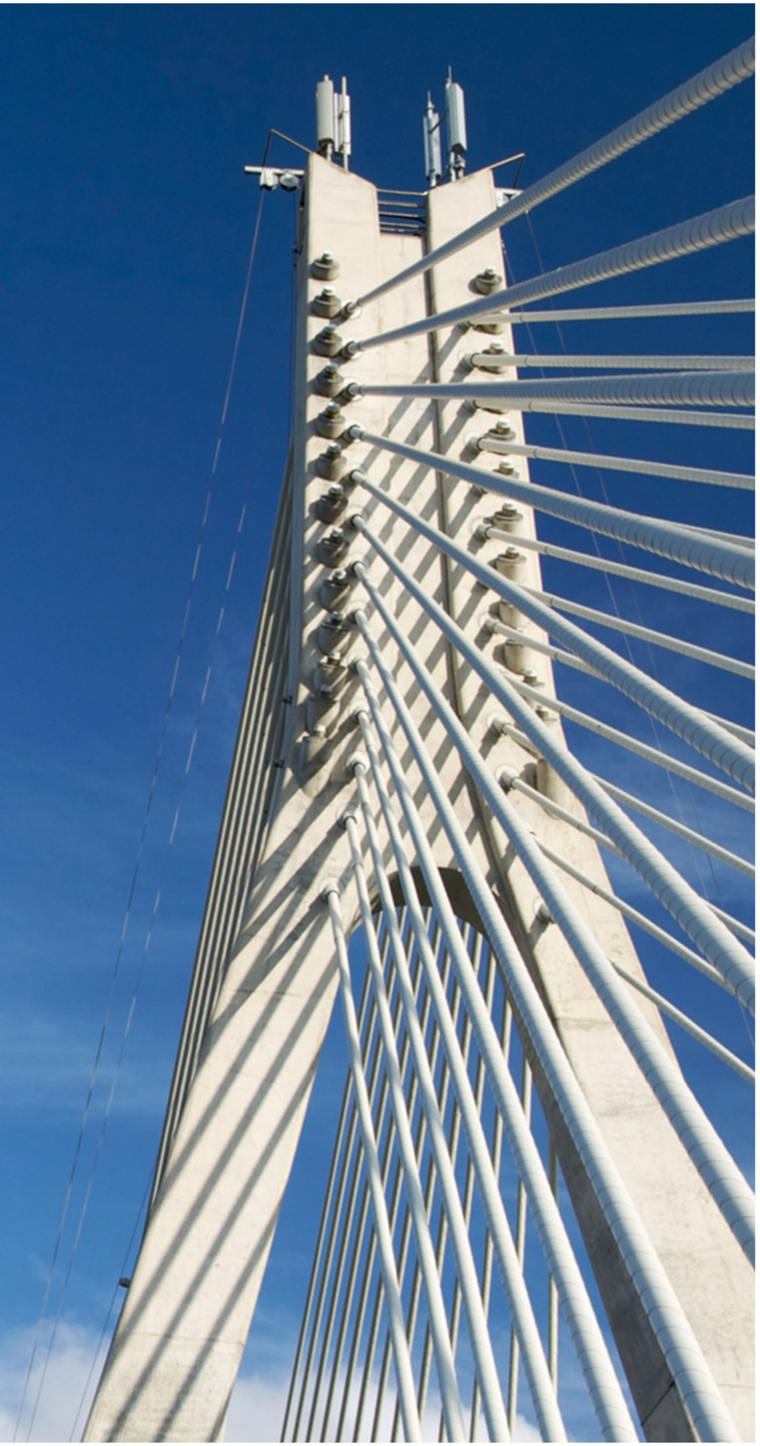
KPMG

The Health Insurance Authority

Overcompensation Assessment Conclusion for the period 1 January 2019 to 31 December 2021

28 June 2022



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28 June 2022

Dear Joanne

Overcompensation Assessment Methodology

The Health Insurance Authority ('HIA' or the 'Authority') is required to carry out an overcompensation assessment according to Section 7F of the Health Insurance Acts 1994 to 2021. In particular, the Authority is required to do evaluations and analysis and make determinations according to that section of the Health Insurance Acts for the purposes of the overcompensation assessment.

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

You requested us to assist you by developing and applying a methodology and approach that could be used in performing the overcompensation assessment.

- The first phase set out a detailed methodology of how it is proposed to calculate reasonable profit and apply it in any determination by the Authority as to whether a registered undertaking has made a profit which is in excess of the reasonable profit in respect of a period. The details of the methodology are set out in document "Overcompensation Assessment Methodology", dated 6 December 2018.
- The second phase of the assessment process entail performing and reporting back our conclusions for the assessments performed for the appropriate time periods ending in the previous 31 December as provided for in section 7F of the Health Insurance Acts 1994 to 2021.

This report represents our fourth overcompensation assessment covering the period 1st January 2019 to 31st December 2021.

The methodology used within this report does not allow for the requirements of:

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

both of which came into effect 1 April 2022, as these Regulations apply to reporting periods following the period of assessment considered in this report.

There are a number of important limitations and assumptions which should be borne in mind when considering the results contained in this report. These are outlined in further detail in Section 1.2. This report should be read in full, as any part read in isolation may be misleading. This report has been written on the assumption that readers are technically competent in health insurance matters. Judgements as to the conclusions drawn in this report should be made only after studying the report in its entirety. We assume that users of this report will seek explanation and/or amplification of any part of the report which is not clear.

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

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

Yours faithfully

Brendan McCarthy
Director, KPMG

Brian Morrissey
Partner, KPMG

KPMG

Contents

1. Executive Summary

1.1 Introduction

- The Health Insurance Authority ("Authority") was established in 2001 and is the statutory regulator of the private health insurance market in Ireland with regard to the Health Insurance Acts 1994 to 2021[1]. All private health insurance providers must be registered with the Authority.

- The Authority is independent in the exercise of its functions which primarily include:
  - Monitoring the operation of health insurance business in Ireland;
  - Performing certain functions in relation to risk equalisation including to advise on the risk equalisation system and to manage and administer the Risk Equalisation Fund ('the Fund');
  - Ensuring that consumers are aware of their rights and that publicity material describes cover in a fair and comparable way;
  - Maintaining 'The Register of Health Benefits Undertakings' and 'The Register of Health Insurance Contracts'; and
  - Monitoring the operation of the Health Insurance Acts and where appropriate, to issue enforcement notices to enforce compliance with the Acts or take prosecutions.

- Risk equalisation was introduced by the Irish Government in 2003. Risk equalisation aims to reduce or eliminate expected differences in insurers' claims costs that arise due to variations in known risk factors of the insurers' customers. It involves transfer payments between a Risk Equalisation Fund and health insurers to spread some of the claims cost of the high-risk older and less healthy members amongst all the private health insurers in the market in proportion to their market share.

- In order for the Risk Equalisation Scheme ('RES') to be effective it needs to strike an appropriate balance between compensating insurers with higher levels of risk, not compensating for perceived luxury benefits and promoting efficiency so as to minimise overall claims costs.

- The operation of the RES aims to ensure that insurers are not impacted beyond the degree necessary to ensure an efficient and sustainable, community-rated private health insurance market.

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

- The EU Commission has approved the RES for the period January 2016 to December 2020 (which received an extension approval ahead of the approval of RES 2022) and accepts that it is a state aid to compensate for the provision of a service of general economic interest ('SGEI') (Commission Decision SA.41702 of 29.01.2016). As such, and having regard to the 2012 SGEI Framework, the Authority is required to carry out an overcompensation assessment to determine whether a net beneficiary of the RES has made a profit which is in excess of a reasonable profit. These requirements are legislated for in section 7F of the Health Insurance Acts 1994 to 2021. These requirements are consistent with the requirements of paragraph 49 of the 2012 SGEI Framework which stipulates that a Member State must carry out regular checks, or ensure that such checks are carried out, at the end of the period of entrustment and, in any event, at intervals of not more than three years.

- The overcompensation assessment is required to be performed each year for the appropriate time periods ending in the previous 31 December as provided for in section 7F of the Health Insurance Acts 1994 to 2021.
- The methodology used within this report does not allow for the requirements of:
  - The Health Insurance Act 1994 (Preparation of Financial Statements) Regulations 2022 [S.I. 146 of 2022]; or
  - Section 7F, subsection 4A of the Health Insurance (Amendment) Act 2021 (No. 47) which provides an updated view of the definition of 'reasonable profit".

  both of which came into effect 1 April 2022, as these Regulations apply to reporting periods following the period of assessment considered in this report.
- The purpose of this report is to apply the detailed methodology from Phase 1 to calculate profit and sales according to the Health Insurance Acts and apply it in any determination by the Authority of whether a registered undertaking has made a profit which is in excess of the reasonable profit in respect of a period. This report represents our fourth overcompensation assessment covering the period 1st January 2019 to 31st December 2021.

- This remainder of this report has been structured as follows:
  - Section 2 – Overcompensation Assessment Methodology: sets out the approach / steps taken to determine whether overcompensation has occurred or not;
  - Section 3 – Determining the Net Beneficiary of the RES: sets out the approach taken to determine the net beneficiary of the RES and results of this test; and
  - Section 4 – Determination of Reasonable Profit: sets out the approach taken to calculate the profits made by the net beneficiary of the RES for the purposes of the reasonable profit assessment and the results of this test.

1.2 Reliances and Limitations

- There are a number of important limitations and assumptions which should be borne in mind when considering the results contained in this report. Some of the key limitations and assumptions are set out below. Other specific assumptions, caveats and limitations are contained elsewhere in the report. All make up an integral part of the report.

- We have relied on data provided to us by the Authority, and in turn relied on the historical statement of profit and loss and balance sheet data provided by the registered undertakings. We have not carried out any checks on the data used. We have performed some limited aggregate reasonableness checks on the final figures, but are not able to give any warranty on the quality of the data used. We have assumed that the factual material and information provided to us, both in written and verbal form, provides an accurate representation of the facts.

- Our findings are based on our agreed methodology as specified in the document “Overcompensation Assessment Methodology”, dated 6 December 2018, which was derived based on our interpretation of:
  - The Health Insurance Acts 1994 to 2017;
  - The 2012 SGEI Framework (‘European Union framework for State aid in the form of public service compensation (2011) (2012/C8/03)’); and
  - The EU Commissions decision document in relation to the 2016 RES (‘European Commission: State Aid SA.41702 (2016/NN) – Ireland Risk Equalisation Scheme’).

- This report should be read in full, in conjunction with the agreed methodology document “Overcompensation Assessment Methodology”, dated 6 December 2018, as any part read in isolation may be misleading. This report has been written on the assumption that readers are technically competent in health insurance matters, specifically those relating to risk equalisation in the context of the Irish RES. Clarification should be sought by users of the report for any part of the report that is unclear.

- This report is delivered subject to the agreed written terms of KPMG's engagement. Our report was designed to meet the agreed requirements of the Authority. Any party who chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of our report to any other party.

- In general our report would be for the benefit and information of the addressee only and should not be copied, referred to or disclosed, in whole or in part, without our prior written consent. We note that this report has been written for the purpose of meeting a statutory requirement of the Authority, namely performing an overcompensation assessment, and will be subject to Freedom of Information legislation. We understand the Authority intend to publish this report in redacted form in due course.

- Judgements as to the conclusions drawn in this report should be made only after studying the report in its entirety. We assume that users of this report will seek explanation and/or amplification of any part of the report which is not clear.

- This final written report supersedes all previous oral, draft or interim advice, reports and presentations, and that no reliance will be placed by you on any such oral, draft or interim advice, reports or presentations other than at your own risk.

2. Overcompensation Assessment Methodology

2.1 Overcompensation Assessment Methodology: Overview

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

- At a high level, the approach to performing the overcompensation assessment is as follows:

Step 1: Determining a Net Beneficiary of the RES	*Step 2: Determination of Reasonable Profit*	*Step 3: Overcompensation Assessment*
Involves determining the Net Beneficiary of the RES.	Determine if the profits made by a net beneficiary of the RES for the purposes of the reasonable profit assessment exceed a threshold of 4.4% during the assessment period.	Determine the level of overcompensation that exists where a net beneficiary is deemed to have made a profit in excess of a reasonable profit.

- Further details of the approach, the legislation background and considerations made in defining the methodology to be adopted are set out in Sections 4 – 6 of the document "Overcompensation Assessment Methodology", dated 6 December 2018.

- A description of the methodology (as set out in the document "Overcompensation Assessment Methodology") that will be used for the purposes of the overcompensation assessment for each of these steps has been included in the remainder of this section of this report. This methodology was approved by the Authority in December 2018.

- Details of the results of each of Step 1 and Step 2 are included in Sections 3 and Section 4 respectively of this report.

2.2 Overcompensation Assessment Methodology:

Step 1: Determining a Net Beneficiary of the RES

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

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

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

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

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

2.2 Overcompensation Assessment Methodology:

Step 2: Determination of Reasonable Profit

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

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

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

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

The Authority would expect that this information also be provided in respect of the 2019 and 2020 annual profit & loss accounts.

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

2.2 Overcompensation Assessment Methodology:

Step 3: Overcompensation Assessment

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

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

- Paragraph 21 of the SGEI Framework states that *"the amount of compensation must not exceed what is necessary to cover the net cost of discharging the public service obligations, including a reasonable profit"*

- The cost of discharging the public service obligation should be calculated on a basis consistent with that used to determine whether the return on sales exceeds a reasonable level of profit. For the purposes of the calculation the exclusion of reinsurance, interest and tax related items from the calculation is consistent with the return on sales metric being compared against. Additionally the impact of RES flows should be excluded from the calculation to determine the true cost in the absence of risk equalisation.

- The cost of discharging the public service obligation could then be calculated using the following accounting items:

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

- As previously noted, the Health Insurance Acts have defined a reasonable level of profit as being 4.4% return on sales. The cost of discharging the public service obligation can then be used to calculate the theoretical premium that should be charged to give a profit margin of 4.4%, i.e. theoretical premium = cost of discharging the public service obligation / (1 - 4.4%).

- The difference between this premium and the cost of discharging the public service obligation would represent the maximum level of reasonable profit than the undertaking could earn in the period without being deemed to have been overcompensated. This would be calculated in respect of each year over the three year period.

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

2.2 Overcompensation Assessment Methodology:

Step 3: Overcompensation Assessment

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

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

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

- Section 7F, Subsection (6)(b) states that *"where the Authority determines under paragraph (a) that a registered undertaking or former registered undertaking has made a profit which is in excess of a reasonable profit in respect of a period, it shall make a further determination as to the monetary equivalent amount of the profit which is in excess of the corresponding monetary equivalent amount of such reasonable profit in respect of that period."*

- For the purposes of the assessment this would equal the Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation) (as specified in Section 5.3) less the level of reasonable profit calculated as per subsection 7(a) of the Acts.

- This would be calculated in respect of each year over the three year period and considered on a cumulative basis over that time period subject to a minimum of zero.

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

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

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

3. Determining a Net Beneficiary of the RES

3.1 Determining a Net Beneficiary of the RES

Overcompensation Assessment Methodology - Step 1

- Section 7F, subsection (1) of the Health Insurance Acts requires Registered Undertakings (and former Registered Undertakings) to furnish statements of profit and loss and a balance sheet to the Authority that have been calculated using approved accounting standards and been certified by an independent accountant in such form as may be specified by the Authority.

- The information furnished to the Authority as per Section 7F, subsection (1) of the Health Insurance Act enables the Authority to determine the annual view of the relevant financial provisions (i.e. impact of risk equalisation flows) between insurers.

- This in turn enables the Authority to determine whether and which Registered Undertakings have had a net positive financial impact from the RES. For the purposes of determining a net beneficiary this assessment is required to be performed over a three year period. The period of this assessment covers the period from 1 January 2019 to 31 December 2021.

- Set out below are details of the aggregate RES flows (as furnished by the registered undertakings) in respect of reporting years 2019, 2020 and 2021. The Net RES Flow information is on an earned basis before allowance for the impact of reinsurance.

Net RES Flow €m's	Elips Insurances Ltd (Laya Healthcare)	Great Lakes Reinsurance (UK) PLC (GloHealth)*	Irish Life Health DAC	Vhi Insurance DAC	Market**
2019	[redacted]	[redacted]	[redacted]	[redacted]	5.5
2020	[redacted]	[redacted]	[redacted]	[redacted]	-33.0
2021	[redacted]	[redacted]	[redacted]	[redacted]	-23.9
Total	[redacted]	[redacted]	[redacted]	[redacted]	-51.4

** 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. However, it did not make a profit during the period 2019 to 2021 from its relevant health insurance business in the State and therefore did not make a profit during the period that was in excess of a reasonable profit. Great Lakes Reinsurance (UK) Company plc has ceased trading in the State.*

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

- Based on the above analysis it can be seen that Vhi Insurance DAC was a net beneficiary of the RES during the period 1 January 2019 to 31 December 2021. Vhi Insurance DAC had a positive cumulative net financial impact from the RES during the period 1 January 2019 to 31 December 2021 of [redacted]

- As a net beneficiary of the RES has been determined, the Authority is required to determine whether the net beneficiary has made a reasonable profit or not for the purposes of the overcompensation assessment.

4. Determination of Reasonable Profit

4.1 Determination of Reasonable Profit

Overcompensation Assessment Methodology - Step 2

- Section 7F of the Health Insurance Act sets out the requirements on the Authority in determining whether the profits made by the net beneficiary of the RES constitute a reasonable profit or not. Section 7F, subsection (6)(a) of the Health Insurance Act states that *"Where the Authority determines under subsection (5)(b) that there is a positive cumulative net financial impact on a registered undertaking or former registered undertaking in respect of a period, it shall make a determination as to whether the undertaking has or has not, in respect of that period, made a profit which is in excess of the reasonable profit in respect of that period."*

- Section 7F, subsection (4A) 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:

$$\frac{\textit{Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation)}}{\textit{Adjusted Premium (i.e. Earned premium + RES flows on a gross of reinsurance basis)}}$$

- For the 3 year period from 1 January 2019 to 31 December 2021, the return on sales has been calculating based on a weighted average of the return on sales in each of the years 2019, 2020 and 2021.

- Section 7F, subsection (3) of the Health Insurance Act requires *"registered undertaking or former registered undertaking which has furnished the Authority with information under subsection (1) shall provide the Authority with such assistance as is reasonably necessary for the due performance of the Authority's functions under this section in relation to such information".*

- Details of the adjustments required to be made to the component parts of the Profit & Loss accounts submitted to the Authority by Vhi Insurance DAC are set out in Section 3.2.

4.2 Determination of Reasonable Profit

Adjusted Profitability Measure - Approach

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

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

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure - Vhi Insurance DAC adjustments in respect of 2019 - 2021

- Set out in the following 3 slides are the adjustments made by Vhi Insurance DAC to the component part of the Profit & Loss accounts submitted to the Authority in respect of the financial years 2019 – 2021.

Period 1 January 2019 – 31 December 2019

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

** Adjustment information provided by Vhi Insurance DAC. Adjustments in respect of investment related expenses and reinsurance related items did not apply in the period.*

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure - Vhi Insurance DAC adjustments in respect of 2019 - 2021

Period 1 January 2020 – 31 December 2020

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

* *Includes [redacted] "Customer Return of Value" refunds given during 2020 due to positive COVID-19 claims experience. A more detailed Profit & Loss Account is included in Appendix 3.*

4.3 Determination of Reasonable Profit

Adjusted Profitability Measure - Vhi Insurance DAC adjustments in respect of 2019 - 2021

Period 1 January 2021 – 31 December 2021

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

** Includes [redacted] "Customer Return of Value" refunds given during 2021 due to positive COVID-19 claims experience. A more detailed Profit & Loss Account is included in Appendix 3.*

4.4 Determination of Reasonable Profit

Adjusted Premium Measure - Vhi Insurance DAC in respect of 2019 - 2021

- For the purposes of the assessment Adjusted Premium is defined as Earned premium + RES flows on a gross of reinsurance basis.
- Set out below is the adjusted premium measure in respect of Vhi Insurance DAC in respect of financial years 2019 – 2021.

P&L Item	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	[redacted]			
+ Impact of Risk Equalisation Scheme (Gross)				
Adjusted Premium	**1,522.7**	**1,581.2**	**1,666.0**	**4,769.9**

Source: Section 4.3, Slides 18 – 20.

4.5 Determination of Reasonable Profit

Return on Sales - Vhi Insurance DAC in respect of 2019 - 2021

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

$$\frac{\textit{Adjusted Profitability (i.e. before reinsurance, investment and interest effects and taxation)}}{\textit{Adjusted Premium (i.e. Earned premium + RES flows on a gross of reinsurance basis)}}$$

- Adjusted profitability is as presented in the tables in Section 4.3, i.e. total of column *"P&L Account for Purposes of Overcompensation Assessment"*

P&L Item	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	4769.9
Return on Sales	**1.0%**	**3.1%**	**4.0%**	**2.8%**

- Section 7F, subsection (4A) of the Health Insurance Acts 1994 to 2020 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)."*

- Based on the above analysis it can be seen that Vhi Insurance DAC had a return on sales, gross of reinsurance and excluding investment income, of 2.8% over the 3 year period from 1 January 2019 to 31 December 2021.

Appendices

Appendix 1: Health Insurance Act, Section 7F - Overcompensation Assessment - *Extract (Health Insurance Acts 1994 to 2020)*

(1) A registered undertaking or former registered undertaking shall, in respect of each year -

(a) maintain and furnish to the Authority (before 1 May of the next succeeding year), in such form as may be specified by the Authority, a statement of profit and loss in respect of -

(i) its relevant health insurance business in the State, and

(ii) such other health insurance services, provided by the undertaking, as may be prescribed,

(b) maintain and furnish to the Authority (before 1 May of the next succeeding year), in such form as may be specified by the Authority, a balance sheet in respect of -

(i) its relevant health insurance business in the State, and

(ii) such other health insurance services, provided by the undertaking, as may be prescribed,

and

(c) furnish to the Authority (before 1 May of the next succeeding year), such other information relating to the year as may be prescribed and, without limiting the generality of the foregoing, such information may include a statement of profit and loss and a balance sheet in respect of its relevant health insurance business in the State as it relates to those persons receiving age-related tax credits, in respect of health insurance contracts effected for any period before 1 January 2013, or receiving risk equalisation credits.

(2)

(a) A statement of profit and loss or balance sheet shall, prior to its being furnished to the Authority pursuant to subsection (1), be certified by an independent accountant in such form as may be specified by the Authority.

(b) The Minister may prescribe the bases for the calculation of costs, premia and other relevant financial data that are to be included in a statement of profit and loss or balance sheet to be furnished to the Authority pursuant to subsection (1).

(3) A registered undertaking or former registered undertaking which has furnished the Authority with information under subsection (1) shall provide the Authority with such assistance as is reasonably necessary for the due performance of the Authority's functions under this section in relation to such information.

(4)

(a) [deleted]

(b) The Authority shall take what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State, in respect of the 3 year period from 1 January 2011 to the end of 2013, as being a return on equity that does not exceed 12 per cent per annum in respect of that business for that period as calculated using approved accounting standards and having regard to the European Union Framework for State aid in the form of public service compensation (2011) (2012/C8/03) (the text of which is set out for convenience of reference in Schedule 2).

(c) Paragraph (b) shall, with all necessary modifications, apply to each relevant 3 year period as it applies to the 3 year period referred to in that paragraph.

(4A)

(a) The Authority shall take what would constitute a reasonable profit for a registered undertaking in respect of its relevant health insurance business in the State, in respect of the 3 year period from 1 January 2016 to the end of 2018, as being a return on sales, gross of reinsurance and excluding investment income, that does not exceed 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).

(b) Paragraph (a) shall, with all necessary modifications, apply to each applicable 3 year period as it applies to the 3 year period referred to in that paragraph.

Appendix 1: Health Insurance Act, Section 7F - Overcompensation Assessment - *Extract (Health Insurance Acts 1994 to 2020)*

(5) The Authority shall -

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

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

(i) [deleted]

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

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

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

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

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

(6)

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

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

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

(a) the reasonable profit,

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

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

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

Appendix 2: Glossary of Terms

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