



The Health Insurance Authority

**Overcompensation Assessment Conclusion for
the period 1 January 2022 to 31 December 2024**

23 July 2025



KPMG

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Private and confidential

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23 July 2025

Dear Cormac,

Overcompensation Assessment Methodology

The Health Insurance Authority ('HIA' or the 'Authority') is required to carry out an overcompensation assessment according to Section 7F of the Health Insurance Acts 1994 to 2024. In particular, the Authority is required to do evaluations and analysis and make determinations according to that section of the Health Insurance Acts for the purposes of the overcompensation assessment.

The overcompensation assessment is required to be performed in respect of a 3 year period for the appropriate time periods ending in the previous December as provided for in section 7F of the Health Insurance Acts. This report covers the overcompensation assessment period 1 January 2022 to 31 December 2024.

The methodology used within this report to determine whether a registered undertaking has made a profit which is in excess of the reasonable profit in respect of a period is based on the methodology as set out in the document "Overcompensation Assessment Methodology", dated 6 December 2018.

The application of the methodology used within this report has given due consideration to:

- The Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022]; and
- Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 (No. 47) which provides an updated view of the definition of 'reasonable profit'.

both of which came into effect 1 April 2022.

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There are a number of important limitations and assumptions which should be borne in mind when considering the results contained in this report. These are outlined in further detail in Section 1.3. This report should be read in full, as any part read in isolation may be misleading. This report has been written on the assumption that readers are technically competent in health insurance matters. Judgements as to the conclusions drawn in this report should be made only after studying the report in its entirety. We assume that users of this report will seek explanation and/or amplification of any part of the report which is not clear.

In line with the quality assurance considerations outlined in the Society of Actuaries Actuarial Standard of Practice, PA-2 General Actuarial Practice, this report has been peer reviewed by a senior actuary in KPMG.

We would like to thank you, and your team, for your assistance throughout this process.

Yours faithfully

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Managing Director,
KPMG

Brian Morrissey
Partner, KPMG

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1

Executive Summary

1.1 Introduction

- The Health Insurance Authority (“Authority”) was established in 2001 and is the statutory regulator of the private health insurance market in Ireland with regard to the Health Insurance Acts 1994 to 2024¹. All private health insurance providers must be registered with the Authority.
- The Authority is independent in the exercise of its functions which primarily include:
 - Monitoring the operation of health insurance business in Ireland;
 - Performing certain functions in relation to risk equalisation including to advise on the risk equalisation system and to manage and administer the Risk Equalisation Fund (‘the Fund’);
 - Ensuring that consumers are aware of their rights and that publicity material describes cover in a fair and comparable way;
 - Maintaining ‘The Register of Health Benefits Undertakings’ and ‘The Register of Health Insurance Contracts’; and
 - Monitoring the operation of the Health Insurance Acts and where appropriate, to issue enforcement notices to enforce compliance with the Acts or take prosecutions.
- Risk equalisation was introduced by the Irish Government in 2003. Risk equalisation aims to reduce or eliminate expected differences in insurers’ claims costs that arise due to variations in known risk factors of the insurers’ customers. It involves transfer payments between a Risk Equalisation Fund and health insurers to spread some of the claims cost of the high-risk older and less healthy members amongst all the private health insurers in the market in proportion to their market share.
- In order for the Risk Equalisation Scheme (‘RES’) to be effective it needs to strike an appropriate balance between compensating insurers with higher levels of risk, not compensating for perceived luxury benefits and promoting efficiency so as to minimise overall claims costs.
- The operation of the RES aims to ensure that insurers are not impacted beyond the degree necessary to ensure an efficient and sustainable, community-rated private health insurance market.
- The EU Commission has approved the RES for the period March 2022 to March 2027 and accepts that it is a state aid to compensate for the provision of a service of general economic interest (‘SGEI’) (Commission Decision SA.64337 of 31.03.2022). As such, and having regard to the 2012 SGEI Framework, the Authority is required to carry out an overcompensation assessment to determine whether a net beneficiary of the RES has made a profit which is in excess of a reasonable profit. These requirements are legislated for in section 7F of the Health Insurance Acts 1994 to 2024. These requirements are consistent with the requirements of paragraph 49 of the 2012 SGEI Framework which stipulates that a Member State must carry out regular checks, or ensure that such checks are carried out, at the end of the period of entrustment and, in any event, at intervals of not more than three years.
- The overcompensation assessment is required to be performed each year for the appropriate time periods ending in the previous 31 December as provided for in section 7F of the Health Insurance Acts 1994 to 2024.
- The methodology used within this report has given due consideration to:
 - The Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022]; and
 - Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 (No. 47) which provides an updated view of the definition of ‘reasonable profit’.both of which came into effect 1 April 2022.
- The purpose of this report is to apply the detailed methodology as set out in the document “Overcompensation Assessment Methodology”, dated 6 December 2018 and apply it in any determination by the Authority of whether a registered undertaking has made a profit which is in excess of the reasonable profit in respect of a period. This report covers the overcompensation assessment for the period 1 January 2022 to 31 December 2024.
- This remainder of this report has been structured as follows:
 - Section 2 – Overcompensation Assessment Methodology: sets out the approach / steps taken to determine whether overcompensation has occurred or not;
 - Section 3 – Determining the Net Beneficiary of the RES: sets out the approach taken to determine the net beneficiary of the RES and results of this test; and
 - Section 4 – Determination of Reasonable Profit: sets out the approach taken to calculate the profits made by the net beneficiary of the RES for the purposes of the reasonable profit assessment and the results of this test.

¹ The Central Bank of Ireland also has regulatory functions as regards insurance companies.

1.2 Conclusion

- Having applied the agreed methodology as determined by the Authority and specified in the document “Overcompensation Assessment Methodology”, dated 6 December 2018, and after giving due consideration to the Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022] and Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 (No. 47), we conclude the following on behalf of the Authority:
 - Neither Elips Insurances Ltd, trading as Laya Healthcare, nor Irish Life Health DAC were net beneficiaries of the RES during the period 1 January 2022 to 31 December 2024.
 - Aviva Insurance Ireland DAC, trading as Level Health, entered the health insurance market in late 2024. While Aviva Insurance Ireland DAC was a net beneficiary in the period with a positive cumulative net financial impact from the RES of €0.03m, an overcompensation assessment has not been performed as the requirements of Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 have not been met, whereby the overcompensation assessment applies to a 3 year period.
 - Vhi Insurance DAC was a net beneficiary of the RES during the period 1 January 2022 to 31 December 2024.
 - Vhi Insurance DAC had a positive cumulative net financial impact from the RES during the period 1 January 2022 to 31 December 2024 of [REDACTED].
 - Vhi Insurance DAC had a return on sales, gross of reinsurance and excluding investment income, of [REDACTED] over the 3 year period from 1 January 2022 to 31 December 2024. Thus, it can be concluded that Vhi Insurance DAC as a net beneficiary of the RES, has not in respect of that period, made a profit which is in excess of a reasonable profit in respect of its relevant health insurance business in the State in respect of that period.
 - **As Vhi Insurance DAC has been determined not to have made a profit in excess of a reasonable profit, it can be concluded that Vhi Insurance DAC has not been overcompensated as a result of the RES in respect of the period from 1 January 2022 to 31 December 2024.**

¹ The Central Bank of Ireland also has regulatory functions as regards insurance companies.

1.3 Reliances and Limitations

- There are a number of important limitations and assumptions which should be borne in mind when considering the results contained in this report. Some of the key limitations and assumptions are set out below. Other specific assumptions, caveats and limitations are contained elsewhere in the report. All make up an integral part of the report.
- We have relied on data provided to us by the Authority, and in turn relied on the historical statement of profit and loss and balance sheet data provided by the registered undertakings. We have not carried out any checks on the data used. We have performed some limited aggregate reasonableness checks on the final figures, but are not able to give any warranty on the quality of the data used. We have assumed that the factual material and information provided to us, both in written and verbal form, provides an accurate representation of the facts.
- Our findings are based on our agreed methodology (with due consideration given to subsequent amendments to the Health Insurance Acts 1994 to 2024) as specified in the document “Overcompensation Assessment Methodology”, dated 6 December 2018, which was derived based on our interpretation of:
 - The Health Insurance Acts 1994 to 2017;
 - The 2012 SGEI Framework (‘European Union framework for State aid in the form of public service compensation (2011) (2012/C8/03)’); and
 - The EU Commissions decision document in relation to the 2016 RES (‘European Commission: State Aid SA.41702 (2016/NN) – Ireland Risk Equalisation Scheme’).
- This report should be read in full, in conjunction with the agreed methodology document “Overcompensation Assessment Methodology”, dated 6 December 2018, as any part read in isolation may be misleading. This report has been written on the assumption that readers are technically competent in health insurance matters, specifically those relating to risk equalisation in the context of the Irish RES. Clarification should be sought by users of the report for any part of the report that is unclear.
- This report is delivered subject to the agreed written terms of KPMG’s engagement. Our report was designed to meet the agreed requirements of the Authority. Any party who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any other party.
- In general, our report would be for the benefit and information of the addressee only and should not be copied, referred to or disclosed, in whole or in part, without our prior written consent. We note that this report has been written for the purpose of meeting a statutory requirement of the Authority, namely performing an overcompensation assessment, and will be subject to Freedom of Information legislation. We understand the Authority intend to publish this report in redacted form in due course.
- Judgements as to the conclusions drawn in this report should be made only after studying the report in its entirety. We assume that users of this report will seek explanation and/or amplification of any part of the report which is not clear.
- This final written report supersedes all previous oral, draft or interim advice, reports and presentations, and that no reliance will be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk.

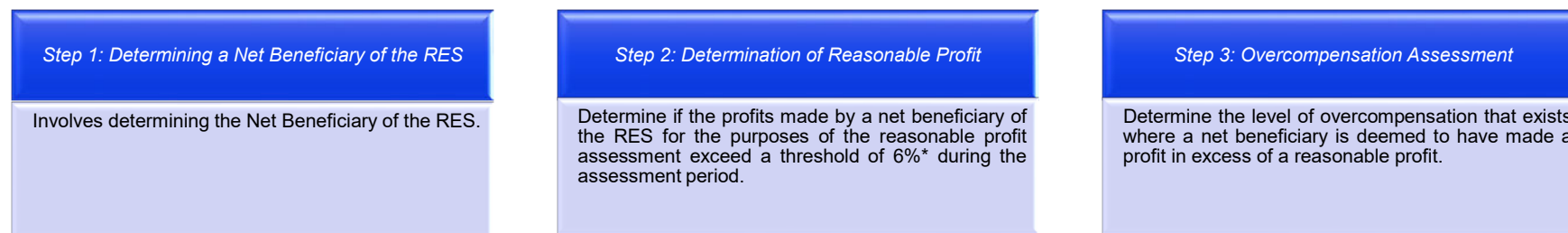
2

Overcompensation Assessment Methodology

2.1 Overcompensation Assessment Methodology:

Overview

- In order to perform and complete the assessment in respect of each period, the Authority is legally required to do the following:
 - Determine the net beneficiaries of the RES;
 - Determine whether the profits made by a net beneficiary of the RES constitute a reasonable profit or not;
 - Determine the level of overcompensation that exists where a net beneficiary of the RES has made a profit in excess of a reasonable profit; and
 - If a profit in excess of a reasonable profit is determined to exist, determine the amount of overcompensation to be paid to the Risk Equalisation Fund by a net beneficiary undertaking in a given period.
- At a high level, the approach to performing the overcompensation assessment is as follows:



** For the purposes of the overcompensation assessment covering the period 1 January 2019 to 31 December 2021, a threshold of 4.4% applied. The reasonable profit threshold as set out in Section 7F, subsection 4A was updated in the Health Insurance (Amendment) Act 2021 to 4.9% in respect of the period 1 January 2020 to 31 December 2022, 5.5% in respect of the period 1 January 2021 to 31 December 2023, and 6% thereafter.*

- Further details of the approach, the legislation background and considerations made in defining the methodology to be adopted are set out in Sections 4 – 6 of the document “Overcompensation Assessment Methodology”, dated 6 December 2018.
- A description of the methodology (as set out in the document “Overcompensation Assessment Methodology”) that will be used for the purposes of the overcompensation assessment for each of these steps has been included in the remainder of this section of this report. This methodology was approved by the Authority in December 2018.
- Registered undertakings (and former registered undertakings) are required to furnish statements of profit and loss and a balance sheet to the Authority that have been calculated using approved accounting standards and been certified by an independent accountant in such form as may be specified by the Authority. The Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022], which came into effect 1 April 2022, outline the considerations with respect to financial information required to be furnished to the Authority in respect of financial years 2022 and thereafter.
- Details of the results of each of Step 1 and Step 2 are included in Sections 3 and Section 4 respectively of this report.

2.2 Overcompensation Assessment Methodology:

Step 1: Determining a Net Beneficiary of the RES

Section 7F of the Health Insurance Acts sets out the procedure for the assessment of overcompensation in the health insurance market:

- Registered undertakings (and former registered undertakings) are required to furnish statements of profit and loss and a balance sheet to the Authority that have been calculated using approved accounting standards and been certified by an independent accountant in such form as may be specified by the Authority.
- First, the Authority determines whether and which undertakings have had a net positive financial impact from the RES.
- The Net RES flows in the information provided by the Registered Undertakings will be consistent with the underlying profitability presented in a Registered Undertaking's profit and loss which will be used to determine whether a net beneficiary has made a reasonable profit or not for the purposes of the overcompensation assessment.

For the purposes of the calculation of the net financial impact of the payments:

- RES flows will be calculated on an earned basis before allowance for the impact of reinsurance.
- The earned RES flows from the January of the first year of the applicable 3 year period to the end of the last year of the applicable 3 year period will be included in the assessment. This is consistent with the Registered Undertaking's financial results upon which the reasonable profit assessment will be made against.
- Section 7F, subsection (5)(b) of the Health Insurance Acts requires the assessment to be on a cumulative basis over the applicable 3 year period.
- For the purposes of the assessment a net beneficiary is defined as an insurer for which the cumulative net financial impact is positive over the applicable 3 year period.

Source: Section 4.3, *Overcompensation Assessment Methodology*, dated 6 December 2018.

2.2 Overcompensation Assessment Methodology:

Step 2: Determination of Reasonable Profit

For the purposes of the calculation of the return on sales:

- Sales will be calculated based on actual premiums earned allowing for the impact of risk equalisation flows on a gross of reinsurance basis. For the purposes of this calculation this is referred to as the adjusted premium.
- The insurers underlying profitability will be adjusted such that:
 - The impact of reinsurance is excluded, and all figures are presented gross of reinsurance
 - Investment income is excluded
 - Interest items such as cost of financing investment returns on market instruments / subordinated debt / interest on bank accounts etc be excluded
 - Expenses reflect that accounts are gross of reinsurance and exclude investment / interest related items.
- The return on sales will be calculated using either a simple average or weighted average in respect of each individual 3 year assessment period.
- From a transparency perspective method 2 (as outlined in Section 5.6) is the preferred method as it lends itself to identifying the level of profitability in each individual year.

For the purposes of the assessment we would expect the registered undertakings to furnish the HIA with the following information in respect of each annual profit & loss account over the assessment period (2016 – 2018):

- Total profit and loss account;
- Component parts of the profit and loss account relating to reinsurance;
- Component parts of the profit and loss account relating to interest related items. For the avoidance of doubt these component parts relate to:
 - Investment returns achieved both in terms of realised / unrealised gains and losses;
 - Interest items such as the cost of financing investment returns on market instruments / subordinated debt / interest on bank accounts etc.
- To aid transparency, we would expect the profit and loss items relating to the impact of the Risk Equalisation Scheme to be split between:
 - Age Related Health Credits;
 - Hospital Utilisation Credits
 - High Cost Claim Credits; and
 - Stamp Duty.
- We would expect any unanticipated investment or interest variances in respect of pension schemes to come through other comprehensive income and not the profit & loss account in a registered undertaking's financial accounts. To the extent this is not the case we would expect registered undertakings to furnish the Authority with the necessary additional information to determine the impact of investment or interest variances on the profit & loss account.

The Authority would expect that this information also be provided in respect of the 2020 and 2021 annual profit & loss accounts.

Source: Section 5.7, Overcompensation Assessment Methodology, dated 6 December 2018.

2.2 Overcompensation Assessment Methodology:

Step 3: Overcompensation Assessment

Section 7F, subsection 7 of the Health Insurance Acts sets out the requirements of the draft report. These requirements and the approach to calculating them for the purposes of determining the level of overcompensation are considered below.

Section 7F, subsection 7(a): The reasonable profit

- Paragraph 21 of the SGEI Framework states that *“the amount of compensation must not exceed what is necessary to cover the net cost of discharging the public service obligations, including a reasonable profit”*
- The cost of discharging the public service obligation should be calculated on a basis consistent with that used to determine whether the return on sales exceeds a reasonable level of profit. For the purposes of the calculation the exclusion of reinsurance, interest and tax related items from the calculation is consistent with the return on sales metric being compared against. Additionally, the impact of RES flows should be excluded from the calculation to determine the true cost in the absence of risk equalisation.
- The cost of discharging the public service obligation could then be calculated using the following accounting items:

| P&L Item | Notes |
|---|---|
| + Other Income | Investment income and reinsurance related items to be excluded. |
| + Fee and Commission Income | Reinsurance related items to be excluded. |
| – gross claims paid | |
| – (changes in) the gross provision for claims | |
| + (changes in) other technical provisions | Investment income and reinsurance related items to be excluded. |
| – operating expenses | Investment related expenses and reinsurance related items to be excluded. |

- As previously noted, the Health Insurance Acts have defined a reasonable level of profit as being 6% return on sales for the purposes of the period 1 January 2022 to 31 December 2024. The cost of discharging the public service obligation can then be used to calculate the theoretical premium that should be charged to give a profit margin of 6%, i.e. $\text{theoretical premium} = \text{cost of discharging the public service obligation} / (1 - 6\%)$.
- The difference between this premium and the cost of discharging the public service obligation would represent the maximum level of reasonable profit that the undertaking could earn in the period without being deemed to have been overcompensated. This would be calculated in respect of each year over the 3 year period.

2.2 Overcompensation Assessment Methodology:

Step 3: Overcompensation Assessment

Section 7F, subsection 7(b): The amount determined under subsection (5)(b) to be the positive cumulative net financial impact on the undertaking

- For the purposes of the assessment a net beneficiary is defined as an insurer for which the cumulative net financial impact is positive over the applicable 3 year period. Details of the approach that will be used to calculate the positive cumulative net financial impact are set out in Section 4 of this report.

Section 7F, subsection 7(c): The monetary equivalent amount determined under subsection (6)(b) to be the profit of the undertaking which is in excess of the corresponding monetary equivalent amount of the reasonable profit

- Section 7F, Subsection (6)(b) states that *“where the Authority determines under paragraph (a) that a registered undertaking or former registered undertaking has made a profit which is in excess of a reasonable profit in respect of a period, it shall make a further determination as to the monetary equivalent amount of the profit which is in excess of the corresponding monetary equivalent amount of such reasonable profit in respect of that period.”*
- For the purposes of the assessment this would equal the Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation) (as specified in Section 5.3) less the level of reasonable profit calculated as per subsection 7(a) of the Acts.
- This would be calculated in respect of each year over the 3 year period and considered on a cumulative basis over that time period subject to a minimum of zero.

Section 7F, subsection 7(d): The cumulative amount of overcompensation, being the lower of the amounts referred to in paragraphs (b) and (c)

- Minimum of calculation of subsections 7(b) and 7(c) subject to an overall minimum of zero.

Source: Section 6.2, Overcompensation Assessment Methodology, dated 6 December 2018.

3

Determining a Net Beneficiary of the RES

3.1 Determining a Net Beneficiary of the RES

Overcompensation Assessment Methodology - Step 1

- Section 7F, subsection (1) of the Health Insurance Acts requires Registered Undertakings (and former Registered Undertakings) to furnish statements of profit and loss and a balance sheet to the Authority that have been calculated using approved accounting standards and been certified by an independent accountant in such form as may be specified by the Authority.
- The information furnished to the Authority as per Section 7F, subsection (1) of the Health Insurance Act enables the Authority to determine the annual view of the relevant financial provisions (i.e. impact of risk equalisation flows) between insurers.
- This in turn enables the Authority to determine whether and which Registered Undertakings have had a net positive financial impact from the RES. For the purposes of determining a net beneficiary this assessment is required to be performed over a 3 year period. The period of this assessment covers the period from 1 January 2022 to 31 December 2024.
- Set out below are details of the aggregate RES flows (as furnished by the registered undertakings) in respect of reporting years 2022, 2023 and 2024. The Net RES Flow information is on an earned basis before allowance for the impact of reinsurance.

| Net RES Flow €m's | Elips Insurances Ltd (Laya Healthcare) | Irish Life Health DAC | Aviva Insurance Ireland DAC (Level Health)*** | Vhi Insurance DAC | Market** |
|-------------------|---|-----------------------|---|-------------------|-------------|
| 2022* | █ | █ | █ | █ | (18.9) |
| 2023 | █ | █ | █ | █ | 84.8 |
| 2024 | █ | █ | █ | █ | 15.8 |
| Total | █ | █ | █ | █ | 81.7 |

* High Cost Claimants Pool ("HCCP") was implemented on 1 April 2022 and the Net RES flows include High Cost Claim Credits received by the insurers for 2022 onwards.

** The Net RES Flow in the above reporting periods do not balance to zero. This arises due to a combination of surpluses / deficits that exist within the RES fund when calibrating credits and also differences in accounting treatment when calculating the RES flows by the different insurers, e.g. differing views on HBUC provisions.

*** Aviva Insurance Ireland DAC, trading as Level Health, entered the health insurance market in late 2024. While Aviva Insurance Ireland DAC was a net beneficiary in the period with a positive cumulative net financial impact from the RES of █, an overcompensation assessment has not been performed as the requirements of Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 have not been met, whereby the overcompensation assessment applies to a 3 year period.

- Based on the above analysis it can be seen that Vhi Insurance DAC was a net beneficiary of the RES during the period 1 January 2022 to 31 December 2024. Vhi Insurance DAC had a positive cumulative net financial impact from the RES during the period 1 January 2022 to 31 December 2024 of █.
- As a net beneficiary of the RES has been determined, the Authority is required to determine whether the net beneficiary has made a reasonable profit or not for the purposes of the overcompensation assessment.

4

Determination of Reasonable Profit

4.1 Determination of Reasonable Profit

Overcompensation Assessment Methodology – Step 2

- Section 7F of the Health Insurance Acts sets out the requirements on the Authority in determining whether the profits made by the net beneficiary of the RES constitute a reasonable profit or not. Section 7F, subsection (6)(a) of the Health Insurance Act states that *“Where the Authority determines under subsection (5)(b) that there is a positive cumulative net financial impact on a registered undertaking or former registered undertaking in respect of a period, it shall make a determination as to whether the undertaking has or has not, in respect of that period, made a profit which is in excess of the reasonable profit in respect of that period.”*
- Section 7F, subsection (4A) provides details of what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State in respect of different overcompensation assessment periods. For the purposes of the 3 year period from 1 January 2022 to 31 December 2024, Section 7F, subsection (4A) outlines reasonable profit as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 6 per cent per annum in respect of that business for that 3 year period taken as a whole and as calculated using approved accounting standards and having regard to the European Union framework for State aid in the form of public service compensation (2011) (2012/C8/03).
- For the purposes of the assessment return on sales is defined as:
Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation)
Adjusted Premium (i.e. Earned premium + RES flows on a gross of reinsurance basis)
- For the 3 year period from 1 January 2022 to 31 December 2024, the return on sales has been calculating based on a weighted average of the return on sales in each of the years 2022, 2023 and 2024.
- Section 7F, subsection (3) of the Health Insurance Act requires *“registered undertaking or former registered undertaking which has furnished the Authority with information under subsection (1) shall provide the Authority with such assistance as is reasonably necessary for the due performance of the Authority’s functions under this section in relation to such information”*.
- Details of the adjustments required to be made to the component parts of the Profit & Loss accounts submitted to the Authority by Vhi Insurance DAC are set out in Section 3.2.

4.2 Determination of Reasonable Profit

Adjusted Profitability Measure – Approach

- Set out below are the main components of the Profit & Loss accounts to be submitted to the HIA in respect of Irish Private Health Insurance business. We have set out details of the components to arrive at a final profitability figures for the purposes of calculating the return on sales metric set out in Section 7F, subsection (4A) of the Health Insurance Act.

| P&L Item | Include | Notes |
|---|---------|---|
| Gross premiums written | Y | |
| – premiums ceded to reinsurers | N | |
| + (changes in) the provision for unearned premiums gross of reinsurance | Y | |
| + (changes in) the reinsured provision for unearned premiums | N | |
| + Impact of Risk Equalisation Scheme (Gross) | Y | On an earned basis consistent with gross earned premium measure – further details outlined in the following slide. The inclusion of RES flows is consistent with paragraph 28 of the SGEI Framework which states that “under the cost allocation methodology, the net cost necessary to discharge the public service obligations can be calculated as the difference between the costs and the revenues for a designated provider of fulfilling the public service obligations, as specified and estimated in the entrustment act.” The RES Flows form a part of the overall profitability of an undertaking. Without their inclusion insurers with older and less healthy members would appear highly unprofitable given the community rated premiums being charged and thus would not give a sensible result for the purposes of determining a reasonable profit. |
| + Impact of Risk Equalisation Scheme (Reinsurer Share) | N | |
| + Other Income | Modify | Investment income and reinsurance related items to be excluded. |
| + Fee and Commission Income | Modify | Reinsurance related items to be excluded. |
| – Reinsurance Commission | N | |
| – gross claims paid | Y | |
| + reinsurers’ share of claims paid | N | |
| – (changes in) the gross provision for claims | Y | |
| + (changes in) reinsurers’ share of the provision for claims | N | |
| + (changes in) other technical provisions | Modify | Investment income and reinsurance related items to be excluded. |
| – operating expenses | Modify | Investment related expenses and reinsurance related items to be excluded. |
| + investment income/loss | N | |
| – interest | N | Operating profit is an accounting figure that measures the profit earned from a company's ongoing core business operations. Exclude interest items such as the cost of financing investment returns on market instruments / subordinated debt / interest on bank accounts etc. |
| – tax (including deferred tax impacts) | N | Conclusion reached by European Commission – Source footnote 47 of European Commission: State Aid SA.41702 (2016/NN) – Ireland Risk Equalisation Scheme. |
| = net profit | | |

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure – Vhi Insurance DAC adjustments in respect of 2022 – 2024

- Set out in the following 3 slides are the adjustments made by Vhi Insurance DAC to the component part of the Profit & Loss accounts submitted to the Authority in respect of the financial years 2022 – 2024.

| Period 1 January 2022 – 31 December 2022 | | | | | | | |
|---|---|-----------------------|--|--------------------|----------------------|------------------|---|
| P&L Item €m's | Include for Purposes of Overcompensation Assessment | Submitted P&L Account | Component Parts of the P&L relating to Reinsurance | Investment returns | Interest Items / Tax | Total Adjustment | P&L Account for Purposes of Overcompensation Assessment |
| Gross premiums written | Y | ■ | | | | ■ | ■ |
| – premiums ceded to reinsurers | N | ■ | | | | ■ | ■ |
| + (changes in) the provision for unearned premiums gross of reinsurance | Y | ■ | | | | ■ | ■ |
| + (changes in) the reinsured provision for unearned premiums | N | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Gross) | Y | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Reinsurer Share) | N | ■ | | | | ■ | ■ |
| + Other Income | Modify | ■ | | | | ■ | ■ |
| + Fee and Commission Income | Modify | ■ | | | | ■ | ■ |
| – Reinsurance Commission | N | ■ | ■ | | | ■ | ■ |
| – gross claims paid | Y | ■ | | | | ■ | ■ |
| + reinsurers' share of claims paid | N | ■ | ■ | | | ■ | ■ |
| – (changes in) the gross provision for claims | Y | ■ | | | | ■ | ■ |
| + (changes in) reinsurers' share of the provision for claims | N | ■ | ■ | | | ■ | ■ |
| + (changes in) other technical provisions | Modify | ■ | | | | ■ | ■ |
| – operating expenses | Modify | ■ | | | | ■ | ■) |
| + investment income/loss | N | ■ | | ■ | | ■ | ■ |
| – interest | N | ■ | | | ■ | ■ | ■ |
| – tax (including deferred tax impacts) | N | ■ | | | ■ | ■ | ■ |
| = net profit | | ■ | ■ | ■ | ■ | ■ | ■ |

* A more detailed Profit & Loss Account is included in Appendix 3.

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure - Vhi Insurance DAC adjustments in respect of 2022 - 2024

| Period 1 January 2023 – 31 December 2023 | | | | | | | |
|---|---|-----------------------|--|--------------------|----------------------|------------------|---|
| P&L Item €m's | Include for Purposes of Overcompensation Assessment | Submitted P&L Account | Component Parts of the P&L relating to Reinsurance | Investment returns | Interest Items / Tax | Total Adjustment | P&L Account for Purposes of Overcompensation Assessment |
| Gross premiums written | Y | ■ | | | | ■ | ■ |
| – premiums ceded to reinsurers | N | ■ | | | | ■ | ■ |
| + (changes in) the provision for unearned premiums gross of reinsurance | Y | ■ | | | | ■ | ■ |
| + (changes in) the reinsured provision for unearned premiums | N | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Gross) | Y | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Reinsurer Share) | N | ■ | | | | ■ | ■ |
| + Other Income | Modify | ■ | | | | ■ | ■ |
| + Fee and Commission Income | Modify | ■ | | | | ■ | ■ |
| – Reinsurance Commission | N | ■ | ■ | | | ■ | ■ |
| – gross claims paid | Y | ■ | | | | ■ | ■ |
| + reinsurers' share of claims paid | N | ■ | ■ | | | ■ | ■ |
| – (changes in) the gross provision for claims | Y | ■ | | | | ■ | ■ |
| + (changes in) reinsurers' share of the provision for claims | N | ■ | ■ | | | ■ | ■ |
| + (changes in) other technical provisions | Modify | ■ | | | | ■ | ■ |
| – operating expenses | Modify | ■ | | | | ■ | ■ |
| + investment income/loss | N | ■ | | ■ | | ■ | ■ |
| – interest | N | ■ | | | ■ | ■ | ■ |
| – tax (including deferred tax impacts) | N | ■ | | | ■ | ■ | ■ |
| = net profit | | ■ | ■ | ■ | ■ | ■ | ■ |

* A more detailed Profit & Loss Account is included in Appendix 3.

(+) A receivable has been recognised in the financial statements in respect of a legal matter that was agreed in 2023 and formally executed in March 2024.

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure - Vhi Insurance DAC adjustments in respect of 2022 - 2024

| Period 1 January 2024 – 31 December 2024 | | | | | | | |
|---|---|-----------------------|--|--------------------|----------------------|------------------|---|
| P&L Item €m's | Include for Purposes of Overcompensation Assessment | Submitted P&L Account | Component Parts of the P&L relating to Reinsurance | Investment returns | Interest Items / Tax | Total Adjustment | P&L Account for Purposes of Overcompensation Assessment |
| Gross premiums written | Y | ■ | | | | ■ | ■ |
| – premiums ceded to reinsurers | N | ■ | | | | ■ | ■ |
| + (changes in) the provision for unearned premiums gross of reinsurance | Y | ■ | | | | ■ | ■ |
| + (changes in) the reinsured provision for unearned premiums | N | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Gross) | Y | ■ | | | | ■ | ■ |
| + Impact of Risk Equalisation Scheme (Reinsurer Share) | N | ■ | | | | ■ | ■ |
| + Other Income | Modify | ■ | | | | ■ | ■ |
| + Fee and Commission Income | Modify | ■ | | | | ■ | ■ |
| – Reinsurance Commission | N | ■ | ■ | | | ■ | ■ |
| – gross claims paid | Y | ■ | | | | ■ | ■ |
| + reinsurers' share of claims paid | N | ■ | ■ | | | ■ | ■ |
| – (changes in) the gross provision for claims | Y | ■ | | | | ■ | ■ |
| + (changes in) reinsurers' share of the provision for claims | N | ■ | ■ | | | ■ | ■ |
| + (changes in) other technical provisions | Modify | ■ | | | | ■ | ■ |
| – operating expenses | Modify | ■ | | | | ■ | ■ |
| + investment income/loss | N | ■ | | ■ | | ■ | ■ |
| – interest | N | ■ | | | ■ | ■ | ■ |
| – tax (including deferred tax impacts) | N | ■ | | | ■ | ■ | ■ |
| = net profit | | ■ | ■ | ■ | ■ | ■ | ■ |

* A more detailed Profit & Loss Account is included in Appendix 3.

4.4 Determination of Reasonable Profit

Outsourcing Arrangements

- Regulation 8(2) of the Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022] sets out the criteria in relation to inter-group outsourcing arrangements.

"The arm's length amount for any outsourcing arrangement to which paragraph (1)(c) applies shall –

(a) be the direct, vouched, out-of-pocket expense to the provider of the services under the outsourcing arrangement plus an amount of reasonable profit as provided for in section 7F(4A)(c) of the Act of 1994, and

(b) not include any commission, bonus or other incentive paid or payable under or in connection with the outsourcing arrangement."

- Regulation 8(1)(c) of the Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022] further states:
"provide that the aggregate amount of consideration paid or payable by the undertaking to a group undertaking under or in connection with an outsourcing arrangement is the lower of –
(i) the actual aggregate amount of consideration paid or payable, and
(ii) the arm's length amount as calculated in accordance with paragraph (2)."

- Set out below are details of the cost and margins (which have been sourced from the Company by the Authority through management queries) in relation to outsourcing arrangements in Vhi Insurance DAC in respect of 2022 – 2024:

| Outsourcing Arrangements €m's | | 2022 Actual | 2023 Actual | 2024 Actual | Total |
|--|--|-------------|-------------|-------------|-------|
| Outsourcing Agreement 1: Vhi Group Services DAC | Costs | █ | █ | █ | █ |
| | Margin | █ | █ | █ | █ |
| | Total Cost to Vhi Insurance DAC | █ | █ | █ | █ |
| | Margin as Percentage of Cost | █ | █ | █ | █ |
| Outsourcing Agreement 2: Vhi Healthcare DAC | Costs | █ | █ | █ | █ |
| | Margin | █ | █ | █ | █ |
| | Total Cost to Vhi Insurance DAC | █ | █ | █ | █ |
| | Margin as Percentage of Cost | █ | █ | █ | █ |

- Regulation 8(2) of the Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022] restricts the level of reasonable profit as provided for in Section 7F(4A)(c) of the Health Insurance Acts 1994 to 2022. The reasonable profit threshold as set out in Section 7F, subsection 4A was updated in the Health Insurance (Amendment) Act 2021 to 4.9% in respect of the period 1 January 2020 to 31 December 2022, 5.5% in respect of the period 1 January 2021 to 31 December 2023, and 6% thereafter. This update was made to allow for any inconsistencies that would exist between the financial information prepared before and after the introduction of the Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022].
- **Thus, the margin in respect of Vhi Healthcare DAC for each outsourcing agreement is required to be restricted to 6% as a result. Based on the results provided in respect of 2022 – 2024, the margin for both outsourcing agreements was less than 6% and thus no restriction is required in respect of the outsourcing agreement with Vhi Group Services DAC nor in respect of the outsourcing agreement with Vhi Healthcare DAC.**

4.4 Determination of Reasonable Profit

Adjusted Premium Measure - Vhi Insurance DAC in respect of 2022 - 2024

- For the purposes of the assessment Adjusted Premium is defined as Earned premium + RES flows on a gross of reinsurance basis.
- Set out below is the adjusted premium measure in respect of Vhi Insurance DAC in respect of financial years 2022 – 2024.

| P&L Item | 2022 | 2023 | 2024 | Total |
|---|------|------|------|-------|
| Gross premiums written | ████ | ████ | ████ | ████ |
| + (changes in) the provision for unearned premiums gross of reinsurance | ██ | ██ | ██ | ██ |
| + Impact of Risk Equalisation Scheme (Gross) | ██ | ██ | ██ | ██ |
| Adjusted Premium | ████ | ████ | ████ | ████ |

Source: Section 4.3, Slides 19 – 21.

4.5 Determination of Reasonable Profit

Return on Sales - Vhi Insurance DAC in respect of 2022 - 2024

- For the purposes of the assessment return on sales is defined as:

Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation)

Adjusted Premium (i.e. Earned premium + RES flows on a gross of reinsurance basis)

- Adjusted profitability is as presented in the tables in Section 4.3, i.e. total of column “P&L Account for Purposes of Overcompensation Assessment”, i.e. no adjustment is required as the margin for both outsourcing agreements was less than 6%.

| P&L Item | 2022 | 2023 | 2024 | Total |
|---|------|------|------|-------|
| Adjusted Profitability (see slides 19-21) | ■ | ■ | ■ | ■ |
| Restriction in respect of Outsourcing Arrangements (see slide 22) | ■ | ■ | ■ | ■ |
| Final Adjusted Profitability | ■ | ■ | ■ | ■ |
| Adjusted Premium | ■ | ■ | ■ | ■ |
| Return on Sales | ■ | ■ | ■ | ■ |

- For the purposes of the 3 year period from 1 January 2022 to 31 December 2024, Section 7F, subsection (4A) of the Health Insurance Acts 1994 to 2022 outlines reasonable profit as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 6 per cent per annum in respect of that business for that 3 year period taken as a whole and as calculated using approved accounting standards and having regard to the European Union framework for State aid in the form of public service compensation (2011) (2012/C8/03).
- Based on the above analysis it can be seen that Vhi Insurance DAC had a return on sales, gross of reinsurance and excluding investment income, of ■ over the 3 year period from 1 January 2022 to 31 December 2024.

Appendices

Appendix 1: Health Insurance Act, Section 7F – Overcompensation

Assessment – *Extract (Health Insurance Acts 1994 to 2024)*

- (1) A registered undertaking or former registered undertaking shall, in respect of each year -
- (a) maintain and furnish to the Authority (before 1 April of the next succeeding year), in such form as may be specified by the Authority, a statement of profit and loss in respect of -
 - (i) its relevant health insurance business in the State, and
 - (ii) such other health insurance services, provided by the undertaking, as may be prescribed,
 - (b) maintain and furnish to the Authority (before 1 April of the next succeeding year), in such form as may be specified by the Authority, a balance sheet in respect of -
 - (i) its relevant health insurance business in the State, and
 - (ii) such other health insurance services, provided by the undertaking, as may be prescribed,and
 - (c) furnish to the Authority (before 1 April of the next succeeding year), such other information relating to the year as may be prescribed and, without limiting the generality of the foregoing, such information may include a statement of profit and loss and a balance sheet in respect of its relevant health insurance business in the State as it relates to those persons receiving age-related tax credits, in respect of health insurance contracts effected for any period before 1 January 2013, or receiving risk equalisation credits.
- (2)
- (a) A statement of profit and loss or balance sheet shall, prior to its being furnished to the Authority pursuant to subsection (1), be certified by an independent accountant in such form as may be specified by the Authority.
 - (b) The Minister may prescribe the bases for the calculation of costs, premia and other relevant financial data that are to be included in a statement of profit and loss or balance sheet to be furnished to the Authority pursuant to subsection (1).
- (3) A registered undertaking or former registered undertaking which has furnished the Authority with information under subsection (1) shall provide the Authority with such assistance as is reasonably necessary for the due performance of the Authority's functions under this section in relation to such information.

- (4)
- (a) [deleted]
 - (b) The Authority shall take what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State, in respect of the 3 year period from 1 January 2011 to the end of 2013, as being a return on equity that does not exceed 12 per cent per annum in respect of that business for that period as calculated using approved accounting standards and having regard to the European Union Framework for State aid in the form of public service compensation (2011) (2012/C8/03) (the text of which is set out for convenience of reference in Schedule 2).
 - (c) Paragraph (b) shall, with all necessary modifications, apply to each relevant 3 year period as it applies to the 3 year period referred to in that paragraph.
- (4A)
- (a) The Authority shall take what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State, in respect of the 3 year period from 1 January 2016 to the end of 2018, as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 6 per cent per annum in respect of that business for that 3 year period taken as a whole and as calculated using approved accounting standards and having regard to the European Union framework for State aid in the form of public service compensation (2011) (2012/C8/03).
 - (b) Subject to paragraph (c), paragraph (a) shall, with all necessary modifications, apply to each applicable 3 year period as it applies to the 3 year period referred to in that paragraph.
 - (c) In respect of each of the following applicable 3 year periods -
 - (i) the 3 year period from 1 January 2020 to the end of 2022, and
 - (ii) the 3 year period from 1 January 2021 to the end of 2023,the reference in paragraph (a) to 6 per cent per annum shall, as respects the applicable 3 year period referred to in subparagraph (i), be read as a reference to 4.9 per cent per annum and, as respects the applicable 3 year period referred to in subparagraph (ii), be read as a reference to 5.5 per cent per annum and paragraph (a) shall apply accordingly.

Appendix 1: Health Insurance Act, Section 7F – Overcompensation

Assessment – *Extract (Health Insurance Acts 1994 to 2024)*

(5) The Authority shall -

(a) evaluate and analyse the information furnished to it under subsection (1) by a registered undertaking or former registered undertaking, and

(b) as soon as may be, make a determination as to whether or not the cumulative net financial impact of the relevant financial provisions on a registered undertaking or former registered undertaking is positive for -

(i) [deleted]

(ii) if paragraph (b) of subsection (4) is applicable, the period from 1 January of 2011 to the end of 2013,

(iii) if paragraph (c) of subsection (4) is applicable, the period from 1 January of the first year of the relevant 3 year period to the end of the last year of the relevant 3 year period,

(iv) if paragraph (a) of subsection (4A) is applicable, the period from 1 January 2016 to the end of 2018, or

(v) if paragraph (b) of subsection (4A) is applicable, the period from 1 January of the first year of the applicable 3 year period to the end of the last year of the applicable 3 year period,

to which the information furnished to it under subsection (1) relates and, if so, the amount by which the cumulative net financial impact is positive.

(6)

(a) Where the Authority determines under subsection (5)(b) that there is a positive cumulative net financial impact on a registered undertaking or former registered undertaking in respect of a period, it shall make a determination as to whether the undertaking has or has not, in respect of that period, made a profit which is in excess of the reasonable profit in respect of that period.

(b) Where the Authority determines under paragraph (a) that a registered undertaking or former registered undertaking has made a profit which is in excess of a reasonable profit in respect of a period, it shall make a further determination as to the monetary equivalent amount of the profit which is in excess of the corresponding monetary equivalent amount of such reasonable profit in respect of that period.

(7) Where, in respect of a period, the Authority has determined under subsection (5)(b) that the cumulative net financial impact of the relevant financial provisions on a registered undertaking or former registered undertaking was positive, and determined under subsection (6)(a) that the undertaking has made a profit which is in excess of the reasonable profit determined under subsection (4), it shall prepare a report (in this Part referred to as the 'draft report') setting out -

(a) the reasonable profit,

(b) the amount determined under subsection (5)(b) to be the positive cumulative net financial impact on the undertaking,

(c) the monetary equivalent amount determined under subsection (6)(b) to be the profit of the undertaking which is in excess of the corresponding monetary equivalent amount of such reasonable profit,

(d) the cumulative amount of overcompensation, being the lower of the amounts referred to in paragraphs (b) and (c),

Appendix 2: Glossary of Terms

| | |
|----------------------|--|
| € | Euro |
| EU | European Union |
| GloHealth | Great Lakes Reinsurance (UK) PLC |
| HBUC | Hospital bed utilisation credit |
| HIA | The Health Insurance Authority (statutory regulator of Irish PMI market) |
| HCCP | High Cost Claimants Pool |
| Irish Life | Irish Life Health |
| Laya | Laya HealthCare |
| ROS | Return on Sales |
| SGEI | Service of general economic interest |
| Stamp Duty | Community rating stamp duty: contributions to RES by PMI providers payable for each person insured on a contract to which the RES applies. |
| The Authority | Health Insurance Authority (statutory regulator of Irish PMI market) |

Appendix 3: Vhi Insurance DAC Profit and Loss Accounts 2022 - 2024

