

Annual Report and Accounts 2003

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Appendix A – "Statistics relating to the Private Health Insurance Market in Ireland, 2003".

Appendix B – "The Register of Health Benefits Undertakings".

1. Chairman's Statement

In accordance with Section 33(2) of the Health Insurance Act, 1994, I am pleased to present the Annual Report and Accounts of The Health Insurance Authority ("the Authority") for the year ending 31 December, 2003.

The year just passed has been an eventful year for the Authority and we have been able to establish ourselves as a real voice within the industry by way of hard work and efficient use of resources. The year was particularly notable for us in that the Risk Equalisation Scheme was finally brought before the Houses of the Oireachtas having been previously examined by the European Commission, which raised no objections, and became effective from 1 July, 2003.

The first returns under the Scheme are for the six month period 1 July to 31 December, 2003 and were received by the Authority by 30 January, 2004. Having spent a great deal of time, effort and resources in the last two years preparing for our significant role in relation to risk equalisation, we look forward to fulfilling that role professionally and confidently in due course.

Registered Undertakings

The Authority has continued to fulfil its statutory functions and responsibilities in relation to the registration of health benefit undertakings providing private health insurance.

During 2003, Authority staff have provided detailed briefings on the legislative and other features of the market to potential new entrants. The Authority is hopeful that further commercial insurers will enter the Irish market in 2004, as it believes that competition in the Irish market can be of benefit to the consumer.

Risk Equalisation

During 2003, the Authority continued to prepare for the introduction of the Risk Equalisation Scheme and subsequently to meet with insurers to discuss requirements for the returns due under the Scheme. These contacts have been substantial and the Authority has been in a position to provide comprehensive guidance to the market and indeed to other interested parties through the publication of two documents, which offer a guide to the generalities of the risk equalisation scheme and also to the specifics. Both are available on our website www.hia.ie.

Consumer Interests

The Authority is committed to the best interests of consumers as a guiding principle of its actions. In April 2003, the Authority published the first independent research into the private health insurance market, which indicated a number of deficiencies in the provision of information in the market. The Authority has taken steps during 2003 to address these deficiencies and will continue to make this a priority item.

Competition

In reaching any decision in relation to its recommendation on risk equalisation, the Authority must have regard to the level of competition between private health insurance undertakings. To this end, the Authority commissioned research from a prominent economic consultancy. This research has provided useful information to us in the context of our decision making process in relation to risk equalisation and the Authority hope to be able to publish this research in due course after their deliberation process has been completed.

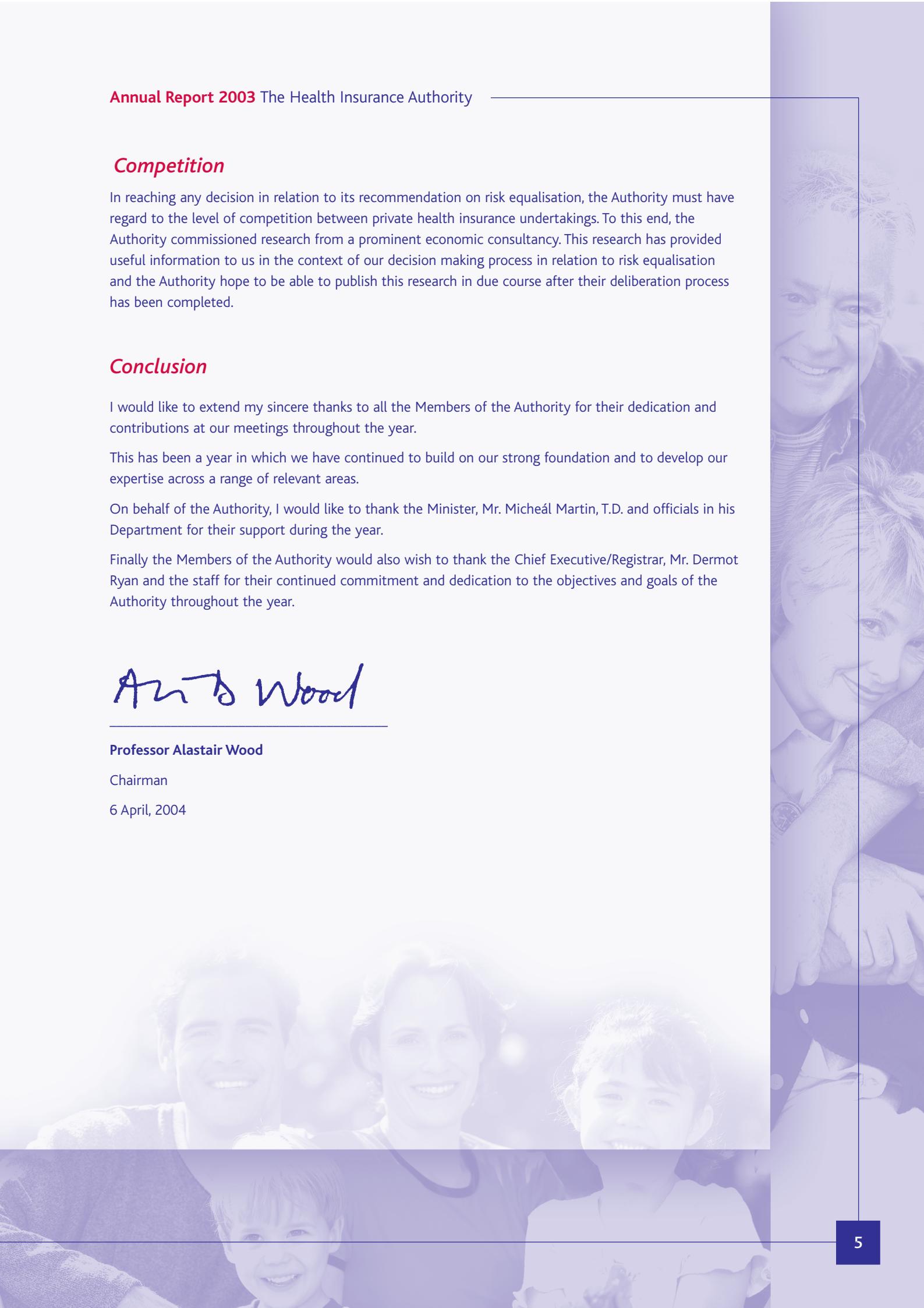
Conclusion

I would like to extend my sincere thanks to all the Members of the Authority for their dedication and contributions at our meetings throughout the year.

This has been a year in which we have continued to build on our strong foundation and to develop our expertise across a range of relevant areas.

On behalf of the Authority, I would like to thank the Minister, Mr. Micheál Martin, T.D. and officials in his Department for their support during the year.

Finally the Members of the Authority would also wish to thank the Chief Executive/Registrar, Mr. Dermot Ryan and the staff for their continued commitment and dedication to the objectives and goals of the Authority throughout the year.



Alastair Wood

Professor Alastair Wood

Chairman

6 April, 2004

2. Membership and Staff of the Authority



Professor Alastair Wood (Chairman)

Former Professor of Applied Mathematics

Honorary Fellow of the Society of Actuaries in Ireland

Nominated and appointed by Mr. Micheál Martin T.D., Minister for Health and Children following consultation with relevant representative organisations.



Ms. Mary Doyle

Economic and Business Consultant

Nominated and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.



Mr. Tom Greene

Accountant

Nominated by the Office of the Director of Consumer Affairs and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.



Ms. Anne Maher

Chief Executive, The Pensions Board

Nominated and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.



Mr. Aidan O'Donnell

Chief Actuary, Anglo Irish Assurance Company

Fellow of the Society of Actuaries in Ireland

Nominated by the Irish Insurance Federation and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.

Management

The management team of the Authority is as follows:

Chief Executive/Registrar



Mr. Dermot Ryan

Management



Ms. Imelda Gallagher – Corporate Affairs Manager/Secretary to the Authority



Mr. Liam Sloyan - Head of Compliance Services



Mr. Brian Turner – Head of Research/Technical Services



The offices of The Health Insurance Authority are located at
Canal House, Canal Road, Dublin 6.
Tel: (01) 406 0080; Fax: (01) 406 0081
or info@hia.ie or log on at www.hia.ie

3. Functions of the Authority

The Authority was established on 1 February, 2001¹ under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act, the Health Insurance (Amendment) Act, 2001 and the Health Insurance (Amendment) Act, 2003 ("the Health Insurance Acts"). Together they provide for the operation and regulation of the business of private health insurance in Ireland. The European Union "Third Non-Life Insurance Directive" ("the Directive")² sets out the requirements for the internal market for Member States regarding non-life insurance, including health insurance. This European legislation allows individual Member States to adopt the specific requirements in a manner most appropriate to their particular national legal system and national healthcare system.

This Directive was transposed into Irish law through the enactment of the Health Insurance Acts which enshrined the three principles of private health insurance, namely, community rating, open enrolment and lifetime cover into Irish law.

The principal functions of the Authority as provided for in the Health Insurance Acts are:

1. to evaluate and analyse returns made to it under any risk equalisation regulations introduced and to prepare and furnish a report to the Minister in relation to –
 - (a) this evaluation and analysis, and
 - (b) matters concerning the carrying on of health insurance business and developments in relation to health insurance generally that the Authority considers ought to be included in the report as a result of that evaluation and analysis;
2. to carry out its role (described in detail in Section 10) in relation to the Minister's decision whether or not risk equalisation should be commenced;
3. if risk equalisation is commenced, to manage and administer the process and establish and maintain the risk equalisation fund and also to make an annual report to the Minister evaluating the operation of the scheme for each 12 month period during which any risk equalisation payments are being made;
4. to maintain "The Register of Health Benefits Undertakings";
5. to advise the Minister (either at his own request or on its own initiative) on matters relating to:
 - (a) his functions under the Health Insurance Acts;
 - (b) the Authority's own functions; and
 - (c) health insurance generally; and
6. to monitor:
 - (a) the operation of the Health Insurance Acts;
 - (b) the carrying on of a health insurance business; and
 - (c) health insurance developments generally.

The Authority is empowered to exercise such powers as are necessary for the performance of its functions. The Minister may also assign further responsibilities to the Authority as provided for in the Acts.

The Authority looks forward to continuing to develop and fulfil its role so that it can provide the fullest possible service to the consumer.

1 The Health Insurance Act, 1994 (Establishment Day) Order, 2001. (S.I. No. 40 of 2001).

2 Council Directive 92/49/EEC of 18 June, 1992 on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and amending Directive 73/239/EEC and 88/357/EEC (third non-life insurance Directive). (OJ L 228, 11.8.1992, p.1).

4. Resources

Staff

The Authority recruited its full complement of nine staff for the first time in 2003. Staff Members are dedicated to providing a professional service to the public and to the industry.

Funding

Section 17 of the Health Insurance Act, 1994 provides for a levy on registered undertakings to be introduced by regulation to fund the operations of the Authority.³ (A registered undertaking is the term used for a health insurer that carries on the business of health insurance in Ireland and is included on "The Register of Health Benefits Undertakings". The Authority maintains this Register.) The regulations introduced by the Minister in 2001 set the rate to be paid at 0.14% of premium income payable on a quarterly basis. Registered undertakings are also obliged to submit details of premium income and numbers of insured persons in their scheme. Details of the income and statistics on the health insurance market are given in Appendix A.

³ The Health Insurance Act, 1994 (Section 17) Levy Regulations, 2001 (S.I. No. 255 of 2001).

5. Strategy

The Authority was established as an independent regulator for the private health insurance market in Ireland. In fulfilment of this role, the Authority developed its work plan to include a vision, mission and values.

The Vision of the Authority

The vision of the Authority is "To benefit the common good by facilitating a competitive health insurance market whilst preserving community rating, open enrolment and lifetime cover".

The Mission of the Authority

The mission of the Authority is:

To achieve its vision by:

- ▲ monitoring and researching health insurance generally
- ▲ making recommendations on the implementation or otherwise of risk equalisation and managing and administering any risk equalisation scheme
- ▲ advising the Minister on health insurance generally
- ▲ implementing other relevant regulations as prescribed
- ▲ safeguarding the interests of current and future health insurance consumers.

The Values of the Authority

The Authority has adopted values to apply in its activities. The values of the Authority are to:

- ▲ maintain its independence
- ▲ act always with impartiality and integrity
- ▲ work in a professional and effective way
- ▲ meet its unique challenges, being receptive to new ideas and suggestions from all sources and innovative in its approach
- ▲ maintain transparency in all its work
- ▲ value its people.

The Authority applies its vision, mission and values in maintaining high standards and quality provision of service.



6. The Registration of Health Benefits Undertakings

One of the Authority's responsibilities is the maintenance of "The Register of Health Benefits Undertakings" ("the Register"). Section 14 of the Health Insurance Act, 1994 provides that any health insurer carrying on the business of health insurance in Ireland is required to register with and obtain a certificate from the Authority. The health insurer must apply to the Authority for inclusion on the Register on an annual basis and provide details of any health insurance scheme in operation to the Authority. The Authority examines the scheme to ensure that it complies with all relevant legislation. Once the Authority deems the scheme is compliant, a certificate is issued to the health insurer confirming that that health insurer may offer private health insurance in accordance with the terms of its rules and with the relevant legislation. No fee is charged for the issuing of this certificate. Any health insurer which has ceased operating in the previous 12 months must notify the Authority of such cessation and that the health insurer will be removed from the Register.

There are two types of health insurers. Commercial undertakings are the health insurers such as BUPA Ireland and Vhi Healthcare which must accept all consumers who wish to obtain private health insurance (subject to certain terms and conditions being fulfilled). Restricted Undertakings are mainly vocational schemes, membership of which is restricted to employees of particular organisations. These schemes are also subject to terms and conditions.

The health insurers on the Register at 31 December, 2003 are listed in Appendix B.



7. Corporate Governance

Code of Practice

The Authority prepared the "Code of Practice for the Governance of The Health Insurance Authority" based on the "Code of Practice for the Governance of State Bodies" issued by the Department of Finance in March 2002. The Authority has engaged in an ongoing process of developing and enforcing all appropriate corporate governance procedures and guidelines.

Annual Report and Accounts

The Annual Accounts for 2003 were prepared and submitted to the Office of the Comptroller and Auditor General ("the C&AG") for audit. These Accounts have been audited and approved by that office and are set out in this Annual Report at Section 18.

The C&AG also issued corporate governance documentation in 2003 setting out the guidelines and standards for submission of accounts for audit. The Authority has also adhered to these guidelines.

Risk Assessment and Internal Audit

The Authority engaged external consultants to carry out a Risk Assessment Analysis and Internal Audit of the Authority in 2002.

The Risk Assessment consisted of a workshop where the Members and staff of the Authority agreed key risks facing the Authority. An "Action Plan" was agreed by the Authority to address issues arising.

An Internal Audit of the Authority was also conducted and the report was reviewed by the Members. The report indicated that the procedures and mechanisms in place by the Authority were appropriate and satisfactory. It is intended to review the position during 2004 to ensure that all procedures continue to operate within the requisite standards.

Freedom of Information

The Authority has received notification that all public bodies are to be subject to the requirements of the Freedom of Information legislation. The Authority in preparation for compliance, has appointed a "Freedom of Information Liaison Officer" who will deal directly with any queries received within the timeframes set out in the legislation. A "Freedom of Information Decision Maker" has also been appointed to oversee the process on an ongoing basis.

It is anticipated that the Authority will be included on the list of public bodies in 2004.



Members of the Authority, left to right: Ms. Mary Doyle, Mr. Aidan O'Donnell, Professor Alastair Wood, Mr. Tom Greene and Ms. Anne Maher.

Ethics in Public Office

The Authority has been notified that it has been included on the Schedule for the purposes of the Ethics in Public Office Acts, 1995 and 2001. The Members of the Authority and relevant staff have fulfilled their obligations under this legislation.

Communications Strategy

The Authority seeks to make consumers, stakeholders and the general public aware of issues concerning private health insurance in Ireland. The Authority has developed a Communications Strategy which includes setting out the roles and responsibilities of the Authority under the health insurance legislation and making consumers, health insurance undertakings, professional bodies, stakeholders, industry bodies, legislators and healthcare providers aware of health insurance concepts such as open enrolment, lifetime cover, community rating and minimum benefits. The Authority has a significant role in relation to risk equalisation which is detailed elsewhere in this Annual Report. The Authority has carried out consultation processes in relation to risk equalisation, community rating and minimum benefits. Staff members met with individuals and groups who made submissions in relation to these particular issues and which can be viewed on our website at www.hia.ie.

The Authority operates a policy of openness, consultation and discussion with relevant interested parties. The Authority welcomes communication with consumers, stakeholders and other interested parties in the provision of a regulatory service and in the performance of its functions. The Authority will continue to apply this policy of openness going forward with an emphasis on the best overall interests of health insurance consumers in accordance with the health insurance legislation.

8. Consumer Interests

The interests of consumers are of paramount importance to the Authority. The Authority assesses the effect of any regulations or new legislation on consumers. Together with other organisations with responsibilities in this area, the Authority will aim to ensure that consumers are aware of their rights; that policies and publicity material describe cover in a fair and comparable way; that community rating, open enrolment and lifetime cover are maintained and that health insurance providers have appropriate procedures for dealing with customer complaints.

Consumer Information

Research published by the Authority in April identified that a significant information deficit exists amongst private health insurance consumers. In particular, the research shows that few consumers have a thorough understanding of their health insurance policies or of their rights as private health insurance consumers. This information deficit also appeared to have a depressing effect on the level of switching between insurers in the market. Only 6% of private health insurance consumers responding to the survey said that they had ever switched insurers.

The Authority considers that addressing this information deficit would:

- (a) assist consumers to make informed decisions about their private health insurance;
- (b) facilitate consumers in benefiting from their consumer rights;
- (c) benefit competition in the market by communicating to consumers the ease with which they may switch policies; and
- (d) assist consumers in comparing plans.

In 2003, this information deficit was addressed in two ways:

- ▲ Two consumer information leaflets were published by the Authority in December. These leaflets, entitled "Private Health Insurance, Your Rights, Your Choices" and "Selecting a Private Health Insurance Product" respectively, aim to inform consumers of their rights and provide assistance in understanding and selecting private health insurance products.
- ▲ In order to facilitate consumers in comparing private health insurance products, the Authority drafted a document that outlines the main features of the products sold by Vhi Healthcare and BUPA Ireland in a simple, brief and understandable format. Details of this document were forwarded to insurers for review in December and the Authority published the document in January 2004.

Review of Insurers' Processes

As part of its mandate to monitor the operation of health insurance business, the Authority conducts reviews of processes used by insurers in their dealings with consumers. To date, the Authority has reviewed applications processes and complaints processes. Sales processes are currently under review.

The Authority has advised insurers that it is of the view that they should make certain specific changes to these processes. Changes suggested by the Authority include:

- ▲ Insurers should provide greater clarity to consumers in relation to waiting periods, particularly pre-existing condition waiting periods, at the point of sale. Current practice is that insurers do not ask about pre-existing conditions at the point of sale. Instead, insurers wait until a claim is made and, at this time, come to a view on whether the condition existed at the time that the policy was sold. If they consider that the condition existed when the policy was sold, they refuse to pay the claim. It should be noted that at this time the consumer might have been paying premiums for a number of years and incurred significant charges for treatment in the belief that the treatment is covered and the charges will be reimbursed. The Authority considers that this practice, which in itself is opaque and not in the interests of consumers, is not explained adequately by them.
- ▲ Insurers should adopt a common code of practice on consumer complaints, which they should make available to consumers. The Authority has drafted such a code and circulated it to insurers.
- ▲ The Authority has raised concerns with insurers regarding certain practices that may not be appropriate in a community rated market, such as selectively waiving waiting periods and selectively offering extra benefits for free or at discount rates to consumers in conjunction with health insurance policies.
- ▲ The Authority has also continued to review advertising and promotional material issued by insurers and has advised on the need for changes as appropriate.

The Health Insurance Acts, while providing that the Authority monitor the operation of the Acts and health insurance in general, do not provide the Authority with enforcement powers or the power to make regulations, save removing insurers' license to carry on business. Therefore, if insurers fail to adopt the Authority's suggestions on a voluntary basis, the Authority must consider forwarding a report to the Minister for Health and Children advising that he take action.

Consumer Complaints and Queries

A number of consumer complaints have been received and the question of the role of the Authority in relation to consumer complaints is under active review at present.

Irish Financial Services Regulatory Authority (IFSRA)

IFSRA also has responsibilities with regard to consumer interests in the private health insurance market. The Authority has met with the Consumer Director of the IFSRA and the two regulators have agreed to commence work on a memorandum of understanding that will clarify their respective roles and responsibilities.

9. Product Issues

The Authority is concerned with maintaining standards in health insurance. To this end, the Authority monitors health insurance products being sold in Ireland as well as other products that may have an impact on the private health insurance market such as hospital cash plans and critical illness policies. It also monitors the way in which health insurance products are advertised and sold and has had discussions with health insurance providers about complaints processes.

During 2003, a number of new products were launched in the market, including Health Manager Starter from BUPA Ireland and Plan B Excess and HealthSteps Silver from Vhi Healthcare. Details of these new products were examined by the Authority to determine the level of cover being provided. The Authority is satisfied that these products are, where appropriate, meeting the requirements of the Minimum Benefit Regulations.

The Authority has also had contact with representatives acting on behalf of an organisation that is planning to launch a new insurance product in Ireland. This contact was to determine whether these insurance products constituted health insurance contracts and, therefore, whether the provider would be required to register as a health benefits undertaking. The Authority would need to examine further specific details of cover to be provided before it could satisfy itself whether or not such cover constitutes health insurance contracts. At present, it would appear that these products do not require registration and these products will be kept under review.

During the year, the Authority also reviewed material from cash plan providers regarding their products, and met representatives from the Department of Health and Children and a number of these providers, to discuss issues arising. Currently, cash plans are not considered to be health insurance contracts, and are therefore not regulated by the Authority.

10. Risk Equalisation

There were three legislative instruments relating to risk equalisation during 2003.

The Health Insurance (Amendment) Act, 2003

The Health Insurance (Amendment) Act, 2003 impacted on risk equalisation in two ways:

- ▲ It resolved some procedural issues relating to risk equalisation that the Authority had brought to the attention of the Department; and
- ▲ It adopted a recommendation by the Authority aimed at helping to ensure that insurers existing in the market at the time that the Risk Equalisation Scheme was introduced will not be able to avail of the limited exemption from risk equalisation available to new entrants simply by transferring their business to an associated company.

The European Commission Decision on Risk Equalisation

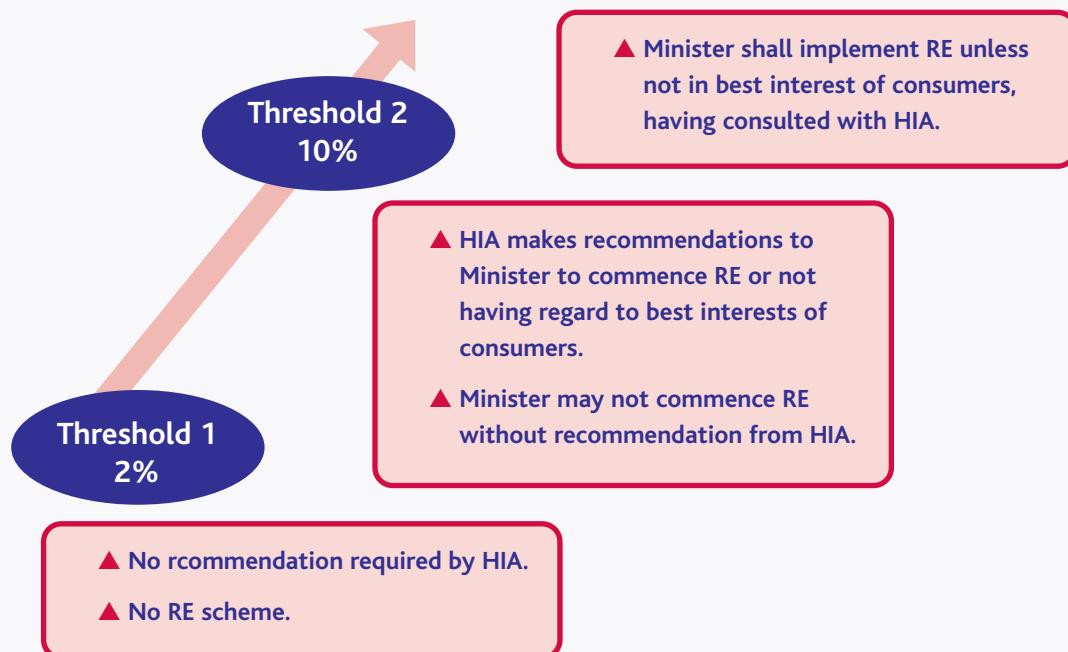
In May, the European Commission found that the draft Risk Equalisation Scheme forwarded to it by the Irish Authorities would not constitute State aid. BUPA Ireland has decided to appeal this decision to the European Court of First Instance. The Authority has taken the view that, as a statutory body, it must carry out its role under the relevant legislation. In this regard, the appeal will have no effect on the operation of the Scheme unless circumstances change.

The Risk Equalisation Scheme, 2003

The decision of the European Commission paved the way for the introduction of the scheme, which may be cited as the Risk Equalisation Scheme, 2003 ('the Scheme'). The introduction of the Scheme brought to an end one substantial body of work for the Authority and marked the beginning of another substantial role for the Authority. The Scheme sets out a number of significant responsibilities for the Authority.

It is important to note that the introduction of the Scheme does not necessarily mean that risk equalisation payments will be commenced. The Authority's responsibilities include a significant role in relation to deciding whether or not risk equalisation payments should be commenced. Insurers are required to forward returns every 6 months, commencing in January 2004, to the Authority. The Authority will analyse these returns and, based on this analysis, assess the level of risk difference between insurers. The role of the Authority differs at three levels of risk difference between health insurers.

Criteria for commencing Risk Equalisation – 2003 Scheme



- ▲ If the level of risk difference between insurers is below 2%, then risk equalisation payments cannot be commenced under any circumstances.
- ▲ If the level of risk difference between insurers is between 2% and 10%, then risk equalisation payments can only be commenced by the Minister following a recommendation from the Authority.
- ▲ If the level of risk difference is above 10%, then the Minister may introduce risk equalisation without a recommendation from the Authority but the Minister must consult with the Authority.

The Health Insurance (Amendment) Act, 2001 states that the Authority must have regard to the best overall interests of health insurance consumers in formulating its recommendations to the Minister to commence risk equalisation or not. The Act provides certain guidance in defining consumer interests, in that it states that the best overall interests of health insurance consumers "includes a reference to the need to maintain the application of community rating across the market for health insurance and to facilitate competition between undertakings".

The Authority is also responsible for managing and administering the Scheme and, if payments were commenced, would establish and maintain the risk equalisation fund.

Preparatory Work

The role that the Authority has been assigned in relation to risk equalisation is an important and challenging one. In recognition of this, the Authority has dedicated a significant amount of time and effort to preparing for the analysis of returns and the possible making of a recommendation to the Minister. These preparations included the following:

- ▲ Undertaking a major research study into consumer behaviour with Amárach Consulting;
- ▲ Undertaking a major research study into competition in the private health insurance market in Ireland with York Health Economic Consortium;
- ▲ Considering analysis techniques and data requirements;
- ▲ Developing systems to be used in the analysis of returns;
- ▲ Developing procedures for deciding on a recommendation, if required; and
- ▲ Submitting these systems, techniques and procedures to legal and actuarial scrutiny.

Risk Equalisation Guide and Briefing Documents

In order to assist understanding of the Scheme amongst stakeholders and the wider community, the Authority published two documents in June. The first document, "Guide to the Risk Equalisation Scheme, 2003 as prescribed in Statutory Instrument No. 261 of 2003 (July 2003)" is a guide for practitioners, outlines in detail the processes and calculations involved in risk equalisation. The second document, "Risk Equalisation Media Briefing Document (July 2003)" is aimed at the wider public and includes less emphasis on the details of the processes or the calculations, in favour of concentrating on the principles of the Scheme and how it might work in practice.

Validation of Returns

The Risk Equalisation Scheme includes a provision allowing the Authority to prescribe the manner in which returns made to it under the Scheme are validated. The Authority consulted with insurers throughout the summer and issued validation requirements in September.

Guidance on the Making of Returns

Following the publication of the draft Scheme in May, the Authority began discussions with insurers in relation to insurers' interpretation and understanding of the requirements of the Scheme. In order to help ensure that returns made under the Scheme are consistent across undertakings and with the requirements of the Scheme, the Authority held numerous meetings with insurers and discussed issues as they arose. Whenever appropriate, the Authority advised insurers of its view on how the Scheme should be interpreted. This process culminated in December when the Authority issued guidance on the making of returns.

The Risk Equalisation (Amendment) Scheme, 2003

In December the Authority received a draft of the Risk Equalisation Amendment Scheme, 2003. The amendments included in the Scheme were technical in nature and were aimed at correcting a drafting error in the original Scheme. The Authority agrees in principle with the changes.

11. Community Rating

The Authority made a submission to the Department of Health and Children regarding Lifetime Community Rating in October 2002. The Authority maintains its view that the introduction of lifetime community rating would reduce the risk of adverse selection in the market. In the meantime, the Authority continues to monitor the operation of community rating and lifetime community rating in a number of health insurance markets internationally, including Australia and the United States.



12. Competition Issues

Competition Research Project

As part of its decision on whether or not to recommend to the Minister the introduction of risk equalisation, the Authority is mandated, by the Health Insurance (Amendment) Act, 2001, to have regard to "the best overall interests of health insurance consumers". This, according to the Act, "includes a reference to the need to maintain the application of community rating across the market for health insurance and *to facilitate competition between undertakings.*" (Italics added).

In furtherance of this objective, in 2003 the Authority commissioned an independent research project on competition in the Irish private health insurance market. This project was carried out by York Health Economics Consortium, in conjunction with the Office of Health Economics.

Issues examined as part of this project included the current level of competition in the market, how that would be affected by the introduction of risk equalisation, the impact of risk equalisation on the likelihood of new entrants and the effects that a change in the commercial status of Vhi Healthcare might have on the level of competition in the market.

The appointed consultants held discussions with various stakeholders and interested parties, and also met overseas organisations that have considered in the past entering the market, or who may consider doing so in the future. Staff of the Authority held meetings with similar organisations in Ireland.

The resulting report from this project will help to inform the Authority's decision making process on risk equalisation. As such, the Authority has not yet been in a position to make the report public, but would hope to do so at some point in the future, as part of its commitment to transparency in its actions.

Relationship with the Competition Authority and Stakeholders

The Authority continued to have regular and ongoing contact with the Competition Authority during the year in relation to a range of issues. Although the Authority is not among the list of sectoral regulators that are required to sign co-operation agreements with the Competition Authority under the Competition Act, 2002, it believes that a good working relationship would be mutually beneficial and it has pursued this aim. The Authority has also reviewed a number of reports and decisions of the Competition Authority in other sectors that might have relevance to its work.

The Authority has also had discussions with a number of stakeholders and interested parties about various competition issues and remains open to discuss such issues with interested parties.

13. Minimum Benefits

The Authority understands that the Department of Health and Children plans to revise the Minimum Benefit Regulations. The Government's policy, as stated in the White Paper on Private Health Insurance, 1999, is to simplify the existing Minimum Benefit Regulations, which incorporate detailed tables of medical treatments and the minimum benefits to be provided for each of these. Under these proposals, it was envisaged that the Authority would have a greater role to play in defining a number of minimum benefit levels and monitoring compliance with the new regulations.

The Authority produced a consultation paper on minimum benefits, which was circulated to stakeholders and interested parties in October 2003. Issues raised in the consultation paper, on which the Authority welcomes submissions, include the role of the Authority, the review of minimum benefits and the scope of minimum benefit regulations.

The deadline for submissions, which was originally specified as December, has now been extended, to allow a number of interested parties additional time to formulate their submissions. The Authority has already received a number of submissions in response to the consultation paper.

Once all of the submissions have been received, the Authority will review these and take them into account when formulating its position on the issues involved in any change to the Minimum Benefit Regulations. The Authority plans to make a submission to the Department of Health and Children on the issue in early 2004.

14. Relationship with Stakeholders

Throughout 2003, the Authority has endeavoured to maintain good professional relationships with stakeholders in the Irish private health insurance market and has been receptive to suggestions and ideas from all sources. In order to do this, the Authority met regularly with stakeholders to discuss matters that fall within the Authority's areas of responsibility and, insofar as is possible, maintained transparency in its work.

15. New Entrants

The Authority would welcome new entrants to the private health insurance market in Ireland as this would increase the level of competition. As part of its research into competition in the private health insurance market, the Authority held interviews with a number of potential new entrants and identified the main disincentives against entering the Irish market.

The Authority also continues to maintain a database of information on the private health insurance market that it makes available to potential new entrants and is available to meet with potential new entrants whenever necessary.

The Irish Financial Services Regulatory Authority ("IFSRA") also has responsibilities in relation to licensing new entrants to the market. The Authority has met with IFSRA and both regulators have agreed to work closely with each other in this regard.

16. Commissioned Research

Consumer Survey

In 2002 the Authority commissioned a survey of consumer attitudes towards the private health insurance market in Ireland. The decision to do so stemmed from the Authority's desire to assess whether or not younger consumers would be more likely to switch insurer in response to rising premiums. This is one of the assumptions underlying the scenario of price following, which the Authority highlighted as one situation in which risk equalisation might be justified, in its *Policy Paper on Risk Equalisation in the Private Health Insurance Market in Ireland*.

In addition to gauging the level of switching between insurers and the age profile of switchers, the aims of the survey commissioned by the Authority included:

- ▲ to examine the level of knowledge and understanding consumers have of the market and the products that they buy;
- ▲ to assess consumers' satisfaction with their policies; and
- ▲ to discover the reasons for taking out, or not taking out, private health insurance.

The survey was carried out in late 2002 by "Amárach Consulting" and the report on the results was released in April 2003. The report is available on the Authority's website, at www.hia.ie. The survey revealed, among other things, a low level of switching between insurers, a moderate level of understanding of market concepts and consumers' own policies and a relatively low level of price sensitivity among consumers.

The Authority has held discussions with a number of stakeholders and interested parties about the results of this research. A paper incorporating the results of the research was also presented at the Dublin Economic Workshop Annual Economic Policy Conference in Kenmare in October 2003.

Further analysis of the data from this survey has also been carried out and the report has provided the Authority with a considerable amount of information about consumers' behaviour and attitudes. The insights gained from the report were a factor in the Authority's decision to publish comparison tables of health insurance products and information leaflets, which are designed to help consumers to choose the right products for them.

Competition Research

A research project on competition in the Irish private health insurance market was commissioned by the Authority in 2003 and has now been completed (see Section 12). The results of this project will help to inform the Authority's decision making process on risk equalisation. The Authority would envisage releasing the results of this research in the future, but is not at liberty to do so currently, as this decision making process is ongoing.

17. Policy Environment

Legislation

The Authority monitors, on an ongoing basis, developments in the areas of both domestic and EU legislation, dealing with health insurance and other relevant areas, such as insurance and competition.

Relevant Issues/Environment

The Authority also monitors, on a continuing basis, issues such as medical inflation, which has an impact on health insurance premiums; developments in the healthcare market in Ireland; international healthcare and health insurance systems and developments therein; and other relevant issues relating to the environment in which the Authority operates.

Better Regulation

Following on from the consultation process on Better Regulation, to which the Authority made a submission, the Department of the Taoiseach has recently released a White Paper, entitled "Regulating Better". This outlines six principles of better regulation, namely necessity, effectiveness, proportionality, transparency, accountability and consistency.

The Authority has reviewed this White Paper and notes its contents. The White Paper notes that, on some issues, the sectoral regulators – of which the Authority is one – already employ a number of the recommended practices. The Authority has also reviewed details of better regulation practices in other countries. The Authority will continue to strive to ensure that its work reflects the principles of better regulation.

OECD

In 2002, the Organisation for Economic Co-operation and Development ("OECD") initiated a study of private health insurance internationally. As part of this exercise, case studies were carried out in a number of markets, of which Ireland was one. Representatives of the Authority met a delegation from the OECD in December 2002 and have been in contact with this delegation during 2003. A draft report of the case study was produced by the OECD in late 2003 and the Authority contributed further comments and suggestions in response to this. The Authority understands that the final report is due in early 2004.

Commercial Status of Vhi Healthcare

The Authority understands that the Government has been reviewing the commercial status of Vhi Healthcare and intends to bring forward legislation in 2004 to allow for a change in this status. The Authority has considered the issues surrounding such a change that would have an impact on private health insurance consumers, and intends to make a submission to the Department of Health and Children on these issues during the year.

Accounts 2003

18. Report and Accounts

for the period from 1 January 2003 to 31 December 2003

To the Minister for Health and Children

In accordance with the terms of Section 32(2) of the Health Insurance Act, 1994, The Health Insurance Authority presents its Report and Accounts for the twelve-month period ended 31 December 2003.

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Report of the Comptroller and Auditor General for presentation to the Houses of the Oireachtas

I have audited the financial statements on pages 32 to 38 under Section 32 of the Health Insurance Act, 1994.

Respective Responsibilities of the Authority and of the Comptroller and Auditor General

The accounting responsibilities of the Authority Members are set out in the Statement of Responsibilities of the Authority on page 31. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me by the Authority and to report on them.

I review whether the statement on pages 29 and 30 reflects the Authority's compliance with applicable guidance on corporate governance and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements.

Basis of Audit Opinion

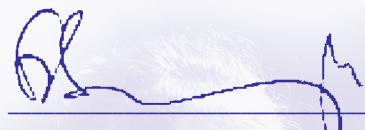
In the exercise of my function as Comptroller and Auditor General I conducted my audit of the financial statements in accordance with auditing standards issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity or error. I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion proper books of account have been kept by the Authority and the financial statements, which are in agreement with them, give a true and fair view of the state of the affairs of The Health Insurance Authority at 31 December 2003 and of its income and expenditure for the year then ended.



Gerard Smyth

*For and on behalf of the Comptroller and Auditor General
29 April 2004*

Statement regarding Corporate Governance

Appendix E of the "Code of Practice for the Governance of State Bodies"

Report from the Chairman regarding the assessment of internal financial controls of The Health Insurance Authority as required in paragraph 10.2 (iii) of the "Code of Practice for the Governance of State Bodies" issued by the Department of Finance in October 2001

1. The Chairman and Members of the Authority acknowledge that the board of the Authority is responsible for The Health Insurance Authority's system of internal financial control.
2. The Chairman and Members also acknowledge that such a system of internal financial control can provide only reasonable and not absolute assurance against material error.
- 3-4. The Members of the Authority have set out the following key procedures designed to provide effective internal financial control within the Authority:

As provided for in Section 26(5) of the Health Insurance Act, 1994, the Chief Executive/Registrar ("the CEO") is responsible for carrying on and managing and controlling generally the administration and business of the Authority and shall perform such other functions as may be determined by the Authority. The Members of the Authority have agreed that the CEO and staff are responsible for operational matters. The CEO reports to the Members at their meetings which are usually held on a monthly basis.

The Members have adopted a "Code of Practice for the Governance of The Health Insurance Authority" based on the Department of Finance "Code of Practice for Governance of State Bodies".

The Members have adopted "Rules in relation to the Procedure and Business of the Meetings of The Health Insurance Authority" for their meetings.

The Authority has also put in place a set of Financial Procedures setting out the financial instructions, notes of procedures and delegation practices. An Audit and Finance Committee was established in March 2002 to review the annual financial statements, budgeting and to take an overview of financial procedures generally. The Committee met on four occasions in 2003.

Consultants have been engaged in key areas where such services were deemed appropriate including accountants and internal audit consultants.

The Authority carried out a risk assessment analysis of the Authority and its business in November 2002. External consultants were engaged to carry out this analysis, which involved the active participation of the Members and staff of the Authority to identify and prioritise potential risks. The financial implications of any such potential risks were evaluated and reviewed in 2003. It was agreed that the identified potential risks were being managed in an appropriate manner. Following the completion of the risk assessment analysis, an internal audit was carried out on the Authority by external accountancy consultants. The internal audit report issued by the consultants stated that the Authority had an effective system of internal financial controls. It was agreed to carry out an internal audit in 2004.

I confirm that the Members of the Authority reviewed the effectiveness of the systems of internal control in place in 2003 at a meeting in April 2004.

The Members and staff of the Authority have complied with all requirements under the Ethics in Public Office Acts, 1995 and 2001.

The Authority has put in place a computer software system incorporating an accounting package and a payroll package to facilitate the internal financial controls of the Authority.

Due to the size of the organisation and the number of staff employed, the Authority engaged an external accounting firm to prepare and monitor the financial statements for the Authority and to perform a monthly financial reporting mechanism on the management of the accounts generally, including budgets.

5. No weakness in internal financial controls has been identified by the internal auditors and there have been no material losses, contingencies or uncertainties which require disclosure in the financial statements or the auditor's report on the financial statements.
6. As stated above, no information relating to weaknesses were found in the Authority and therefore no description of any action taken or intended to be taken to correct such weaknesses was necessary.

Signed on behalf of the Members of the Authority



Professor Alastair Wood

Chairman

The Health Insurance Authority

6 April, 2004

Statement of Responsibilities of the Authority

Section 32(2) of the Health Insurance Act, 1994, requires the Members of the Authority to prepare financial statements in such form as may be approved by the Minister for Health and Children after consultation with the Minister for Finance. In preparing those financial statements, the Authority is required to:

- ▲ Select suitable accounting policies and then apply them consistently;
- ▲ Make judgements and estimates that are reasonable and prudent;
- ▲ State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ▲ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

The Authority is responsible for keeping proper books of account, which disclose in a true and fair manner at any time the financial position of the Authority and which enable it to ensure that the financial statements comply with Section 32(2) of the Act. The Authority is also responsible for safeguarding the assets of the Authority and for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Professor Alastair Wood

Chairman



Mary Doyle

Member

6 April, 2004

Statement of Accounting Policies

The significant accounting policies adopted in these financial statements are as follows:

Basis of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles and under the historical cost convention and comply with the financial reporting standards of the Accounting Standards Board.

Levy Income

The levy income represents the amount estimated by the Authority as collectable in respect of the period. This takes account of payments made to the Authority in accordance with the Health Insurance Acts, 1994 - 2003 and the reasonableness of this figure is checked against the expected levy income based on the Authority's profile of private health insurance schemes.

Expenditure Recognition

Expenditure is recognised in the financial statements on an accruals basis as it is incurred.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation, charged to the Income and Expenditure Account, is calculated in order to write off the cost of fixed assets over their estimated useful lives, under the straight-line method, at the annual rate of 33 1/3% for computer equipment and 20% for all other assets from date of acquisition.

Foreign Currencies

Transactions denominated in foreign currencies are converted into euro during the year and are included in the Income and Expenditure Account for the period.

Monetary assets and liabilities denominated in foreign currencies are converted into euro at exchange rates ruling at the balance sheet date and resulting gains and losses are included in the Income and Expenditure Account for the period.

Superannuation

In accordance with Section 28 of the Health Insurance Act, 1994, the Authority may, with the consent of the Minister for Health and Children and the Minister for Finance, make a scheme for the granting of superannuation benefits to staff members of the Authority. The Authority is in the process of finalising such a scheme in cooperation with both Departments and is making the necessary deductions from salaries which are retained by the Authority, but are not recognised as income. The Authority is also providing for employer contributions to the Scheme. For the purposes of Financial Reporting Standard 17, the Authority considers the scheme to be a defined contribution scheme and hence there is no requirement to comply with FRS 17.

General Reserve

As the Authority develops its functions, and to meet the full costs of its regulatory and advisory rules in exceptional circumstances, a General Reserve exists. This Reserve is funded by way of transfer from accumulated Revenue Reserves.

Income and Expenditure Account – for the year ended 31 December, 2003

	Notes	12 months ended 31 December 2003	12 months ended 31 December 2002
		€	€
Income	1	1,369,469	1,151,106
Administration Costs	2	(1,128,953)	(1,000,725)
Excess of income over expenditure		240,516	150,381
Interest Receivable		13,192	11,314
Surplus for the period		253,708	161,695
Accumulated Surplus at beginning of period		283,901	372,206
Transfer to General Reserve	9	(250,000)	(250,000)
Accumulated Surplus at end of period		287,609	283,901

There are no recognised gains or losses, other than those dealt with in the Income and Expenditure Account.

Alastair Wood

Professor Alastair Wood
Chairman

Mary Doyle

Mary Doyle
Member

6 April, 2004

The Statement of Accounting Policies and notes 1 to 12 form part of these Financial Statements.

Balance Sheet – at 31 December, 2003

	Notes	2003 €	2002 €
Fixed assets			
Tangible assets	4	201,893	284,087
Current assets			
Bank and Cash		984,479	655,915
Prepayments and accrued income	5	367,636	300,479
		1,352,115	956,394
Creditors (amounts falling due within one year)			
Creditors and accruals	6	(258,504)	(198,685)
Net current assets		1,093,611	757,709
Total assets less current liabilities		1,295,504	1,041,796
Creditors (amounts falling due after one year)	8	(507,895)	(507,895)
Net assets		787,609	533,901
Representing			
Accumulated excess income over expenditure		287,609	283,901
General Reserve	9	500,000	250,000
		787,609	533,901



Professor Alastair Wood
Chairman



Mary Doyle
Member

6 April, 2004

The Statement of Accounting Policies and notes 1 to 12 form part of these Financial Statements.

Notes (forming part of the financial statements)

1. Income Levy

Section 17 of the Health Insurance Act, 1994 provides for the payment of an income levy by registered undertakings to the Authority every quarter. The Health Insurance Act, 1994 (Section 17) Levy Regulations, 2001 sets the actual rate for the income levy at 0.14% of basic health insurance premiums paid to all commercial and restricted undertakings in Ireland.

2. Administration Costs

	2003 €	2002 €
Salaries and staff costs (including training)	455,293	395,624
Members' remuneration	27,935	27,935
Rent, Service Charges and Maintenance	141,232	116,425
Recruitment costs	6,325	11,606
Consultancy (Note 3)	295,063	254,675
Insurance	55,057	45,833
Computer and Stationery Costs	27,041	33,793
Other Administration Costs	32,310	30,520
Audit	4,250	3,750
Depreciation	84,447	80,564
	1,128,953	1,000,725

3. Consultancy Costs

	2003 €	2002 €
Accountancy	45,353	21,989
Actuarial Services	28,372	118,636
Legal Services	66,845	25,144
Public Relations	32,308	60,815
Research and Development	119,685	28,091
Superannuation	2,500	NIL
	295,063	254,675

Notes (forming part of the financial statements)**4. Tangible Fixed Assets**

	Computer Equipment €	Office Fitting, Furniture & Equipment €	Total €
Cost			
At 31 December 2002	57,115	326,450	383,565
Additions during period	2,069	184	2,253
At 31 December 2003	59,184	326,634	385,818
Depreciation			
At 31 December 2002	19,886	79,592	99,478
Charge for period	18,542	65,905	84,447
At 31 December 2003	38,428	145,497	183,925
Net Book Value			
At 31 December 2003	20,756	181,137	201,893
At 31 December 2002	37,229	246,858	284,087

5. Prepayments and accrued income

	2003 €	2002 €
Accrued income	354,674	290,124
Prepayments	12,962	10,355
	367,636	300,479

6. Creditors (amounts falling due within one year)

	2003 €	2002 €
Trade creditors and accruals	130,187	153,024
Pensions provision (Note 7)	108,950	37,206
PAYE/PRSI	3,805	8,455
Professional Services Withholding Tax	15,562	NIL
	268,530	198,685

Notes (forming part of the financial statements)

7. Pensions Provision

The Authority is in the process of finalising a defined benefit pension scheme for its employees. The scheme structure is based on the Public Service Model and approval by the Minister for Health and Children and the Minister for Finance is awaited. Contributions are payable including employer contributions at a rate of 16.666% of pensionable pay and are charged to the Income and Expenditure Account. The following amounts are included in the heading, "Salaries and staff costs (including training)" (**Note 2**):

	2003 €	2002 €
At beginning of period	37,206	NIL
Employee Contributions	14,455	8,402
Employer Contributions	44,252	28,014
Total	95,913	36,416
Accrued for permanent staff for 2002	NIL	790
Refunds of Contributions	(2,024)	NIL
Transfers into Pensions Provision	15,061	NIL
At end of period	108,950	37,206

8. Creditors (amounts falling due after more than one year)

	2003 €	2002 €
Department of Health and Children	507,895	507,895

The Minister for Health and Children may, with the consent of the Minister for Finance, advance sums of money to the Authority for the purposes of expenditure by the Authority in the performance of its functions. A repayable advance of €507,895 was made to the Authority and has been used for establishment costs. The Authority is in discussion with the Department about the possible waiver of the obligation to repay the advance.

Notes (forming part of the financial statements)

9. Accumulated Surplus on Income and Expenditure Account

	2003 €	2002 €
At beginning of period	283,901	372,206
Surplus for period	253,708	161,695
	537,609	533,901
Transfer to General Reserve	(250,000)	(250,000)
Retained surplus	287,609	283,901

10. Capital Commitments

There are no capital commitments for capital expenditure at 31 December 2003.

11. Contingent Liabilities

There were no contingent liabilities at 31 December 2003.

12. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 6 April, 2004.

Appendix A

Table 1:

Statistics Relating to the Private Health Insurance Market in Ireland, 2003

Quarter Ending	31-Mar-03	30-Jun-03	30-Sep-03	31-Dec-03
Membership (1)				
Total Insured Persons	1,961,398	1,973,750	1,989,033	1,998,642
Total Population (2)	3,963,385	3,978,900	3,994,475	4,010,112
Private Health Insurance Coverage				
as a % of Total Population	49.5%	49.6%	49.8%	49.8%
Premium Income 2003				
Total Premium Income			€978,165,198	

- (1) All figures relate to the total private health insurance market, i.e. commercial and restricted undertakings.
- (2) Total Population figure for quarter ending June 2003 is CSO estimate as at April 2003; other population figures are based on interpolation/extrapolation.

Appendix B

The Register of Health Benefits Undertakings (at 31 December, 2003)

Commercial Undertakings

1. BUPA Insurance Limited
2. The Voluntary Health Insurance Board

Restricted Undertakings

1. C.I.E. Clerical Staff Hospital Fund
2. ESB Marina Staff Medical Provident Fund
3. ESB Staff Medical Provident Fund
4. Gallaher (Dublin) Limited Medical Benefits Society
5. Health Shield Friendly Society Limited
6. Irish Life Assurance Plc Outdoor Staff Benevolent Fund
7. Irish Life Medical Aid Society
8. Motorola Medical Aid Society
9. New Ireland/Irish National Staff Benevolent Fund
10. Prison Officers Medical Aid Society
11. Royal & SunAlliance (Republic of Ireland) Staff Medical Expenses Scheme
12. St Paul's Garda Medical Aid Society
13. The Goulding Voluntary Medical Scheme
14. Xilinx Ireland Medical Benefits Society

