



An tÚdarás Árachas Sláinte
The Health Insurance Authority

**HIA Assessment of Overcompensation in the Irish Health Insurance
Market 2022**

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1. Overview

This Report summarises the HIA assessment of Overcompensation for the 2019 to 2021 period. The Authority used the information furnished to the Authority as per Section 7F, subsection (1) of the Health Insurance Act by each of the open market insurers.

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 HIA recommends age credits and hospital utilisation credits (HUC) to the Minister for Health every year. Based on these rates, the HIA administers the Risk Equalisation Fund (REF), whereby Age and HUC credits are paid out to the insurers and stamp duty is received from Revenue to fund these credits. High Cost Claims Pool (HCCP) credits were introduced into the RES in 2022. As the period under review for the Overcompensation is 2019 to 2021, these credits do not apply to our analysis.

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 condition is that the beneficiary of the state aid cannot be overcompensated. When the state aid is in the form of an open scheme like the 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 2019](#)

[HIA Overcompensation Report 2020](#)

[HIA Overcompensation Report 2021](#)

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 the overcompensation in the health insurance market.

First, the Authority determines whether and which undertakings have had a net positive financial impact from the RES. A positive net 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 HIA 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 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.

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 and a balance sheet to the Authority. GloHealth, Irish Life Health, Laya Healthcare and Vhi Healthcare submitted accounts to the Authority for the purposes of this overcompensation assessment. The aggregate RES flows were separately calculated for each of the reporting years 2019, 2020 and 2021. 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 | Vhi Insurance DAC | Market |
|-----------------|---------------------|-----------------------|-------------------|--------|
| 2019 | | | | 5.5 |
| 2020 | | | | -33.0 |
| 2021 | | | | -23.9 |
| Total | | | | -51.4 |

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 1 January 2019 to 31 December 2021. Vhi Insurance DAC had a positive cumulative net financial impact from the RES during this period of [REDACTED].

Great Lakes Reinsurance (UK) Company plc, trading as GloHealth, was a small net beneficiary of the RES in 2019 and 2020 because of technical movements in its accounts after it had ceased offering or renewing health insurance.¹ However, KPMG also noted that it did not make a profit during the period 2019 to 2021 from its relevant health insurance business

¹ Great Lakes Reinsurance (UK) Company plc has ceased trading in the State.

in the State. As a result, the HIA has not included it in any further steps in the overcompensation assessment.

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 2016 to the end of 2018, as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 4.4 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 determination, 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 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 2021 assessment, which covers the 3 year period from 1 January 2019 to 31 December 2021, the return on sales has been calculated based on a weighted average of the return on sales in each of the years 2019, 2020 and 2021.

KPMG provide 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 use a calculation for Adjusted Premium. The 2020 and 2021 Profit and Loss Accounts for Vhi Insurance DAC include refunds given to Vhi customers in 2020 and 2021 due to a reduction in claims, as a result of Covid-19, which resulted in a reporting of gross written premium of €1,536.6 in 2020 and € 1,598.4 in 2021, i.e., the premium was not adjusted to take account the level of refunds provided by Vhi to its customers in 2020 or 2021.

Adjusted Premium = Earned Premium + RES flows

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

| P&L Item (€m) | 2019 | 2020 | 2021 | Total |
|--|-------------|-------------|-------------|--------------|
| Gross Premiums written | 1,448.5 | 1,536.6 | 1,598.4 | 4,583.5 |
| +(changes in) the provision for unearned premiums gross of reinsurance | | | | |
| +Impact of Risk Equalisation Scheme (Gross) | | | | |
| Adjusted Premium | 1,522.7 | 1,581.2 | 1,666.0 | 4,769.9 |

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) | 2019 | 2020 | 2021 | Total |
|--------------------------|-------------|-------------|-------------|--------------|
| Adjusted Profitability | 15.6 | 49.1 | 67.1 | 131.8 |
| Adjusted Premium | 1,522.7 | 1,581.2 | 1,666.0 | 4,769.9 |
| Return on Sales | 1.0% | 3.1% | 4.0% | 2.8% |

Based on this analysis, the Authority concluded that the weighted average return on sales for Vhi over the relevant three year period 2019 to 2021 was 2.8%.

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 HIA 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 4.4% 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 4.4%, i.e. $\text{theoretical premium} = \text{cost of discharging the public service obligation} / (1 - 4.4\%)$.

The final step carried out by the HIA was to compare the actual Return on Sales earned by the net beneficiary, Vhi, with the benchmark of 4.4%

From the analysis carried out in Step 2, over the period 1 January 2019 to 31 December 2021:

- 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 return on sales of 2.8% over the 3-year period.

As the average return on sales over the 3 year period was less than the benchmark of 4.4%, the HIA 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.