

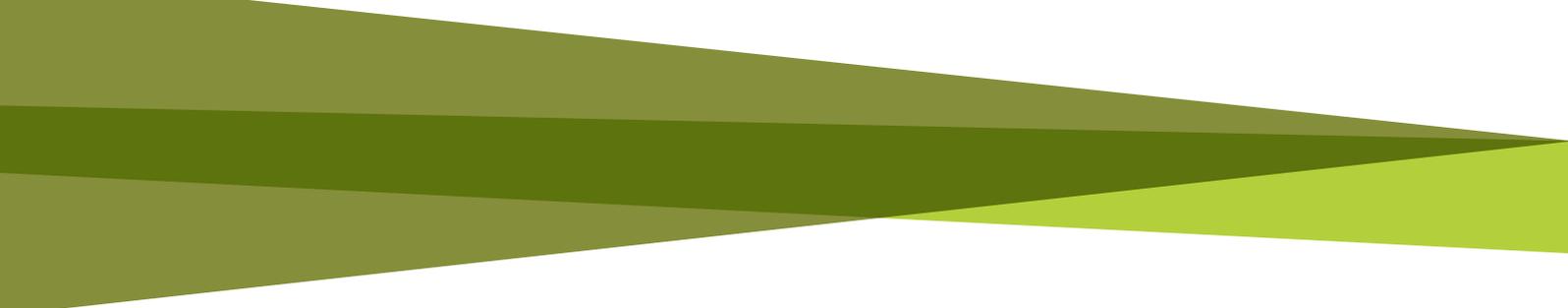


THE HEALTH  
INSURANCE

AUTHORITY

An tÚdarás Árachas Sláinte

Annual Report & Accounts 2007



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Annual Report & Accounts 2007



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## 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 2007.

The year just passed was an eventful one for the health insurance market and for the Authority. In December 2006, BUPA Insurance Limited ("BUPA") announced that it intended to leave the Irish market following the rejection by the High Court of its challenge to the Risk Equalisation Scheme ("the Scheme"). Early in 2007, it was announced that Quinn Insurance Ltd proposed to purchase BUPA's Irish business. The Authority registered Quinn Insurance Ltd (trading as Quinn Healthcare) as a health insurer in April and the purchase of BUPA's Irish business was completed in July.

Prior to its entry into the market, Quinn Healthcare had argued that it was entitled to the three year exemption from risk equalisation payments that was allowed for new entrants. The Authority advised the Minister that, if Quinn Healthcare's interpretation were correct, significant risks would arise for the health insurance framework and that the consequences would not be in the interests of health insurance consumers generally. In February, the Health Insurance Acts were amended to remove the three year exemption. The Scheme was subsequently amended further in April. The effect of these amendments was to reduce payments under the Scheme by approximately 25%.

The Authority has continued to manage and administer the Scheme and submitted two Risk Equalisation Reports to the Minister during 2007. However, due to ongoing court proceedings, there is currently a stay on payments being made under the Scheme. To date judgments have been issued in respect of two sets of proceedings and a further four sets of proceedings are ongoing. The Authority notes that the judgments of the High Court and the European Court of First Instance accord with its own position that a risk equalisation scheme is a necessary component of a community rated insurance market. Indeed, the question arises as to whether the current Risk Equalisation Scheme will be sufficient to support the maintenance of community rating in the longer term.

The Authority also carried out research and provided advice to the Minister for Health and Children on a range of other matters in 2007. This included a Report on Competition in the Irish Private Health Insurance Market as well as research and advice on market developments and amendments to legislation. As always, the Authority's advice is provided in the best interests of consumers.

Contacts between the Authority and health insurance consumers increased significantly in 2007 and the Authority continues to provide assistance and information to consumers via its website and in response to direct contacts. The Authority also undertook a campaign in the print and broadcast media to increase consumer awareness of their rights, including their right to move between insurance providers. Further progress was made when the Authority achieved agreement with insurers in relation to the inclusion of consumer rights information with renewal notices.

I wish to thank each of the Members of the Authority for their work, dedication and commitment during 2007 and to welcome Mr Paul Turpin following his appointment to the Authority by the Minister. I also wish to thank the Minister for Health and Children, Ms Mary Harney T.D., as well as officials in her Department, for their support during the year.

Finally, the Authority expresses its appreciation to staff for their continued commitment to achieving the objectives of the Authority and for their work throughout the year.

A handwritten signature in dark ink, appearing to read 'J. Joyce', is positioned above the printed name and title.

**J. Joyce**  
*Chairman*

## 2. Membership and Staff of The Authority

### Membership

The Members of the Authority are appointed by the Minister for Health and Children for a term of five years. The current Members of the Authority are:



#### **Mr. Jim Joyce (Chairman)**

Mr. Joyce became Chairman of the Authority on 1 February 2006. Mr. Joyce is a Fellow of the Institute of Actuaries and the Society of Actuaries in Ireland and served as President of the Society for 1999/2000. His early career was in the Civil Service ending as Assistant Secretary in the Department of Posts and Telegraphs, following which he was Executive Director of Telecom Eireann from 1984 to 1992. He was Actuarial Consultant to the Department of Enterprise, Trade and Employment and then to the Irish Financial Services Regulatory Authority from 1992 to 2005.



#### **Mr. Dónall Curtin**

Mr. Curtin is a founder and Senior Partner of Byrne Curtin Kelly (Certified Public Accountants). He is a member of the Institute of Certified Public Accountants in Ireland. He is a Director on the Board of the Dublin Docklands Development Authority. Mr Curtin is also a director of Chambers Ireland and a member of the Chartered Institute of Arbitrators with considerable experience in arbitration, mediation and dispute resolution.



#### **Ms. Mary Doyle**

Ms. Doyle is a Business Consultant with Bank of Scotland Ireland. She is an economist with extensive experience of Irish business and banking, focused on strategic economic analysis. She has also acted as an Economic Consultant for the World Bank and has research experience in the fields of training, tourism and EU regional policy. She managed the introduction of the euro currency for ICC Bank/Bank of Scotland Ireland (BOSI) and is currently programme manager for the introduction of Basel II International Banking Regulations in BOSI. Her qualifications include a Master of Arts degree in Economics and a Diploma in Accounting and Finance. She has been a member of a number of industry wide advisory groups, including for IBEC and the IBF.



**Mr. Aidan O'Donnell**

Mr. O'Donnell is an actuary. He has over 20 years of experience in the financial services industry having worked in a variety of senior roles with Irish Life, Bank of Ireland and Anglo Irish Bank. Currently he is Chief Product Officer and Actuary for Hartford Life's operations in Europe. He is a Fellow of the Society of Actuaries in Ireland and also holds a Masters in Business Administration from University College Dublin.



**Mr. Paul Turpin**

Mr. Turpin works with the Institute of Public Administration providing corporate governance services to boards in the public and not for profit sectors. Before joining the IPA he worked in financial services with Anglo Irish Bank, Irish Life Investment Managers and Goodbody Stockbrokers. Previously he has worked in the public sector, including as economic adviser to Government Ministers and with the National Economic and Social Council.

**Management**

The Management Team of the Authority is as follows:



**Mr. Liam Sloyan**

*Chief Executive/Registrar*



**Ms. Nora Rahill**

*Corporate Affairs Manager/Secretary to the Authority until February, 2008*



**Mr. Eamonn Horgan**

*Corporate Affairs Manager/Secretary to the Authority from March, 2008*



**Mr. Brendan Lynch**

*Head of Research/Technical Services*



**Mr. Micheal O Briain**

*Head of Regulatory Affairs*



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### 3. Functions of The Authority

The Authority was established by Ministerial Order on 1 February 2001 under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act, the Health Insurance (Amendment) Act, 2001, the Health Insurance (Amendment) Act, 2003 and the Health Insurance (Amendment) Act, 2007 (“the Health Insurance Acts”).<sup>1</sup> This legislation provides for the operation and regulation of the business of private health insurance in Ireland.

The European Union “Third Non-Life Insurance Directive” (“the Directive”) sets out the requirements for the internal market for Member States regarding non-life insurance, including health insurance.<sup>2</sup> It allows individual Member States to adopt these requirements in a manner most appropriate to their particular national legal systems and national healthcare systems. The Directive was transposed into Irish law through the enactment of the Health Insurance Acts, which legislated for the four principles of private health insurance in Ireland, namely, community rating, open enrolment, lifetime cover and minimum benefit.

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

1. to advise and report to the Minister in relation to risk equalisation and to manage and administer the Risk Equalisation Scheme;
2. to maintain “The Register of Health Benefits Undertakings”;
3. to advise the Minister (either at his or her own request or on its own initiative) on matters relating to:
  - (a) his or her functions under the Health Insurance Acts;
  - (b) the Authority’s own functions; and
  - (c) health insurance generally;
4. to monitor:
  - (a) the operation of the Health Insurance Acts;
  - (b) the carrying on of 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 Health Insurance Acts.

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

<sup>2</sup> 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).

### 3.1 Regulation

#### 3.1.1 Regulatory Structure of the Market

The Irish private health insurance regulatory system is based on the key principles of community rating, open enrolment, lifetime cover and minimum benefit and aims to ensure that private health insurance does not cost more for those who need it most. The system is unfunded, meaning that there is no fund built up over the lifetime of an insured person to cover their expected claims cost. Instead, the money contributed by insured people is pooled by each insurer and the cost of claims in any given year taken from the pool.

It is in this context that the concept of community rating must be understood. This means that the level of risk that a particular consumer poses to an insurer does not affect the premium paid. In other words, everybody is charged the same premium for a particular plan, irrespective of age, gender and the current or likely future state of their health subject to exceptions in respect of children under 18 years of age, students in full time education and members of group schemes.

Open enrolment and lifetime cover mean that, except in very limited circumstances specified in legislation, health insurers must accept all applicants for health insurance and all consumers are guaranteed the right to renew their policies regardless of their age or health status.

Under the Minimum Benefit Regulations, all insurance products that provide cover for inpatient hospital treatment must provide a certain minimum level of benefits. It is considered necessary to regulate the minimum level of benefits because of the complex and specialist nature of private health insurance products, which without regulation, could result in consumers being provided with products that do not provide a sufficiently comprehensive level of cover.

#### 3.1.2 Risk Equalisation

Risk equalisation is a process that aims to equitably neutralise differences in insurers' claim costs that arise due to variations in the health status of their members. Risk equalisation involves transfer payments between health insurers to spread some of the claims costs of high-risk members amongst all the private health insurers in the market in proportion to their market share. Risk equalisation is a common mechanism in countries with community rated health insurance systems.

#### Background

The Risk Equalisation Scheme was introduced by the Minister for Health and Children (the Minister) under the Health Insurance Acts and came into force on 1 July, 2003. Under the Scheme (as amended), health insurers are required to make returns to the Authority for six month periods commencing on 1 July, 2003, i.e. the first returns related to the period from 1 July, 2003 to 31 December, 2003.

The Authority is required to evaluate and analyse the returns made to it for the purpose of ascertaining the differences, if any, in the nature and distribution of insured risks among health insurers. From that evaluation and analysis, the Authority is required to determine the risk equalisation transfers and the market equalisation percentage ("MEP"). The MEP is a measure of the significance of risk profile differences between insurers. The Authority then provides a report to the Minister giving details of the evaluation and analysis carried out (referred to in the following as the "six-monthly reports"). As well as providing details of the Authority's analysis, the six-monthly reports contain such other information and advice concerning the carrying on of health insurance business, and developments in relation to health insurance generally, as the Authority considers ought to be included.

The Authority recommended the introduction of risk equalisation payments following its evaluation and analysis of returns for the fourth period (January to June 2005). The Minister, having considered the Authority's report and submissions made to her, decided to commence payments with effect from 1 January 2006. The High Court had previously, on 30 May 2005, determined that a stay on risk equalisation payments would apply until High Court legal proceedings in relation to the legality of the Risk Equalisation Scheme had concluded. In November 2006, the High Court upheld the Scheme. However BUPA appealed the judgment to the Supreme Court. The stay on payments remains in place, pending a decision by the Supreme Court.

### *Market Developments in 2007*

In December 2006, BUPA announced that it was withdrawing from the market. It ceased selling contracts to new members and announced that it would cease renewing the policies of existing members from the beginning of February, 2007.

At the end of January 2007, BUPA and Quinn Insurance Ltd announced that it intended to purchase BUPA's Irish business. BUPA recommenced accepting new members and renewing the contracts of existing members until Quinn Insurance Ltd (trading as Quinn Healthcare) was added to the Register of Health Benefits Undertakings on 13 April 2007. The scheme of transfer took place on 31 July 2007 when all of BUPA's Irish policyholders were transferred to Quinn Healthcare. Claims incurred prior to that date remained to be settled by BUPA.

### *Legislative Changes*

When Quinn Healthcare announced that it planned to purchase BUPA's Irish business, it stated that it considered that it would be entitled to avail of the three year exemption from risk equalisation payments that was allowed for new entrants. The Authority wrote to the Minister advising that, if Quinn Healthcare's interpretation were correct, significant risks would arise for the health insurance framework and that the consequences would not be in the interests of health insurance customers generally. The Authority also wrote to the Department of Health and Children concerning methods by which sellers of health insurance could change underwriters on a regular basis to avail of the temporary exemption from risk equalisation payments. The Authority recommended that appropriate steps be taken to address these issues.

In February 2007, the Health Insurance (Amendment) Act 2007 was enacted. The stated objectives of this Act were to remove the three year exemption from risk equalisation payments that applied in respect of new entrants to the market and to put beyond doubt that the Risk Equalisation Scheme is to apply to registered undertakings that cease to be registered.

Following the enactment of the 2007 Act, the Department of Health and Children consulted with the Authority in relation to how the Risk Equalisation Scheme should be amended in order to reflect the amendments to the primary legislation. The Authority reviewed draft amending Schemes and provided advice to the Department. The Risk Equalisation Scheme, 2003 was amended in April 2007 through S.I. No. 220 of 2007.

Apart from allowing for the impact of the 2007 Act, the main effect of the amendments to the Scheme was to reduce the level of risk equalisation payments by multiplying calculated transfers by 80%. A number of technical amendments were also made.

The removal of the three year exemption from risk equalisation payments for new entrants, as set out in the Health Insurance (Amendment) Act 2007, is likely to increase risk equalisation transfers for new entrants in the short term. The other changes to the Scheme introduced in 2007 have resulted in a reduction of approximately 25% in the amount that undertakings paying into the Scheme will be required to pay in the medium to long term. Taken as a whole, the changes increase the regulatory advantage held by insurers with lower risk profiles.

### *Legal Proceedings*

There are four ongoing sets of court proceedings, as follows:

- 1 In May 2005, BUPA commenced High Court proceedings in relation to the validity of the Risk Equalisation Scheme. The High Court dismissed the claim in November 2006. In its judgment, the High Court stated that “within the statutory framework of the Irish system, this market is potentially unstable without risk equalisation. Moreover it (The Risk Equalisation Scheme) is fair, reasonable and proportionate”. In January 2007, BUPA lodged an appeal to the Supreme Court against the High Court decision. This appeal was heard in November 2007. Judgment is awaited.
- 2 In January 2006, BUPA sought a judicial review challenging the October, 2005 recommendation of the Authority and the December, 2005 decision of the Minister to commence risk equalisation payments. The Authority is a respondent in these proceedings and has filed two affidavits refuting BUPA’s claims. These proceedings have yet to be heard.
- 3 In May, 2007 Quinn Healthcare commenced proceedings in the High Court challenging the Health Insurance (Amendment) Act, 2007.
- 4 In July 2007 Quinn Healthcare was granted leave for a judicial review of the validity of the Risk Equalisation Scheme. While the Authority is named by Quinn Healthcare as a respondent in these proceedings, Quinn Healthcare does not impugn any action of the Authority. Instead, Quinn Healthcare challenges the legislation. As such, the Authority has to date, taken only a limited part in these proceedings.

BUPA also challenged a decision by the European Commission that the Irish Risk Equalisation Scheme does not constitute a State Aid. This case was heard in the European Court of First Instance. In February 2008, the Court dismissed BUPA’s claim stating that “such a mechanism [as the Irish Risk Equalisation Scheme] is a necessary and proportionate means of compensating the insurers required to cover, at the same price, all persons living in Ireland, independently of their state of health”.

### **Risk Equalisation Reports Submitted in 2007**

#### *Report following the analysis of returns received in January 2007*

The seventh set of returns from insurers, which was for the period 1 July 2006 to 31 December 2006, was received by the Authority at the end of January 2007. From the evaluation and analysis of those returns, the Authority determined that the Market Equalisation Percentage (MEP)<sup>3</sup> was 5.6%. This is the second period for which payments under the Scheme are due. Under the Scheme, payments are phased in for the first year, the phasing factor being 50%.

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<sup>3</sup> The Market Equalisation Percentage (MEP) is a measure of the significance of risk differentials between insurers.

The Authority reported to the Minister on these returns in April 2007. Taking phasing into account, the amounts each insurer is due to receive from/(contribute to) the Risk Equalisation Fund for the period July to December, 2006 are as follows:

|                                   |               |
|-----------------------------------|---------------|
| BUPA Ireland:                     | (€11,816,613) |
| ESB Staff Medical Provident Fund: | €818,002      |
| Vhi Healthcare:                   | €10,998,611   |
| VIVAS Health                      | €NIL          |

*Report following the analysis of returns received in July 2007*

The eighth set of returns from health insurers for the period 1 January 2007 to 30 June 2007 was received by the Authority at the end of July 2007.

The Authority reported to the Minister on these returns in October 2007. The amounts each insurer is due to receive from/(contribute to) the Risk Equalisation Fund for the period are as follows:

|                                  |               |
|----------------------------------|---------------|
| BUPA Ireland                     | (€13,125,807) |
| ESB Staff Medical Provident Fund | €883,635      |
| Quinn Healthcare                 | (€1,279,093)  |
| Vhi Healthcare                   | €13,521,265   |
| VIVAS Health                     | €NIL          |

As a new entrant, VIVAS Health was exempted from making risk equalisation payments for three years. January to June, 2007 was the last period for which VIVAS Health was exempt from making risk equalisation payments.

From its evaluation and analysis of those returns, the Authority determined that the MEP was 4.7%. This decline in the MEP is a normal pattern for the first half of the year. The chart below shows the trend in the MEP over the eight periods for which returns have been received.

MEP for the eight periods for which returns have been received\*



\*MEP Results for Jan-June 2007 time period are based on the new legislation

### 3.1.3 The Register of Health Benefit Undertakings

The Authority is responsible for 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.

Application for renewal of registration is required on an annual basis. Upon Registration, a certificate is issued to the health insurer, confirming that the insurer may offer private health insurance in accordance with the terms of its rules and with the relevant legislation.

There are two types of health insurance undertaking in Ireland. Open membership undertakings are health insurers that must accept all consumers who wish to obtain private health insurance (subject to certain limited restrictions as specified in the legislation). The restricted membership undertakings are mainly vocational schemes, membership of which is restricted to employees of particular organisations.

Following its announcement that it intended to purchase BUPA's Irish operations, Quinn Insurance Ltd informed the Authority of its intention to be included on the Register. Quinn Insurance Ltd (trading as Quinn Healthcare) applied to be included on the Register when it received the appropriate authorisation from the Financial Regulator and it became a registered undertaking on 13 April, 2007.

Two restricted membership undertakings, Health Shield Friendly Society Limited and Royal & Sun Alliance (Ireland) Staff Medical Expenses Scheme, ceased to be registered undertakings during 2007.

Undertakings on “The Register of Health Benefits Undertakings” at 31 December 2007 are listed in *Appendix B*.

### 3.1.4 Monitoring Compliance with the Health Insurance Acts

The Health Insurance Acts, *inter alia*, regulate the terms under which health insurance products are provided to consumers. The Authority monitors the operation of the health insurance market and the products of registered undertakings for compliance with the health insurance legislation.

There has been a proliferation in the number of health insurance products sold in Ireland. In 1996 there were five health insurance products provided by Vhi Healthcare; by 2003 the number of products being sold by the open membership insurers had grown to 18. There are now in excess of 100 products being sold by the open membership insurers. Product development in 2007 has primarily been to provide cover for new hospitals, additional outpatient benefits and improved maternity benefits.

A trend has also developed to provide special offers in the marketing of health insurance, such as providing a discount on other products to people who purchase health insurance or providing a discount to those who purchase insurance on specific dates. In relation to the latter form of special offer, the Authority advised the Department that special offers of this nature benefit consumers by contributing to competition and innovation in the market. However, the Authority also advised that community rating may be undermined if special terms are marketed and structured in such a way that only a subgroup of the population are aware of the terms and are in a position to avail of them. The Authority advised that, in its view, special offers of this nature are likely to continue and, if not marketed openly, could prove a threat to community rating, particularly in the absence of effective risk equalisation payments.

## 3.2 Research and Advice

### 3.2.1 Competition Report

In January 2006, the Minister for Health and Children requested that the Health Insurance Authority and the Competition Authority report on “*further measures to encourage competition in the private health insurance market and the strategy or strategies which might be adopted in order to create greater balance in the share of the market held by competing insurers.*” The Competition Authority and the Health Insurance Authority worked closely together in the preparation of their reports. The Health Insurance Authority submitted its Report to the Minister in January 2007. The Competition Authority also submitted a report to the Minister in January 2007.

The Health Insurance Authority’s Report contains an assessment of whether impediments to competition exist using the main benchmarks of competition policy; for instance, barriers to entry and barriers to rivalry. The Report considers buyer power, market power and market structure and also considers relevant international comparisons.

A conclusion of the Report is that the necessary regulations for the maintenance of a community rated market have an impact on competition, but one that is fair and proportionate and that facilitates competition between insurers. Nevertheless, the Irish market is concentrated and there are a number of measures recommended in the Report designed to benefit consumers by encouraging greater competition in the market.

A primary objective of the Report’s recommendations is to bring about a situation as soon as possible that all health insurers operate under the same regulatory framework. To this end, a number of recommendations are aimed at facilitating Vhi Healthcare becoming an authorised insurer, regulated by the Financial Regulator and required to achieve solvency levels specified in insurance legislation.

The recommendations in the Report are made in the context of effective risk equalisation payments being made and in the absence of such payments, many of the recommendations would not be feasible.

### Other Reports on Competition in the Health Insurance Market Published in 2007

Apart from the Report of the Health Insurance Authority, two other reports on the private health insurance market that were produced at the request of the Minister for Health and Children were published in 2007. As noted above the Competition Authority submitted its Report in January 2007.

Following the announcement by BUPA Insurance Ltd that it intended to exit the Irish market, the Minister established a three person group (the Barrington Group) to examine whether “it is possible for current and prospective participants in the health insurance market to earn a return on capital employed which would be regarded as adequate for the insurance industry”. This Group reported in March, 2007. In accordance with its statutory function to advise the Minister, the Authority examined the Barrington Group’s Report and set out its views in relation to the Report in a letter to the Minister in June, 2007.

### Government's announcement of health insurance reforms

In April 2007, following consideration of the Reports of the Health Insurance Authority, the Competition Authority and the Barrington Group, the Government announced a number of measures aimed at creating a level playing field and enhancing consumer choice. The measures include additional tasks for the Authority. In particular, the Authority was asked to undertake the following work:

- Consider the compatibility of age-related waiting periods with equality legislation
- Consult with insurers in relation to the inclusion of a clear statement on consumer rights with the annual renewal notices issued by insurers
- Consider the nature of the legislative changes that would be required to provide the Authority with the additional functions recommended by the Authority and by the Competition Authority in their respective competition reports
- Initiate a process of consultation on defining the level of health insurance which should be subject to community rating
- Examine the feasibility of a prospective risk equalisation scheme.

The work done in 2007 in relation to each of these projects is set out below.

#### *Compatibility of Age Related Waiting Periods with Equality Legislation*

The Authority consulted insurers in relation to this matter and provided its advice to the Department in August. In its advice, the Authority noted that the Health Insurance Acts do not require insurers to vary waiting periods by age. The advice also noted that age related waiting periods may be permissible under the terms of equality legislation but only where certain detailed conditions are met.

#### *Statement of Consumer Rights*

In consultation with the insurers, the Authority drafted a standardised statement on consumer rights. The statement outlines consumer rights in relation to community rating and in relation to renewing and switching health insurance policies. All open membership insurers have agreed to include the statement with renewal notices for all policies renewing on or after 1 September 2008.

#### *Consideration of Additional Functions for the Authority*

In its report on Competition in the Private Health Insurance Market, the Authority recommended that the Minister amend the Health Insurance Acts to provide the Authority with the power to direct that a health insurance undertaking alter its practices or its products to comply with the provisions of the Acts. The Authority also recommended that it be provided with a function to take such action as it considers appropriate to increase awareness among members of the public of their rights as health insurance consumers and of available health insurance services. Following a request from the Minister, the Authority considered the nature of the legislative amendments that would be required in order to provide it with these functions. The Authority provided detailed advice to the Minister in February, 2008, suggesting that the proposed functions would be provided for in a similar way to analogous functions of other regulators.

### *Consultation in relation to the level to which community rating should apply*

Terms of reference for this study were agreed with the Department of Health and Children. The terms of reference include consideration of international markets and a wide consultation process. The Authority appointed FGS McClure Watters and their specialist partner, York Health Economics Consortium, as external advisers to provide support in relation to this project. Work in relation to the study is ongoing and the Authority intends to finalise its report on this matter in late 2008.

### *Study in relation to prospective risk equalisation*

The terms of reference for this study also include consideration of international markets and a wide consultation process. With the assistance of insurers, the Authority identified a number of relevant markets where prospective risk equalisation schemes are or have been applied. Reports on these markets have been prepared by the Authority's actuarial advisers and these reports will inform the consultation process. The Authority intends to Report on this study in late 2008.

### **3.2.2 Legislation**

The main legislative sources of regulation of private health insurance in Ireland are the Health Insurance Acts, 1994-2007, EU Non-Life Insurance Directives, as transposed into Irish law, the Voluntary Health Insurance Acts, the Insurance Acts, and the Central Bank and Financial Services Authority of Ireland Acts. The bodies responsible for the regulation of private health insurance in Ireland are The Health Insurance Authority and the Financial Regulator.

The Authority monitors, on an ongoing basis, developments in the areas of both domestic and EU legislation that deal with health insurance and connected matters, such as insurance and competition. The Authority has also advised the Minister and her officials on the effects in the health insurance market of various detailed provisions of the health insurance legislation and the potential effects in the market of possible amendments to some provisions of the legislation.

### **Vhi (Amendment) Act, 2008**

The Vhi (Amendment) Act 2008 was introduced in the Seanad in April, 2007. The purpose of the Act is to confer additional functions on Vhi Healthcare with a view to obliging Vhi Healthcare to apply for an authorisation as a non-life insurer from the Financial Regulator. The provisions of the Act are consistent with the advice included in the Authority's Report to the Minister on Competition in the Irish Private Health Insurance Market.

The Department of Health and Children and the Department of Finance engaged consultants to report on authorisation and ownership options for Vhi Healthcare. The Authority met with the consultants in order to discuss issues relevant to the project. The Act also provides for amendments to the Health Insurance Acts and the Authority provided advice to the Department in relation to these amendments.

### *Hospital Cash Plans*

Clause (c) in the definition of a health insurance contract in the Health Insurance Acts excludes some types of contracts of insurance provided by two cash plan providers from the definition. Competition policy issues arise in respect of the exclusion and these have been raised by companies that would not be entitled to avail of it. The Authority advised the Department of Health and Children that this matter should be addressed. A clause was subsequently included in the Vhi (Amendment) Act, 2008 to repeal clause (c) in the definition of a health insurance contract in the Health Insurance Acts.

The Authority and the Department of Health and Children held discussions regarding the definition of a health insurance contract and the Authority met with the two cash plan providers entitled to the exemption from the definition in order to discuss the impact of repealing the exemption. The Authority also provided advice to the Department regarding related amendments that were included in the Vhi (Amendment) Act, 2008.

### **Lifetime Community Rating**

Lifetime community rating is a system whereby insurers may charge a higher premium to those who take out health insurance for the first time later in life. Under lifetime community rating a 70 year old person who has been insured since the age of 30 would pay the same premium as a 30 year old but a 70 year old who was not previously insured could be charged a higher premium. The Authority considers that the introduction of lifetime community rating would reduce adverse selection in the market.

The Health Insurance Acts provide for the introduction of Regulations establishing a system of lifetime community rating in Ireland. In 2007, the Authority provided advice to the Department of Health and Children in relation to the drafting of such Regulations and had discussions with Department officials in this regard. The Minister has circulated draft Regulations to the insurers for consideration.

### **Open Enrolment**

In view of the proposed introduction of Lifetime Community Rating, it is also proposed that the Open Enrolment Regulations will be amended to remove the provisions allowing for waiting periods to vary with age at entry. The Authority has provided advice to the Department of Health and Children in relation to the drafting of such Regulations and draft Regulations have been circulated to insurers for consideration.

### **Minimum Benefits**

The Authority monitors compliance with the Minimum Benefit Regulations, which are important for the effectiveness of community rating and for consumer protection.

In its 1999 White Paper on Private Health Insurance, the Government indicated its intention to amend the current system of minimum benefits. In 2005, the Authority recommended that the system of minimum benefits should be simplified in a submission to the Department of Health and Children. In its Report to the Minister on *Competition in the Irish Private Health Insurance Market*, the Authority recommended that the Minimum Benefit Regulations should be amended by simplifying them, removing some restrictions on what insurers can offer and removing references to monetary values as far as possible.

### 3.2.3 Research on the Health Insurance Market

In 2007 the Authority commissioned Insight Statistical Consulting (Insight) to carry out a qualitative and quantitative research study of the private health insurance (PHI) market in Ireland with the following specific requirements:

- Provide a clearer perspective of the private health insurance market, including;
  - attitudes of consumers towards the private health insurance market,
  - information on the role of employer-based group schemes,
  - consumer knowledge of the private health insurance market,
  - switching behaviour of private health insurance consumers,
  - motivations for purchasing private health insurance, and
  - reasons why non-consumers are not covered and the conditions under which they may enter the market.
- identify key trends over the three surveys conducted in 2002, 2005 and 2007,
- identify effects of recent changes in the health insurance market (e.g. acquisition of BUPA Insurance Ltd's Irish operations by the Quinn Group, commencement of risk equalisation).

In order to address these requirements, the following main research activities were undertaken;

- A national face-to-face survey of 1,000 adults (consumer survey),
- An employer survey of 200 administrators of private health insurance group schemes within large organisations operating within the Republic of Ireland (employer survey),
- A qualitative research programme comprising 6 consumer focus groups and 4 in-depth interviews of persons responsible for administering the private health insurance scheme within a large organisation.

A report on the research was provided to the Minister in April, 2008. The report showed that the market shares of the newer entrants to the market (Quinn Healthcare and VIVAS Health) continue to increase. The research also showed that consumers value their health insurance cover highly and that there is a high and growing level of satisfaction among consumers with regard to health insurance.

### 3.2.4 Monitoring the Health Insurance Environment

The Authority also monitors general issues relevant to the health insurance market, for instance related legislation, medical inflation, developments in the healthcare market in Ireland and in international healthcare and health insurance systems. As well as monitoring health insurance products being sold in Ireland, the Authority monitors other products that may have an impact on the private health insurance market, such as hospital cash plans.

### 3.3 Consumer Services

The interests of consumer are of key importance to the Authority. The Authority assesses the effect of any regulations or new legislation on consumers. The Authority also aims to increase consumers' awareness of their rights and to assist them in comparing and understanding health insurance products. Under its function to monitor the operation of health insurance business, the Authority monitors the provision of information to consumers by insurers as well as monitoring compliance with the Health Insurance Acts.

#### 3.3.1 Consumer Queries and Complaints

The Authority assists consumers by answering queries regarding health insurance and by assisting them in resolving complaints against insurers. In 2007, the volume of queries and complaints more than doubled, rising to nearly 600.

Topics that were frequently raised with the Authority were:

- General queries regarding private health insurance
- Rights in relation to switching insurers
- The service standards of insurers
- Waiting periods
- Requests for the Authority's information publications.

During 2007, the Authority intervened successfully on behalf of consumers in relation to problems they were encountering with their insurance. Two examples of the types of cases addressed by the Authority are set out below.

##### *Case Study 1:*

Some consumers became concerned when a member of their insurer's customer care team advised them that cover was no longer available for the neo-natal unit in the maternity hospital they would shortly be attending. The telephone call that they received from the insurer was the first notification that they had received in relation to this matter.

The Authority contacted the insurer and enquired how the insurer proposed to reduce the terms of the consumers' contract mid-term. The insurer responded that cover had not been withdrawn, but that a miscommunication had resulted between management and the customer care agents due to a change in the direct payment arrangement between the insurer and the hospital. All affected consumers were contacted by the insurer and advised of the situation.

### *Case Study 2:*

A consumer had been advised that her waiting periods had been waived upon joining her employer's health insurance scheme. Upon leaving employment with this company she continued her individual contract with the insurer. Subsequently, she was informed that her waiting periods had been reapplied when she discontinued that employment.

The Authority argued that the terms and conditions of a contract could not be altered due to a change in the insured's employment, or altered during the policy year. The insurer responded by acknowledging a mistake had been made during their previous correspondence and stated that it was their practice to honour such agreements irrespective of whether the customer had left the original group scheme or not. The consumer was duly informed and was satisfied with the outcome.

### **3.3.2 Consumer Information Campaign**

In December 2005, the Minister for Health and Children requested that the Authority give consideration to the question of improving consumer awareness of their rights to move between insurers under the existing regulatory framework and to take steps to highlight the portability rights of the insured.

The Authority undertook a campaign in the print and broadcast media to highlight the portability rights of private health insurance. A copy of the print advertisement used in the campaign is included in Appendix C.

The Authority's information leaflets were also revised and redesigned. The new brochures were released in January 2008.

### **3.3.3 Website**

In 2007, the Authority redesigned its website in order to improve accessibility for users, particularly in the area of consumer information. In addition, the content of the website was revised to further aid consumers and users of the website in understanding health insurance products and in selecting the most appropriate product for their circumstances. The Authority also publishes a regularly updated table providing summary details of products in the market in a consumer friendly format.

## 4. Corporate Affairs

### 4.1 Strategy

The Authority was established as an independent regulator for the private health insurance market in Ireland. In fulfillment 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:

- monitor and research health insurance generally
- make recommendations on the implementation or otherwise of risk equalisation and managing and administering any risk equalisation scheme
- advising the Minister on health insurance generally
- implement other relevant regulations as prescribed
- safeguard 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.

### 4.2 Corporate Governance

#### Corporate Governance Code of Practice

The Authority prepared a “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 is compliant in developing and enforcing all appropriate corporate governance procedures and guidelines and updates the Code of Practice as appropriate in line with relevant guidelines and legislation.

### **Ethics in Public Office**

The Authority is included in Statutory Instrument No. 699 of 2004 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.

### **Annual Report and Accounts**

The Annual Accounts for 2007 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 5. The Authority adheres to corporate governance documentation issued by the C&AG in 2003 setting out guidelines and standards for submission of accounts for audit.

### **Official Languages**

The Authority is compliant with the Official Languages legislation and maintains contact with the Department of Community, Rural and Gaeltacht Affairs in this regard.

### **Freedom of Information**

The Health Insurance Authority came within the scope of the Freedom of Information Act with the passage of the Freedom of Information Act 1997 (Prescribed Bodies) Regulations 2006, effective from May 31, 2006.

In addition to processing requests made under the Freedom of Information Acts as they are received, the Authority published two booklets, “A Guide to the Functions of and Records Held by the Authority” and “A Guide to the Rules, Procedures, and Practices of the Authority”, which together guide applicants through the Freedom of Information process. The guides are compiled in accordance with the Freedom of Information Acts and are published on the Authority’s website.

### **4.3 Relationship with Stakeholders**

Throughout 2007 the Authority has endeavoured to maintain appropriate 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. These stakeholders include consumers, insurers, professional bodies and other regulators.

### **Communications Strategy**

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.

#### 4.4 Resources

##### Staff

The Authority has sanction for nine staff.

##### Funding

The operations of the Authority are funded by a levy on registered undertakings in accordance with Section 17 of the Health Insurance Act, 1994<sup>4</sup>. The levy regulations introduced by the Minister in 2001 set the rate to be paid at 0.14% of premium income of registered undertakings, which is payable on a quarterly basis. Registered undertakings are also obliged to submit details of premium income and numbers of insured persons. These statistics are summarised in Appendix A. The Register of Health Benefits Undertakings as at 31 December, 2007 is set out in Appendix B.

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

The background of the page is an abstract composition of overlapping, curved shapes in various shades of green and olive. The colors range from light, pale greens to darker, more saturated olive and forest green tones. The shapes are layered, creating a sense of depth and movement. The overall effect is clean, modern, and organic.

Accounts 2007

## 5. Report and Accounts

*for the year 1 January 2007 to 31 December 2007*

### 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 2007.

### Contents

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## Authority Information

### Members of the Authority

J. Joyce (Chairman), *term commenced February, 2006*

Dónall Curtin, *term commenced April, 2006*

Mary Doyle, *reappointed February, 2006*

Aidan O'Donnell, *reappointed February, 2006*

Paul Turpin, *term commenced October, 2007*

### Chief Executive/Registrar

Liam Sloyan

### Secretary

Nora Rahill

### Bankers

AIB plc.

40/41 Westmoreland Street

Dublin 2

### Auditors

Comptroller and Auditor General

Dublin Castle

Dublin 2

### Offices

Canal House

Canal Road

Dublin 6

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

I have audited the financial statements of the Health Insurance Authority for the year ended 31 December 2007 under the Health Insurance Act 1994.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the Statement of Accounting Policies, the Income and Expenditure Account, the Balance Sheet and the related notes.

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

The Authority is responsible for preparing the financial statements in accordance with the Health Insurance Act 1994, and for ensuring the regularity of transactions. The Authority prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Members of the Authority are set out in the Statement of Responsibilities of the Authority.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report my opinion as to whether the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland. I also report whether in my opinion proper books of account have been kept. In addition, I state whether the financial statements are in agreement with the books of account.

I report any material instance where moneys have not been applied for the purposes intended or where the transactions do not conform to the authorities governing them.

I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

I review whether the Statement on Internal Financial Control reflects the Authority's compliance with the Code of Practice for the Governance of State Bodies 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. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with 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 International Standards on Auditing (UK and Ireland) 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 and regularity of the financial transactions included 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 in order 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Authority's affairs at 31 December 2007 and of its income and expenditure for the year then ended.

In my opinion, proper books of account have been kept by the Authority. The financial statements are in agreement with the books of account.



**Gerard Smyth**

*For and on behalf of the Comptroller and Auditor General*

23 June 2008

## Statement on the system of Internal Finance Control

Statement 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” approved by the Government 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 that assets are safeguarded, transactions authorised and properly recorded and any material errors or irregularities are either prevented or would be detected in a timely manner.
- 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 CE”) 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 CE and staff are responsible for operational matters. The CE 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 implements a set of financial procedures setting out the financial instructions, notes of procedures and delegation practices. The Audit Committee reviews the management accounts, annual financial statements, budgeting and financial procedures generally. The Committee met to review the financial matters relating to the year 2007. Consultants have been engaged in key areas where such services were deemed appropriate including accountants and internal audit consultants.

The Authority has 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.

The Authority carried out an internal audit review of the Authority and its business in October 2006. 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.

### **Annual Review of Controls**

I confirm that in respect of the year ended 31 December 2007, the Authority conducted a review of the effectiveness of internal financial control.

Signed on behalf of the Members of the Authority

A handwritten signature in dark green ink, appearing to read 'J. Joyce', is positioned above the printed name and title.

**J. Joyce**  
*Chairman*

## 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.



**J. Joyce**  
*Chairman*



**Aidan O'Donnell**  
*Member*

12 June 2008

## 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 collected by the Authority 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 $\frac{1}{3}$ % 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 equivalent to a defined contribution scheme, from its point of view, and it has accounted for it accordingly.

### General Reserve

As the Authority's role as the regulator and advisor of the Irish Health Insurance Market develops, the potential for additional costs arising from exceptional circumstances increases. It is anticipated that any liability materialising in this instance will be met by the General Reserve.

## Financial Statements

### Income and Expenditure Account

for the year ended 31 December, 2007

|   | Notes | 12 months<br>ended<br>31 December<br>2007<br>€ | 12 months<br>ended<br>31 December<br>2006<br>€ |
|---|-------|--|--|
| Income  | 1     | 2,069,541                                      | 1,819,334                                      |
| Administration Costs                          | 2     | (1,896,106)                                    | (1,736,876)                                    |
|   |       | 173,435  | 82,458   |
| <b>Excess of income over expenditure</b>      |       |  |  |
| Interest Receivable                           |       | 62,762   | 35,071   |
|   |       | <b>236,197</b>                                 | <b>117,529</b>                                 |
| Accumulated Surplus at beginning of<br>Period |       |  |  |
|   |       | 626,163  | 558,634  |
| Transfer to General Reserve                   | 8     | (50,000)                                       | (50,000)                                       |
|   |       | <b>812,360</b>                                 | <b>626,163</b>                                 |

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



**J. Joyce**  
Chairman



**Aidan O'Donnell**  
Member

12 June 2008

The Statement of Accounting Policies and notes 1 to 11 form part of these Financial Statements.

## Balance Sheet at 31 December, 2007

|  | Notes | 2007<br>€        | 2006<br>€        |
|--|-------|------------------|------------------|
| <b>Fixed assets</b>                                    |       |                  |                  |
| Tangible assets  | 4     | 3,699            | 5,616            |
| <b>Current assets</b>                                  |       |                  |                  |
| Bank and Cash  |       | 2,386,034        | 2,022,382        |
| Prepayments and accrued income                         | 5     | 558,128          | 494,599          |
|  |       | 2,944,162        | 2,516,981        |
| <b>Creditors (amounts falling due within one year)</b> |       |                  |                  |
| Creditors and accruals                                 | 6     | (927,606)        | (738,539)        |
| <b>Net current assets</b>                              |       | 2,016,556        | 1,778,442        |
| <b>Total assets less current liabilities</b>           |       | 2,020,255        | 1,784,058        |
| <b>Net assets</b>                                      |       | <b>2,020,255</b> | <b>1,784,058</b> |
| <b>Representing</b>                                    |       |                  |                  |
| Accumulated excess income over expenditure             | 8     | 812,360          | 626,163          |
| General Reserve  |       | 1,207,895        | 1,157,895        |
|  |       | <b>2,020,255</b> | <b>1,784,058</b> |



**J. Joyce**  
Chairman



**Aidan O'Donnell**  
Member

12 June 2008

The Statement of Accounting Policies and notes 1 to 11 form part of these Financial Statements.

## Notes

*(forming part of the financial statements)*

### 1. Income

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.

|                        | <b>2007</b>      | <b>2006</b>      |
|------------------------|------------------|------------------|
|                        | €                | €                |
| Income Levy            | 2,069,041        | 1,819,304        |
| Freedom of Information | 500              | 30               |
|                        | <b>2,069,541</b> | <b>1,819,334</b> |

### 2. Administration Costs

|   | <b>2007</b>      | <b>2006</b>      |
|---|------------------|------------------|
|   | €                | €                |
| Salaries and staff costs (including training) | 604,320          | 512,516          |
| Members' remuneration                         | 31,500           | 37,333           |
| Rent, Service Charges and Maintenance         | 126,820          | 146,939          |
| Recruitment costs                             | 9,966            | 56,013           |
| Consultancy <b>(Note 3)</b>                   | 628,745          | 720,245          |
| Insurance                                     | 47,234           | 43,756           |
| Computer and Stationery Costs                 | 20,635           | 29,731           |
| Other Administration Costs                    | 51,788           | 38,892           |
| Consumer Information                          | 357,125          | 85,263           |
| Audit   | 13,000           | 11,500           |
| Depreciation                                  | 4,973            | 54,688           |
|   | <b>1,896,106</b> | <b>1,736,876</b> |

### 3. Consultancy Costs

|                      | 2007<br>€      | 2006<br>€      |
|----------------------|----------------|----------------|
| Accountancy          | 64,273         | 71,043         |
| Actuarial Services   | 75,286         | 79,903         |
| Legal Services       | 320,092        | 505,232        |
| Public Relations     | 45,963         | 46,718         |
| Research             | 118,007        | 14,388         |
| Superannuation       | 726            | 961            |
| Translation Services | 4,398          | 2,000          |
|                      | <b>628,745</b> | <b>720,245</b> |

### 4. Tangible Fixed Assets

|                            | Computer<br>Equipment<br>€ | Office Fitting,<br>Furniture &<br>Equipment<br>€ | Total<br>€     |
|----------------------------|----------------------------|--|----------------|
| <b>Cost</b>                |                            |  |                |
| <b>At 31 December 2006</b> | 69,135                     | 330,236  | 399,371        |
| Additions during period    | 2,776                      | 280  | 3,056          |
| Disposals during period    | (6,011)                    | 0  | (6,011)        |
| <b>At 31 December 2007</b> | <b>65,900</b>              | <b>330,516</b>                                   | <b>396,416</b> |
| <b>Depreciation</b>        |                            |  |                |
| At 31 December 2006        | 65,084                     | 328,671  | 393,755        |
| Charge for period          | 3,575                      | 1,398  | 4,973          |
| Depreciation on disposals  | (6,011)                    | 0  | (6,011)        |
| <b>At 31 December 2007</b> | <b>62,648</b>              | <b>330,069</b>                                   | <b>392,717</b> |
| <b>Net Book Value</b>      |                            |  |                |
| At 31 December 2007        | 3,252                      | 447  | 3,699          |
| At 31 December 2006        | 4,051                      | 1,565  | 5,616          |

5. Prepayments and accrued income

|                | 2007<br>€      | 2006<br>€      |
|----------------|----------------|----------------|
| Accrued income | 520,708        | 457,430        |
| Prepayments    | 36,978         | 37,169         |
| Travel Cards   | 442            | -              |
|                | <b>558,128</b> | <b>494,599</b> |

6. Creditors (amounts falling due within one year)

|                                       | 2007<br>€      | 2006<br>€      |
|---------------------------------------|----------------|----------------|
| Trade creditors and accruals          | 439,122        | 412,585        |
| Pensions provision <b>(Note 7)</b>    | 436,362        | 306,258        |
| PAYE/PRSI                             | 14,451         | 19,550         |
| Professional Services Withholding Tax | 36,555         | 146            |
| Value Added Taxation                  | 1,116          | 0              |
|                                       | <b>927,606</b> | <b>738,539</b> |

## 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 to the Minister for Health and Children including employer contributions at a rate of 25% from July 2006, (16.66% previously) of pensionable pay and are charged to the Income and Expenditure Account. The Minister has agreed to reimburse the Authority in respect of benefits paid under the scheme. The following contributions are included in the heading, "Salaries and Staff Costs (including training)" (**Note 2**):

|                                  | <b>2007</b>    | <b>2006</b>    |
|----------------------------------|----------------|----------------|
|                                  | <b>€</b>       | <b>€</b>       |
| At beginning of period           | 306,258        | 221,598        |
| Employee Contributions           | 26,016         | 19,295         |
| Employer Contributions           | 106,497        | 74,056         |
| <b>Total</b>                     | <b>438,771</b> | <b>314,949</b> |
| Refunds of Contributions         | (2,409)        | (8,691)        |
| Transfers into Pension Provision | -              | -              |
| Refund Due                       | -              | -              |
| <b>At end of period</b>          | <b>436,362</b> | <b>306,258</b> |

## 8. Accumulated Surplus on Income and Expenditure Account

|                             | <b>2007</b> | <b>2006</b> |
|-----------------------------|-------------|-------------|
|                             | <b>€</b>    | <b>€</b>    |
| At beginning of period      | 626,163     | 558,634     |
| Surplus for period          | 236,197     | 117,529     |
|                             | 862,360     | 676,163     |
| Transfer to General Reserve | (50,000)    | (50,000)    |
| Retained surplus            | 812,360     | 626,163     |

**9. Capital Commitments**

There are no capital commitments for capital expenditure at 31 December 2007.

**10. Contingent Liabilities**

The Authority is involved in a number of legal proceedings which are outlined in more detail elsewhere in the Annual Report. It is confident about the outcome of these proceedings and is defending its position vigorously.

**11. Approval of Financial Statements**

The Financial Statements were approved by the Members of the Authority on 12 June 2008.

## Appendix A

Table 1:

### Statistics relating to the Private Health Insurance Market in Ireland, 2007

#### Membership <sup>(1) & (2)</sup>

|          | Total Insured Persons (000s) | Private Health Insurance coverage as % of population (2) |
|----------|------------------------------|--|
| Dec-2001 | 1,871                        | 48.2%  |
| Dec-2002 | 1,941                        | 49.2%  |
| Dec-2003 | 1,999                        | 49.8%  |
| Dec-2004 | 2,054                        | 50.4%  |
| Dec-2005 | 2,115                        | 50.6%  |
| Dec-2006 | 2,174                        | 50.9%  |
| Dec-2007 | 2,245                        | 51.2%  |

#### Premium Income

| Year | Total Income (€m) |
|------|-------------------|
| 2002 | 821.9             |
| 2003 | 978.2             |
| 2004 | 1,061.1           |
| 2005 | 1,152.7           |
| 2006 | 1,236.2           |
| 2007 | 1,477.8           |

#### Notes

(1) All figures relate to the total private health insurance market, i.e. open enrolment and restricted undertakings.

(2) Population figures are based on CSO population estimates and interpolation/extrapolation.

## Appendix B

### The Register of Health Benefits Undertakings as at 31 December 2007

#### Open Membership Undertakings

1. BUPA Insurance Limited
2. Quinn Insurance Limited (trading as Quinn Healthcare)
3. The Voluntary Health Insurance Board (trading as Vhi Healthcare)
4. VIVAS Insurance Limited (trading as VIVAS Health)

#### Restricted Membership Undertakings

1. CIE Clerical Staff Hospital Fund
2. ESB Marina Staff Medical Provident Fund
3. ESB Staff Medical Provident Fund
4. Irish Life Assurance Plc Outdoor Staff Benevolent Fund
5. Irish Life Medical Aid Society
6. Motorola Medical Aid Society
7. New Ireland/Irish National Staff Benevolent Fund
8. Prison Officers' Medical Aid Society
9. St. Pauls Garda Medical Aid Society
10. The Goulding Voluntary Medical Scheme

## Appendix C

### Print Advertisement used in the Consumer Information Campaign



# Your health insurance needs may change.

**That's why you have the right to change plan, whenever you want.**

There are all kinds of reasons why you might want to change your current health insurance plan. Maybe your cover isn't quite what you need anymore or you could find a lower premium. Whatever the reason, under Irish law you can change your health insurance provider whenever you like, **without penalty.**

The Health Insurance Authority is an independent regulator that helps consumers compare their options and understand their rights regarding health insurance.

Visit [www.hia.ie](http://www.hia.ie) to find out more.

**The Health Insurance Authority**  
Canal House, Canal Road, Dublin 6  
T: 01 406 0080 E: [info@hia.ie](mailto:info@hia.ie)  
[www.hia.ie](http://www.hia.ie)

THE HIA IS AN INDEPENDENT STATUTORY REGULATOR FOR HEALTH INSURANCE IN IRELAND



THE HEALTH INSURANCE AUTHORITY



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