

Veterinary Professional Insurance Society Incorporated
Statement of Comprehensive Revenue and Expenses
For the year ended 30 September 2020

	Notes	2020 \$	2019 \$
Revenue from Exchange Transactions	4.3		
Gross premium		1,402,163	1,203,679
Premium ceded to Re-Insurer		(672,199)	(584,043)
Net premium		<u>729,964</u>	<u>619,636</u>
Other Revenue			
Membership revenue		206,449	204,372
Miscellaneous revenue		3,822	4,908
Investment income		9,585	23,072
Investment property income		28,104	24,252
Loss on realised investments		(29,449)	(1,077)
Unrealised investment income		130,847	149,234
Total Other revenue		<u>349,358</u>	<u>404,761</u>
Total Revenue (including net premium)		<u>1,079,322</u>	<u>1,024,397</u>
Expenses			
Net Claims Cost	6	<u>221,632</u>	<u>203,634</u>
			203,634
Operating Expenses			
Insurance fees and premiums		65,000	65,000
Legal expenses		96,359	104,530
Administration	20	194,468	232,304
Finance cost		3,406	3,650
Board cost		97,463	107,337
Depreciation and amortisation	10,11,12	84,528	3,722
Investment management fee		12,984	6,882
Personnel Costs		211,212	60,494
Project Expenses		10,700	26,250
Total Operating Expenses		<u>776,120</u>	<u>610,169</u>
Total Expenses		<u>997,752</u>	<u>813,803</u>
Total surplus for the year		<u>81,570</u>	<u>210,594</u>
Other comprehensive revenue and expenses			-
Total comprehensive revenue and expenses for the year		<u>81,570</u>	<u>210,594</u>

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 2020

	2020	2019
	\$	\$
Balance as at 1 October	3,015,449	2,804,855
Total Surplus for the year	81,570	210,594
Other comprehensive revenue and expenses	-	-
Total Comprehensive revenue and expenses	<u>81,570</u>	<u>210,594</u>
Balance as at 30 September	<u><u>3,097,019</u></u>	<u><u>3,015,449</u></u>

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 2020

	Notes	2020	2019
Current Assets		\$	\$
Cash and cash equivalents		530,261	263,241
Receivables from exchange transactions		13,476	220,471
Recoverable from reinsurer in respect of claims provision	5,7	277,943	224,000
Prepayments		-	259
GST receivable		14,794	32,082
Total Current Assets		836,474	740,053
Non Current Assets			
Long term receivables		7,309	14,619
Investment property	12	194,430	197,954
Investment portfolio	13	2,453,527	2,364,951
Fixed Assets	11	3,328	2,752
Intangible assets	10	384,224	354,188
Total Non Current Assets		3,042,818	2,934,464
Total Assets		3,879,292	3,674,517
Current Liabilities			
Accounts payable from exchange transactions		54,303	122,902
Subscriptions received in advance		1,295	1,095
Unearned premium	7	3,467	2,707
Sundry payables		327,608	258,614
Employee payables		18,735	-
Total Current Liabilities		405,408	385,318
Non Current Liabilities			
Provision for claims	5,7	372,072	269,000
Unearned Premium	7	3,407	3,071
Subscription in advance		1,386	1,679
Total Non Current Liabilities		376,865	273,750
Total Liabilities		782,273	659,068
Net Assets		3,097,019	3,015,449
Equity		3,097,019	3,015,449

For and on behalf of the Board 4 December 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 2020

	2020	2019
	\$	\$
Cashflow from operating activities		
Cash was provided from/ (applied to):		
Insurance premiums	1,410,477	1,232,226
Membership Subscriptions	206,449	146,000
Excesses and reinsurer payments received	618,098	403,157
Interest received	3,521	9,664
Other income	33,948	29,160
Operational Payments to suppliers	(661,819)	(504,347)
Insurance Claims Paid	(585,626)	(561,791)
Insurance Premiums Paid	(672,199)	(615,900)
Net cash flows from operating activities	<u>352,849</u>	<u>138,169</u>
Cash flow from investing activities		
Proceeds from sale of financial assets	168,970	-
Payments to acquire financial assets	(156,149)	(1,880)
Payments to acquire fixed assets	(1,915)	-
Proceeds from interest	163	381
Proceeds from dividends	5,901	13,702
Payments to Management Fees	(12,984)	(6,882)
Payments to acquire software assets	(89,815)	(273,661)
Net cash flow used in investing activities	<u>(85,829)</u>	<u>(268,340)</u>
Net cash flow from financing activities	-	-
Net change in cash and cash equivalents	267,020	(130,171)
Cash and cash equivalents, beginning of year	263,241	393,412
Cash and cash equivalents at end of year	<u>530,261</u>	<u>263,241</u>
Made up of		
Cash and Cash equivalents	13	263,241
Total Cash	<u>530,261</u>	<u>263,241</u>

This Cash Flow Statement has been prepared exclusive of GST

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

1. REPORTING ENTITY

The Veterinary Professional Insurance Society Incorporated ("VPIS" or "Society") is a Public Benefit Entity (PBE) registered as an Incorporated Society under the Incorporated Societies Act 1908 and is domiciled in New Zealand. This entity is a small insurer which under section 11(1)(b) of the Insurance (Prudential Supervision) Regulations 2010 is exempted from being an FMC reporting entity for the purposes of the Financial Markets Conduct 2013 by virtue of section 451(h) of that Act.

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 non-financial 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 that apply to it. These financial statements were approved for issue by the Board of VPIS on 4 December 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

All policies and presentations have been the same as the previous year.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

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.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

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.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

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.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

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 2020 and 2019, 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 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

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

4.10 Other Assets

The Society recently acquired computer hardware assets.

The depreciation period for the computer is as follows;

Computer hardware - 2.5 years

Plant and Equipment - 4 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/(receivable) to/(from) the Inland Revenue Department is included as either a payable or a receivable 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.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

Expenditure continued;

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.

4.15 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.

Veterinary Professional Insurance Society Incorporated

Notes to the Financial Statements

For the year ended 30 September 2020

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 \$200,000 in any year. (2019: this aggregate was \$150,000). Insurance events are unpredictable, and the actual number and value of claims will vary from year to year.

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.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
For the year ended 30 September 2020

Significant Management Judgements and Estimates in Applying Accounting policies continued;

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 2020.

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. (2019: 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. (2019: same).
- Future claims expenses – 16% (2019: 16%) 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 to 2019 and for these years all future claims payments are assumed to be covered by reinsurance. VPIS claim payments for 2020 are expected to exceed the retention level for 2020, although claim payments had not met this level by balance date.
- Risk Margin – net claims cost is calculated at a 75% probability of sufficiency by applying a risk margin of 25% (2019: 25%) to gross claims.
- The pattern of claims run-off assumed was

Development year	1	2	3	4+
Additional percentage of claims already incurred	150%	5%	1%	0%
Prior Year assumption	100%	3%	1%	0%

The provision for future claim expenses has remained at 16%, the same as last year. The impact of this was to increase the net provision for outstanding claims by \$49,130 at 30 September 2020 (2019: \$45,000). No other assumptions have been changed.

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
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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	13,155
Claim development factors 20% lower	(12,903)
Claim handling expenses 5% higher	19,379
Claim handling expenses 5% lower	(19,379)

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 2012 to 30 September 2020 are as follows:

Underwriting Year	Valuation Year								
	2012	2013	2014	2015	2016	2017	2018	2019	2020
2020									200,000
2019							150,000	150,000	
2018						150,000	150,000	150,000	
2017					150,000	150,000			
2016				150,000	150,000				
2015			150,000	150,000					
2014		150,000	150,000						
2013	75,913	150,000							
2012	75,913								
2011									

Net paid claims	75,913	150,000	150,000	150,000	150,000	150,000	150,000	150,000	167,883
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Net undiscounted outstanding claims	167,883
Discounting	-
Indirect expenses	49,610
Risk margin	12,402
Provision for net outstanding claims	94,129

Veterinary Professional Insurance Society Incorporated
Notes to the Financial Statements
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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

	2020 \$	2019 \$
Claims, fees & expenses		
Expenses incurred - current year claims	196,709	202,069
Expenses incurred - prior years claims	388,918	370,245
	<u>585,627</u>	<u>572,314</u>
 Insurance expenses recovered - current year claims	 (23,469)	 (52,069)
Insurance expenses recovered - prior-year claims	(389,656)	(361,611)
	<u>(413,125)</u>	<u>(413,680)</u>
 Movement in net outstanding claims	 49,130	 45,000
 Net Claims cost for the year	 <u>221,632</u>	 <u>203,634</u>

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 both current and noncurrent as at 30 September 2020 is \$6,874. 2019 (\$5,778). These all relate to run-off insurances. There is no other net premium liability either so there is no overall deficit under the LAT.

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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 2020:

- (a) VPIS's Actual Solvency Capital was \$2.71m (2019: \$2.66m)
- (b) VPIS's Minimum Solvency Capital was \$0.709m (2019: \$0.708m)
- (c) VPIS's Solvency Margin was \$2.004m (2019: \$1.951m)
- (d) VPIS's Solvency Ratio was 383%. (2019: 376%)

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 from 30 days to 180 days were earning interest rates of between 1% and 2.65%. There are currently no short-term deposits. On Call rates were 0.5%

9. CAPITAL WORK IN PROGRESS

At balance date all costs incurred to 30 September 2020 have been capitalised. As at 30 September 2020 included in the total cost but not depreciated was an amount of \$19,885 relating to work finalised at the end of September. This was paid subsequent to year end.

10. INTANGIBLE ASSETS

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

2020	Opening Cost \$	Plus Additions \$	Less Disposals \$	Closing Cost \$	Amortisation for the year \$	Accumulated Amortisation \$	Carrying Amount \$
Software	354,188	109,699	-	463,887	79,663	79,663	384,224
	354,188	109,699	-	463,887	79,663	79,663	384,224

2019	Opening Cost \$	Plus Additions \$	Less Disposals \$	Closing Cost \$	Amortisation for the year \$	Accumulated Amortisation \$	Carrying Amount \$
Software	-	354,188	-	354,188	-	-	354,188
	-	354,188	-	354,188	-	-	354,188

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

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11. Other Assets

2020	Opening Cost \$	Plus Additions \$	Less Disposals \$	Closing Cost \$	Amortisation for the year \$	Accumulated Amortisation \$	Carrying Amount \$
Computer Hardware	2,949	-	-	2,949	1,179	1,376	1,573
Plant and equipment	0	1,915	-	1,916	161	161	1,755
	2,949	1,915	-	4,865	1,340	1,537	3,328

2019	Opening Cost \$	Plus Additions \$	Less Disposals \$	Closing Cost \$	Amortisation for the year \$	Accumulated Amortisation \$	Carrying Amount \$
Computer Hardware	-	2,949	-	2,949	197	197	2,752
	-	2,949	-	2,949	197	197	2,752

12. 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.

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
	\$	\$	\$	\$
2020	253,658	3,525	59,229	194,429
2019	253,658	3,525	55,704	197,954

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

Investment Property

	\$
Opening balance as at 1 October 2019	197,954
Additions	-
Disposals	-
Depreciation	3,525
Closing balance as at 30 September 2020	<u>194,429</u>

13. 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:

	2020	2019
	\$	\$
Financial Assets		
Cash and Cash Equivalents	530,261	263,241
<i>Loans and Receivables</i>		
Receivables	13,476	235,090
Financial Assets at fair value through Profit and Loss	<u>2,453,527</u>	<u>2,364,951</u>
	<u>2,997,264</u>	<u>2,863,282</u>
Financial Liabilities		
Accounts payable	54,303	122,902
Sundry payables	327,607	258,614
Employee liabilities	<u>18,735</u>	<u>-</u>
	<u>400,645</u>	<u>381,516</u>

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 \$200,000 over one insurance year. Reinsurance is used to manage insurance risk.

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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.

14. COMMITMENTS

There were no commitments at year end. (2019: \$13,641).

15. KEY MANAGEMENT PERSONNEL

VPIS services apart from the employees and contractors of VPIS are provided under contract from New Zealand Veterinary Association Incorporated (NZVA). VPIS currently has 2 employees and one contractor. The contractor's fees are included in personnel costs.

Alpha Woolrich the CEO of VPIS was appointed in April 2019.

There is a management fee charged by NZVA (see note 16) which includes some staff salaries and other support services provided.

16. 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 \$28,104 (2019: \$24,252), owed to VPIS as at 30 September 2020 was \$2,694. (2019: \$2,694).

Management Fees

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

Management fees were \$61,763 (2019: \$125,130).

Amounts owed to NZVA as at 30 September 2020 were \$4,242 (2019: \$20,240).

Key Management Personnel

Total costs incurred \$121,018. (2019: \$60,494).

Fees paid to Board Members

Board members of the VPIS are contracted as insurance assessors from time to time. The Board have determined that if a board member also earns income as an assessor and this amount is less than 2% of the gross annual insurance income then they are deemed to be an independent board member.

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Fees paid to Board members continued;

Board member fees, Audit and Risk Committee fees and membership committee fees paid for the year were \$84,050 (2019: \$80,783).

Board and Audit and Risk Committee fees owed to Board members as at 30 September 2020 were \$nil (2019: \$nil).

Assessors Fees paid to Board members for the year was \$101,400 (2019 \$140,790).

Board Members received the following payments:

Name		Assessor Fees		Assessor Fees Payable at Balance Date (inc GST)	
		2020	2019	2020	2019
Gavin Shepherd	Board Chair	\$ 1,590	\$ 5,990	\$ 1,590	\$ -
Brendon Bell		\$ 2,731	\$ 3,394	\$ -	\$ 3,903
Jim Rhynd		\$ -	\$ -	\$ -	\$ -
Mark Gilmour	ARC Chair	\$ 19,109	\$ 50,549	\$ -	\$ 3,352
Paul Fraser		\$ 8,318		\$ -	\$ -
Steve Cranefield		\$ -	\$ 16,013	\$ -	\$ 10,898
Tanya Bootle		\$ 38,717	\$ 9,474	\$ 5,326	\$ -
Vince Peterson		\$ 30,935	\$ 55,370	\$ 3,903	\$ -
		\$ 101,400	\$ 140,790	\$ 10,819	\$ 18,153

17. IMPACT of COVID 19

The surplus to 30 September has been impacted by Covid-19 due to the following;

a) Impact on Members which impact financially on VPIS

The premiums that VPIS charges members are calculated based on members' turnover. While veterinarians were deemed essential workers, most provided only emergency services during the nationwide lockdown. Equine practices were also impacted by border closures. Despite initial projections of a reduction in membership turnover, a high proportion of members have experienced increased demand after lockdown, especially in companion animal practices, potentially supported by increased pet ownership.

Claim volume dropped significantly during lockdown, however increased towards the end of the financial year. Claims experience (cost) is expected to be similar to 2019.

b) Compliance costs

The Reserve Bank increased its reporting requirements at the start of 2020 through Catastrophic Risk and Covid-19 preparedness surveys, as well as imposing monthly reporting. These requests increased VPIS's costs in legal, actuarial and accounting services, as these services are outsourced.

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Impact of Covid Continued;

c) Investment returns

International responses to the pandemic resulted in a significant sudden reduction in the value of the investment portfolio held by VPIS. Fortunately, markets recovered relatively quickly however significant volatility has remained a feature. Alongside this volatility, the significant drop in interest rates on fixed income, which is a major part of VPIS's portfolio, has impacted the return the portfolio has generated.

d) Board and Staff

The premises VPIS shares with the New Zealand Veterinary Association (NZVA) was closed for an extended period, however VPIS staff were able to work remotely and keep the organisation moving during this time.

As no one was travelling, the board travel costs decreased during the year with only two scheduled face to face meetings able to be held. The rest, including the Annual General Meeting (AGM) were all undertaken via remote working systems.

18. 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.

19. POTENTIAL LEGAL COSTS

There is an ongoing defence of allegations made by a former service provider. While VPIS is not named as a defendant in this case there are potential legal costs to be incurred and therefore VPIS has lodged a claim under its Association Liability policy. The outcome of these proceedings is not expected to be significant to VPIS and based on the current facts and circumstances and legal advice the board are confident in respect of the likely outcome and do not consider any provision necessary.

20. AUDIT FEES

Audit fees of \$16.5k (2019: \$15.5k), Solvency fees of \$5.5k (2019: \$5.5k) and Tax Advice fees of \$2k (2019: Nil) were paid to Deloitte.

