Veterinary Professional Insurance Society
Audited Financial Report
For the year ended 30 September 2023

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Contents

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Statement of Service Performance

Company information

Legal name	Veterinary Professional Insurance Society Inc. (VPIS)
Type of entity	Incorporated society
Registration number	NZBN 9429042897255

Physical address	Floor 2, 44 Victoria Street, Wellington
Postal address	PO Box 11212, Wellington 6142
Email	info@vpis.org.nz
Website	www.vpis.org.nz

Our Directors and Officers*

Gavin Shepherd (Board Chair)	Jim Rhynd
Mark Gilmour (Deputy Chair)	Tanya Page
Paul Fraser	Alpha Woolrich (Chief Executive)

** Steve Cranefield and Brendon Bell were VPIS Board members during this period, completing their terms in November 2022.*

Main sources of income

- Premium income
- Membership subscriptions
- Rental income
- Investment returns

Why we exist

We exist because we care about vets and the future of the veterinary profession. As an insurer that is dedicated solely to working with and for the veterinary profession, we help our members meet and maintain professional standards and protect them from the financial impact of actual or alleged breaches of duty.

Where it all began

The Veterinary Services Council (VSC) provided indemnity protection for New Zealand veterinarians from 1946 until it was disestablished in 1986. Recognising the potential impact on the veterinary profession, the New Zealand Veterinary Association (NZVA) facilitated a plan to establish a new entity with the purpose of providing Professional Indemnity and Public Liability insurance, “by vets, for vets”. In 1987 VPIS was established as an incorporated society, providing liability insurance and support to its members.

From 2010 VPIS has been co-regulated by the Reserve Bank and the Financial Markets Authority as a licensed insurer and financial institution. VPIS’s small premium base meant we were initially classified as a small insurer and therefore exempt from some licensing requirements. However, from 1 October 2022 we are no longer eligible for these exemptions.

Formal reason we exist:

To support the efficiency of veterinary services in New Zealand through the provision of tailored insurance and related support for our members.

"We pride ourselves on being the insurer of choice for the New Zealand Veterinary profession, supporting veterinary wellbeing and contributing to the efficiency and effectiveness of the vital services they provide." (VPIS Annual Report)

Our guiding values:

Sustainable	Our decisions are based on being here for our members, now and in the future
Wise	We use our experience and knowledge to guide and support our members
Empathetic	We do our best to understand our members and what they need
Pragmatic	We deal with problems reasonably and logically for the benefit of all members
Principled	We support professional standards and help members to deliver these

Our vision:

To be the insurer that best understands, supports and satisfies the Veterinary profession, and enables better outcomes – now and in the future.

Our mission (purpose):

To support our members and the efficiency of the veterinary profession by:
- Doing everything within our power to maintain our status as a licensed insurer.
- Working together with leaders of the profession to manage expectations and outcomes.
- Promoting good practices to reduce the incidence and impact of preventable errors.
- Treating our members as equals, with respect and compassion.
- Keeping liability insurance affordable and fair for all members.

What we want to achieve (outcomes)

1. Meet and maintain licensed insurer obligations.
2. Promote and support Professional standards/risk reduction.
3. Maintain relevance to the veterinary profession we service.
4. Settle notified member claims effectively and empathetically.

A note about our measures

This section outlines our key objectives and measures for achieving each of our four outcomes and the way we have performed. Data used comes from our financial statements, claims management system, policy management system, actuarial input and questionnaire responses.

In 2023 we asked members to rate VPIS's delivery of education, member communication, claims management and pastoral support. These measures are included, however there is no comparison for the 2022 Financial year. Members were invited to respond as part of the renewal process. Those who were run off (had ceased actively practicing) were not invited to participate. In addition, "N/A" responses have not been included.

What we want to achieve (outcomes) (cont)

1. Meet and maintain licensed insurer obligations

Grow solvency capital to meet the minimum capital requirement of a non-exempt insurer

Solvency capital is an important measure for VPIS as a licensed insurer. The Insurance (Prudential Supervision) Act 2010 (IPSA) requires licensed insurers to maintain $3m minimum capital. However, exemptions are available for “small” insurers who have premium income of less than $1.5m. VPIS had received these small insurer exemptions.

VPIS’s premium income is related to membership turnover which has historically increased each year. VPIS has therefore been working for several years to grow its solvency capital to meet the $3m requirement before premium income exceeded $1.5m. This occurred in 2021 Financial Year and VPIS lost its exemptions from 1 October 2022.

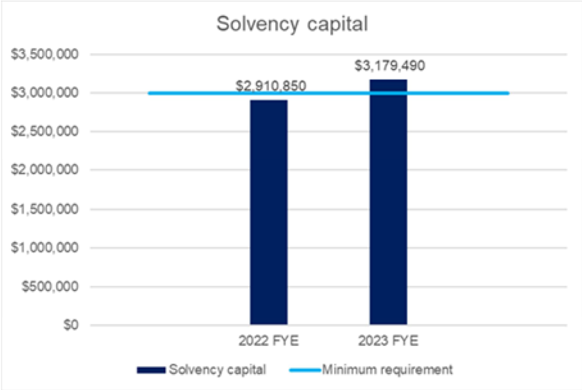


Figure 1: VPIS’s Solvency Capital at the 2022 and 2023 Financial Year End (FYE), being 30 September; Source: Actuarial calculations for Solvency returns.

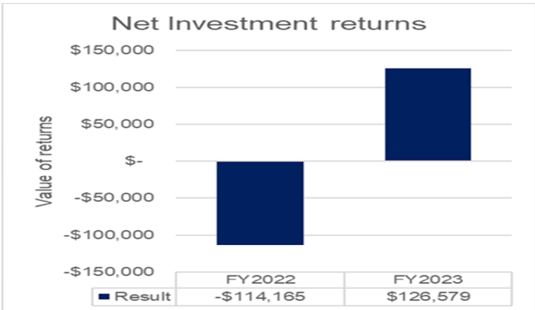
As shown, VPIS’s solvency position was below the $3m requirement at the end of the 2022 Financial Year. This was largely due to poor investment performance and increased operational expenditure. The RBNZ issued a forbearance in relation to the minimum solvency requirement for the period 1 October 2022 to 30 September 2023. VPIS reported quarterly on solvency to the RBNZ during this period.

VPIS exceeded the minimum solvency capital requirement in 2023 Financial Year, ending the year with Solvency Capital of $3,179,490.

Achieve positive returns from our investment portfolio

As a not for profit, investment returns are important to VPIS’s capital growth. While this has been positive for several years, unfortunately in 2022 VPIS experienced a significant investment loss. This was consistent with the global investment returns which were impacted by geopolitical unrest.

While VPIS experienced a better result in 2023, return from equities was low as geopolitical tensions continued to cause volatility. High interest rates however increased the return on cash over this period.



Net investment returns include the total of interest and dividend income, gains (losses) on investment, investment property income less investment management fees for the financial year.

Figure 2: VPIS’s Net Investment returns for FY2022 and FY2023; Source: Annual financial accounts accessed from Xero

2. Promote and support Professional Veterinary standards

Providing continuing education for vets that perform equine prepurchase examinations (PPE)

2022 Financial Year (unaudited)	2023 Financial Year
93 insured prepurchase equine veterinarians completed the annual renewal training (video and questionnaire)	94 insured prepurchase equine veterinarians completed the annual renewal training (video and questionnaire)

Source: Prepurchase equine questionnaire responses downloaded from Surveymonkey

What we want to achieve (outcomes) (cont)

VPIS has a policy extension available to vets that perform equine prepurchase examinations. Equine prepurchase examinations are a specialised activity that involve the assessment of horses prior to sale. This extension requires criteria to be met and maintained by those insured under it.

Approximately 5% of VPIS's insured veterinarians perform equine prepurchase examinations. Of these, over 90% completed annual training in the 2022 and 2023 Financial years.

Qualitative:
- VPIS has two Equine veterinarians on the VPIS membership committee who review every application for prepurchase equine insurance cover.
- New prepurchase equine (PPE) vets must complete a PPE face to face training course before they can be insured
- All insured practices with prepurchase examination (PPE) cover must submit a report for review each renewal
- VPIS provides feedback to the practice on any areas of weakness in the reports received
- VPIS also publishes a PPE renewal video each year for insured PPE vets to support risk management and continuous improvement.

Post claim letters to members with recommendations to manage future risk

2022 Financial Year (unaudited)	2023 Financial Year
18 post claim letters with recommendations sent to members	18 post claim letters with recommendations sent to members

Source: Access, VPIS's Claims Management System

In claim situations where opportunities for improvement are identified VPIS endeavors to provide the practice with recommendations that can be implemented. These are identified by the Assessor assigned to the claim and are often discussed with the practice at the time of the claim. VPIS considers this as a valuable tool for supporting risk management.

In 2022 and 2023 VPIS introduced a recommendations section to its Assessor reports. These recommendations inform post claim letters. In 2023 a post claim letter was sent for every Assessor report with recommendations.

Education – member rating

At the end of the 2022 year, we sought feedback on how members rated several components of VPIS's work. One of these was our delivery of Education to members.

Number of invitations to complete questionnaire	355
Number of individual responses received	280

Of the 280 responses, 77 responded "N/A" and are not included in the pie chart.

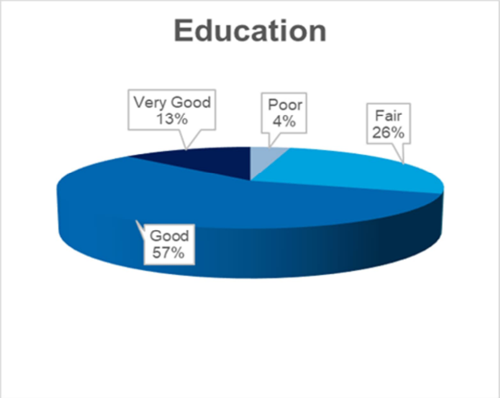


Figure 3: Member rating of VPIS's delivery of Education; Source: Pre-renewal questionnaire responses issued through Microsoft Forms.

Qualitative:

Additional work in this area includes dedicated and member wide risk management webinars, speaking at Massey events such as Prelude to practice, and regular engagement with other veterinary sector organisations such as the New Zealand Veterinary Association (NZVA), the Veterinary Council of New Zealand (VCNZ) and the Ministry for Primary Industries (MPI).

What we want to achieve (outcomes) (cont)

3. Maintain relevance to the veterinary profession we service

Membership numbers

2022 Financial Year (unaudited)	2023 Financial Year
361 Practice policies	378 Practice policies
1,994 Insured Veterinarians	2,082 Insured Veterinarians
480 Insured Technicians*	526 Insured Production Animal Technicians

Source: Board Summary report from Ezidocs, VPIS's insurance management platform

** In 2023 Technicians were renamed as Production Animal Technicians*

Member communication – member rating

Number of invitations to complete questionnaire	355
Number of individual responses received	280

Of the 280 responses, 34 responded "N/A" and are not included in the pie chart.

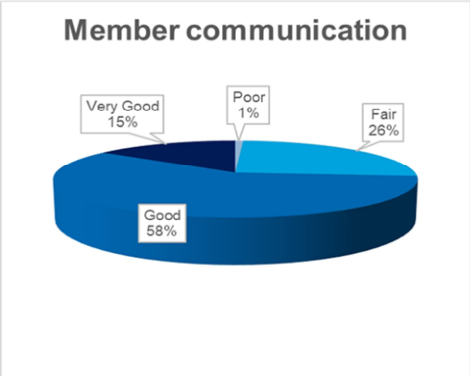


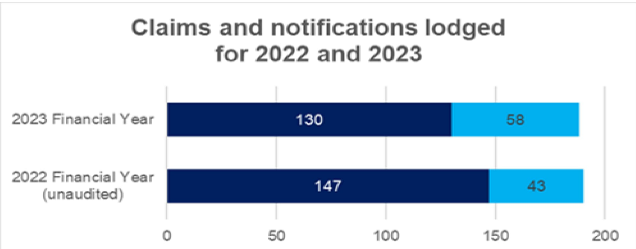
Figure 4: Member rating of VPIS's delivery of Member communication; Source: Pre-renewal questionnaire responses issued through Microsoft Forms.

Qualitative: As part of the governance changes, we sought expressions of interest from our VPIS membership to identify prospective Board members. Three of the four new appointments are VPIS members; two of these are also practicing veterinarians.

Alongside the shift from Assessor Board members, we have introduced a new Technical Advisory Group that report to VPIS's Board and CE on veterinary matters to ensure VPIS remains informed and that this remains a priority for VPIS.

4. Settle notified member claims effectively and empathetically

Number of claims and notifications lodged for Financial Year



	2022 Financial Year (unaudited)	2023 Financial Year
Claims	147	130
Notifications	43	58

Figure 5: Claims and notifications lodged; Source: Access, VPIS's Claims Management System

Claims Management is a major component of our service. In the 2022 Financial Year we managed 147 claims and a further 43 notifications. Notifications are situations that did not eventuate into claims, usually due to resolution or the value being below excess.

In the 2023 Financial year this reduced very slightly with 139 claims and 58 notifications. This reduction follows several large increases since the pandemic.

What we want to achieve (outcomes) (cont)

Claims costs paid in Financial Year

2022 Financial Year (unaudited)	2023 Financial Year
$857K gross claims paid, consisting of: $469K for 2022 year claims $250K for 2021 year claims $138K for prior year claims	$627K gross claims paid, consisting of: $241K for 2023 year claims $382K for 2022 year claims $4K for prior year claims

Source: Annual financial accounts accessed from Xero

Claims management – member rating

Number of invitations to complete questionnaire	355
Number of individual responses received	280

Of the 280 responses, 146 responded "N/A" and are not included in the pie chart.

Figure 6: Member rating of VPIS's delivery of Claims management services; Source: Pre-renewal questionnaire responses issued through Microsoft Forms.

Pastoral support – member rating

Number of invitations to complete questionnaire	355
Number of individual responses received	280

Of the 280 responses, 140 responded "N/A" and are not included in the pie chart.

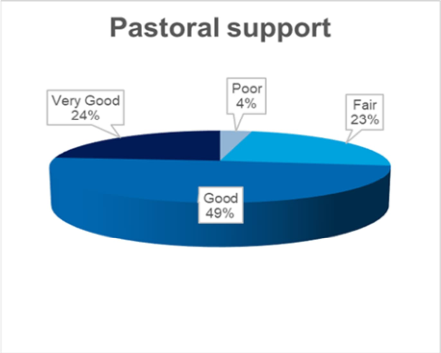


Figure 7: Member rating of VPIS's delivery of Pastoral support; Source: Pre-renewal questionnaire responses issued through Microsoft Forms.

Pastoral support is important to VPIS in supporting the wellbeing of veterinarians and the profession, at claim time and beyond.

Directory

Board of Directors
Gavin Shepherd (Board Chair)
Jim Rhynd
Mark Gilmour (ARC Chair)
Paul Fraser
Tanya Page
Brendon Bell (retired 11 November 2022)
Steven Cranefield (retired 11 November 2022)
Vince Peterson (retired 11 November 2022)

Chief Executive Officer
Alpha Woolrich

Actuary
Christine Ormrod

Solicitor
Mahony Horner Lawyers, Darroch Forrest
and Morgan Coakle

Bank
Westpac Banking Corp

Investment Manager
JBWere

Auditor
Deloitte Limited

Accountant
BDO Wellington Limited

Registered Office
Level 2, 44 Victoria Street
Wellington Central
Wellington, 6012

Incorporation Number
376964

New Zealand Business Number
94290428897255

Veterinary Professional Insurance Society
Statement of Comprehensive Revenue and Expenses
For the period ended 30 September 2023

	Notes	2023	2022
Revenue from Exchange Transactions	5.1		
Gross premium		2,341,521	1,874,835
Premium ceded to Re-Insurer		(880,673)	(777,919)
Net Premium		1,460,848	1,096,916
Other Revenue			
Membership revenue		297,506	284,020
Miscellaneous revenue		4,228	3,177
Rental revenue		28,104	28,104
Total Other Revenue		329,837	315,300
Other Gains and Losses			
Fair value gain/(loss) on financial assets		248	(187,849)
Revaluation of Investment Property	6	42,500	55,000
Total Other Gains and Losses		42,748	(132,849)
Total Revenue		1,833,433	1,279,367
Expenses			
Net Claims Cost	7	219,713	212,935
Operating Expenses			
Administration		389,309	336,361
Audit fees	8	41,850	29,000
Bad Debt		1,098	
Board cost		90,629	93,684
Depreciation and amortisation	10	2,421	864
Finance cost		181	660
Legal expenses		82,536	144,090
Fee to reinsurer		121,280	88,000
Investment management fees		13,116	20,251
Personnel - employee benefits		306,767	259,695
Personnel - contribution plan		8,776	7,011
Project expenses		473,742	222,484
Total Operating Expenses		1,531,705	1,202,099
Total Expenses		1,751,418	1,415,034
Dividend income		28,067	31,057
Interest income		93,879	36,646
Total Investment Income		121,946	67,703
Total Surplus (Deficit) for the Period		203,962	(67,964)
Other comprehensive revenue and expenses			
Total other comprehensive revenue and expenses		-	-
Total comprehensive revenue and expenses for the Period		203,962	(67,964)

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

Veterinary Professional Insurance Society
Statement of Changes in Net Assets
For the period ended 30 September 2023

Accumulated revenue and expense	2023	2022
Balance as at beginning of period	3,317,769	3,385,733
Total comprehensive income and expenses for the period	203,962	(67,964)
Balance as at end of period	3,521,731	3,317,769

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

Veterinary Professional Insurance Society
Statement of Financial Position
As at 30 September 2023

Current Assets	Notes	2023	2022
Cash and cash equivalents	12	2,155,603	1,513,946
Receivables from exchange transactions	11	76,988	168,057
Recoverable from reinsurer in respect of claims provision	3	831,063	885,750
Prepayments		450,337	408,950
GST receivable		53,643	36,727
Total Current Assets		3,567,634	3,013,430
Non Current Assets			
Property, plant and equipment	10	3,919	2,221
Investment property	6	410,000	367,500
Financial assets	11	1,322,074	1,493,196
Total Non Current Assets		1,735,992	1,862,917
Total Assets		5,303,626	4,876,347
Current Liabilities			
Payables from exchange transactions		254,308	132,632
Unearned premium		44,763	352
Subscriptions received in advance		221	1,770
Sundry payables		526,807	426,283
Employee payables		50,832	48,247
Provision for claims	3	902,761	945,539
Total Current Liabilities		1,779,692	1,554,823
Non Current Liabilities			
Unearned Premium		1,720	2,990
Subscription in advance		483	765
Total Non Current Liabilities		2,203	3,755
Total Liabilities		1,781,895	1,558,578
Net Assets		3,521,731	3,317,769
Equity		3,521,731	3,317,769

Name Mark Gilmour

Signature Signed by: Mark Gilmour 7E30966196EAE2B5

Date 19/02/2024

Name Paul Fraser

Signature Signed by: Paul Fraser 095FF5576AC21D1A

Date 19/02/2024

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

Veterinary Professional Insurance Society
Statement of Cash Flows
For the period ended 30 September 2023

Cashflows from operating activities	Note	2023	2022
Cash was provided from/(applied to):			
Insurance premiums		2,431,044	1,444,784
Membership Subscriptions		297,506	284,020
Excesses and reinsurer payments received		518,054	508,255
Interest received		4,227	1,872
Other income		28,104	31,281
Operational Payments to suppliers		(1,353,215)	(686,372)
Insurance Claims Paid		(681,892)	(856,391)
Reinsurance Premiums Paid		(880,673)	(777,919)
Net cash flows from/(used in) operating activities		**363,154**	**(50,470)**
Cash flow from investing activities			
Proceeds from sale of financial assets		250,710	1,965,455
Payments to acquire financial assets		(79,340)	(1,276,906)
Payments to acquire property, plant and equipment		(1,698)	(1,320)
Proceeds from interest		83,326	34,775
Proceeds from dividends		28,067	31,057
Payments to management fees		(13,116)	(20,251)
Net cash flow from investing activities		**267,949**	**732,810**
Net cash flow from financing activities		**-**	**-**
Net change in cash and cash equivalents		631,103	682,340
Cash and cash equivalents, beginning of period		1,513,946	831,606
Cash and cash equivalents at end of period	12	2,145,050	1,513,946

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

1 Reporting Entity

The Veterinary Professional Insurance Society Incorporated ("VPIS" or "Society") is registered as an Incorporated Society under the Incorporated Societies Act 1908 and is domiciled in New Zealand. This entity was a small insurer up until 30 September 2022 and is considered a large insurer from 1 October 2022.

VPIS's principal activities are:

• the establishment of insurance schemes or arrangements that facilitate or are incidental to the provision of Veterinary Services by Members to the New Zealand public;
• support for Members in relation to professional conduct or service matters;
• organising, operating, and promoting Veterinary Services education, training, and advice programmes for the benefit of Members and other classes of persons the Board deems appropriate;
• the establishment and maintenance of a fund or funds for the purpose of making payments to any person who is not a Member and who may have suffered loss because of any action or default of a Member in the provision of Veterinary Services.

These financial statements were approved for issue by the Board of VPIS on ______/_______/2024.

2 Basis of preparation

(a) *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.

VPIS is a Public Benefit Entity (PBE) for the purposes of financial reporting and the financial statements have been prepared in accordance with the requirements of the in accordance with the Financial Market Conduct Act 2013, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010.

In July 2013 VPIS was issued its original license, in August 2015 was issued a revised license and in April 2023 it was issued a further revised license to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010.

The Society no longer meets the criteria of a small insurer and the related reporting exemptions no longer apply. Therefore the Society now reports using Tier 1 Public Benefit Entity Standards, from 1 October 2022, which has resulted in increased disclosures but has had no impact on recognition and measurement. The society previously reported under the Tier 2 Public Benefit Entity standards.

(b) *Measurement basis*

The financial statements have been prepared on the historical cost basis except for the claims provision which is accounted for in accordance with PBE IFRS 4 and the following material items in the statement of financial position, which are measured at fair value:

- Investment property
- Financial assets measured at fair value through surplus or deficit

(c) *Functional and presentation 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.

(d) *Accounting policies*

The accounting policies detailed in the following notes have been applied consistently to all periods presented in these financial statements, except as explained in Note 4, which addresses changes in accounting policies.

3 Use of judgements and estimates

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.

Insurance risk

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. 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.

Reinsurance

VPIS has developed its reinsurance strategy to mitigate these insurance risks. All policies since 2020 have been 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. 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 reinsurer refuses or is unable to pay the claimed amount. This risk is mitigated by the reinsurer's involvement in every claim from the outset.
VPIS on occasion may choose to absorb costs or make payments for claims that fall outside the scope of the policy. Such decisions are made as a membership benefit. 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.

Software as a Service (SaaS)

In applying the entity's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements, the Directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements:

Determination whether configuration and customisation services are distinct from the SaaS access costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the Directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term. Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities will not be distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software is deemed to be significant. At year end, the Society recognised $342,242 (2022: $408,950) as prepayments in respect of customisation and configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

Insurance Credit risk

VPIS has a contingent liability if for any reason expected recoveries are not received from the reinsurers. 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 reinsurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

3 Use of judgements and estimates (cont)

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 2023.

The 30 September 2023 valuation was undertaken using the Payment Per Claim Incurred method. The claims provision was calculated by multiplying projected future reporting's of small, medium and large claims by projected average claim size and adjusting for development of existing reported claims and any specific large claim estimates. The provision was adjusted for inflation and expected claims handling expenses. Future payments were discounted as appropriate. Amounts recoverable from reinsurers were estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

Key assumptions used in determining the outstanding claims liability were as follows:
- Discount rate: 4.98-5.56% (2022: 4.05-4.34%) Based on the risk-free forward rates published by The Treasury as at 30 September 2023
- Inflation: 2.0-4.3% (2022: 2.1-4.8%) When considering claim development patterns, historic payments are increased with CPI inflation. Future claim payments are increased to allow for projected future CPI inflation.
- Future claims handling expenses : 7% (2022: 6%) of gross claims payments.
- Reinsurance: All future claims above the retention are assumed to be covered by reinsurance.
- Risk Margin: Net claims cost is calculated at a 75% probability sufficiency by applying a risk margin of 25% (2022: 25%) to gross claims.
- Assumed average claim size – this is based on historic average claim size for small, medium and large claims. See table below:

Size of claim	Small	Medium	Large
$	437	4,087	40,000

The impact of this was to increase the net provision for outstanding claims since 30 September 2023 by $11,909 at 30 September 2023 (2022: decrease by $35,430).

Uncertainty and sensitivities

The estimate of the gross 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 cost of the claims outstanding at any particular date may be materially higher or lower than the current estimates. As VPIS is a small business, its experience is likely to be volatile.

However, the stop-loss reinsurance treaties in place with Vero Liability and Berkshire Hathaway significantly reduce the volatility of VPIS's profit, with the net of reinsurance underwriting result generally known within the year. Sensitivity tests have been carried out to determine the impact of an adverse change to the underlying experience in the projections.

	Effect on equity and net profit at 30 September 2023
Claim development factors $1,000,000 higher	79,259
Claim development factors $450,000 lower	(31,684)

The net ultimate claims cost for the nine most recent claim years, from years ending 30 September 2013 to 30 September 2023 are as follows:

	Valuation year, year ending 30 September									Year ending 30 September
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2023	150,000	150,000	150,000	150,000	150,000	150,000	200,000	200,000	200,000	200,000
2022	150,000	150,000	150,000	150,000	150,000	150,000	200,000	200,000	200,000	
2021	150,000	150,000	150,000	150,000	150,000	150,000	200,000	200,000		
2020	150,000	150,000	150,000	150,000	150,000	150,000	200,000			
2019	150,000	150,000	150,000	150,000	150,000	150,000				
2018	150,000	150,000	150,000	150,000	150,000					
2017	150,000	150,000	150,000	150,000						
2016	150,000	150,000	150,000							
2015	150,000	150,000								
2014	150,000									
Paid	-150,000	-150,000	-150,000	-150,000	-150,000	-150,000	-200,000	-200,000	-200,000	-200,000

	Gross	Reinsurance	Net
Expected future claims payments	867,457	(861,449)	6,008
Discounting	(30,598)	30,387	(212)
Discount expected future claim payments	836,859	(831,063)	5,797
Indirect expenses	58,580	-	58,580
Risk margin	7,323	-	7,323
Provision for net outstanding claims	902,761	-831,063	71,699

4 Changes in accounting standards

(a) *New and amended accounting standards adopted*

PBE IPSAS 41 introduces new recognition and measurement requirements for financial assets and restricts the ability to measure financial assets at amortised cost to only those assets that are:
(a) held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and;
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, measurement of financial assets at fair value through other comprehensive revenue and expense is also restricted. PBE IPSAS 41 has not had a material impact on the Society measurement and recognition of financial instruments.

PBE FRS 48 requires specific disclosures for the reporting of service performance information. This has been presented for the first time this year.

(b) *New standards and interpretations not yet adopted*

The new or revised accounting standards that are expected to have a significant impact on the financial report of the Society are set out below. The Society has not early adopted these accounting standards.

Public Benefit Entity International Financial Reporting Standard 17 insurance contracts (PBE IFRS 17) was issued in July 2019 with amendments up to and including 20 August 2020. IFRS 17 applies to periods beginning on or after 1 January 2023. The Society will apply the standard for the year ending 30 September 2024, with the comparative period for the year ending 30 September 2023.

The Society has established a working group to implement the requirements of PBE IFRS 17 and is currently performing a detailed impact assessment of the standard.

PBE IFRS 17 introduces a general model that measures insurance contracts based on the fulfilment cash flows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period), and a simplified measurement model (the premium allocation approach or PAA) which is permitted in certain circumstances. An assessment of PAA eligibility has been completed, and it is expected that the PAA approach will be applied to all issued and ceded policies.

Due to the complexity of the standard requirements and evolving global and local interpretation of these requirements, the impact of a number of IFRS 17 requirements is still being determined. Giving the adoption of the PAA approach it is not expected there will be a material impact to measurement or recognition as a result of the PBE IFRS 17 requirements on historical information. PBE IFRS 17 will require significant changes to the disclosure of insurance contracts.

5 Summary of Accounting Policies

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

5.1 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 over the coverage period after adjusting for any unearned premium.

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 loss-occurring contracts.

Reinsurance premiums on the face of the Statement of Comprehensive Revenue and Expense have been presented as negative items within net premiums.

5 Summary of Accounting Policies (cont)

Investment Income

Investment income includes proceeds from dividends, interest received, and any realised gain on investments sold during the year. Income from dividends is recognised when the Society's right to receive payment is established, and the amount can be reliably measured. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Gains or losses resulting from changes in the fair value of shares and bonds are separately accounted for and disclosed.

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.

5.2 Financial Instruments

(I) *Classification and fair values of financial instruments*

The tables below show the carrying amount and fair values (expect those where carrying amount approximates fair value) of the Society's financial assets and financial liabilities.

30 September 2023	Financial Assets (Liabilities)			
	Note	Fair Value through surplus of deficit	Amortised Cost	Fair Value Hierarchy
Subsequently measured at fair value:				
Securities:				
Bonds	11	795,882		1
Equities	11	526,192		1
Subsequently measured at amortised cost:				
Cash and cash equivalents	12		2,155,603	
Receivables			76,988	
Payables			(831,947)	

(ii) The fair value hierarchy (presented in the tables above) disaggregates fair value into the following three levels:

Level 1: Quoted unadjusted prices in active markets for identical instruments

Level 2: Inputs that are not level 1 that are observable either directly or indirectly

Level 3: Inputs that are not observable

Financial Instruments - accounting policy

(I) *Recognition and initial measurement*

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

A financial asset or financial liability is initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are that are directly attributable to its acquisition or issue. At initial recognition, an entity may measure short-term receivables and payables at the original invoice amount if the effect of discounting is immaterial.

5 Summary of Accounting Policies (cont)

(ii) *Classification and subsequent measurement*

Financial assets

On initial recognition of an equity investment that is not held for trading, the Society may irrevocably elect to present subsequent changes in the investment's fair value in Other Comprehensive Revenue and Expense (OCRE). This election is made on an investment-by-investment basis.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at Fair Value Through Surplus or Deficit (FVTSD):

• it is held within a management model whose objective is to hold assets to collect contractual cash flows; and
• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at Fair Value Through Other Comprehensive Revenue and Expense (FVOCRE) if it meets both of the following conditions and is not designated as at FVTSD:

• it is held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
• its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Bonds and equities are measured at fair value through surplus and deficit. All other financial assets are measured under the amortised cost model.

Financial assets - Management model assessment

The Society makes an assessment of the objective of the management model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management.

The information considered includes:

• the stated policies and objectives for the portfolio and the operation of those policies in practice.
• how the performance of the portfolio is evaluated and reported to the Society's management;
• the risks that affect the performance of the management model (and the financial assets held within that management model) and how those risks are managed;
• the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Society considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making this assessment, the Society considers:

• contingent events that would change the amount or timing of cash flows;
• terms that may adjust the contractual coupon rate, including variable-rate features;

5 Summary of Accounting Policies (cont)

Financial assets - Subsequent measurement and gains and losses

Equity investments at FVTSD	All assets are subsequently measured at fair value, with all movement being recorded through the surplus and deficit. Dividends are recognised as income in surplus or deficit unless the dividend clearly represents a recovery of part of the cost of the investment.

Financial liabilities - Classification, subsequent measurement and gains and losses

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in surplus or deficit. Any gain or loss on derecognition is also recognised in surplus of deficit.

(iii) *Derecognition*

Financial assets

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

This can either occur :

- In a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred
- Or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Society enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Society also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in surplus or deficit.

(iv) *Impairment of financial assets*

A financial asset not subsequently measured at fair value through surplus or deficit is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a counterparty, restructuring of an amount due to the Society on terms that the Society would not consider otherwise, indications that a counterparty or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Society, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an equity security classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

5.3 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and investment institutions 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.

5.4 Short Term Investments

Short term investments comprise of term deposits which have a term of greater than 90 days but less than 12 months, and therefore do not fall into the category of cash and cash equivalents.

5.5 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 2023 and 30 September 2022, all overdue balances have been assessed for impairment and no allowance was necessary. Because all debtors are members of the society or the reinsurer, it is considered there is a lower risk of uncollectibility.

For trade receivable and lease receivable, the Society applies the simplified approach permitted by PBE IPSAS 41, which requires expected lifetime losses ("ECLs") to be recognised from initial recognition. During this process, the entity determines whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs the entity considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Society's historical experience and informed credit assessment and including forward looking information. At present and due to the nature of the receivables expected lifetime losses are nil.

All receivables are subject to credit risk exposure.

5.6 Investment Property

The investment property is held to earn rentals and/or for capital appreciation. Investment property is initially measured at cost (including transaction costs) and subsequently measured at fair value with fair value gains/losses being recognised in surplus or deficit in the period in which they arise.

5.7 Property and equipment

Items of property and equipment are initially measured at cost, except those acquired through non-exchange transactions which are instead measured at fair value as their deemed cost at initial recognition.

Items of property and equipment are subsequently measured under the cost model: Cost (or fair value for items acquired through non-exchange transactions) less accumulated depreciation and impairment.

The depreciation period for the fixed assets are as follows;
Computer hardware - 2.5 years
Equipment - 4 years

5.8 Income Tax

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

5.9 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.

5.10 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 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.

Please refer to note 3 for further information on provisions.

5.11 Expenditure

Gross Claims

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

Insurance expenses recovered

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.

5.12 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.

5.13 Insurance receivables

Insurance premium receivables and reinsurance 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 premium receivables and reinsurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance premium receivables and reinsurance 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 premium receivables and reinsurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

5.14 Software as a Service

Software-as-a-Service (SaaS) arrangements are service contracts providing the Society with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Some of these costs incurred may be for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meet the definition of and recognition criteria for an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

5.15 Employee benefits

Short-term employee benefit liabilities are recognised when the Society has a legal or constructive obligation to remunerate employees for services provided and that are expected to be settled wholly before 12 months after the reporting date. Short-term employee benefits are measured on an undiscounted basis and recognised in surplus and deficit within the Statement of Comprehensive Revenue and Expenses in the period in which employment services are provided.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in surplus or deficit in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset (prepayment) to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

6 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 fair value. The most recent revaluation was done with an effective date of 30 September 2023. The valuation was performed by an independent valuer, being Jon Parker, BBS, ANZIV, SPINZ of Darroch Property Advisors & Valuers.

The valuation was based on capitalising the potential net income at an appropriate market derived rate of return to arrive at a capitalised value. Key assumptions used in determining the value of the investment property were as follows:

•Capitalisation rate (market income) - 7.75% (2022: 7.75%)
•Rate per square metre Building – $3,800 - $3,850 psm (2022: $3,400 - $3,450 psm)
•Range of equivalent yields (Market rental/sale price adjusted for vacancy, capital expenditure, etc) – 6.75% to 8% (2022: 6.75% to 8.30%).
•Market rental assessment – $129,245 (2022: $115,055) based on a comparison with recent leasing and reviews of similar premises in the near locality.

Investment Property	Opening Cost	Opening Fair Value gain (loss)	Additions	Fair value gain (loss)	Carrying amount
	$	$	$	$	$
2023	253,658	113,842	-	42,500	410,000
2022	253,658	58,842	-	55,000	367,500

Significant inputs used together with the impact on fair value of a change in inputs:

Inputs	Range of significant unobservable inputs for 30 September 2023	Impact of fair value measurement	
		Increase to input	Decrease to input
Rate per square metre building	$877 - $4,539 psm	Increase	Decrease
Range of equivalent yields	5.9% - 7.79%	Increase	Decrease
Capitalisation Rate (Market Income)	7.75%	Decrease	Increase

7 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.

Underwriting Expenses and recoveries continued		
Claims, fees & expenses	2023	2022
Expenses incurred - current year claims	240,890	468,960
Expenses incurred - prior years claims	386,315	387,431
	627,205	856,391
Insurance expenses recovered - current year claims	(46,698)	(245,382)
Insurance expenses recovered - prior-year claims	(372,703)	(362,644)
	(419,401)	(608,026)
Movement in net outstanding claims	11,909	(35,430)
Net Claims cost for the period	219,713	212,935

8 Audit fees

Audit fees of $35,250 (2022: $21,750) and Solvency fees of $6,600 (2022: $7,250) were paid to Deloitte Limited.
Solvency fees, relate to the review engagement by which Deloitte Limited will review the annual Solvency Return as at 30 September 2023, prepared in accordance with the Solvency Standard for Non-life insurance Business 2014 published by the Reserve Bank of New Zealand ('RBNZ').

9 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 2023 is $38,634 (2022: $3,342). These relate 2024 premiums invoiced in advance and to run-off insurances. There is no other net premium liability either and 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 2023:
(a) VPIS's Actual Solvency Capital was $3.179m (2022: $2.911m)
(b) VPIS's Minimum Solvency Capital was $3m (2022: $0.496m), please refer to note 17 for further information about solvency requirements for the 2023 financial year
(c) VPIS's Solvency Margin was $0.179m (2022: $2.414m)
(d) VPIS's Solvency Ratio was 106% (2022: 586%)

10 Property and Equipment

2023	Opening Cost	Plus Additions	Less Disposals	Closing Cost	Depreciation for the period	Accumulated Depreciation	Carrying Amount
	$	$	$	$	$	$	$
Computer Hardware	4,269	4,119	-	8,388	2,038	5,075	3,312
Equipment	1,916	-	-	1,916	383	1,309	607
	6,185	4,119	-	10,304	2,421	6,384	3,919

2022	Opening Cost	Plus Additions	Less Disposals	Closing Cost	Depreciation for the period	Accumulated Depreciation	Carrying Amount
	$	$	$	$	$	$	$
Computer Hardware	2,949	1320	-	4,269	481	3,037	1,232
Equipment	1,916	-	-	1,916	383	926	990
	4,865	1,320	-	6,185	864	3,963	2,221

11 Financial assets and liabilities

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

	2023	2022
Financial Assets at Amortised Cost	$	$
Cash and Cash Equivalents	2,155,603	1,513,946
Receivables from exchange transactions	76,988	168,057
Financial Assets at Fair Value through surplus & deficit		
Bonds and Equities	1,322,074	1,493,196
Total Financial Assets	3,554,665	3,175,199
Financial Liabilities at Amortised Cost		
Accounts payable from exchange transactions	254,308	132,632
Sundry payables	526,807	426,283
Employee liabilities	50,832	48,247
Total Financial Liabilities at Amortised Cost	831,947	607,162

All Financial Assets at Fair Value through Profit and Loss have always been measured at fair value through profit and loss. Therefore, there has been no change of treatment on adoption of PBE IPSAS 41 this year.

12 Cash and Cash Equivalents

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

	2023	2022
	$	$
Cash held at Bank	171,642	549,632
Cash held in Investment portfolio	1,983,961	964,314
	2,155,603	1,513,946

Per annum annual interest rate ranges applicable to components of cash and cash equivalents:

	2023	2022
Cash held at Bank	2.5%	0% - 3%
Cash held in Investment portfolio	3.57% - 5.29%	4.75%

There are no restrictions over any of the cash and cash equivalents held by the Society.

13 Commitments, contingent assets and contingent liabilities

There were no commitments, contingent assets and/or contingent liabilities at period end (2022: nil).

14 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 (2022: $28,104), owed to VPIS as at 30 September 2023 was $2,693 (2022: $2,693)

Management fees

VPIS is charged by NZVA for management services provided to VPIS. All transactions are agreed by the VPIS Board.
Management fees were $55,692 (2022: $55,692).
Amounts owed to NZVA as at 30 September 2023 were $6,775 (2022: $6,630).

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 during the period ended 30 September 2023 had 3 full time employees (FTE).

Total costs incurred for key management personnel for the period was $176,827 being 1 FTE (2022: $137,218, 1 FTE).
A close family member of key management personnel is employed by the Society on normal employment terms. The total aggregate remuneration paid to close family members of key management personnel was $50,815 (2022: $29,385).

15 Related party transactions (cont)

Fees paid to board members

Board members of 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.
Board member fees, Audit and Risk Committee fees and membership committee fees paid for the period were $77,900, 0.27 FTEs (2022: $88,800, 0.36 FTEs).
Board and Audit and Risk Committee fees owed to Board members as at 30 September 2023 were $2,000 (2022: $nil).
Assessors Fees paid to Board members for the period was $80,874 (2022: $92,212).

Board Members received the following payments:

Name	Assessor Fees		Assessor Fees Payable at Balance Date (inc GST)	
	30 September 2023	30 September 2022	30 September 2023	30 September 2022
Gavin Shepherd (Board Chair)	-	-	-	-
Brendon Bell	1,062	13,775	863	-
Jim Rhynd	-	-	-	-
Mark Gilmour (ARC Chair)	17,623	23,751	16,422	5,957
Paul Fraser	11,660	15,798	705	930
Steve Cranefield	-	9,620	-	-
Tanya Page	46,097	26,633	6,932	
Vince Peterson	4,432	2,636	-	-
	80,874	92,213	24,922	6,887

16 Potential legal costs

As mentioned in the 2022 audited financial statements, there is an ongoing defence of allegations made by a former service provider, from 2018. 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.

17 Financial risk management

The Society is exposed to a number of risks in the normal course of business, specifically insurance risk, credit risk, liquidity risk and interest rate risk. The Board recognise the importance of having effective risk management and have put in place a comprehensive risk management programme. The Society has an Audit and Risk committee, which meet quarterly, headed by a Chairperson. These members are also Board Members.

Insurance risk

The Society is exposed to insurance risk through its insurance activities. The key risk is that of claims costs varying significantly from what was assumed in the setting of premium rates and putting pressure on the solvency and liquidity of the Society. The Society mitigates the risks arising from insurance contracts by using reinsurance and structuring its investment portfolio and financial policies to allow for sufficient cash flow during periods of volatility. The Society's insurance risk is concentrated to within the veterinary sector.

Credit risk

Credit risk is the potential risk of loss arising from the failure of a debtor or counterparty to meet their contractual obligations. In the normal course of its business the Society incurs credit risk from investment in financial assets. The Society maintains policies which are used to manage the exposure to credit risk. Limits on counter-party exposures have been set and are monitored on an ongoing basis. In addition, the RBNZ has issued concentration risk limits, as part of its solvency standards. The maximum exposure to credit risk at the end of the reporting period is the amount of financial assets stated in the statement of financial position. These exposures are net of any recognised allowance for impairment losses. The Society does not require any collateral or security to support financial assets due to the quality of the counterparty organisations.

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 reinsurance 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.

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+. Up to 30 September 2022, as a small insurer, VPIS was not required to have a credit rating. From 1 October 2022 VPIS was required to obtain a credit rating and has been given a B (fair) insurer financial strength rating by AM Best.

Contractual maturities and interest rates of debt securities 2023: Maturity: 1 November 2023 - 11 July 2049, Interest Rate: 1.646% - 5.36%.

Cash and cash equivalents

The Society has a total of $2,155,603 (2022: $1,513,946) of cash and cash equivalents with financial institutions..

The spread of the Society's cash and cash equivalents between different financial institutions as at 30 September 2023:
- Westpac Bank: Credit Rating AA- to A+, % of funds held 7.93% (2022: AA- to A+, 36.29%)
- JBWere: Credit Rating: Not Applicable as not required, % of funds held 92.07% (2022: NA, 63.71%)

Debt instruments

The Society has a total of $795,882 (2022: $995,961) invested in debt securities. At reporting date, all debt instruments were in public debt securities, with no investment in private debt securities.

Receivables (from exchange transactions)

The Society's exposure to credit risk is influenced by the specific individual characteristics of each counter party within the different sub-class of receivables presented in Note 11.

At reporting date, the maximum exposure to credit risk for trade receivables from exchange transactions is $76,988 (2022: $168,057).

The aging of trade receivables from exchange transactions and reinsurance recoveries, and credit quality of those balances that are neither past due nor impaired, as at reporting date, is presented below:

	2023			2022		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	66,002	-	66,002	145,803	-	145,803
Past due (1-30 days)	10,986	-	10,986	12,096	-	12,096
Past due (31-60 days)	-	-	-	2,955	-	2,955
Past due (61 days)	-	-	-	7,202	-	7,202
	76,988	-	76,988	168,057	-	168,057

Liquidity risk

The Society is exposed to daily calls on its available cash resources from claims and administration expenses. Liquidity risk is the risk that payment of financial liability obligations may not be met in a timely manner at a reasonable cost.

The Society ensures that the maturity profile of its short-term liquid financial assets (such as cash and cash equivalents, and trade receivables) is sufficient to meet the contractual cash flow obligations of its financial liabilities.

The portfolio is managed to ensure funds are available to meet such calls to cover claims and expenses at unexpected levels of demand.

Market risk

Market risk arises from the Society's use of financial instruments that are interest bearing, denominated in foreign currencies, and/or traded in public markets. Specifically, market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). Market risk is managed through a diversified portfolio of bonds, equity and cash in line with the risk appetite of the Society as outlined in the SIPO.

Interest rate risk

The Society invests in term investments and cash at call held in financial institutions. There is a risk that any movement in interest rates could have an effect on the profitability and cash flows. The Insurer maintains a spread of maturity profiles to mitigate this risk.

	Weighted average interest rate		Nominal amounts	
	2023	2022	2023	2022
Cash held at Bank	2.7%	0.9%	10,553	1,872
Cash held in Investment portfolio	3.57% - 5.29%	4.75%	63,500	4,658
Term Deposits	-	1.53% - 2.01%	-	2,644
Debt securities (NZ public bonds)	1.65% - 5.36%	1.65% - 5.36%	19,826	27,472
			93,879	36,646

The following sensitivity analysis is based on interest rate risk exposures in existence at balance date. The table below sets out the difference in net surplus / (deficit) had interest rates been 2% higher or lower than the average year end market rate, with all other variables remaining constant. Any change in the net surplus / (deficit) for the period would result in a corresponding movement in the financial assets at balance date.

	Change in interest rate basis points	2023 – impact on net surplus / (deficit)	2022 - Impact on net surplus / (deficit)
Interest rate on financial assets	+200	2,631	1,394
Interest rate on financial assets	-200	(2,631)	(1,394)

Foreign currency risk

The Society is exposed to foreign currency risk in respect of its financial assets and liabilities that it holds in foreign currencies.

The Society's exposure to foreign currency risk is presented below:

	2023			
Financial assets:	AUD	USD	GBP	EURO
Cash and cash equivalents	2,953	1,034	275	1,451
Receivables (exchange transactions)	-	-	-	-
Debt securities (bonds)	-	-	-	-
Equity Securities (publicly listed)	131,477	218,447	10,153	54,711
Total	134,430	219,481	10,428	56,162
Financial liabilities:				
Payables (exchange transactions)	-	-	-	-
Net exposure to foreign currency risk	134,430	219,481	10,428	56,162
	2022			
Financial assets:	AUD	USD	GBP	EURO
Cash and cash equivalents	60,400	99,639	9,848	10,721
Receivables (exchange transactions)	-	-	-	-
Debt securities (bonds)	-	-	-	-
Equity Securities (publicly listed)	129,522	217,069	8,820	31,018
Total	189,922	316,708	18,668	41,739
Financial liabilities:				
Payables (exchange transactions)	-	-	-	-
Net exposure to foreign currency risk	189,922	316,708	18,668	41,739

Price risk

The Society is exposed to price risk in respect of its publicly listed debt and equity instruments. In respect of its publicly listed debt instruments, the Society manages this risk by spreading the holdings across varying maturity dates and issuers. In respect of its publicly listed equity instruments, the Society manages this risk indirectly by requiring that the portfolio is spread across different sectors with various amounts of systematic risk to movements in the economy as a whole.

The Society's maximum exposure to price risk is presented below:

New Zealand	2023	2022
Debt Securities (publicly - listed)	795,881	995,961
Equity Securities (publicly listed)	111,404	110,805
Australia		
Equity Securities (publicly listed)	131,477	129,522
United States		
Equity Securities (publicly listed)	218,447	217,069
Great Britain		
Equity Securities (publicly listed)	10,153	8,820
Europe		
Equity Securities (publicly listed)	54,711	31,018

18 Capital management

The objectives of the Society with regard to capital management are to:

(I) Maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;

(ii) Maintain a strong capital base to cover the inherent risks of the business; and

(iii) Support the future development and growth of the business to maximise member value.

The Board has the ultimate responsibility for managing capital and compliance with section 4.5 of the Solvency Standard for Non-Life Insurance business issued by RBNZ ('Solvency Standard'). The Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard. During the 30 Sept 2022 year complied with all capital licencing requirements. During the 30 Sept 2023 year once the small insurer exemptions no longer applied, VPIS was subject to forbearance conditions issued by RBNZ in relation to not immediately meeting the required solvency capital level. As at 30 Sept 2023, VPIS has met the required solvency capital as set out in Note 9. The Board has ultimate responsibility for maintaining the optimal capital structure. The Audit and Risk Committee oversees the capital computations and advises the Board on capital management and solvency. In addition, the Society manages its required level of capital through analysis and optimisation of the Society's product and asset mix, reinsurance programme, insurance risk exposure and investment strategy.

19 Subsequent events

There were no subsequent events following balance date as at 30 Sept 2023. (2022: Nil)