An tÚdarás Árachas Sláinte
The Health Insurance Authority

HIA Assessment of Overcompensation in the Irish Health Insurance Market 2025

Contents

1. Overview

This Report summarises the Health Insurance Authority (Authority or HIA) assessment of Overcompensation for the 2022 to 2024 period. The Authority used the information furnished as per Section 7F, subsection (1) of the Health Insurance Act by each of the open market insurers subject to Risk Equalisation.

In carrying out the assessment, the Authority was assisted by analysis carried out by KPMG. Their report is referred to in this report and published alongside it.

The report is made up of the three steps shown below:

1. **STEP 1 - Determining a Net Beneficiary of the RES**
2. **STEP 2 - Determination of Reasonable Profit**
3. **STEP 3 – Overcompensation Assessment**

One of the Health Insurance Authority's principal functions is the following:

- To carry out certain functions in relation to health insurance stamp duty and risk equalisation credits and in relation to the Risk Equalisation Scheme (RES).

The Authority recommends Age Related Health Credits (also known as Risk Equalisation Premium Credits), Hospital Utilisation Credits (HUC) and High Cost Claims Pool (HCCP) Credits to the Minister for Health each year. Based on these credits, the Authority administers the Risk Equalisation Fund (REF), whereby Age, HUC & HCCP Credits are paid out to the insurers and stamp duty is received from Revenue to fund these Credits.

The Authority is also required to carry out an overcompensation assessment based on the net financial impact per open enrolment insurer of the REF. The REF is considered an allowable state aid because it is a Service of General Economic Interest (SGEI) in EU law. A legal requirement is that a beneficiary of state aid cannot be overcompensated. When state aid is in the form of an open scheme like REF, the legal condition is that the beneficiary is not allowed make more than a reasonable profit, for which there are EU Commission guidelines, set out in a Commission Framework that is a Schedule in the Health Insurance Acts. The Health Insurance Acts require the Authority to carry out an overcompensation assessment every year.

Links to previously published Overcompensation reports are shown below:

HIA Overcompensation Report 2021

HIA Overcompensation Report 2022

HIA Overcompensation Report 2023

HIA-Overcompensation-Report-2024

2. STEP 1: Determining a Net Beneficiary of the RES

The legislation (Section 7F of the Health Insurance Acts) sets out the procedure for the assessment of overcompensation in the Irish health insurance market.

Firstly, the Authority determines whether and which undertakings have had a **net positive financial impact** from the RES.
A net positive financial impact is where the income from the Risk Equalisation Fund, in the form of credits, exceeds the stamp duty payable, for an insurer.

The Net RES flows provided by the Registered Undertakings to the Authority for the purposes of the overcompensation assessment must 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 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.

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.

Registered undertakings (and former registered undertakings) are required to submit profit and loss accounts and a balance sheet to the Authority. Great Lakes, Irish Life Health, Elips Insurance, Aviva and Vhi Healthcare made submissions to the Authority for the purposes of this overcompensation assessment. The aggregate RES flows were separately calculated for each of the reporting years 2022, 2023 and 2024. The Net RES Flow information is on an earned basis before allowance for the impact of reinsurance.

The table below summarises the net financial flows for each of the insurers (see KPMG report):

Net RES Flow €m	Elips Insurance Ltd	Irish Life Health DAC	Aviva Insurance Ireland DAC (Level Health)***	Vhi Insurance DAC	Market**
2022*	[redacted]				(18.9)
2023					84.8
2024					15.8
Total					81.7

*High Cost Claims Pool (HCCP) was implemented on 1st April 2022 and Net RES Flows for 2022 include HCCP 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 DAC was a net beneficiary in the period under review with a positive cumulative net financial impact from the RES of [redacted] an overcompensation assessment has not been performed as the requirements of Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 have been met, whereby the overcompensation assessment applies to a 3 year period.

Based on the analysis done by KPMG, the Authority has concluded that Vhi Insurance DAC was a net beneficiary of the RES during the period 1st January 2022 to 31st December 2024.

Vhi Insurance DAC had a positive cumulative net financial impact from the RES during this period of [redacted]

Conclusion
As a net beneficiary of the RES was determined, the Authority subsequently moved to Step 2 of the methodology, to determine whether the net beneficiary has made a reasonable profit or not for the purposes of the overcompensation assessment.

3. STEP 2: Determination of Reasonable Profit

Section 7F, subsection (4A) states that "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 2022 to the 31 December 2024, 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)

To carry out this step, the Authority determined, that for the purposes of the calculation of the return on sales, the following approach was taken:

- 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 margin on outsourcing arrangements were restricted to 6% of costs.
- The return on sales will be calculated using either a simple average or weighted average in respect of each individual 3 year assessment period.

For the 2025 assessment, which covers the 3 year period from 1 January 2022 to 31 December 2024, the return on sales has been calculated based on a weighted average of the return on sales in each of the years 2022, 2023 and 2024.

KPMG provided a summary of Profit and Loss accounts provided by Vhi Insurance DAC over the 3 year period. In order to calculate a Return on Sales for Vhi Insurance DAC, KPMG used a calculation for Adjusted Premium.

Adjusted Premium = Earned Premium + RES flows

The table below shows the Adjusted Premium for Vhi Insurance DAC:

P&L Item (€m)	2022	2023	2024	Total
Gross Premiums written	[redacted]			
+(changes in) the provision for unearned premiums gross of reinsurance				
+Impact of Risk Equalisation Scheme (Gross)				
Adjusted Premium				

Using the Adjusted Premium in the table above, a Return on Sales is calculated (definition outlined earlier in this document), as shown in the table below:

P&L item (€m)	2022	2023	2024	Total
Adjusted Profitability	[redacted]			
Restriction In Respect of Outsourcing Arrangements				
Final Adjusted Profitability				
Adjusted Premium				
Return on Sales				

Based on this analysis, the Authority concluded that the weighted average return on Sales (Gross of Reinsurance and excluding Investment Income) for Vhi over the relevant three year period 1st January 2022 to 31st December 2024 was [redacted]

4. STEP 3: Overcompensation Assessment

The final step in the analysis is to determine, based on the previous steps, whether or not overcompensation has occurred for the specified period. Section 7F, subsection 7 of the Health Insurance Acts sets out the requirements for how the Authority should determine whether or not overcompensation has occurred.

Section 7F, subsection 7(a) states:
"For the purposes of estimating 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 Health Insurance Acts have defined a reasonable level of profit as being 6% return on sales. The Authority, therefore, calculates the cost of discharging the public service obligation as the theoretical premium that should be charged to give a profit margin of 6%, i.e., theoretical premium = cost of discharging the public service obligation / (1 – 6%).

The final step carried out by the Authority was to compare the actual Return on Sales earned by the net beneficiary, Vhi, with the benchmark of 6%.

From the analysis carried out in Step 2, over the period 1 January 2022 to 31 December 2024:

- Vhi Insurance DAC was a net beneficiary of the RES. The total Net RES Flow to Vhi Insurance DAC during the assessment period amounted to [redacted]
- Vhi Insurance DAC had a [redacted] over the 3-year period.

As the average return on sales over the 3 year period was less than the benchmark of 6%, the Authority has 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 the reasonable profit in respect of its relevant health insurance business in the State in respect of that period.