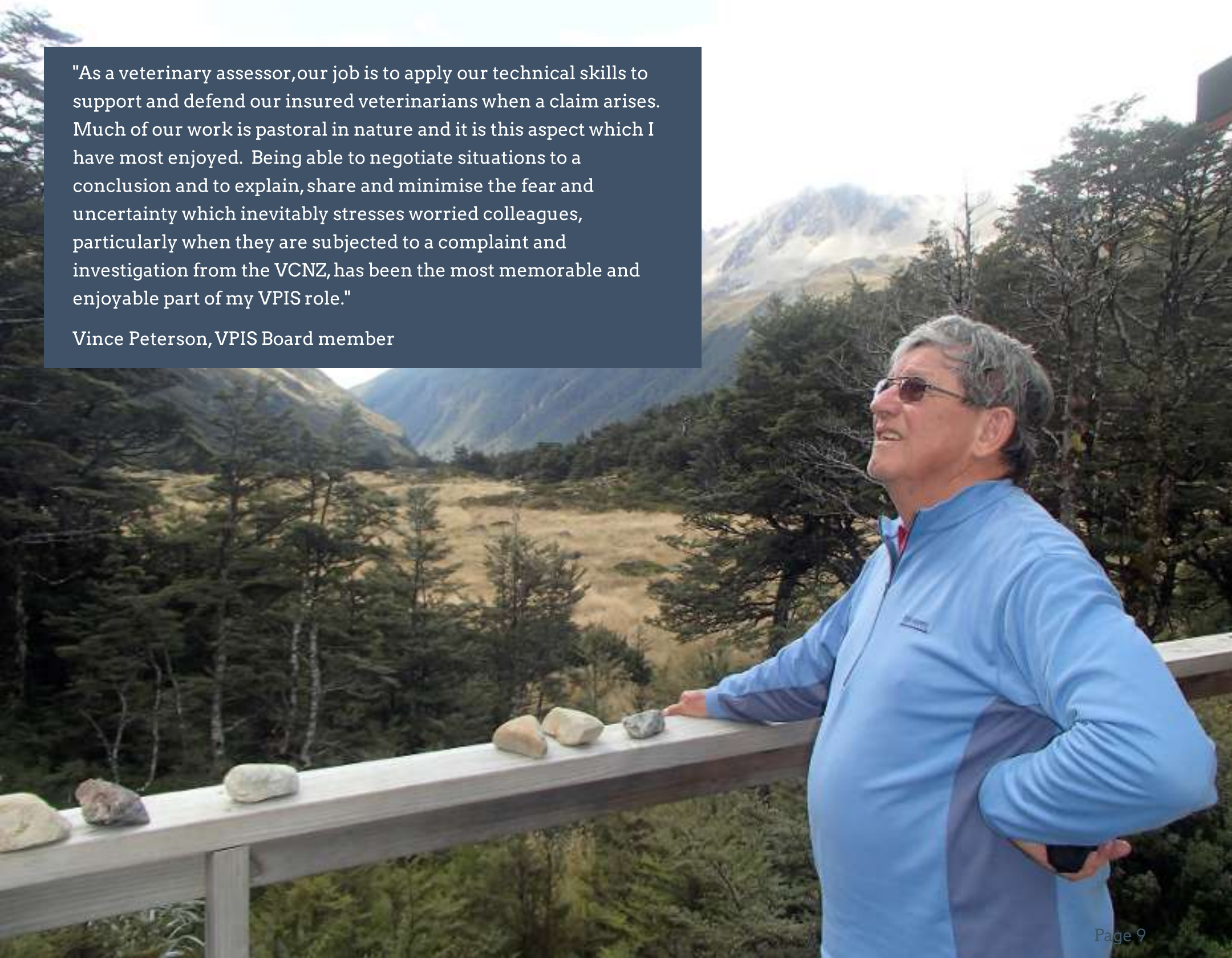
**Species: Bovine / Livestock**

Veterinarians don't work in a black and white world. When dealing with livestock, veterinarians are balancing the emotional and economic needs of their farming clients with the health and welfare of the animal - and often doing so in unpredictable situations. It is inevitable that, despite the best intentions, sometimes things just don't go to plan. I have often said to veterinarians – "thank goodness for VPIS". Yes, we are insurers but VPIS goes well beyond the financial transaction of insurance. I am proud to assist VPIS to provide support, education and a voice of reason in very stressful times for fellow veterinarians.



"As a veterinary assessor, our job is to apply our technical skills to support and defend our insured veterinarians when a claim arises. Much of our work is pastoral in nature and it is this aspect which I have most enjoyed. Being able to negotiate situations to a conclusion and to explain, share and minimise the fear and uncertainty which inevitably stresses worried colleagues, particularly when they are subjected to a complaint and investigation from the VCNZ, has been the most memorable and enjoyable part of my VPIS role."

Vince Peterson, VPIS Board member



## MEET THE VPIS TEAM CONTINUED...



**Paul Fraser**  
**BVSc Massey 1977**  
**VPIS Board member since 2011**  
**Species: Equine**

My passions are helping young veterinarians develop their careers and trying to come up with innovative solutions for problems, both veterinary and non-veterinary, by looking at things from slightly “outside of the box”. My greatest satisfaction is working to ease the anguish of our insured veterinarians when they are subjected to the stress of legal action when things go wrong. Whether the veterinarian is in the right, or in the wrong, is of little consequence. Our job is to guide them through the process of rectifying the issue in a way that minimises the negative impact it may have on them personally and on their professional future. If I can achieve that, I have done my job.



**Mark Gilmour**  
**BVSc Massey 1978**  
**VPIS Board member since 2007**  
**Species: Production animals such as sheep, beef, deer and some dairy**

I know from my time in practice and as a manager that as veterinarians we face some unique challenges and risks. So when my fellow Board member, Vince Peterson, suggested I put my name forward for the VPIS Board it was a great opportunity for me to put something back into the profession. While the primary role of VPIS is to provide indemnity insurance etc to the profession, what I think makes our point of difference is the genuine focus and passion for the well-being of veterinarians, and the standard of the profession, of every Board member past and present.

## MEET THE VPIS TEAM CONTINUED...



**Tanya Page**  
**BVSc Massey 2001**  
**VPIS Board member since 2017**  
**Species: Companion Animal**

I've been a veterinarian for about 17 years now and becoming part of VPIS has allowed me to help the profession that I have been part of over that time.

The complaints procedure is a very stressful time for veterinarians. I have found that it doesn't matter how old the veterinarian is or how experienced they are, from a new graduate to one with specialist qualifications, they are all affected in a similar way. I have a lot of empathy for the demanding work and difficult situations that veterinarians become involved in and it is important to me that veterinarians can feel supported. It is a very satisfying experience to be able to make a complaint go a little more smoothly for the veterinarian and take some of the burden off their shoulders.



**Vince Peterson**  
**BVSc (Hons) Sydney University 1964**  
**BVSc Massey University (H.C.) 2013**  
**VPIS Board member since 1994**  
**Species: Companion Animal**

My role in claims handling has largely been with small animal claims, and in so doing I have become something of a self-taught specialist in dealing with VCNZ complaints and also Dispute Tribunal cases.

One of our earlier Board members used to say that you would be no use at this job if you didn't have a few scars to show as qualification. These metaphorical scars were obtained courtesy of earlier mistakes in your professional career. These scars are a catalyst for learning life's lessons. They can provide experience which in turn can lead into wisdom. Scars come from mistakes and it is inevitable that we will all potentially make some mistakes in our professional life. I had my scars, and these led me onto the Board of the VPIS in the mid-1990s, where I was fortunate to lead the Board for much of my time.



"Our job is to guide veterinarians through the process of rectifying the issue in a way that minimises the negative impact it may have on them personally and on their professional future. If I can achieve that, I have done my job."

Paul Fraser, VPIS Board member

## MEET THE VPIS TEAM CONTINUED...



### **James Rhynd**

**VPIS Board member since 2014**

I'm an experienced dairy & beef farmer in Northland, the Chair of the Northern Wairoa Veterinary Club and the farmer representative for the Association of Rural Veterinary Practices on the VPIS Board.

The services that rural veterinarians provide are essential to a productive and efficient agricultural sector, and VPIS provides a safety net when things go wrong for both farmers & veterinarians working together. While I'm not an Assessor, you could say I provide a practical view from a farmer perspective.



### **Gavin Shepherd**

**BVSc Massey 1979, MAVSc, MBA**

**VPIS Board member since 2007 and Board Chair since 2016**

**Species: Companion Animal**

My area of expertise is small animal practice. I have been a small animal veterinarian for over 30 years, but now manage a veterinary business in the Waikato which employs about 50 veterinarians. My employees shudder when I tell them about the cases we see.

There is a lot of stress when a customer complains about your business, or you as a veterinarian. When you have a complaint progress through to the Veterinary Council, the stakes really escalate. I have been involved with VPIS for 12 years and have supported veterinarians when going through an investigation. The first thing I advise them is "this will take a long time to go through the process". It is not uncommon for the process to take as long as a year.

## MEET THE VPIS TEAM CONTINUED...



**Richard Anderson**

**VPIS ICT Systems and Support Coordinator**

I'm VPIS's IT Manager and I joined the NZVA and VPIS five years ago. My main role for VPIS is principally IT support, maintaining the claims database and website, and attending to any customisation and database reports VPIS needs. I came into the IT world via a happy accident in the early 2000's after dabbling in building and property maintenance. My career has mainly revolved around website and Open Source software development.

**Dave Donnison**

**VPIS Accountant**

I'm VPIS's Accountant, and also fill the Reserve Bank required role of Chief Financial Officer. I'm an experienced Chartered Accountant and I joined the NZVA and VPIS in August 2018 as the next step in a long career in Government agencies and membership organisations in Wellington, where amongst other things I managed comprehensive insurance buying programmes. I've now moved over to the insurer side of the business, keeping track of the money coming into VPIS as premiums, and going out as claims and other expenses, and completing our statutory reporting to the Reserve Bank.

*VPIS: By veterinarians, for veterinarians, since 1987*

## MEET THE VPIS TEAM CONTINUED...



**Trish Thorpe**  
**VPIS Claims Administrator**

I'm VPIS's Claims Assistant and will usually be the first person you speak to when you ring in to notify VPIS of a claim or complaint you've received from a client. I joined the NZVA and VPIS 19 years ago and have developed an in-depth knowledge of the types of claims and stresses that veterinarians face.



**Alpha Woolrich**  
**VPIS Chief Executive Officer**

I'm VPIS's Chief Executive Officer, and former VPIS/ NZVA Executive Officer. I'm responsible for leading the delivery of VPIS's strategic initiatives, overseeing the day to day business operations, and liaising with the Board and regulators. After being introduced to VPIS on my daily commute into Wellington, and joining the team in January 2018, I've quickly found it to be a perfect fit, where I can combine my love for animals and helping people with my unique passions for insurance, risk and analytics.

"The services that rural veterinarians provide are essential to a productive and efficient agricultural sector, and VPIS provides a safety net when things go wrong for both farmers & veterinarians working together. "

Jim Rhynd, VPIS Board member





## 2018 IN REVIEW

Membership dropped slightly in 2018, as a number of small practices ceased to operate, and other practices were acquired by larger, often offshore, entities. While this affected membership subscription income, premium income rose slightly, due to increased membership revenue, and a small premium increase.

VPIS also benefited from favourable investment outcomes in 2018 which contribute to the Society's mid term objective of meeting the large insurer obligations with respect to New Zealand insurance regulation.

We are well on track with this year's results, achieving profit for the year of \$341,635, an equity position of \$2,804M, and a healthy Reserve Bank solvency ratio of 396%.

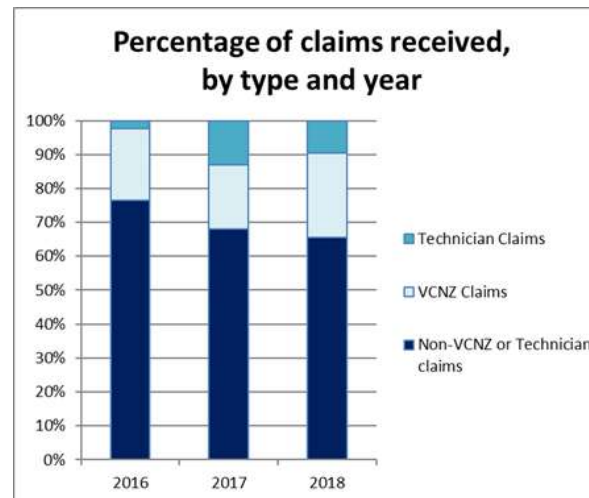
On the claims side, there was a 33% increase in the number of claims in 2018. While claim costs are similar to 2017, these costs generally materialise over two years. The three main types of claim relate to Veterinary Council (VCNZ) complaints, Technician claims, and other Professional Liability claims. Claims involving Veterinary Council complaints increased in 2018, and two have escalated to Judicial proceedings. Technician claims were stable but high, compared to 2016.

While Veterinary Council complaints accounted for approximately 24% of all claims, the costs associated with defending these complaints have accounted for half of the total claim costs for the 2018 insurance year.

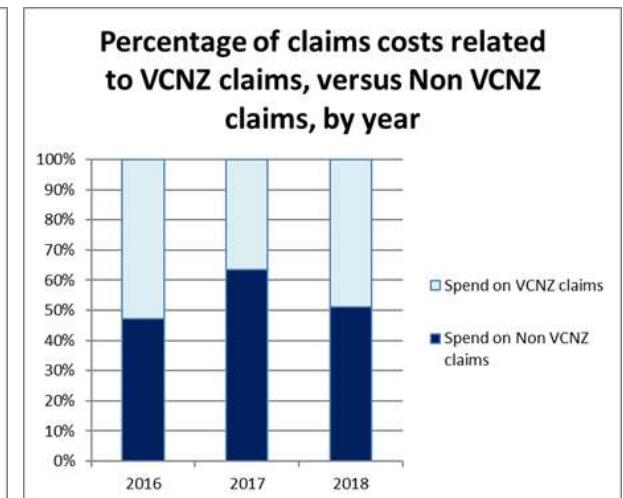
Of note, while fitness for transport claims have subsided in recent months, we have seen an increase in claims involving the use of social media, privacy related claims and single claims lodged against multiple members of a practice. We also received a small number of claims that related to technology liability and product failure, which fell outside the scope of VPIS's professional liability policy.

	2016/2017	2017/2018	2018/2019
<b>Number of Practices</b>	324	314	307
<b>Number of NZVA Vets</b>	1447	1411	1388
<b>Number of Non-NZVA Vets</b>	453	501	469
<b>Total Number of Vets</b>	1900	1912	1857
<b>Number of Technicians</b>	295	318	365
<b>Total Turnover</b>	\$799,838,172	\$823,105,030	\$846,997,369

*The make up of VPIS's members for the years 2016, 2017 and 2018. The detail includes insured Practices, Veterinarians and Technicians, and the total turnover of all members.*

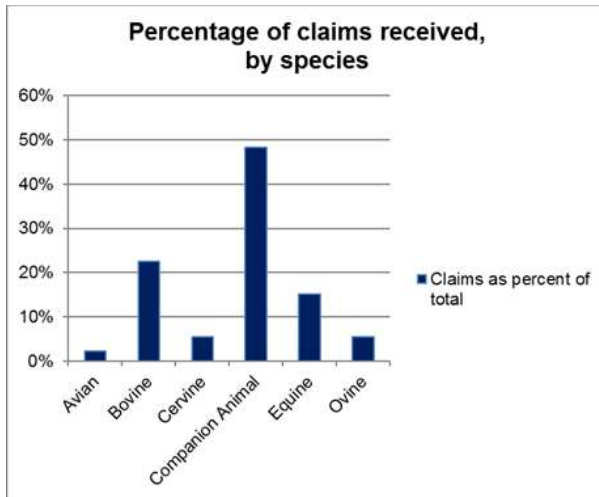


*The percentage split between claims received relating to Veterinary Council complaints, Technician claims and other claims for the years 2016, 2017 and 2018.*



*The percentage split between spend on Veterinary Council complaints and other claims, for the years 2016, 2017 and 2018.*

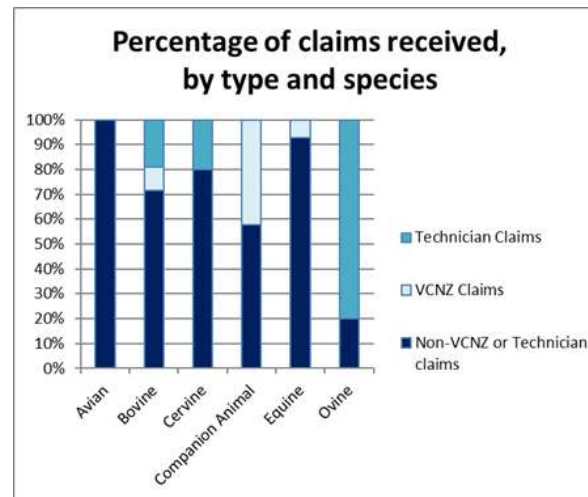
## 2018 IN REVIEW CONTINUED...



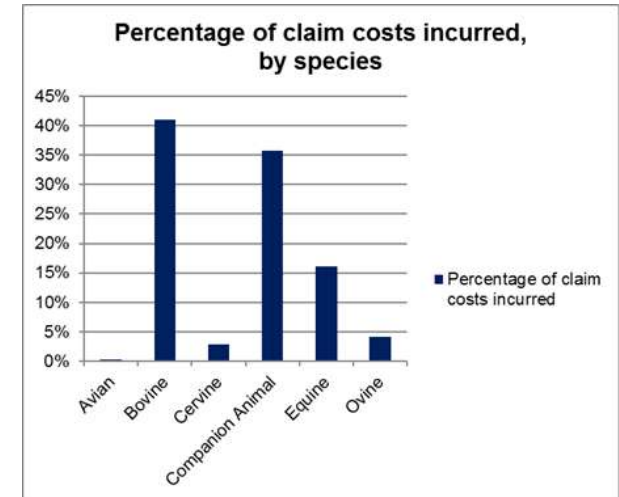
The percentage split of claims received in 2018 by species.

The spread of claims received across species in 2018 was similar to 2017, with close to half of this year's claims involving Companion Animals (48%), followed by Bovine (23%) and Equine (15%).

Over 40% of Companion animal claims were Veterinary Council complaints, and not surprisingly Technician claims related to Bovine, Cervine and Ovine species.



The percentage split of claims costs incurred in 2018 by species.



The percentage split between claims received in 2018 relating to Veterinary Council complaints, Technician claims and other claims, by species.

On the costs side, just over 40% of the year's claim costs related to Bovine claims. The majority of these costs related to one long running Veterinary Council complaint regarding fitness for transport certification. 36% of the claim costs related to Companion Animal claims, similarly influenced by defence costs associated with Veterinary Council complaints. 16% of claim costs related to Equine claims, where costs were largely influenced by financial settlements.



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# NOTICE OF THE 2019 ANNUAL GENERAL MEETING

## NOTICE OF AGM

Notice is hereby given that the 32nd Annual General Meeting of  
the Veterinary Professional Insurance Society (Inc) will be held

at the NZVA Conference, TSB Arena  
4 Queens Wharf, Wellington

5.30pm 23 May 2019

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### Agenda

1. Confirmation of quorum
2. Welcome
3. Apologies
4. Confirmation of Minutes of the 2018 Annual General Meeting
5. Chairman's Report
  - Appointment Chief Executive Officer
6. Financial Report
  - a. Adoption of Annual Accounts for the Year Ended 30 September 2018
  - b. Appointment of auditor for 2019 year end (Deloitte)
7. Election of Officers
8. General Business
9. Venue for 2020 Annual General Meeting

# MINUTES OF THE 2018 ANNUAL GENERAL MEETING

**Minutes of Meeting of the 31st Annual General Meeting of  
Veterinary Professional Insurance Society (Inc)  
held at Claudelands, Hamilton at 3.20pm 20<sup>th</sup> June 2018**

**1. Confirmation of quorum**

The Chairman advised that a quorum was present.

**2. Welcome**

Gavin Shepherd VPIS Board Chair welcomed members to the 31st Annual General Meeting of the Veterinary Professional Insurance Society (VPIS).

**Members Present**

<b>Name</b>	<b>Practice Principal</b>	<b>Name</b>	<b>Practice Principal</b>
Gavin Shepherd (Board Chair)	✓	Grant McCullough	✓
Mark Gilmour (Board)	✓	John O'Brien	✓
Paul Fraser (Board)	✓	Jonathan Robinson	✓
Steve Cranefield (Board)	✓	John Smart	✓
Mark Ward (CEO)	x	Julian Usher	✓
Alpha Woolrich (EO)	x	Mark Bryan	✓
Peter Blaikie (NZVA President)	✓	Nick Twyford	✓
Megan Miller (NZVA)	x	Philip Morrison	✓
Ash Keown	x	Seton Butler	✓
A.A.C. (Celia) Grant	✓	Stephen Hopkinson	✓
Bruce Nicol	✓	Simon Marshall	✓
Craig Kusabs	✓	Steve Merchant	✓
Caroline Robertson	✓	Trish McIntosh	✓
Cath Watson	✓		

**3. Apologies:**

It was resolved the following apologies be accepted;

- Brendon Bell
- Jim Rhynd
- Tanya Bootle
- Vince Peterson

**Moved:** Gavin Shepherd **Seconded:** Craig Kusabs  
*Carried*

# MINUTES OF THE 2018 ANNUAL GENERAL MEETING CONTINUED...

#### 4. Confirmation of Minutes

It was resolved that the minutes of 2017 Annual General Meeting held on 2 August 2017 are accepted as a true and accurate record

**Moved:** Stephen Hopkinson **Seconded:** Mark Gilmour  
*Carried*

There were no matters arising from the minutes.

#### 5. Chairman's Report

The Chair presented the report that was included in the 2017 Annual Report. The following was noted;

Fitness for transport claims have required a large amount of the work in the past 12 months.

VPIS Executive Officer Alpha Woolrich was formally accepted into the vacated role of Executive Officer in January 2018.

The subscription fee for 2018-2019 will remain unchanged

A special thanks was given to the following for their dedicated work to VPIS;

- Trish Thorpe
- Sudeema Pieries
- Alpha Woolrich
- VPIS Board

It was resolved that the 2017 Chair's report be accepted

**Moved:** Gavin Shepherd **Seconded:** Bruce Nicol  
*Carried*

#### 6. Financial Report

##### a. Adoption of Annual Accounts for the Year Ended 30 September 2017

Gavin Shepherd presented the audited financial report for the year ended 30 September 2017.

It was resolved that the audited financial accounts for the period ended 30 September 2017 are accepted

**Moved:** Gavin Shepherd **Seconded:** Bruce Nicol  
*Carried*

##### b. Appointment of auditor for 2018 year end (Deloitte)

It was resolved that Deloitte be appointed as the VPIS auditor for the 2018 financial year

# MINUTES OF THE 2018 ANNUAL GENERAL MEETING CONTINUED...

**7. Election of Officers**

Two Board members retired by rotation: Mark Gilmour and Paul Fraser. Each was willing to stand again. There were no additional nominations. Mark Gilmour and Paul Fraser were declared re-elected for a 3 year term.

The Chair congratulated the successful candidates.

**8. General Business**

The question was asked if it was the role of VPIS to meet with MPI regarding the fitness for transport claims. It was confirmed that VPIS have been liaising closely with VCNZ and Helen Beattie to help clarify the guidelines on how to best deal with these issues.

**9. Venue for 2019 Annual General Meeting**

The date and venue for the 2019 AGM is yet to be determined. Members will be advised once confirmed.

With no further business those present were thanked for their attendance and the meeting was closed at 3.37pm

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

## Independent Auditor's Report

### To the Members of Veterinary Professional Insurance Society Incorporated

**Opinion**

We have audited the financial statements of Veterinary Professional Insurance Society Incorporated (the 'entity'), which comprise the statement of financial position as at 30 September 2018, and the statement of comprehensive revenue and expenses, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 26 to 42, present fairly, in all material respects, the financial position of the entity as at 30 September 2018, and its financial performance and cash flows for the year then ended in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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

We are independent of the entity in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the entity.

**Other Matter**

The financial statements of the entity for the year ended 30 September 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 19 January 2018.

## INDEPENDENT AUDITOR'S REPORT CONTINUED...

**The Board Member's responsibilities for the financial statements**

The Board Members are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with Public Benefit Entity Standards Reduced Disclosure Regime, and for such internal control as the Board Members determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs and ISAs (NZ) 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-B>

This description forms part of our auditor's report.



*VPIIS: By veterinarians, for veterinarians, since 1987*

# INDEPENDENT AUDITOR'S REPORT CONTINUED...

**Deloitte.**

**Restriction on use**

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

*Deloitte Limited*

Wellington, New Zealand  
30 January 2019

This audit report relates to the financial statements of Veterinary Professional Insurance Society (the 'entity') for the year ended 30 September 2018 included on the entity's website. The Board Members are responsible for the maintenance and integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 January 2019 to confirm the information included in the audited financial statements presented on this website.

# FINANCIAL STATEMENTS

**Veterinary Professional Insurance Society Incorporated**  
**Statement of Comprehensive Revenue and Expenses**  
**For the year ended 30 September 2018**

	Notes	2018 \$	2017 Restated \$
<b>Revenue from Exchange Transactions</b>	<b>4.3</b>		
Gross premium		1,136,551	1,099,326
Membership revenue		203,760	205,267
Premium ceded to Re-Insurer		(574,475)	(556,047)
Net premium		<u>765,836</u>	<u>748,546</u>
Miscellaneous revenue		7,301	12,263
Investment income		26,905	36,662
Investment property income		20,400	20,400
Loss on realised investments		(1,692)	(12,057)
Unrealised investment income		126,773	76,590
<b>Total Revenue (including net premium)</b>		<u><b>945,523</b></u>	<u><b>882,404</b></u>
<b>Expenses</b>			
Underwriting Expenses	<b>6</b>	<u>105,154</u>	<u>237,273</u>
		105,154	237,273
Insurance fees and premiums		65,000	65,000
Legal expenses		18,186	15,158
Administration		260,764	251,132
Finance cost		1,037	2,676
Board cost		107,116	108,131
Depreciation and amortisation	<b>10,11</b>	3,525	53,393
Investment management fee		11,191	12,743
Project Expenses		31,915	22,776
<b>Total Expenses</b>		<u><b>603,888</b></u>	<u><b>768,282</b></u>
<b>Total surplus for the year</b>		<u><b>341,635</b></u>	<u><b>114,122</b></u>
Other comprehensive revenue and expenses		-	-
<b>Total comprehensive revenue and expenses for the year</b>		<u><u><b>341,635</b></u></u>	<u><u><b>114,122</b></u></u>

The 2017 Comparatives have been restated to gross up the cost of reinsurance premiums paid. See Note 3.

These financial statements should be read in conjunction with the accounting policies and notes that follow

## FINANCIAL STATEMENTS CONTINUED...

**Veterinary Professional Insurance Society Incorporated  
Statement of Changes in Net Assets  
For the year ended 30 September 2018**

	2018	2017
	\$	\$
Balance as at 1 October	2,463,220	2,349,098
Total Surplus for the year	341,635	114,122
Other comprehensive revenue and expenses	-	-
Total Comprehensive revenue and expenses	<u>341,635</u>	<u>114,122</u>
Balance as at 30 September	<u><u>2,804,855</u></u>	<u><u>2,463,220</u></u>

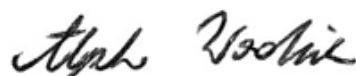
These financial statements should be read in conjunction with the accounting policies and notes that follow

# FINANCIAL STATEMENTS CONTINUED...

**Veterinary Professional Insurance Society Incorporated**  
**Statement of Financial Position**  
**As at 30 September 2018**

	Notes	2018 \$	2017 \$
<b>Current Assets</b>			
Cash and cash equivalents		293,412	581,237
Short term investments	8	100,000	115,691
Receivables from exchange transactions		527,444	461,220
Recoverable from reinsurer in respect of claims provision	7	331,000	358,000
Interest accrued	8	674	2,010
Prepayments		26,250	-
<b>Total Current Assets</b>		1,278,780	1,160,158
<b>Non Current Assets</b>			
Long term receivables		21,928	-
Capital work in progress	9	83,475	6,525
Investment property	11	201,479	205,003
Investment portfolio	12	2,214,914	2,089,143
<b>Total Non Current Assets</b>		2,521,796	2,300,671
<b>Total Assets</b>		3,800,576	3,460,829
<b>Current Liabilities</b>			
Accounts payable from exchange transactions		48,497	127,377
GST payable		49,421	74,016
Subscriptions received in advance		61,146	86,553
Unearned premium		291,513	490,290
Sundry payables		214,144	219,373
Provision for claims	7	331,000	358,000
<b>Total Liabilities</b>		995,721	997,609
<b>Net Assets</b>		2,804,855	2,463,220
<b>Equity</b>		2,804,855	2,463,220

For and on behalf of the Board on 30 January 2019



Executive Officer



Chairman

These financial statements should be read in conjunction with the accounting policies and notes that follow

# FINANCIAL STATEMENTS CONTINUED...

**Veterinary Professional Insurance Society Incorporated  
Statement of Cash Flows  
For the year ended 30 September 2018**

	2018	Restated 2017
	\$	\$
<b>Cashflow from operating activities</b>		
Cash was provided from/ (applied to):		
Insurance premiums	940,220	800,456
Membership Subscriptions	178,354	215,575
Excesses and reinsurer payments received	371,282	435,215
Interest received	14,063	4,646
Other income	(16,628)	32,663
Operational Payments to suppliers	(572,919)	(197,270)
Insurance Claims Paid	(476,436)	(672,488)
Insurance Premiums Paid	(666,801)	(499,301)
<b>Net cash flows (used in) / from operating activities</b>	<u>(228,865)</u>	<u>119,496</u>
<b>Cash flow from investing activities</b>		
Proceeds from sale of financial assets	76,126	2,296,393
Payments to acquire financial assets	(76,814)	(2,311,255)
Proceeds from interest	4,654	5,015
Proceeds from dividends	9,524	26,469
Payments to Management Fees	(11,191)	(12,743)
Payments to acquire software assets	(76,950)	(6,525)
<b>Net cash flow (used in) investing activities</b>	<u>(74,651)</u>	<u>(2,646)</u>
<b>Net cash flow from financing activities</b>	-	-
Net change in cash and cash equivalents	(303,516)	116,850
Cash and cash equivalents, beginning of year	696,928	580,078
<b>Cash and cash equivalents at end of year</b>	<b>7</b> <u>393,412</u>	<u>696,928</u>
<b>Made up of</b>		
Cash and Cash equivalents	393,412	696,928
<b>Total Cash</b>	<b>7</b> <u>393,412</u>	<u>696,928</u>

This Cash Flow Statement has been prepared exclusive of GST and accordingly the 2017 comparative has been restated to be exclusive of GST also. These financial statements should be read in conjunction with the accounting policies and notes that follow

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

### 1. REPORTING ENTITY

The Veterinary Professional Insurance Society Incorporated ("VPIS" or "Society") is a Public Benefit Entity registered as an Incorporated Society under the Incorporated Societies Act 1908 and is domiciled in New Zealand. Under the Insurance (Prudential Supervision) Act 2010 insurers are FMC entities as defined by the Financial Markets Conduct Act 2013.

On 15 July 2013 VPIS was issued its original licence and on 13 August 2015 was issued a revised license to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 and is eligible to use the small insurance exemptions under this Act.

VPIS's principal activities are to establish such schemes or arrangements for insurance on behalf of members of VPIS against professional liability or fidelity guarantee insurance, and to promote administer and operate, on behalf of Members of VPIS, any scheme of insurance so arranged. VPIS also provides advice and education to its members.

VPIS operates a professional liability insurance scheme for veterinary practices and has operated on its revised license since August 2015. VPIS takes advantage of all of the small insurer exemptions. These financial statements were approved for issue by the Board of VPIS on 30 January 2019.

### 2. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with Public Benefit Entity International Public Sector Accounting Standards ("PBE IPSAS") and other applicable financial reporting standards as appropriate that have been authorised for use by the New Zealand Accounting Standards Board for Not-For-Profit entities. For the purposes of complying with NZ GAAP, the Society is a public benefit not-for-profit entity and is eligible to apply Tier 2 Not-For-Profit PBE IPSAS on the basis that it falls within the small insurer exemption.

The Board has elected to report in accordance with Tier 2 Not-For-Profit PBE Accounting Standards and in doing so has taken advantage of all applicable Reduced Disclosure Regime ("RDR") disclosure concessions.

### 3. CHANGES IN PRESENTATION BETWEEN YEARS

There have been changes in presentation of financial information between the years ended September 2017 and 2018, and accordingly there are restatements of comparatives between the two years.

- The presentation of information with regard to premiums ceded to reinsurers has been amended to include both reinsurance premiums paid direct, and extension premiums collected on behalf of reinsurers.

A total of \$448,971 has been reclassified from Insurance Premiums Paid (expense) to Premium Ceded to Reinsurer (offset to income) in respect of Reinsurance premiums paid, and premiums collected for policy extensions where the Reinsurer accepts all of the risk for the additional cover provided.

- Society membership revenue of \$205,267, which is collected as part of premiums, has been reclassified as part of Gross Premiums, but remains itemised separately.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

- The expected value of future claims has been calculated by our Actuary for the first time, and is recorded as a liability of \$331,000, fully offset by an asset representing the right to recover such claims from the reinsurer. The Actuary estimates that, had a similar calculation been done last year, the liability and asset would have been stated at \$358,000.
- The Cash flow statement is now presented exclusive of GST. Additionally, the cash flow now reflects the gross purchases and sales of financial assets by BNZ as portfolio manager.

The purpose of these changes is to better reflect the nature of the insurance arrangements by separating out reinsurance costs which were previously netted against premium income, thereby complying with NZ IFRS 4 as it applies to VPIS.

#### 4. SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below

##### 4.1 Basis of measurement

The measurement system adopted is standard historical cost except for the investment portfolio which is at fair value. The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

##### 4.2 Presentation and Functional Currency

The VPIS financial statements are presented in New Zealand dollars (\$), which is VPIS's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest dollar.

##### 4.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Society and revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding goods and service tax, and insurance recoveries.

The following specific recognition criteria must be met before revenue is recognised.

##### Revenue from Exchange Transactions

###### *Gross Premium*

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the reporting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premiums receivable in respect of business written in prior accounting periods.

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

### **Membership Revenue**

The proportion of membership revenue that is attributable to the current financial year is recognised as revenue in that insurance year. Where this is paid in advance, the unearned portion has been shown as income in advance.

### **Premiums ceded to reinsurer**

Gross outward reinsurance premiums on insurance contracts are recognised as an expense on the earlier of the date when premiums are payable or when the policy becomes effective.

Gross general reinsurance premiums ceded comprise the total premiums payable for the whole cover provided by contracts entered into in the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums ceded in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Reinsurance premiums on the face of the statement of comprehensive revenue and expense have been presented as negative items within net premiums.

### **Investment Income**

Investment income includes net proceeds from dividends, interest received and investments sold during the year. Interest revenue is recognised as it accrues. Dividend revenue is recognised when the dividend is received.

Gains or losses resulting from changes in the market value of shares and bonds are separately identified.

### **Investment Property Income**

Investment property income is the rental income from VPIS's share in the investment property held jointly with the New Zealand Veterinary Association and the New Zealand Veterinary Trust.

## **4.4 Financial Instruments**

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the financial instrument.

The Society derecognises a financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets when the rights to receive cash flows from the asset have expired or are waived, or the Society has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:

- the Society has transferred substantially all the risks and rewards of the asset; or
- the Society has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

### **Financial assets**

Financial assets within the scope of PBE IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets. The classifications of the financial assets are determined at initial recognition.



# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

The categorisation determines subsequent measurement and whether any resulting income and expense is recognised in surplus or deficit or in other comprehensive revenue and expenses. The Society's financial assets are classified as either financial assets at fair value through surplus or deficit, or loans and receivables. VPIS's financial assets include cash and cash equivalents, short term investments, receivables from exchange transactions, investment portfolio and investment property.

All financial assets except for those at fair value through surplus or deficit are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or group of financial assets is impaired. Different criteria are used to identify whether there is any objective evidence that a financial asset or group of financial assets are impaired. These criteria are described below.

### ***Financial assets at fair value through surplus or deficit***

Financial assets at fair value through surplus or deficit include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through surplus or deficit upon initial recognition. All investments of VPIS, except its property investment, fall into this category of financial instruments

### ***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. VPIS's cash and cash equivalents, short-term investments and receivables from exchange transactions fall into this category of financial instruments.

### ***Impairment of financial and non-financial assets***

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication of impairment. If any such indication exists for an asset, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in surplus or deficit within the Statement of Comprehensive Revenue and Expenses.

### ***Financial Liabilities***

The Society's financial liabilities include accounts payables from exchange transactions and sundry payables.

All financial liabilities are initially recognised at fair value (plus transaction cost for financial liabilities not at fair value through surplus or deficit) and are measured subsequently at amortised cost using the effective interest method.

#### **4.5 Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held on call with banks and short-term deposits which have a term of 90 days or less. These are highly liquid investments readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value. Their carrying value approximates to their fair value.

#### **4.6 Short Term Investments**

Short term investments comprise term deposits which have a term of greater than three months but less than 12 months, and therefore do not fall into the category of cash and cash equivalents.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

### 4.7 Receivables from Exchange Transactions

Accounts receivable from exchange transactions are non-interest bearing and receipt is normally due for re-insurance in 7 days and other receivables in 30 days. Therefore the carrying value of receivables approximates its fair value. As at 30 September 2018 and 2017, all overdue balances have been assessed for impairment and no allowance was necessary.

All receivables are subject to credit risk exposure.

### 4.8 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits or service potential embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in surplus or deficit within the depreciation and amortisation line.

The Society doesn't hold any intangible assets that have an indefinite life. The useful economic life of the software is expected to be 4 years.

### 4.9 Investment Property

The investment property is held to earn rentals and/or for capital appreciation, and is accounted for using a historical cost model.

The investment property is stated at cost less accumulated depreciation and any impairment.

Depreciation is charged on a straight-line basis over the useful life of the asset and recognised as an expense in the Statement of Comprehensive Revenue and Expenses.

The depreciation period for the property is as follows.

Investment Property - 50 years

### 4.10 Income Tax

VPIS is exempt from income tax under the Veterinary Services Bodies provisions of Section CW50 of the Income Tax Act 2007.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

### 4.11 Goods and Service Tax (GST)

The financial statements have been prepared on a GST exclusive basis, except for receivables from exchange transactions and accounts payable from exchange transactions which are stated inclusive of GST.

The net amount of GST payable to the Inland Revenue Department is included as part of the payables from exchange transactions in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis. The GST component of cash flows which is recoverable from, or payable to, the Inland Revenue Department is classified as part of operating cash flows.

### 4.12 Provisions

A provision is recognised for a liability when the settlement amount or timing is uncertain; when there is a present legal or constructive obligation as a result of a past event; it is probable that expenditures will be required to settle the obligation; and a reliable estimate of the potential settlement can be made.

Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

### 4.13 Expenditure

#### Gross Claims

Gross insurance claims, fees and expenses include the cost of all claims occurring during the year, and related internal and external claims handling costs that are directly related to the processing and settlement of claims.

#### Claims Ceded

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

#### Other Operating Expenses

All other expenses are recognised in surplus and deficit within the Statement of Comprehensive Revenue and Expenses, upon utilisation of the service or at the date of their origin.

### 4.14 Reinsurance ceded to reinsurance counterparties

VPIS cedes insurance risk in the normal course of business. 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.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that VPIS 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 VPIS will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Revenue and Expenses.

Gains or losses on buying reinsurance are recognised in the statement of comprehensive revenue and expense immediately at the date of purchase and are not amortised.

Ceded reinsurance arrangements do not relieve VPIS from its obligations to policyholders.

### 4.15 Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of comprehensive revenue and expense.

Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

## 5. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

When preparing the financial statements management undertakes a number of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities.

Judgements have been made in respect of claims acceptance and validity. Further significant estimates are made in conjunction with the appointed Actuary to determine the provision for future claims amounts. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

VPIS management based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Society. Such changes are reflected in the assumptions when they occur.

The risk under any one insurance contract is the possibility that one or more insured events occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is unpredictable.

Moreover, the estimate of the outstanding claims provision is subject to uncertainty due to the tail claims risk for some of the products written by VPIS. Premiums are earned within one year, but the reserves for possible claims remain on the balance sheet for several years. The ultimate claims costs of the claims outstanding at any particular date may be materially higher or lower than current estimates.

VPIS has developed its reinsurance strategy to mitigate these insurance risks. All policies are underwritten so the maximum exposure to VPIS in any one year is the aggregate of \$50,000 per claim or \$150,000 in any year. Insurance events are unpredictable, and the actual number and amount of claims will vary from year to year but VPIS is exposed in each year to a maximum of \$150,000 plus any costs it accepts as part of the process.

The principal risk that VPIS faces under its insurance contracts is that the actual claims exceed the carrying amount of the insurance provisions for any year, and the reinsurer refuses or is unable to pay the excess. This risk is mitigated by the reinsurer's involvement in every claim from the outset.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

VPIS may agree to pay expenses in excess of the insured amount in the policy in certain cases, for example in respect of Administrative Hearings. In such cases, the total claims cost for the year may exceed the retention limit.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although VPIS has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Short term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

### Insurance Credit risk

VPIS has a contingent liability if for any reason expected recoveries are not received from the underwriters.

### Claim Liability Assumptions

VPIS's Appointed Actuary, Andrea Gluyas FNZSA FIAA of PricewaterhouseCoopers Consulting (New Zealand) LP, has prepared a valuation of VPIS's outstanding claims liability as at 30 September 2018.

The valuation was undertaken using the chain ladder methodology for determining future claim payments on open claims. Key assumptions used in determining the outstanding claims liability were as follows:

- Discount rate – nil. Most claims are settled within the year of opening or the following year.
- Inflation rate – the same rates as in recent experience are implicitly allowed through the chain ladder methodology. No additional allowance was made
- Future claims expenses – 2% of claims payments for claims handling. All other claims expenses are assumed to be passed to VPIS's reinsurer
- Reinsurance – as VPIS has met its retention level in each recent year, all future claims payments are assumed to be covered by reinsurance
- The pattern of claims run-off assumed was

Development year	1	2	3	4+
Additional percentage of claims already incurred	100%	3%	1%	0%

## 6. UNDERWRITING EXPENSES AND RECOVERIES

VPIS reinsures its exposure to claims, and seeks to recover all costs over the agreed cap from its reinsurer. Each year the Society makes a full provision up to the cap for potential claims and claims received but not yet settled. This provision is reduced during the year as claims and related expenses are paid.

An agreement was made in 2017-18 relating to certain over cap claims expensed in 2016-17, which resulted in prior year claims costs being recovered; the surplus was recognised as revenue in 2017-18.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

### Underwriting Expenses

	2018	2017
	\$	\$
<b>Claims, fees &amp; expenses</b>		
Expenses incurred - current year claims	316,863	340,022
Expenses incurred - prior years claims	211,798	252,853
	<u>528,661</u>	<u>592,875</u>
Insurance expenses recovered - current year claims	(166,863)	(151,348)
Insurance expenses recovered - prior year claims	(256,644)	(204,004)
	<u>(423,507)</u>	<u>(355,602)</u>
<b>Net Claims cost for the year</b>	<u><u>105,154</u></u>	<u><u>237,273</u></u>

### 7. LIABILITY ADEQUACY TESTING, SOLVENCY DISCLOSURE AND CLAIMS PROVISION

#### *Liability adequacy test and unexpired risk provision*

A liability adequacy test (LAT) is a test to determine whether the net unearned premium provision is sufficient to cover the net premium liability. The net premium liability is the provision deemed necessary to cover the claim risk and expenses associated with unearned premiums plus a risk margin.

An unexpired risk provision is required if there is a deficit of net unearned premium provision less deferred acquisition costs (DAC) compared to net premium liability.

VPIS's unearned premium as at 30 September 2018 is \$0 for the insurance year ended 30 September 2018; the Unearned Premium balance of \$291,513 relates to the insurance year ended 30 September 2019. There is no net premium liability either so there is no overall deficit under the LAT.

#### *Solvency Position*

Under section 4.5 of the Solvency Standard for Non-Life Insurance business, issued by the Reserve Bank of New Zealand under section 55 of the Insurance (Prudential Supervision) Act 2010, VPIS is required to disclose certain information regarding its solvency position. As at 30 September 2018:

- (a) VPIS's Actual Solvency Capital was \$2.72m (2017: \$2.46m)
- (b) VPIS's Minimum Solvency Capital was \$0.687m (2017: \$0.603m)
- (c) VPIS's Solvency Margin was \$2.035m (2017: \$1.85m)
- (d) VPIS's Solvency Ratio was 396%. (2017: 408%)

#### *Future Claims Valuation*

VPIS's actuary has quantified the likely future value of claims at \$331,000 at balance date (2017 \$358,000), and this is presented as a provision in the Statement of Financial Position. This provision is offset by a corresponding asset representing the value of future claims on the reinsurer.

### 8. SHORT TERM INVESTMENTS

The carrying value of cash and cash equivalents approximates their fair value.

# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

Cash at bank earns interest at floating rates on daily deposit balances. Short term deposits for original maturities of 103 days and 35 days earn interest rates of 3.03% and 2.02% respectively.

### 9. CAPITAL WORK IN PROGRESS

VPIS has engaged a software developer to customise a new Insurance Portal for customers, which will be delivered in 2018-19. Costs to date are recorded as Work In Progress. (2017: Nil). The expected cost of the system is \$117,000, subject to 10% contingency.

### 10. INTANGIBLE ASSETS

Fixed assets are stated at cost less accumulated depreciation and impairment.

	2018	Opening Cost	Plus Additions	Less Disposals	Closing Cost	Amortisation for the year	Accumulated Amortisation	Carrying Amount
		\$	\$	\$	\$	\$	\$	\$
Software		175,122	-	-	175,122		175,122	-
		<u>175,122</u>	<u>-</u>	<u>-</u>	<u>175,122</u>		<u>175,122</u>	<u>-</u>
	2017	Opening Cost	Plus Additions	Less Disposals	Closing Cost	Amortisation for the year	Accumulated Amortisation	Carrying Amount
		\$	\$	\$	\$	\$	\$	\$
Software		175,122	-	-	175,122	49,868	175,122	-
		<u>175,122</u>	<u>-</u>	<u>-</u>	<u>175,122</u>	<u>49,868</u>	<u>175,122</u>	<u>-</u>

The full value of VPIS's current insurance sales portal was amortised in 2017.

### 11. INVESTMENT PROPERTY

VPIS has a 25% ownership in the land and building situated at Level 2, 44 Victoria Street, Wellington, the principal place of operation. Ownership is shared with New Zealand Veterinary Association (NZVA) and the New Zealand Veterinary Trust (as successors to the New Zealand Veterinary Association Foundation for Continuing Education) under an agreement for purchase dated August 2006. VPIS is restricted from disposing of the asset since it owns only 25% of the property. There are no contractual obligations to purchase, construct, develop the property or for maintenance and enhancements.

An independent valuation was undertaken in 2017, which did not disclose any reason to adjust the asset for any impairment. The next impairment assessment is planned to be undertaken in 2020.

VPIS receives rental income from NZVA.

Investment property is stated at cost less accumulated depreciation and impairment.

## FINANCIAL STATEMENTS CONTINUED...

**Veterinary Professional Insurance Society Incorporated**  
**Notes to the Financial Statements**  
**For the year ended 30 September 2018**

Investment Property	Opening Cost	Depreciation for the year	Accumulated Depreciation	Carrying amount
2017	253,658	3,525	48,655	205,003
2018	253,658	3,525	52,179	201,479

Reconciliation of the carrying amount at the beginning and end of the period:

Investment Property	\$
Opening balance as at 1 October 2017	205,003
Additions	-
Disposals	-
Depreciation	3,525
Closing balance as at 30 September 2018	201,479

### 12. FINANCIAL INSTRUMENTS RISK

VPIS is exposed to various risks in relation to financial instruments. VPIS's financial assets and liabilities by category are summarised below:

	2018	2017
	\$	\$
<b>Financial Assets</b>		
Cash and Cash Equivalents	293,412	581,237
<i>Loans and Receivables</i>		
Short term Investments	100,000	115,691
Receivables	576,296	467,745
Financial Assets at fair value through Profit and Loss	<u>2,214,914</u>	<u>2,089,143</u>
	<u>3,184,622</u>	<u>3,253,816</u>
<b>Financial Liabilities</b>		
Accounts payable	48,497	127,377
Sundry payables	<u>214,144</u>	<u>265,645</u>
	<u>262,641</u>	<u>393,022</u>



# FINANCIAL STATEMENTS CONTINUED...

## Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

VPIS has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the entity is exposed to credit risk are:

- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid;
- Amounts due from insurance contract holders;
- Amounts due from money market and cash positions.

VPIS structures the levels of credit risk it accepts by placing limits on its exposure by having reinsurer insurance in place to cover amounts that exceed \$50,000 in one claim or \$150,000 over one insurance year. Reinsurance is used to manage insurance risk.

Liquidity and market risk are managed by VPIS through the reinsurance agreement and through limited cover explained above. VPIS's reinsurance provider has a financial risk rating of A+.

As a small insurer, VPIS is not required to have a credit rating.

### 13. COMMITMENTS

VPIS has engaged a software developer to customise a new Insurance Portal for customers, which will be delivered in 2018-19. Costs to date are recorded as Work In Progress. (2017: Nil).

### 14. KEY MANAGEMENT PERSONNEL

VPIS services are provided under contract from New Zealand Veterinary Association Incorporated (NZVA). Mark Ward (NZVA Chief Executive) was the Chief Executive Officer for VPIS. VPIS has no employees.

Alpha Woolrich (an NZVA employee) has been delegated authority as Executive Officer for VPIS.

The management fee charged by NZVA (see note 15) includes the cost of staff salaries.

### 15. RELATED PARTY TRANSACTIONS

#### Rental

VPIS receives rental income from New Zealand Veterinary Association Incorporated (NZVA) who occupy the premises.

Rental Income received for the year was \$20,400 (2017: \$20,400), owed to VPIS as at 30 September 2018 was \$1,955 (2017: \$1,955).

#### Management Fees

VPIS is charged by NZVA for management services provided to VPIS. All transactions are agreed by the VPIS Board.

Management fees were \$157,188 (2017: \$157,188).

## FINANCIAL STATEMENTS CONTINUED...

### Veterinary Professional Insurance Society Incorporated Notes to the Financial Statements For the year ended 30 September 2018

Amounts owed to NZVA as at 30 September 2018 were \$188 (2017: \$15,064).

#### **Fees paid to Board Members**

Board members of the VPIS are contracted as insurance assessors from time to time.

Board member fees and Audit and Risk Committee fees paid for the year were \$82,500 (2017: \$81,130).

Board and Audit and Risk Committee fees owed to Board members as at 30 September 2018 were \$nil (2017: \$nil).

Assessors Fees paid to Board members for the year was \$79,387 (2017 \$96,803).

Board Members received the following payments:

Name		Assessor Fees		Assessor Fees Payable at Balance Date (inc GST)	
		2018	2017	2018	2017
Gavin Shepherd	Board Chair	\$ 2,854	\$ 12,985	\$ -	\$ 14,933
Brendon Bell		\$ 1,563	\$ 3,791	\$ -	\$ -
Jim Rhynd		\$ -	\$ -	\$ -	\$ -
Mark Gilmour	ARC Chair	\$ 1,476	\$ 12,909	\$ -	\$ 14,845
Paul Fraser		\$ 2,100	\$ 2,500	\$ -	\$ -
Steve Cranefield		\$ 7,575	\$ 7,120	\$ -	\$ 7,716
Tanya Bootle		\$ 14,310	\$ 20,013	\$ -	\$ -
Vince Peterson		\$ 49,510	\$ 37,486	\$ -	\$ 12,010
		<b>\$ 79,387</b>	<b>\$ 96,803</b>	<b>\$ -</b>	<b>\$ 49,044</b>

#### 16. EVENTS SUBSEQUENT TO REPORTING DATE

Mark Ward resigned as Chief Executive of New Zealand Veterinary Association Incorporated (NZVA) effective from 31 October 2018 and ceased to be VPIS Chief Executive Officer at that date.

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*VPIS: By veterinarians, for veterinarians, since 1987*