Submission by the Irish Brokers Association on the Risk Equalisation in the Irish Private Health Insurance Market

This position paper outlines the Irish Brokers Association response on behalf of its members to the proposals on the new risk equalisation scheme by the Health Insurance Authority. From the outset, we firmly believe that in order to create a vibrant and fair health insurance market, there must be a level playing field so that all participants, Insurers and Intermediaries are allowed to provide competitive products in the interests of the Consumer.

The Irish health insurance market saw competition for the first time in 1996 with the arrival of BUPA Ireland. VIVAS Health was to follow in 2004 and was to be the first (and only) undertaking to distribute its products through the insurance broker market. Since this time insurance intermediaries have become more and more active in the market. The market is currently worth in excess of €2 billion in premium income meaning that it is of a comparable size to the motor insurance industry in Ireland. However, unlike the motor insurance sector the health insurance market is highly concentrated with still only three players within the market. In addition, the VHI holds the largest dominant market share in any Irish insurance market with in excess of 60% market share.

The health insurance market has been extremely unstable over recent years with numerous pieces of litigation, the exiting of one player from the market and the striking down of the previous risk equalisation scheme. This regulatory uncertainty will persist unless a longer term solution which is viable for all players within the market can be achieved.

There are three key issues of concerns for brokers in the health insurance market:

1. Competition
2. Affordability
3. Stability within the market – a long term amicable solution being required.

1. <u>Competition</u>

The size and unregulated nature of the VHI is causing a huge distortion not only within the health insurance market but also within other insurance sectors where the VHI is operating. While the VHI is currently one legal entity as a statutory body it is purporting to act as both an insurance undertaking and an insurance intermediary – competing directly and unfairly with other insurance brokers. It has leveraged this unique position within the market to gain a market share of in excess of 40% within the multi-trip travel insurance market by tying this product to its health insurance range. The extent to which the VHI cross-subsidises its intermediary products through its health insurance products is not transparent. In addition, the use by VHI of one system, one sales force allows it greatly reduce its regulatory costs against those of normal brokers.

The unregulated nature of the VHI also allows it distort the health insurance market through the running off of its solvency reserves and its failure to apply any consumer protection measures. The lack of regulation of the VHI is a key concern for brokers all of whom must comply with the rigorous of all regulation laid out by the Financial Regulator.

Brokers have found that the primary reason that the majority of persons switch in the market is due to price. Similarly the Authority's own consumer survey in May 2010 concluded that cost savings were still the number one reason provided for switching. As such there is a real danger that if the current risk equalisation scheme is implemented without any fundamental changes in the market that switching behaviours will cease entirely as premiums across the market become the same. More worryingly, if competitor's premiums were to arise above that of VHI then there is a danger that switching behaviours would reverse and the VHI market shares would stay stable or even increase over time.

A market with only three players, one of which is massively dominant and unregulated is not beneficial to either consumers, brokers or the market itself. To put in place a risk equalisation scheme while this situation remains can only perpetuate and enhance current distortions in the market. A long term more fundamental solution must therefore be put in place prior to any risk equalisation scheme.

2. <u>Affordability</u>

The health insurance market started to contract for the first time in history in 2009 and this trend has continued into 2010. There is a real danger with the continued economic crisis in Ireland that if any further artificial premium rises are put into the market that this trend will accelerate. In addition, as evidenced by brokers, the population which is leaving the market are those that the markets can least afford to lose. An affordability crisis is commencing with people either delaying entering the market, choosing lower cost plans or leaving the market entirely. If community rating is to be maintained then a steady stream of younger members is required, this cannot be achieved if prices are artificially forced upwards.

All evidence since the implementation of the levy in 2009 has indicated that any government interference in the market consequently pushes the price of health insurance for both competitors of VHI and the VHI. The Competition Authority in its report on the market dated 2007 highlighted the dangers of what would occur to premiums under the previous risk equalisation scheme - it can be assumed that a risk equalisation scheme of an even greater magnitude can only lead to large premium rises.

3. <u>Stability</u>

The Minister for Health and Children in her reform announcement stated that there would be a re-balancing of the VHI members. If such a re-balancing were to occur across the market in addition to the redistribution of market shares new players could be encouraged into the market. Furthermore, once there were a number of players with roughly equal age profiles the implementation of risk equalisation would not create too great a burden on any one company. This form of fundamental structural change would automatically alleviate the core problems within the market. If such a change could be implemented into the market then long term stability and a competitive health insurance market could finally be achieved.

In conclusion, while the Association supports the principle of community rating, we would like to have a position where both consumers and efficient insurers would benefit from the government's strategy . That stated strategy is “designed so that insurers can compete on a level playing field and can make reasonable profits in a properly functioning marketplace”.

It is of significant concern to our members that they continue to trade in a market where a key product supplier not available to them, is being significantly supported by the tax payer. A stable competitive market which can allow all product producers compete fairly and allow consumers access to affordable products is in the national interest.

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27th August 2010