Veterinary Professional Insurance Society Incorporated
Statement of Comprehensive Revenue and Expenses
For the year ended 30 September 2021

	Notes	2021 $	2020 $
Revenue from Exchange Transactions	**4.3**		
Gross premium		1,468,179	1,402,163
Premium ceded to Re-Insurer		(713,767)	(672,199)
Net premium		754,412	729,964
Other Revenue			
Membership revenue		217,732	206,449
Miscellaneous revenue		8,675	3,822
Investment income		608	9,585
Investment property income		28,104	28,104
Gain on investments income		161,345	101,398
Total Other revenue		416,464	349,358
Total Revenue (including net premium)		**1,170,876**	**1,079,322**
Expenses			
Net Claims Cost	**6**	231,877	221,632
Operating Expenses			
Insurance fees and premiums		65,000	65,000
Legal expenses		57,539	96,359
Administration		170,480	194,468
Finance cost		3,550	3,406
Board cost		94,925	97,463
Depreciation and amortisation	**9,10**	5,087	4,864
Investment management fee		13,058	12,984
Personnel Costs		243,152	211,212
Project Expenses		119,088	90,364
Total Operating Expenses		771,879	776,120
Total Expenses		**1,103,756**	**997,752**
Total surplus for the year		**167,120**	**81,570**
Other comprehensive revenue and expenses		**-**	**-**
Total comprehensive revenue and expenses for the year		**167,120**	**81,570**

Veterinary Professional Insurance Society Incorporated
Statement of Changes in Net Assets
For the year ended 30 September 2021

	2021	2020
	$	**$**
Balance as at 1 October	3,097,019	3,015,449
Total Surplus for the year	167,120	81,570
Other comprehensive revenue and expenses	-	-
Total Comprehensive revenue and expenses	**167,120**	**81,570**
Balance as at 30 September	**3,264,139**	**3,097,019**

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 2021

	Notes	2021	2020
Current Assets		**$**	**$**
Cash and cash equivalents		598,777	530,261
Receivables from exchange transactions		45,203	13,476
Recoverable from reinsurer in respect of claims provision	**5,7**	476,096	277,943
Prepayments		408,484	384,224
GST receivable		44,155	14,794
Total Current Assets		1,572,715	1,220,698
Non Current Assets			
Long term receivables		-	7,309
Investment property	**10**	190,905	194,430
Investment portfolio	**11**	2,602,423	2,453,527
Fixed Assets	**9**	1,766	3,328
Intangible assets		-	-
Total Non Current Assets		2,795,094	2,658,594
Total Assets		**4,367,809**	**3,879,292**
Current Liabilities			
Accounts payable from exchange transactions		433,688	54,303
Subscriptions received in advance		607	1,295
Unearned premium	**7**	1,626	3,467
Sundry payables		64,796	327,608
Employee payables		27,454	18,735
Total Current Liabilities		528,171	405,408
Non Current Liabilities			
Provision for claims	**5,7**	571,315	372,072
Unearned Premium	**7**	3,177	3,407
Subscription in advance		1,007	1,386
Total Non Current Liabilities		575,499	376,865
Total Liabilities		**1,103,670**	**782,273**
Net Assets		**3,264,139**	**3,097,019**
Equity		**3,264,139**	**3,097,019**

For and on behalf of the Board 10th February 2022

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 2021

	Note	2021 $	2020 $
Cashflow from operating activities			
Cash was provided from/(applied to):			
Insurance premiums		1,473,417	1,410,477
Membership Subscriptions		216,664	206,449
Excesses and reinsurer payments received		329,393	618,098
Interest received		1,659	3,521
Other income		35,120	33,948
Operational Payments to suppliers		(682,063)	(751,634)
Insurance Claims Paid		(591,906)	(585,626)
Insurance Premiums Paid		(713,767)	(672,199)
Net cash flows from operating activities		**68,517**	**263,034**
Cash flow from investing activities			
Proceeds from sale of financial assets		512,449	168,970
Payments to acquire financial assets		(500,000)	(156,149)
Payments to acquire fixed assets		-	(1,915)
Proceeds from interest		467	163
Proceeds from dividends		141	5,901
Payments to Management Fees		(13,058)	(12,984)
Net cash flow used in investing activities		**(1)**	**3,986**
Net cash flow from financing activities		**-**	**-**
Net change in cash and cash equivalents		68,516	267,020
Cash and cash equivalents, beginning of year		530,261	263,241
Cash and cash equivalents at end of year		**598,777**	**530,261**
Made up of			
Cash and Cash equivalents	**13**	598,777	530,261
Total Cash		**598,777**	**530,261**

This Cash Flow Statement has been prepared exclusive of GST

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 10th February 2022.

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

During the year, the Company revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements. The new accounting policy is presented below. Historical financial information has been restated to account for the impact of the change – refer notes 5 and 18.

Software-as-a-Service (SaaS) arrangements are service contracts providing the Company 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.

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

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 continued;

Revenue from Exchange Transactions

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

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

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

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

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

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

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

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

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

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

4.4 Financial Instruments

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

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

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

Financial assets

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

Financial Instruments, Financial Assets continued;

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

Financial Liabilities
The Society’s financial liabilities include accounts payables from exchange transactions and sundry payables.

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

4.5 Cash and Cash Equivalents

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

4.6 Short Term Investments

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

4.7 Receivables from Exchange Transactions

Accounts receivable from exchange transactions are non-interest bearing and receipt is normally due for re-insurance in 7 days and other receivables in 30 days. Therefore, the carrying value of receivables approximates its fair value. As at 30 September 2021 and 2020, all overdue balances have been assessed for impairment and no allowance was necessary.

All receivables are subject to credit risk exposure.

4.8 Investment Property

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

The investment property is stated at cost less accumulated depreciation and any impairment. Depreciation is charged on a straight-line basis over the useful life of the asset and recognised as an expense in the Statement of Comprehensive Revenue and Expenses.

The depreciation period for the property is as follows:
Investment Property - 50 years

4.9 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

4.10 Income Tax

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

4.11 Goods and Service Tax (GST)

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

The net amount of GST payable/(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.

4.12 Provisions

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

Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Provisions are discounted to their present values, where the time value of money is material.

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

4.13 Expenditure

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

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

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

4.14 Reinsurance ceded to reinsurance counterparties

VPIS cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that VPIS may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that VPIS will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Revenue and Expenses.

Gains or losses on buying reinsurance are recognised in the Statement of Comprehensive Revenue and Expense immediately at the date of purchase and are not amortised.

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

4.15 Insurance receivables

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

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

5. SIGNIFICANT MANAGEMENT JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

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

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

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

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

VPIS has developed its reinsurance strategy to mitigate these insurance risks. All policies 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 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 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.

Significant Management Judgements and Estimates in Applying Accounting policies continued;

Note 18 describes the entity's accounting policy in respect of customisation and configuration costs incurred in implementing SaaS arrangements. In applying the entity's accounting policy, 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 that would be deemed significant. During the year, the Society recognised $407,351 (2020: $384,224) 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 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 2021.

Significant Management Judgements and Estimates in Applying Accounting policies continued;

The valuation was undertaken using a paid chain ladder methodology for determining future claim payments on open claims, increased for individual estimates for large claims where appropriate. Key assumptions used in determining the outstanding claims liability were as follows:

- Discount rate – nil (2020: nil) Most outstanding claims are settled within a year of the balance date.
- Inflation rate – the same rates as in recent experience are implicitly allowed through the chain ladder methodology. No additional allowance was made (2020: same).
- Future claims handling expenses – 16% (2020:16%) of gross claims payments.
- Reinsurance – as VPIS has met its retention level in each recent year to 2021, all future claims payments are assumed to be covered by reinsurance.
- Risk Margin – net claims cost is calculated at a 75% probability of sufficiency by applying a risk margin of 25% (2020: 25%) to gross claims.
- The pattern of claims run-off assumed was:

Development year	1	2	3	4+
This year assumptions	110%	5%	1%	0%
2020 Assumptions	150%	5%	1%	0%
2019 Assumptions	100%	3%	1%	0%

The impact of this was to increase the net provision for outstanding claims by $1,090 at 30 September 2021 (2020: $49,130).

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.

Significant Management Judgements and Estimates in Applying Accounting policies continued;

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	13,867
Claim development factors 20% lower	(13,582)
Claim handling expenses 5% higher	29,756
Claim handling expenses 5% lower	(29,756)

This is the fourth valuation by an Appointed Actuary. The net ultimate claims cost for the nine most recent claim years, from years ending 30 September 2013 to 30 September 2021 are as follows:

Underwriting Year	**Valuation Year** 2013	2014	2015	2016	2017	2018	2019	2020	2021
2021								200,000	200,000
2020							150,000	200,000	
2019						150,000	150,000		
2018					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	150,000								
Net paid claims	150,000	150,000	150,000	150,000	150,000	150,000	150,000	200,000	200,000

Net undiscounted outstanding claims	-
Discounting	-
Indirect expenses	76,175
Risk margin	19,044
Provision for net outstanding claims	95,219

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

	2021 $	2020 $
Claims, fees & expenses		
Expenses incurred - current year claims	326,807	196,709
Expenses incurred - prior years claims	265,099	388,918
	591,906	585,627
Insurance expenses recovered - current year claims	(125,182)	(23,469)
Insurance expenses recovered - prior-year claims	(235,937)	(389,656)
	(361,119)	(413,125)
Movement in net outstanding claims	1,090	49,130
Net Claims cost for the year	**231,877**	**221,632**

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 2021 is $4,803 (2020: $6,874). These all relate to run-off insurances. There is no other net premium liability either so there is no overall deficit under the LAT.

Solvency Position

Under section 4.5 of the Solvency Standard for Non-Life Insurance business, issued by the Reserve Bank of New Zealand under section 55 of the Insurance (Prudential Supervision) Act 2010, VPIS is required to disclose certain information regarding its solvency position. As at 30 September 2021:
(a) VPIS's Actual Solvency Capital was $2.857m (2020: $2.71m)
(b) VPIS's Minimum Solvency Capital was $0.676m (2020: $0.709m)
(c) VPIS's Solvency Margin was $2.18m (2020: $2.004m)
(d) VPIS's Solvency Ratio was 422%. (2020: 383%)

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 0.45% and 0.85%. There are currently no short-term deposits. On Call rates were 0.05%

9. OTHER ASSETS

2021	Opening Cost $	Plus Additions $	Less Disposals $	Closing Cost $	Amortisation for the year $	Accumulated Amortisation $	Carrying Amount $
Computer Hardware	2,949	-	-	2,949	1,180	2,556	393
Plant and equipment	1,916	-	-	1,916	383	543	1,373
	4,865	**-**	**-**	**4,865**	**1,563**	**3,099**	**1,766**

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	-	1,915	-	1916	161	161	1,755
	2,949	**1,915**	**-**	**4,865**	**1,340**	**1,537**	**3,328**

10. 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
	$	$	$	$
2021	253,658	3,525	62,753	190,905
2020	253,658	3,525	59,228	194,430

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

Investment Property

	$
Opening balance as at 1 October 2020	194,430
Additions	-
Disposals	-
Depreciation	3,525
Closing balance as at 30 September 2021	**190,905**

11. 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:

	2021	**2020**
Financial Assets		**$**
Cash and Cash Equivalents	598,777	530,261
Loans and Receivables		
Receivables	45,203	13,476
Financial Assets at Fair Value through Profit and Loss	2,602,423	2,453,527
	3,246,403	2,997,264
Financial Liabilities		
Accounts payable	433,688	54,303
Sundry payables	64,796	327,607
Employee liabilities	27,454	18,735
	525,938	400,645

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.

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+.

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

12. COMMITMENTS

There were no commitments at year end (2020: $nil).

13. 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 year ended 30 September 2021 had 2 full time employees and one contractor. The contractor's fees are included in personnel costs.

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

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 (2020: $28,104), owed to VPIS as at 30 September 2021 was $2,693 (2020: $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 $40,333 (2020: $61,763).

Amounts owed to NZVA as at 30 September 2021 were $3,900 (2020: $4,242).

Key Management Personnel

Total costs incurred $127,781 (2020: $121,018).

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.

Board member fees, Audit and Risk Committee fees and membership committee fees paid for the year were $82,965 (2020: $84,050).

Board and Audit and Risk Committee fees owed to Board members as at 30 September 2021 were $nil (2020: $nil).

Assessors Fees paid to Board members for the year was $117,239 (2020 $101,400).

Fees paid to Board Members continued;

Board Members received the following payments:

Name		**Assessor Fees**		**Assessor Fees Payable at Balance Date (inc GST)**	
		2021	**2020**	**2021**	**2020**
Gavin Shepherd	Board Chair	$ 1,890	$ 1,590	$ -	$ 1,590
Brendon Bell		$ 3,125	$ 2,731	$ -	$ -
Jim Rhynd		$ -	$ -	$ -	$ -
Mark Gilmour	ARC Chair	$ 34,795	$ 19,109	$ -	$ -
Paul Fraser		$ 7,551	$ 8,318	$ -	$ -
Steve Cranefield		$ 5,565	$ -	$ -	$ -
Tanya Bootle		$ 39,180	$ 38,717	$ 4,571	$ 5,326
Vince Peterson		$ 25,133	$ 30,935	$ -	$ 3,903
		$ 117,239	**$ 101,400**	**$ 4,571**	**$ 10,819**

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
Despite initial projections of a reduction in membership turnover, a high proportion of members experienced increased demand over the past year, especially in companion animal practices, supported by increased pet ownership.
Claim volume has increased significantly, due to the challenging covid environment. Increased demand for services alongside a shortage of veterinarians, closed borders and high stress levels in veterinarians and the public have resulted in increased mistakes and more persistent claimants.

b) Compliance costs
Compliance demands specific to covid have eased slightly. The financial impact is negligible.

c) Investment returns
Investment markets have experienced periods of volatility directly and indirectly resulting from covid. Related to this VPIS has restructured its investments to a more conservative portfolio to protect its capital. Interest rates have begun to show signs of increasing.

d) Board and Staff
Like last year travel has been interrupted as a result of covid. VPIS has utilised remote working systems for the day to day running of its business as well as in place of face to face meetings, including the Annual General Meeting (AGM).

15. 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.

16. 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.

17. AUDIT FEES

Audit fees of $16,750 (2020: $16,500), Solvency fees of $5,500 (2020: $5,500) were paid to Deloitte.

18. RETROSPECTIVE RESTATEMENT

As disclosed in note 3, the Society revised its accounting policy in relation to SaaS arrangements during the year resulting from the implementation of agenda decisions issued by the IFRIC. Historical financial information has been restated to account for the impact of the change in accounting policy, as follows:

Financial Statement Item	30 Sep 2020 DR/(CR)
Statement of Financial Position	
Prepayments	384,224
Intangible Assets	(384,224)
Total Assets	-
Total Equity	-
Statement of Comprehensive Income	
Depreciation	(79,664)
Project Expenses	79,664
Total Surplus for the year	-
Statement of Cashflows	
Payments made to suppliers and employees	89,815
Net Cash generated by Operating Activities	(89,815)
Payments to acquire software assets	(89,815)
Net Cash used in Investing Activities	89,815