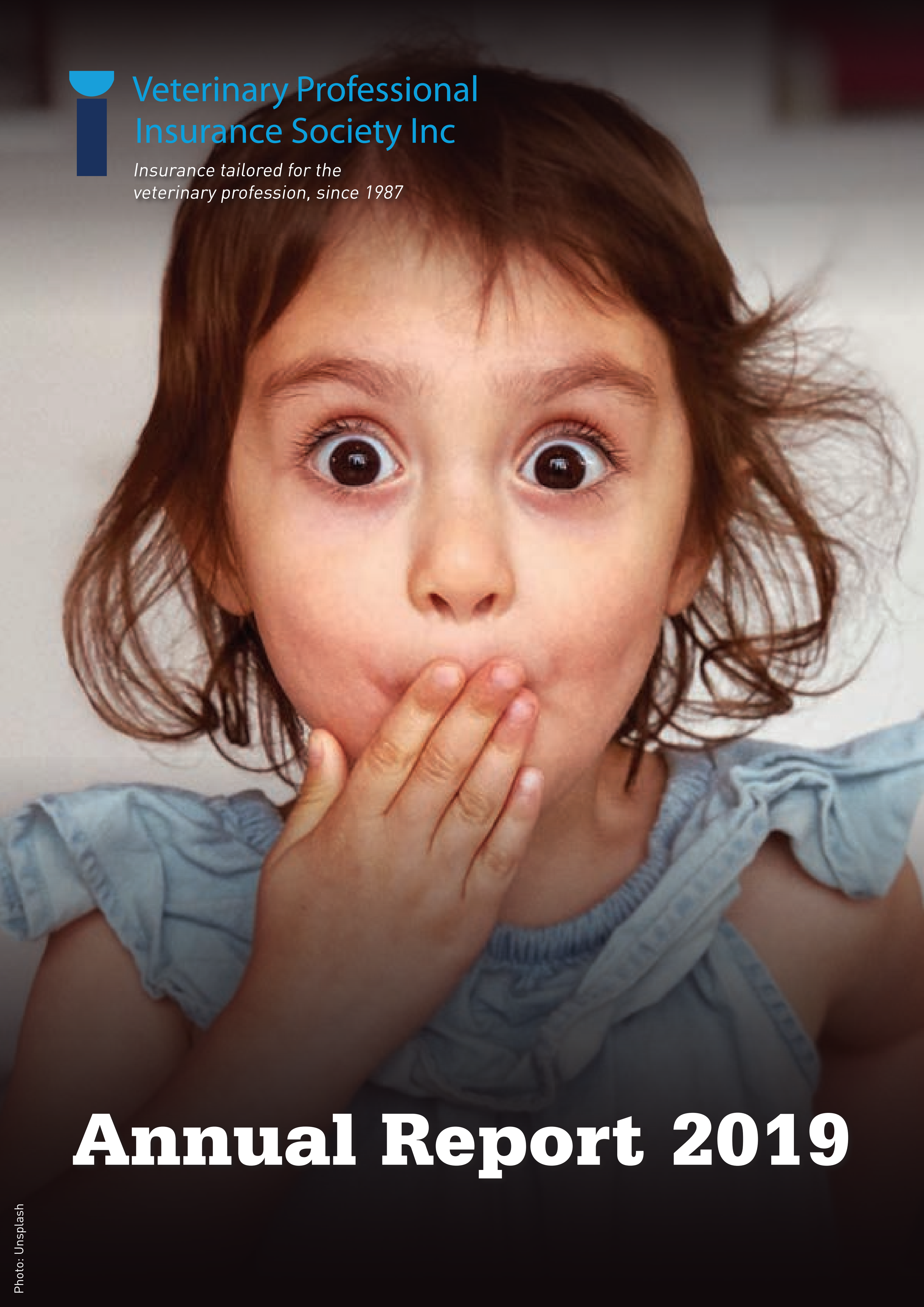
Veterinary Professional Insurance Society Inc

Insurance tailored for the veterinary profession, since 1987



Annual Report 2019

Photo: Unsplash

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About VPIS

The Veterinary Professional Insurance Society (VPIS) is a membership organisation that was established in 1987 to support veterinarians if, and when, things go wrong. We do this primarily by providing tailored Professional Liability insurance, and claims support from fellow veterinarians. This means our members can take comfort that VPIS has their reality covered, from go to whoa.

Our standard Professional Liability package provides Professional Indemnity insurance, Public Liability insurance, Statutory Liability insurance and Employers Liability insurance. Professional Indemnity insurance provides cover for liability and defence costs arising from an actual or alleged breach of and insured member's professional duty. Public Liability insurance provides cover for liability and defence costs arising from physical loss or damage to a person of their property. Statutory Liability insurance provides cover for defence costs and penalties arising from an actual or alleged breach of the law. Employers Liability insurance provides cover for liability to an employee arising from their employment.

Our members get more than just insurance that has been developed and delivered by their peers. They also get membership benefits including pastoral support, pre and post-loss risk and incident advice and education, and discretionary financial support. And as a not-for-profit member society, any profits we make go back into the society to help us support you, when you need us.

Although we're an independent incorporated society, we're big on partnerships working closely with the New Zealand Veterinary Association (NZVA) and the Veterinary Council of New Zealand (VCNZ), for the mutual benefit of our members and the profession. And because most of us are veterinarians at heart, we leave the policy administration to Crombie Lockwood, so we can focus on helping our members when they need it most.

Chairman's report

I would like to start by thanking our members for your continued support this year.

In last year's report I noted that the veterinary profession was continuing to evolve. While that remains true, this year has been our turn. Supporting the veterinary profession remains central to everything we do. However, as we prepare to lose our small insurer status in the next 2-3 years, it is imperative that we have the necessary infrastructure to support our transition and subsequent sustainability for our members. This has led to a review of our policy limits, a shift towards risk-based pricing, the implementation of a new insurance management platform, strengthening of VPIS's legal support base and the employment of VPIS's own dedicated resources. That's an awful lot to tackle in one year, and we acknowledge that doing so has at times been disruptive for members.

In terms of claims experience, the number of claims rose again this year. Liability claim costs tend to materialise over two years and while last year's claim costs are now our highest on record, current indications are that this year's claim costs will be more in line with previous years. The spread of claims remains consistent, with close to half of this year's claims involving Companion Animals (44%), followed by Bovine (25%) and Equine (19%). Of note, while Equine claims normally account for around 20% of all claim costs, this year they have accounted for 49% of all claim costs, so far.

The number of Veterinary Council (VCNZ) complaints was less than half of last year's total, dropping from 23 to 11, and the two judicial hearings from 2018 concluded satisfactorily. Technician claims were consistent with the previous two years. Several claims related to teat sealant, however most of these did not involve a breach of duty, so the policy did not respond. We however provided legal support in negotiations with other parties, including farmers, suppliers and manufacturers, and continue to work with the New Zealand Veterinary Association (NZVA) to ensure risks in this area are effectively mitigated, where possible. We also removed the excesses applicable to Veterinary Council complaints to support early notification.

Our long-standing relationship with our reinsurer, Vero Liability, has largely shielded members from the impacts of general market conditions and premium increases over the years. Our increasing loss ratio in recent years has however put pressure on this. As a result, this year we experienced increased reinsurance costs which we've needed to share with members through premium increases. Alongside this we increased our minimum cover and excesses and spread increases based on claims experience.

A consequence of premium increases is that total premium income collected was higher than forecast, bringing forward the timeframe for breaching the small insurer threshold of $1.5m from four years to 2-3 years.

Alongside premium changes we've made a significant investment in a new insurance management platform to support members with their insurance applications and policy management. We know the platform undoubtedly caused some initial challenges for members at renewal time. Fortunately, these have largely been resolved and benefits are starting to be realised.

While we still ended the year strong, with a profit for the year of $210,595, our investment in our new insurance management platform impacted our equity and solvency positions because the cost of intangible assets such as these can't be offset as an asset. Our equity position dropped from $2.804m to $2.66m and solvency ratio dropped from 396% to 376%. Despite this, actuarial calculations indicate that we will reach the required solvency capital of $3m before we lose our small insurer exemptions, unless there is a significant downturn in investment returns.

Our appointed actuary, Christine Ormrod of PwC, has been invaluable in supporting us to meet our societal and regulatory obligations while remaining focused on our long-term sustainability as an insurer. Our brokers, Crombie Lockwood, have continued to support us and our members in the management of our policy placement and pricing requirements. They've also been instrumental in supporting the development and implementation of our new insurance management platform. Our legal team, of Mahony Horner Lawyers and Darroch Forrest Lawyers, have continued to provide crucial support to us and our members throughout the year, and we are pleased that Morgan Coakle have joined our panel of lawyers.

Our new chief executive (and old executive officer) is leading the multiple streams of change, supported by Trish Thorpe and Richard Anderson, and more recently VPIS's new CFO Margaret Carter. While we have continued to receive strong support through our service level agreement with the NZVA, this partnership is evolving as we prepare to lose our small insurer status.

VPIS's Board of Directors has remained unchanged as they continue to perform their governance duties alongside their roles as Assessors and mentors. This year Dr Tanya Page and I retired by rotation and we have each offered ourselves for re-election. The other Directors are Dr Paul Fraser (Equine), Dr Brendon Bell (Equine), Dr Mark Gilmour (Production Animal) and Dr Steve Cranefield (Dairy) and Jim Rhynd (ARVP farmer representative). Dr Vince Peterson continues to provide invaluable support to the Board through secondment.

As we end an extraordinary year of change, we once again thank you for your continued support and look forward to sharing the benefits with you in the coming year.

Gavin Shepherd

VPIS Board Chair

Our People

VPIS Board Members

Gavin Shepherd

BVSc Massey 1979, MAVSc, MBA

VPIS Board since 2007

Board Chair since 2016

Species: Companion Animal

What does your background bring to the job?

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 around 50 veterinarians. My employees shudder when I tell them about the cases we see.

What do you enjoy about your Board role?

There is a lot of stress when a customer complains about your business, or you as a veterinarian. When a complaint progresses through to the Veterinary Council, the stakes escalate. I have been involved with VPIS for over a decade and supporting veterinarians when going through an investigation is so rewarding, especially when you see the personal and professional difference we make.

Final Word:

The first thing I advise veterinarians is to prepare for the length of time a complaint can take to go through the process. It is not uncommon for the process to take as long a year, and they need to prepare for this. That's where having VPIS support is so important for veterinarians – to know they've got experienced help alongside.

Steve Cranefield

BVSc Massey 1992, BSc

VPIS Board since 2003

Species: Bovine

What does your background bring to the job?

I assess claims involving 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.

What do you most enjoy about your Board role?

I am proud to assist VPIS to provide support, education and a voice of reason in very stressful times for fellow veterinarians.

Most memorable VPIS moment:

As an assessor for dairy related claims, the most memorable moment for me was when I finally met 'face-to-face' with a veterinarian that I had helped to get through a very stressful veterinary council complaints assessment. We had spoken on the phone and via email countless times. There were many late nights preparing submissions as we prepared the case and I became increasingly concerned that we were going to lose a fine young veterinarian from our profession. Through all the turmoil we developed a relationship of sorts but it was not until I met the veterinarian face-to-face 3 years later, in a new role with a new young family, that it sank in for me how different things could have been if it were not for the support that VPIS provides.

Final word:

I often say to veterinarians, "Thank goodness for the VPIS". Yes, VPIS are insurers, but we go well beyond the financial transaction of insurance.

Brendon Bell

BVSc Massey 1985, MS, MACVSc

VPIS Board since 2000

Species: Equine

Speciality: Equine surgery (09 Dec 1998)

What does your background bring to the job?

Each of us in our working professional lives face the possibility of something going wrong. And 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 catastrophic event 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 cases 'when things go wrong', always with the veterinarian in mind ensuring the assessment process is quick, fair and empathetic.

What do you enjoy about your Board role?

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. Over my time with the VPIS I've been involved in many memorable case investigations. And the one aspect of these cases that stands out for me is about the reassurance we can give to younger vets when something goes wrong.

Final Word:

VPIS is there to advocate for the vet and rectify and compensate for mistakes that can happen. Life still goes on, and luckily, I've had no instances where a mistake has resulted in a vet losing their practicing certification.

Jim Rhynd

VPIS Board since 2014

What does your background bring to the job?

I'm an experienced dairy and 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.

What do you enjoy about your Board role?

While I'm not an Assessor, you could say I provide a practical view from a farmer perspective.

Final word:

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

Mark Gilmour

BVSc Massey 1978

VPIS Board since 2007

Species: Production animal

What does your background bring to the job?

I was in a mixed practice in the Rangitikei for 33 years - initially at the Marton Vet Club and since 1980 am a partner in Southern Rangitikei Vet Services. Since 2011 I have been self-employed and provide consultancy services to several companies. I assess claims involving production animals such as sheep, beef, deer and some dairy.

I know from my time in practice, and as a manager, that as vets 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 give something back into the profession.

What do you enjoy about your Board role?

The 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 provide guidance on things like scanning and pregnancy testing, technician employment, certification for transport, raw milk and associated legislation.

Final word:

While the primary role of VPIS is to provide indemnity insurance to the profession, what I think gives us our point of difference is the genuine focus and passion for the well-being of vets, and the standard of the profession, of every Board member past and present.

Paul Fraser

BVSc Massey 1977

VPIS Board since 2011

Species: Equine

What does your background bring to the job?

I spent forty years in equine clinical practice at Cambridge Equine Hospital before retiring from full time work in 2017. Since then, I've continued to work for them on a consultancy basis and occasionally locum for other practices. I assess claims predominantly involving equine.

What do you enjoy about your Board role?

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 vets when they are subjected to the stress of legal action when things go wrong.

Final word:

Whether the vet 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.

Tanya Page

BVSc Massey 2001

VPIS Board since 2017

Species: Companion Animal

What does your background bring to the job?

I've been a veterinarian for about 18 years now and assess claims involving companion animals. Becoming part of VPIS has allowed me to help the profession that I have been part of over that time.

What do you enjoy about your Board role?

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.

Final word:

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 since 1994

Species: Companion Animal

What does your background bring to the job?

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 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 are obtained courtesy of earlier mistakes in your professional career and 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.

What do you enjoy about your Board role?

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.

Final word:

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 subject to a complaint and investigation from the VCNZ, has been the most memorable and enjoyable part of my VPIS role.

VPIS Management & Administration

Alpha Woolrich

I'm the VPIS Chief Executive Officer and am 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.

Trish Thorpe

I'm the Claims Assistant for VPIS 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.

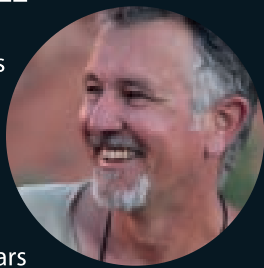
I joined the NZVA and VPIS 20 years ago and have developed an in-depth knowledge of the types of claims and stresses that veterinarians face.

Margaret Carter

I'm VPIS's Chief Financial Officer and Accountant.

I re-joined VPIS in October 2019 after previously working for NZVA and VPIS as Head of Finance and IT from 2012-2014. In recent years I have worked part time rather than full time for not for profit entities in a variety of roles. I am an experienced Chartered Accountant, with a wide range of skills in Financial and Management Accounting, Treasury, Budgeting and Audit, working both in New Zealand and Overseas.

Richard Anderson



I'm the IT Manager for VPIS and focus on IT support, maintaining the claims database and website and attending to any customisation and database reports VPIS needs.

I joined the NZVA and VPIS six years ago and 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.

2019 in review

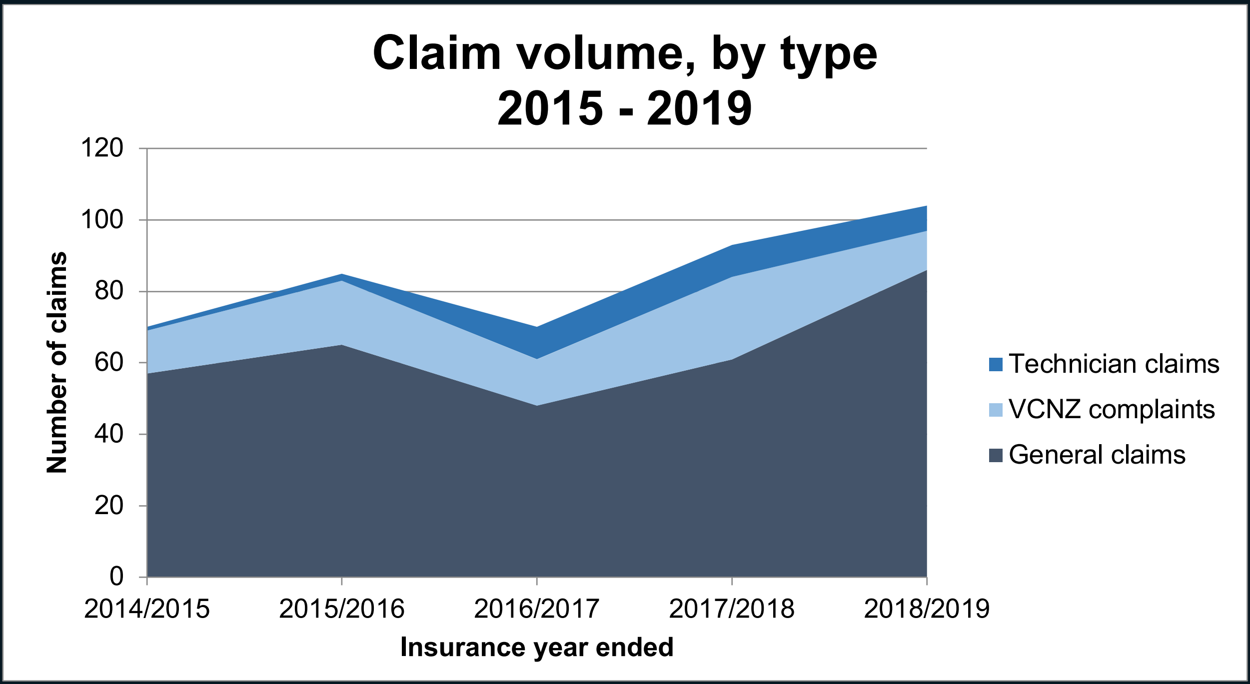
2019 in review

There was a small reduction in the overall number of policies held by VPIS members this year, from 307 to 302. In contrast, the number of insured veterinarians increased, and there was a healthy increase in the total turnover of all members. These factors suggest consolidation across the profession.

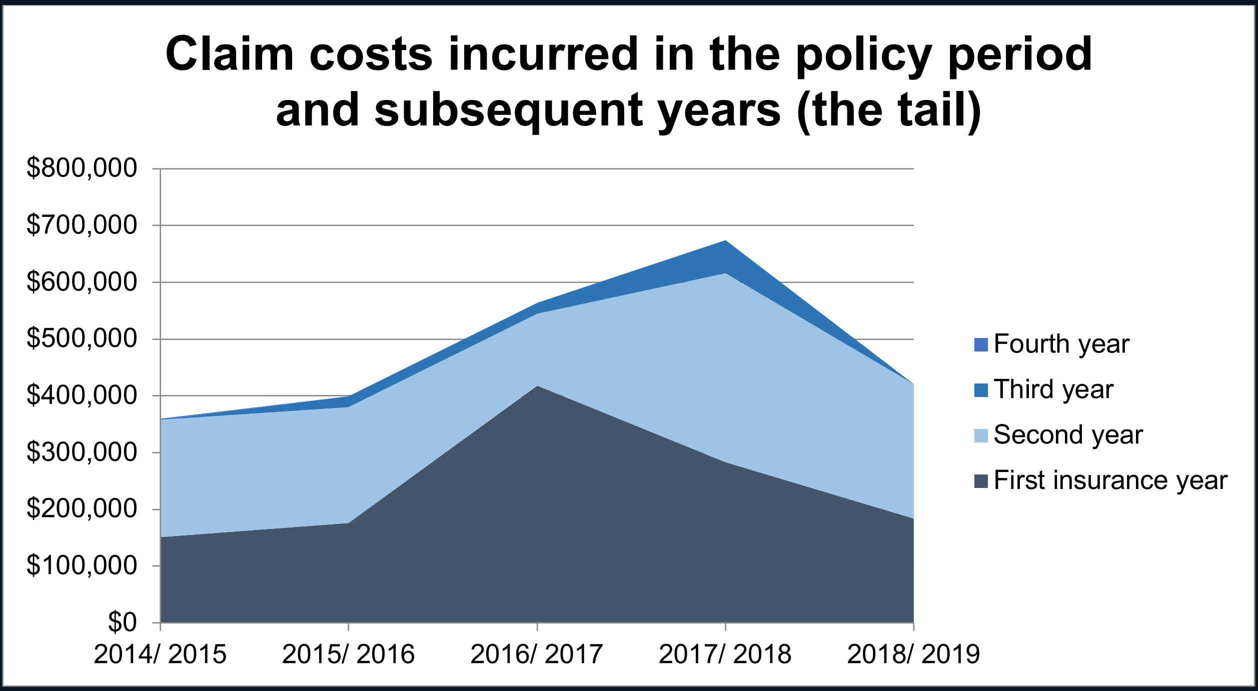
	2016/2017	2017/2018	2018/2019	2019/2020
Number of insurance policies	324	314	307	302
Number of insured veterinarians	1900	1912	1857	1910
Number of insured technicians	295	318	365	347
Percentage of NZVA veterinarians	76%	74%	75%	74%
Total turnover of all insured policyholders	$799,838,000	$823,105,000	$846,997,000	$897,447,000
Percentage change in turnover	N/A	+3%	+3%	+6%

Premium income increased this year, predominantly because VPIS's premiums were increased in response to increased reinsurance costs and a review of our policy limits and claims experience. Alongside this, our investments produced favourable returns, supporting growth of VPIS's capital base. Some of these gains were offset by a significant investment in the much-anticipated new insurance management platform. As a result, we ended the year with a profit of $210K, an equity position of $2.66m and a Reserve Bank solvency ratio of 376%.

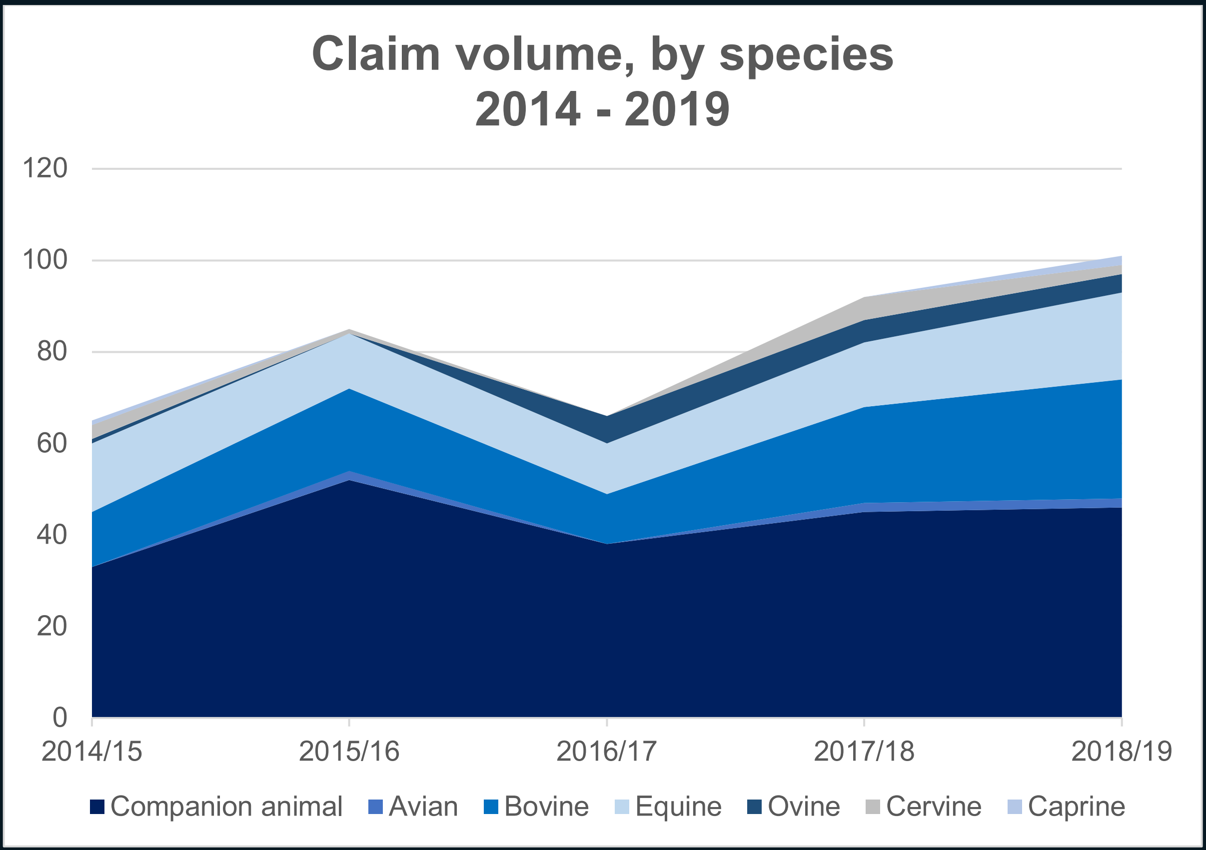
The volume of claims increased by 11% this year, which followed a 33% increase the previous year. Alongside this, we experienced a significant decline in VCNZ complaints which dropped from 25% of all claims to just 11% of all claims.



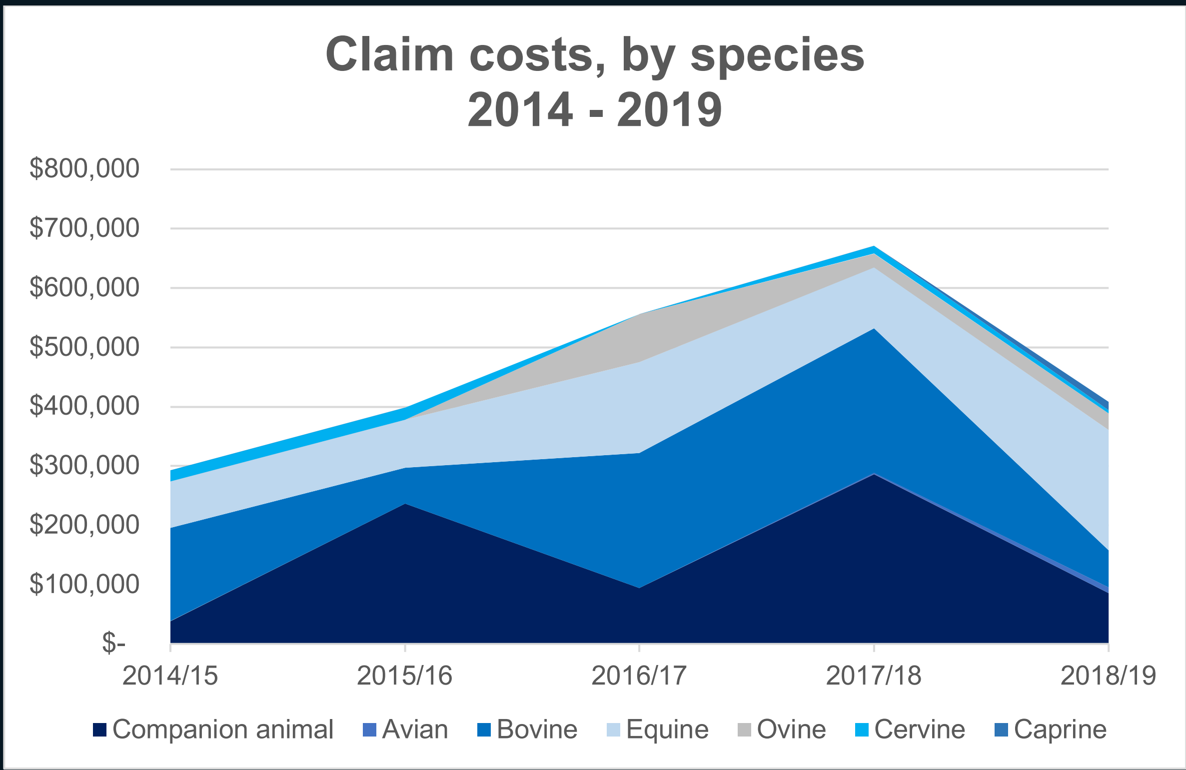
Liability claim costs tend to materialise over several years, which can make it difficult to report meaningful claim results at year end. As illustrated, most of our claim costs are incurred in the year after the claim was lodged. While indications are that costs for 2018/2019 will be lower than the previous two years, we have had an increase in the volume and value of Equine losses, which puts pressure on settlement and defence costs.



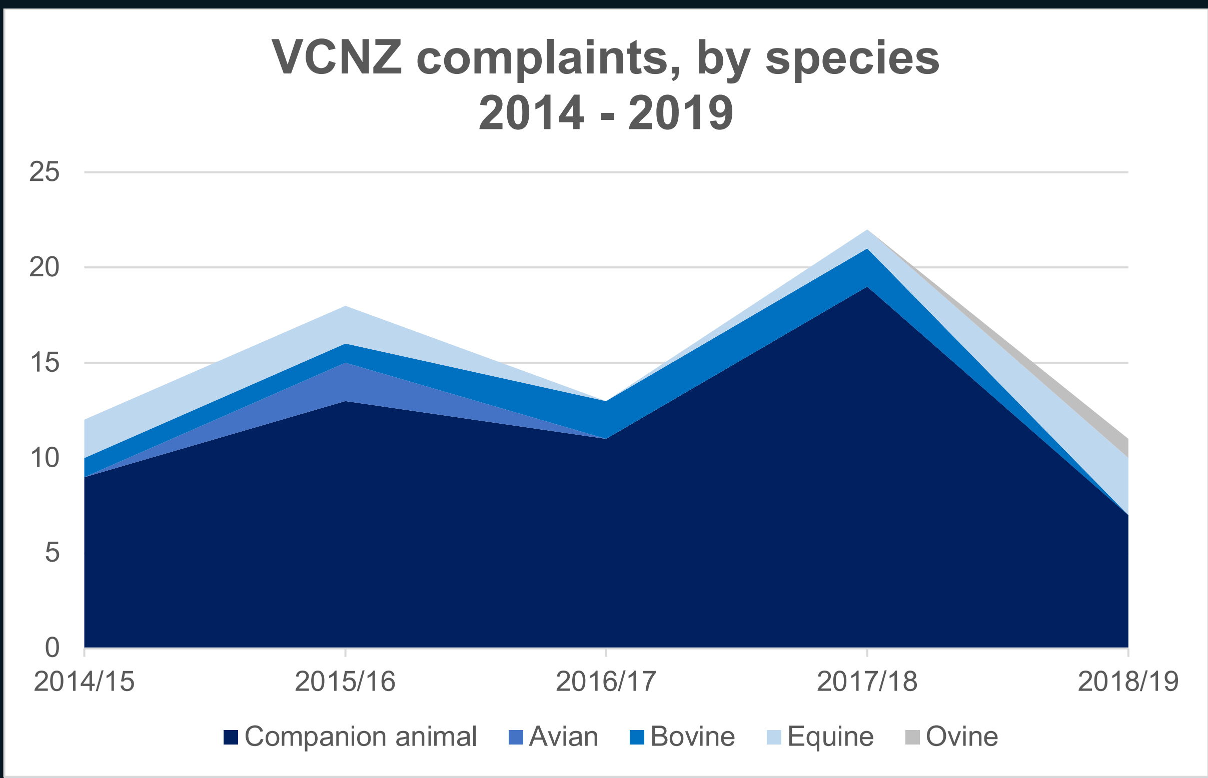
The spread of claim volume by species was consistent with previous years, with close to half of all claims relating to companion animals, a quarter relating to bovine and between fifteen and twenty percent relating to equine. This year the percentage of companion animal claims dropped slightly, from 46% to 44%, while equine claims increased from 15% to 18%.



The spread of claim costs by species is considerably different to last year and is correlated with a significant decline in VCNZ complaints. Not surprisingly, most of our claim costs are split between companion animals, bovine and equine. Companion animal claim costs accounted for 21% of costs this year, down from 43% last year. Bovine claims costs accounted for 15% of costs, down from 36% last year. In contrast, Equine claim costs accounted for 49% of costs, up from 15% last year.



Last year VCNZ complaints accounted for 25% of all claims whereas this year, they accounted for just 11% of all claims. Companion animals remained the most common VCNZ complaint we defended, however this year we saw an increase in complaints relating to Equine.



Notice of 2020 Annual General Meeting

Notice of 2020 Annual General Meeting

NOTICE OF AGM

Notice is hereby given that the 33rd Annual General Meeting of the Veterinary Professional Insurance Society (Inc) will be held

either at the NZVA Office
Level 2, 44 Victoria Street, Wellington

or zoom video call

https://zoom.us/j/460293268?pwd=QlRiUUR5dTdoM0xxYkFQdm04SXpHdz09

https://us02web.zoom.us/j/460293268?pwd=QlRiUUR5dTdoM0xxYkFQdm04SXpHdz09

One tap mobile
+6448860026

5.30pm 28 April 2020

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Agenda

1. Confirmation of quorum
2. Welcome
3. Apologies
4. Confirmation of Minutes of the 2019 Annual General Meeting
5. Chairman's Report
   - Appointment Chief Financial Officer
6. Financial Report
   a. Adoption of Annual Accounts for the Year Ended 30 September 2019
   b. Appointment of auditor for 2020 year end (Deloitte)
7. Election of Officers
8. General Business
9. Venue for 2021 Annual General Meeting

Minutes of 2019 Annual General Meeting

Minutes of 2019 Annual General Meeting

Minutes of Meeting

32nd Annual General Meeting of

the Veterinary Professional Insurance Society (Inc)

5.30pm 23 May 2019

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1. **Confirmation of quorum**

   The Chairman advised that a quorum was not present at the commencement of the meeting. In accordance with the VPIS Constitution, the Chairman adjourned the meeting and recommenced it one minute later.

   The Annual General Meeting was reconvened at 5:36pm.

2. **Welcome**

   Gavin Shepherd welcomed members to the 32nd Annual General Meeting of the Veterinary Professional Insurance Society (VPIS).

   Present: Gavin Shepherd (Chair), Mark Gilmour (Vice Chair), Paul Fraser, Joao Carlos Dib, Craig Lawrence, Guy Alexander, Paul Truscott, Neil Houston, Mark Hosking

   In attendance: Alpha Woolrich (CEO), David Donnison (VPIS CFO), Trish Thorpe (Minutes)

3. **Apologies**

   It was resolved

   That the apologies of Vince Peterson, Brendon Bell, Tanya Page, Jim Rhynd, Steve Cranefield are accepted

   Gavin Shepherd / Paul Fraser
Carried

4. It was resolved

   That the minutes of the 2018 Annual General Meeting are accepted as a true and accurate record

Neil Houston / Paul Fraser
Carried

5. Chairman's Report

The Chairman informed members that his report was included in the VPIS 2018 Annual Report.

He advised:

Two legal firms have been added to the panel, reducing dependency on one firm of solicitors. The premium also includes a membership fee which provides collegial support for members discretionary financial support prior to a claim for breach of duty. Thanked Board and CEO, David Donnison, Trish Thorpe and the rest of the team for their dedicated work.

CEO spoke to recent claims experience.

It was resolved

That the membership subscription remains unchanged.

2018 Annual report is accepted

Neil Houston / Paul Fraser
Carried

6. Appointment Chief Executive Officer

Chair introduced Alpha Woolrich as the VPIS Chief Executive who has an insurance and analytics background.

7. Financial Report

Mark Gilmour spoke to the accounts noting:

There is increasing pressure on the insurance market. Claims costs have increased and VPIS expects there may be an increase in reinsurance premium. Currently investigating premium review vs claims history. VPIS is heading towards Large Insurer status which requires higher reserves over $3m and compliance costs will therefore increase. VPIS has made a significant investment in a new online platform and website provided by Ezidocs which will streamline processes.

It was resolved

That the annual accounts for the year ended 30 September 2018 are adopted

Mark Gilmour / Gavin Shepherd
Carried

It was resolved

That Deloitte be appointed as the auditor for the 2019-2020 period

Mark Gilmour / Paul Fraser
Carried

8. Election of Officers

Two Board members retired by rotation: Brendon Bell and Steve Cranefield. Each was willing to stand again. There were no additional nominations. Brendon Bell and Steve Cranefield were declared re-elected for a 3-year term. The Chair congratulated the successful candidates.

9. General Business

Technicians – claims are mostly around sheep capsuling which accounted for 9% of claims, therefore VPIS is considering whether an additional premium should apply.

Onus is on practices to ensure that training is adequate and accompanied by training records.
Venue for 2020 Annual General Meeting

Date and venue to be advised.

Meeting ended at 6.02pm

Independent Auditor's Report

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 2019, 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 45, present fairly, in all material respects, the financial position of the entity as at 30 September 2019, 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.

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-8

This description forms part of our auditor's report.

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 2020

This audit report relates to the financial statements of Veterinary Professional Insurance Society (the 'entity') for the year ended 30 September 2019 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 2020 to confirm the information included in the audited financial statements presented on this website.

Financial Statements

Financial Statements

Veterinary Professional Insurance Society Incorporated
Statement of Comprehensive Revenue and Expenses
For the year ended 30 September 2019

	Notes	2019 $	2018 $
Revenue from Exchange Transactions	**4,3**		
Gross premium		1,203,679	1,136,551
Premium ceded to Re-Insurer		(584,043)	(574,475)
Net premium		619,636	562,076
Other Revenue			
Membership revenue		204,372	203,760
Miscellaneous revenue		4,908	7,301
Investment income		23,072	26,905
Investment property income		24,252	20,400
Loss on realised investments		(1,077)	(1,692)
Unrealised investment income		149,234	126,773
Total Other revenue		404,761	383,447
Total Revenue (including net premium)		**1,024,397**	**945,523**
Expenses			
Net Claims Cost	**6**	203,634	105,154
		203,634	105,154
Operating Expenses			
Insurance fees and premiums		65,000	65,000
Legal expenses		104,530	18,186
Administration		232,304	260,764
Finance cost		3,650	1,037
Board cost		107,337	107,116
Depreciation and amortisation	**10,11**	3,722	3,525
Investment management fee		6,882	11,191
Personnel Costs		60,494	-
Project Expenses		26,250	31,915
Total Operating Expenses		610,169	498,735
Total Expenses		**813,803**	**603,888**
Total surplus for the year		**210,594**	**341,635**
Other comprehensive revenue and expenses		-	-
Total comprehensive revenue and expenses for the year		**210,594**	**341,635**

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

Veterinary Professional Insurance Society Incorporated
Statement of Changes in Net Assets
For the year ended 30 September 2019

	2019	2018
	$	$
Balance as at 1 October	2,804,855	2,463,220
Total Surplus for the year	210,594	341,635
Other comprehensive revenue and expenses	-	-
Total Comprehensive revenue and expenses	**210,594**	**341,635**
Balance as at 30 September	**3,015,449**	**2,804,855**

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

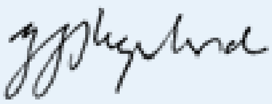
Veterinary Professional Insurance Society Incorporated
Statement of Financial Position
As at 30 September 2019

	Notes	2019	2018
Current Assets		**$**	**$**
Cash and cash equivalents		263,241	293,412
Short term investments	**8**	-	100,000
Receivables from exchange transactions		220,471	527,444
Recoverable from reinsurer in respect of claims provision	**5,7**	224,000	331,000
Interest accrued	**8**	-	674
Prepayments		259	26,250
GST receivable		32,082	-
Total Current Assets		740,053	1,278,780
Non Current Assets			
Long term receivables		14,619	21,928
Capital work in progress	**9**	-	83,475
Investment property	**11**	197,954	201,479
Investment portfolio	**12**	2,364,951	2,214,914
Intangible assets	**10**	356,940	-
Total Non Current Assets		2,934,464	2,521,796
Total Assets		**3,674,517**	**3,800,576**
Current Liabilities			
Accounts payable from exchange transactions		122,902	48,497
GST payable		-	49,421
Subscriptions received in advance		2,774	61,146
Unearned premium		5,778	291,513
Sundry payables		258,614	214,144
Total Current Liabilities		390,068	664,721
Provision for claims	**5,7**	269,000	331,000
Total Liabilities		**659,068**	**995,721**
Net Assets		**3,015,449**	**2,804,855**
Equity		**3,015,449**	**2,804,855**

For and on behalf of the Board 30 January 2020

GAVIN JAMES SHEPHERD

Full name



Signature
Chairman

MARK LINDSAY GILMOUR

Full name

Signature
Director

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

Veterinary Professional Insurance Society Incorporated
Statement of Cash Flows
For the year ended 30 September 2019

	2019 $	2018 $
Cashflow from operating activities		
Cash was provided from/ (applied to):		
Insurance premiums	1,232,226	940,220
Membership Subscriptions	146,000	178,354
Excesses and reinsurer payments received	403,157	371,282
Interest received	9,664	14,063
Other income	29,160	(16,628)
Operational Payments to suppliers	(504,347)	(572,919)
Insurance Claims Paid	(561,791)	(476,436)
Insurance Premiums Paid	(615,900)	(666,801)
Net cash flows (used in) / from operating activities	**138,169**	**(228,865)**
Cash flow from investing activities		
Proceeds from sale of financial assets	-	76,126
Payments to acquire financial assets	(1,880)	(76,814)
Proceeds from interest	381	4,654
Proceeds from dividends	13,702	9,524
Payments to Management Fees	(6,882)	(11,191)
Payments to acquire software assets	(273,661)	(76,950)
Net cash flow (used in) investing activities	**(268,340)**	**(74,651)**
Net cash flow from financing activities	**-**	**-**
Net change in cash and cash equivalents	(130,171)	(303,516)
Cash and cash equivalents, beginning of year	393,412	696,928
Cash and cash equivalents at end of year	**263,241**	**393,412**
Made up of		
Cash and Cash equivalents	263,241	393,412
Total Cash	**263,241**	**393,412**

This Cash Flow Statement has been prepared exclusive of GST

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

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2019

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 2020.

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

The only change between the years in the presentation of the information is to include personnel costs as VPIS employed its own CEO during the year. Other than this all policies and presentations have been the same.

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 and the claims provision which is accounted for in accordance with PBE IFRS 4. 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.

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 Instruments, Financial Assets continued;

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.

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 2019 and 2018, 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 recently developed and included in the financial statements is expected to be 5 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 Computer Assets

The Society recently acquired computer hardware assets.
The deprecation period for the computer is as follows;
Computer hardware - 2.5 years

4.11 Income Tax

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

4.12 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.

4.13 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.

4.14 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.

Expenditure continued

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.

4.15 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.

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.

4.16 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.

Significant Management Judgements and Estimates in Applying Accounting policies continued

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.

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, Christine Ormrod FNZSA FIA of PricewaterhouseCoopers Consulting (New Zealand) LP, has prepared a valuation of VPIS's outstanding claims liability as at 30 September 2019.

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 – 16% (2018: 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%

The provision for future claim expenses has increased to 16%, from 2%, of future claim payments since last year. The impact of this was to increase the net provision for outstanding claims by $45,000 at 30 September 2019. No other assumptions have been changed.

Uncertainty and sensitivities

The estimate of the outstanding claims provision is subject to a significant amount of uncertainty as it can take several years for the final cost of a claim to be known. The ultimate claims costs of the claims outstanding at any particular date may be materially higher or lower than the current estimates. However, the stop-loss reinsurance treaty in place with Vero Liability reduces the volatility of VPIS's profit, with the net of reinsurance underwriting result generally known within the year.

The valuation results are sensitive to the assumptions relating to the pattern of which claims are reported and the mixture of claims received, particularly the amount paid in the year after claim inception. As VPIS is a small business, its experience is likely to be more volatile. Sensitivity tests have been carried out to determine the impact of an adverse change to the underlying assumptions in the projections.

	Effect on revenue and net equity
Claim development factors 20% higher	(9,336)
Claim development factors 20% lower	5,851
Claim handling expenses 5% higher	(14,022)
Claim handling expenses 5% lower	14,022

This is the second valuation by an Appointed Actuary. The net ultimate claims cost for the nine most recent claim years, from years ending 30 September 2011 to 30 September 2019 are as follows:

Underwriting Year	**Valuation year**								
	2011	2012	2013	2014	2015	2016	2016	2016	2019
2011								150,000	150,000
2012							150,000	150,000	
2013						150,000	150,000		
2014					150,000	150,000			
2015				150,000	150,000				
2016			150,000	150,000					
2017		75,913	150,000						
2018	150,000	75,913							
2019	150,000								
Net paid claims	150,000	75,913	150,000	150,000	150,000	150,000	150,000	150,000	150,000

Net undiscounted outstanding claims	-
Discounting	-
Indirect expenses	36,026
Risk margin	8,974
Provision for net outstanding claims	45,000

6. NET CLAIMS COST

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.

Underwriting Expenses and recoveries continued

	2019 $	2018 $
Claims, fees & expenses		
Expenses incurred - current year claims	202,069	316,863
Expenses incurred - prior years claims	370,245	211,798
	572,314	528,661
Insurance expenses recovered - current year claims	(52,069)	(166,863)
Insurance expenses recovered – prior-year claims	(361,611)	(256,644)
	(413,680)	(423,507)
Movement in net outstanding claims	45,000	-
Net Claims cost for the year	**203,634**	**105,154**

7. LIABILITY ADEQUACY TESTING AND SOLVENCY DISCLOSURE

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 2019 is $5,778 for the insurance year ended 30 September 2019. This related to some run-off insurances. There is no other 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 2019:
(a) VPIS's Actual Solvency Capital was $2.66m (2018: $2.72m)
(b) VPIS's Minimum Solvency Capital was $0.708m (2018: $0.687m)
(c) VPIS's Solvency Margin was $1.951m (2018: $2.035m)
(d) VPIS's Solvency Ratio was 376%. (2018: 396%)

8. SHORT TERM INVESTMENTS

The carrying value of cash and cash equivalents approximates their fair value.
Cash at bank earns interest at floating rates on daily deposit balances. Short term deposits for original maturities of 103 days and 35 days were earning interest rates of 3.03% and 2.02% respectively. There are currently no short-term deposits.

9. CAPITAL WORK IN PROGRESS

VPIS has engaged a software developer to customise a new Insurance Portal for customers, which part 1 was delivered late September 2019 and has been capitalised but not depreciated at balance date. Costs to date are recorded as intangible assets and total $354,188 as at 30.9.2019.

10. INTANGIBLE ASSETS

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

2019	**Opening Cost $**	**Plus Additions $**	**Less Disposals $**	**Closing Cost $**	**Amortisation for the year $**	**Accumulated Amortisation $**	**Carrying Amount $**
Software	0	354,188	-	354,188	-	-	354,188
Computer Hardware	0	2,949	-	2,949	197	197	2,752
	-	**357,137**	**-**	**357,137**	**197**	**197**	**356,940**

2018	**Opening Cost $**	**Plus Additions $**	**Less Disposals $**	**Closing Cost $**	**Amortisation for the year $**	**Accumulated Amortisation $**	**Carrying Amount $**
Software	175,122	-	-	175,122	-	175,122	-
	175,122	**-**	**-**	**175,122**	**-**	**175,122**	**-**

The full value of VPIS's new sales and policies portal has been capitalised at 30 September 2019 as it was operational in the last week of September and used to supply quotes to the reinsurers.

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.

Investment Property	Opening Cost	Depreciation for the year	Accumulated Depreciation	Carrying amount
	$	$	$	$
2019	253,658	3,525	55,704	197,954
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 2018	201,479
Additions	-
Disposals	-
Depreciation	3,525
Closing balance as at 30 September 2019	**197,954**

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:

	2019	2018
Financial Assets	**$**	**$**
Cash and Cash Equivalents	263,241	293,412
Loans and Receivables		
Short term Investments	-	100,000
Receivables	235,090	550,046
Financial Assets at fair value through Profit and Loss	2,364,951	2,214,914
	2,863,282	3,158,372
Financial Liabilities		
Accounts payable	122,902	48,497
Sundry payables	258,614	214,144
	381,516	262,641

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 was delivered in September 2019. Further work is to commence during 2019 on a claims system that will link to the new insurance portal. No costs have as yet been incurred but will be carried as work in progress once work commences. The work to date has been capitalised and further costs will be capitalised as integration with the financial system is currently underway. Total funds committed for this at 30 September 2019 is $13,641.

14. KEY MANAGEMENT PERSONNEL

VPIS services apart from the CEO of VPIS are provided under contract from New Zealand Veterinary Association Incorporated (NZVA). VPIS from April 2019 has one employee.

Alpha Woolrich was an NZVA employee but appointed CEO of VPIS in April 2019.

There is a management fee charged by NZVA (see note 15) which includes the cost of other staff salaries and the CEO until April.

15. RELATED PARTY TRANSACTIONS

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

Rental Income received for the year was $24,252 (2018: $20,400), owed to VPIS as at 30 September 2019 was $2,694 (2018: $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 $125,130 (2018: $157,188).

Amounts owed to NZVA as at 30 September 2019 were $20,240 (2018: $188).

Key Management Personnel

VPIS employed one staff member from April 2019.

Total costs incurred $60,494. (2018: nil)

Fees paid to Board Members

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

Board member fees, Audit and Risk Committee fees and membership committee fees paid for the year were $80,783 (2018: $82,500).

Board and Audit and Risk Committee fees owed to Board members as at 30 September 2019 were $nil (2018: $nil).

Assessors Fees paid to Board members for the year was $140,790 (2018 $79,387).

Fees paid to Board members continued;

Board Members received the following payments:

Name		Assessor Fees		Assessor Fees Payable at Balance Date (inc GST)	
		2019	2018	2019	2018
Gavin Shepherd	Board Chair	$ 5,990	$ 2,854	$ -	$ -
Brendon Bell		$ 3,394	$ 1,563	$ 3,903	$ -
Jim Rhynd		$ -	$ -	$ -	$ -
Mark Gilmour	ARC Chair	$ 50,549	$ 1,476	$ 3,352	$ -
Paul Fraser			$ 2,100	$ -	$ -
Steve Cranefield		$ 16,013	$ 7,575	$ 10,898	$ -
Tanya Bootle		$ 9,474	$ 14,310	$ -	$ -
Vince Peterson		$ 55,370	$ 49,510	$ -	$ -
		$ 140,790	**$ 79,387**	**$ 18,153**	**$ -**

16. EVENTS SUBSEQUENT TO REPORTING DATE

There have been no events subsequent to the Reporting date which necessitate any adjustment to the financial statements and notes thereto.

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