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## Annual report 2004 - The Health Insurance Authority

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THE HEALTH  
INSURANCE  
AUTHORITY

Annual Report & Accounts '04



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Annual Report & Accounts '04



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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, 2004.

It has been a very busy year for the Authority, which, following the introduction of the Risk Equalisation Scheme (RE) 2003 the Authority was required for the first time to make recommendations to the Minister for Health and Children concerning whether or not RE payments should be commenced. The returns for the period 1 July, 2003 to 31 December, 2003 were received by the Authority in January, 2004 and considered at its meeting in early March. A final recommendation was issued to the Minister for Health and Children on 28 April, 2004, after consideration of representations from the registered insurance undertakings. The second set of returns for the period 1 January, 2004 to 30 June, 2004 was received by the Authority in July, 2004 and considered by the members at its September meeting. After receiving representations from registered undertakings the second recommendation was issued to the Minister on 27 October, 2004.

In both sets of data the distribution of risks among the undertakings as measured by the market equalisation percentage ("MEP"), lay between the 2% and 10% thresholds at which the Authority is required by legislation to make a recommendation to the Minister. The value of the MEP was 3.7% in January and 3.5% in July. While the MEP is the measure specified in the Act, having regard to the needs to maintain community rating and facilitate competition between undertakings, the Authority considers many other factors affecting the best overall interests of health insurance consumers. After taking independent advice from our actuarial advisers, due consideration of our specially commissioned reports on consumer attitudes and competition, consultations, representations and fine balancing of sometimes competing factors, on each occasion the Authority recommended to the Minister that RE payments should not be commenced. The rationale for these decisions is set out later in this report.

The year 2004 has also been of significance for the entry of a new Irish firm, VIVAS Health, to the private medical insurance market, with several types of product on offer. Along with the Irish Financial Services Regulatory Authority, the Authority was engaged in extensive discussions with VIVAS Health prior to entry. New products were also launched by the existing insurers, BUPA Ireland and Vhi Healthcare. All of these new products were examined by the Authority to ensure that they complied with the legislative requirements.

The Authority has also been active in its role in the protection of consumer interests. A consumer information campaign was mounted in national newspapers at the end of 2004 to aid the understanding and facilitate the comparison of the various products on offer from the three main insurers.

In conclusion, 2004 has been a year when the Authority has come more into the public eye, building on our strong foundations established in previous years. Considerable demands have been put upon the Members of the Authority both in terms of the number of meetings and volume and complexity of documentation to be studied. I extend my sincere thanks to all of them for their support and dedication to the RE decision making process. We have seen a change of Ministers in 2004 and I would like to thank both Mr. Micheál Martin T.D. and Ms. Mary Harney T.D. as well as officials in their Department, for their support during the year. Finally, I am sure that the Members of the Authority would wish to join me in thanking the Chief Executive/Registrar of the Authority, Mr. Dermot Ryan, and his small but dedicated staff, for the vast amount of work that they have put in on our behalf over the year.



**Professor Alastair Wood**  
*Chairman*

14 June, 2005

## 2. Membership and Staff of the Authority



**Professor Alastair Wood** (*Chairman*)  
*Professor Emeritus of Applied Mathematics*  
*Honorary Fellow of The Society of Actuaries in Ireland*

Nominated and appointed by Mr Micheál Martin T.D., Minister for Health and Children following consultation with relevant representative organisations.



**Ms. Mary Doyle**  
*Economic and Business Consultant*

Nominated and appointed by Mr Micheál Martin T.D., Minister for Health and Children.



**Mr. Tom Greene**  
*Accountant*

Nominated by the Office of the Director of Consumer Affairs and appointed by Mr Micheál Martin T.D., Minister for Health and Children.



**Ms. Anne Maher**  
*Chief Executive, The Pensions Board*

Nominated and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.



**Mr. Aidan O'Donnell**  
*Chief Actuary, Hartford Life*  
*Fellow of the Society of Actuaries in Ireland*

Nominated by the Irish Insurance Federation and appointed by Mr. Micheál Martin T.D., Minister for Health and Children.

## Management

The management team of the Authority is as follows:



**Mr. Dermot Ryan**  
*Chief Executive/Registrar*



**Ms. Imelda Gallagher**  
*Corporate Affairs Manager/Secretary to the Authority*



**Mr. Liam Sloyan**  
*Head of Compliance Services*



**Mr. Brian Turner**  
*Head of Research/Technical Services*



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### 3. Functions of the Authority

The Authority was established under Ministerial Order on 1 February, 2001<sup>1</sup> under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act, the Health Insurance (Amendment) Act, 2001 and the Health Insurance (Amendment) Act, 2003 (“the Health Insurance Acts”). 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”)<sup>2</sup> sets out the requirements for the internal market for Member States regarding non-life insurance, including health insurance. This European legislation allows individual Member States to adopt the specific requirements in a manner most appropriate to their particular national legal system and national healthcare system. This Directive was transposed into Irish law through the enactment of the Health Insurance Acts which enshrined the three principles of private health insurance, namely, community rating, open enrolment and lifetime cover.

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

1. to evaluate and analyse returns made to it under any risk equalisation regulations introduced and to prepare and furnish a report to the Minister in relation to:
  - (a) this evaluation and analysis, and
  - (b) matters concerning the carrying on of health insurance business and developments in relation to health insurance generally that the Authority considers ought to be included in the report as a result of that evaluation and analysis;
2. to carry out its role (described in detail in Section 10) in relation to the Minister’s decision whether or not risk equalisation should be commenced;
3. if risk equalisation is commenced, to manage and administer the process and establish and maintain the risk equalisation fund and also to make an annual report to the Minister evaluating the operation of the scheme for each 12 month period during which any risk equalisation payments are being made;
4. to maintain “The Register of Health Benefits Undertakings”;
5. to advise the Minister (either at their request or on its own initiative) on matters relating to:
  - (a) their functions under the Health Insurance Acts;
  - (b) the Authority’s own functions; and
  - (c) health insurance generally;
6. to monitor:
  - (a) the operation of the Health Insurance Acts;
  - (b) the carrying on of health insurance business in legislation; 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.

The Authority continues to develop and fulfil its role so that it can provide the fullest possible service to the consumer.

<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).*

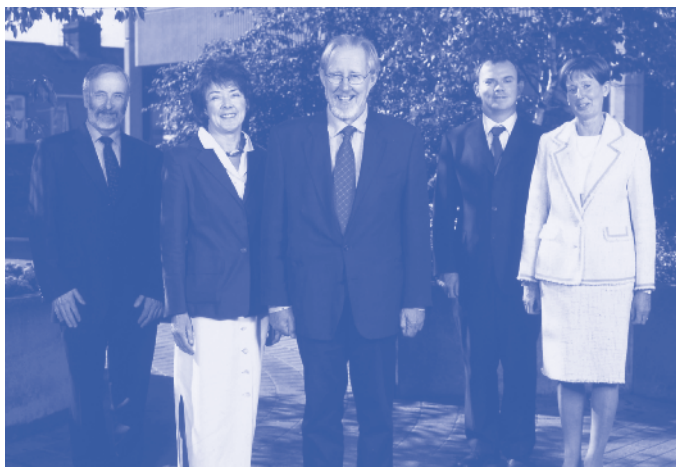
## 4. Resources

### Staff

The Authority has a complement of nine staff. Staff Members are dedicated to providing a professional service to the public and to the health insurance industry.

### 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>3</sup> A registered undertaking is the term applied to a health insurer that carries on the business of health insurance in Ireland. In order to carry on this business, the insurer must be included on "The Register of Health Benefits Undertakings" which is maintained by the Authority. 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 in their scheme. Details of the income and statistics on the health insurance market are given in *Appendix A*. "The Register of Health Benefits Undertakings" as at 31 December, 2004 is set out in *Appendix B*.



*Membership of the Authority left to right: Mr. Tom Greene (Accountant), Ms. Mary Doyle (Economic and Business Consultant), Professor Alastair Wood (Chairman), Mr. Aidan O'Donnell (Chief Actuary, Hartford Life) and Ms. Anne Maher (Chief Executive, The Pensions Board).*

<sup>3</sup> The Health Insurance Act, 1994 (Section 17) Levy Regulations, 2001 (S.I. No. 255 of 2001).

## 5. Strategy

The Authority was established as an independent regulator for the private health insurance market in Ireland. In fulfilment 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 achieve its vision by:*

- *monitoring and researching health insurance generally;*
- *making recommendations on the implementation or otherwise of risk equalisation and managing and administering any risk equalisation scheme;*
- *advising the Minister on health insurance generally;*
- *implementing other relevant regulations as prescribed; and*
- *safeguarding 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; and*
- *value its people.*

The Authority applies its vision, mission and values in maintaining high standards and quality provision of service.

## 6. The Registration of Health Benefits 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. The health insurer provides details of any health insurance scheme in operation to the Authority and application for renewal of registration is required on an annual basis by the insurer. The Authority examines the scheme to ensure that it complies with all relevant legislation. A certificate is issued to the health insurer once the Authority deems the scheme is compliant. The certificate confirms that that health insurer may offer private health insurance in accordance with the terms of its rules and in compliance with the relevant legislation. There is no fee charged for the issuing of this certificate. Any health insurer which has ceased operating must notify the Authority of such cessation and they will be removed from the Register.

There are two types of health insurers. Commercial undertakings are the health insurers such as BUPA Ireland, Vhi Healthcare and VIVAS Health which must accept all consumers who wish to obtain private health insurance (subject to certain terms and conditions being fulfilled). Restricted Undertakings are mainly vocational schemes, membership of which is restricted to employees of particular organisations (subject to terms and conditions being fulfilled).

Undertakings which are entered on “The Register of Health Benefits Undertakings” at 31 December, 2004 are listed in *Appendix B*.

## 7. Corporate Governance

### Code of Practice

The Authority prepared the "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 has engaged in an ongoing process of developing and enforcing all appropriate corporate governance procedures and guidelines and updates the Code as appropriate in line with relevant guidelines and legislation.

### Annual Report and Accounts

The Annual Accounts for 2004 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 18.

The C&AG also issued corporate governance documentation in 2003 setting out the guidelines and standards for submission of accounts for audit. The Authority has adhered to these guidelines.

### Internal Audit

An Internal Audit of the Authority was conducted by external consultants having won a tendering procedure in November, 2004 and the report was reviewed by the Members. The report indicated that the procedures and mechanisms in place by the Authority were appropriate and satisfactory.

### Ethics in Public Office

The Authority has been included on the Schedule 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.

### Official Languages

The Authority is compliant with the Official Languages legislation and has been in communication with the Department of Community, Rural and Gaeltacht Affairs regarding the Authority's compliance. The Annual Report and Accounts 2003 were published in English and Irish. The Authority is currently translating other public documentation for publication.

### Freedom of Information

The Authority has received notification that all public bodies are to be subject to the requirements of Freedom of Information legislation. In preparation for compliance, the Authority has appointed a "Freedom of Information Liaison Officer" who will deal directly with any queries received within the timeframes set out in the legislation. A "Freedom of Information Decision Maker" has also been appointed to oversee the process on an ongoing basis.

It is anticipated that the Authority may be included on the list of public bodies in 2005.

## Communications Strategy

The Authority has developed a communications policy which seeks to make consumers, stakeholders and the general public aware of issues concerning private health insurance in Ireland. The Communications Strategy includes setting out the roles and responsibilities of the Authority under the health insurance legislation and making consumers, health insurance undertakings, professional bodies, stakeholders, industry bodies, legislators and healthcare providers aware of health insurance concepts such as open enrolment, lifetime cover, community rating and minimum benefits. This should assist relevant parties to make informed decisions in relation to health insurance.

The Authority has a significant role in relation to risk equalisation which is set out in this Annual Report. The Authority has carried out consultation processes in relation to risk equalisation, community rating and minimum benefits. Staff members met with individuals and groups who made submissions in relation to these particular issues and which can be viewed on our website at [www.hia.ie](http://www.hia.ie).

The Authority operates a policy of openness, consultation and discussion with 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. The Authority will continue to apply this policy of openness going forward with an emphasis on the best overall interests of health insurance consumers in accordance with the health insurance legislation.

## 8. Consumer Interests

The interests of consumers are of paramount importance to the Authority. The Authority continuously assesses the effect of any regulations or new legislation on consumers. The Authority aims to ensure that consumers are aware of their rights; that insurer policies and publicity material describe cover, in a fair and comparable way; that community rating, open enrolment and lifetime cover are maintained and that health insurance providers deal appropriately with customer complaints. The year 2004 saw a new entrant to the market and the Authority welcomes this development particularly in light of the availability of more choice for consumers.

### Consumer Information

The Authority published research in April, 2003 following a consumer survey carried out in 2002. Additional research into consumer attitudes towards private health insurance, their knowledge of the market and the behaviour of private health insurance consumers was commissioned by the Authority at the end of 2004, to assess whether and to what extent consumers attitudes, knowledge and behaviour have changed since the last research of 2002/2003.

In 2004 the Authority sought to address the consumer information deficit identified in its research by publishing a product comparison table and two consumer information leaflets. There are indications that these publications have been successful in raising awareness of the complex nature of private health insurance and the Authority intends to build on this early success with further campaigns to educate consumers in 2005. However, it appears that there is still a considerable information deficit amongst consumers and non-consumers alike and the Authority continues to provide relevant information to consumers who contact the Authority.

As part of the Authority's campaign to reduce the consumer information deficit, it launched an advertising campaign at the end of 2004 placing advertisements in major newspapers asking consumers to contact the Authority if they were having difficulty understanding and comparing health insurance products.

The Authority continues to ensure that the product comparison table is up to date and reflective of new entrants and new plans.

The Authority has been in regular contact with insurers in relation to various matters including querying the accuracy or legality of the following:

- information provided to consumers in insurer contracts;
- promotional literature published by insurers;
- information given by insurers' call centres;
- new product information; and
- content of insurers' websites.

## Consumer Complaints And Queries

The number of queries and complaints received by the Authority more than trebled in 2004 in comparison to 2003. This increase appears to relate to the Authority's growing profile, which results in part from its consumer information campaigns.

The main issues raised with the Authority were:

- Assistance in understanding and comparing private health insurance;
- Information about waiting periods;
- Complaints about service standards of insurers; and
- Enquiries from people over 65 who had been refused cover.

The Authority assisted many consumers in answering their queries and resolving their complaints.

The Authority also published a 'Procedure for Handling Queries/Complaints from Members of the Public' which is available on its website.

The Authority reviewed the Central Bank And Financial Services Authority Of Ireland Bill 2004 and advised the Department of Health and Children that as the legislation stood at the time, Vhi Healthcare would not appear to come under the remit of the proposed Financial Services Ombudsman (FSO). Accordingly the Department of Health and Children undertook to take the necessary steps to include Vhi Healthcare within the aegis of the FSO, thereby providing Vhi Healthcare consumers with a valuable source of conflict resolution. The Authority looks forward to developing a working relationship with the newly established FSO.

## 9. Product issues

The Authority is concerned with maintaining standards in health insurance. To this end, the Authority monitors health insurance products being sold in Ireland as well as other products that may have an impact on the private health insurance market such as hospital cash plans and critical illness policies. It also monitors the way in which health insurance products are advertised and sold and has had discussions with health insurance providers about processes for dealing with consumers.

During 2004, VIVAS Health entered the Irish private health insurance market. In advance of this entry, the Authority reviewed details of the products intended for sale by VIVAS Health, in order to ensure that these products complied with the relevant legislative requirements, such as the Minimum Benefit Regulations. This review was carried out in a co-operative basis with VIVAS Health and both parties found this to be a helpful exercise.

In addition to the launch of VIVAS Health, incumbents in the market launched a number of new products, including HealthManager Gold from BUPA Ireland and the Lifestage Choices range from Vhi Healthcare. Details of these new products were examined by the Authority to determine the level of cover being provided. The Authority is satisfied that these products are, where appropriate, meeting the requirements of the Minimum Benefit Regulations.

The Authority also reviewed the existing product rules of both BUPA Ireland and Vhi Healthcare. Arising from this review, a number of issues were raised with both insurers. Resulting from this process, a number of instances were discovered where prescribed minimum benefits were not paid to some members of Vhi Healthcare (see Section 13).

Vhi Healthcare also launched a multi-trip travel insurance product and a suite of dental insurance products during the year, the latter in conjunction with DeCare International. As these products do not constitute health insurance contracts, they are outside the remit of the Authority.

During the year, the Authority held discussions with representatives of a number of cash plan operators in the Irish market, and also with representatives of the Department of Health and Children, to discuss issues relating to the position of cash plans in the market. Two cash plan operators in the Irish market received exemptions from registration requirements under the provisions of the Health Insurance (Amendment) Act, 2001. Having received legal advice on the issue, the Authority informed another such operator that it was required to be entered onto the Register of Health Benefits Undertakings.

The operator that was required to register decided to withdraw from the Irish market. The Authority is mindful of the benefits of competition but must also act within the parameters of the Health Insurance Acts, 1994-2003 as specified. The Authority has discussed the issue of the differential treatment of certain cash plans with the Department of Health and Children, and is anxious to ensure that all operators in this market be placed on a level footing.

## 10. Risk Equalisation (“RE”)

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 and the cost of claims in any given year is taken from the pool. The system, thus, relies significantly on inter-generational solidarity whereby younger, healthier people effectively subsidise older people, who have higher claims, the underlying premise being that these younger people will in turn be subsidised by future generations.

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, students in full time education and members of group schemes. Community rating is provided for expressly in section 7 of the Health Insurance Act, 1994 (which, as amended by the Health Insurance (Amendment) Act 2001 and the Health Insurance (Amendment) Act 2003 is referred to herein as the “Act”).

RE is a process that aims to neutralise in an equitable manner differences in insurers’ costs that arise due to variations in the health status of their members. RE 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. It should be noted that provision for RE is a common mechanism in countries with community rated health insurance systems.

### The Risk Equalisation Scheme

The RE Scheme was introduced by the Minister for Health and Children pursuant to section 12 of the Health Insurance Acts and came into force on 1 July, 2003. Under the Scheme (as amended), health insurance undertakings are required to make specified returns to the Authority in accordance with section 12 of the Act for six month periods commencing on 1 July, 2003, i.e. the first returns were due for the period from 1 July, 2003 to 31 December, 2003.

Under section 12 of the Act and the provisions of the Scheme, 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 scheme undertakings. From that evaluation and analysis, the Authority is required to determine, in accordance with a formula set out in the Second Schedule to the Scheme, the market equalisation percentage (“MEP”). The Authority then prepares and furnishes a written report to the Minister giving details of the evaluation and analysis carried out. The report is required to specify the MEP determined and the health status weight adopted for the purpose of such determination and may 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 as a result of its evaluation and analysis.

Where, as a result of its evaluation and analysis, the Authority determines the nature and distribution of risks among scheme undertakings, as expressed in the Scheme by the market equalisation percentage, to be not less than 2%, and not more than 10%, the Authority must include in its report to the Minister a recommendation as to whether he or she ought, or ought not, as it considers appropriate, having had regard to the best overall interests of health insurance consumers, to exercise his/her powers under Article 13 of the Scheme to commence RE payments.

It is important to emphasise that the decision that is entrusted to the Authority as to whether to recommend the commencement of RE payments or not is one that involves a complex exercise. In making this decision the Authority is required to have, and has had, regard to the criterion of the best overall interests of health insurance consumers but this is not a concept that has an irreducible content as is clear from the definition of that concept in section 12(10)(a)(iii) of the Act where it is stated that it includes a reference to the need to maintain the application of community rating across the market for health insurance and to facilitate competition between undertakings. Thus, the making of a decision as to what is in the best overall interests of health insurance consumers involves, of its very nature, consideration of a large number of factors including what may be the competing considerations of the need to maintain the application of community rating across the market and the need to facilitate competition between undertakings. Ultimately, therefore, the Authority is engaged in balancing competing factors and considerations and is required to exercise a judgment.

### Receipt and Validation of Returns

Prior to the filing of returns, the Authority had set down a number of requirements to be fulfilled by undertakings when filing returns, including the signing of unambiguous declarations by senior persons within each undertaking, the filing of independent accountants' reports along with returns and the specification of all assumptions or interpretations that were taken by insurers. These requirements enabled the Authority to assess the significance of any inconsistencies in relation to the way in which undertakings completed their returns. The Authority also issued guidance in relation to the RE Scheme in order that undertakings would adopt interpretations that are consistent with the Scheme and between undertakings.

The above measures were successful in identifying any inconsistencies in returns and allowing the Authority to have confidence that such inconsistencies were not of such significance as to influence its recommendations to the Minister for Health and Children. However, the Authority was of the view that changes to the Scheme in order to clarify aspects of it and to make the guidance issued by the Authority binding on undertakings would be useful and the Authority has made submissions to the Tánaiste in this regard.

In addition, and in order to further assist in the verification and validation of future sets of returns, the Authority drafted forms to collect further information to be included with returns. The information included in these draft forms would provide details in relation to claims paid by health insurance undertakings and members of health insurance undertakings that were not included in returns. These draft forms were circulated to insurers, who were asked for their views in relation to them.

### The Authority's Recommendations in 2004

The process by which the Authority has from the outset conducted its activities by having its Staff analyse and process the statutory returns from registered undertakings has been substantially the same. This has consisted of detailed analysis in the first instance conducted by the Staff of the Authority, and then the transmission of that material in one or more iterations to the members of the Authority to facilitate their consideration of that material, leading to a workshop/meeting at which members of the Authority meet to discuss the matter and arrive at a provisional decision whether or not to make a recommendation to commence RE payments. This is followed by the conduct of the statutory consultation process prescribed in the Act, receipt of submissions or

representations from the registered undertakings on foot of that consultation process and, the careful analysis of the representations and submissions of the registered undertakings by the Staff, the placing of that analysis before the members of the Authority who then convene a further workshop/meeting to consider the issues and finally the members alone come to their ultimate decision on whether or not to make a recommendation to the Minister on whether to commence RE payments. At all points, the members apply diligently their own expertise and judgment as well as having available to them the expertise of the Staff, supplemented where appropriate by external independent advice.

### The First Set of Returns

The first set of returns from scheme undertakings was received by the Authority in January, 2004. These related to the period 1 July, 2003 to 31 December, 2003. From its evaluation and analysis and those returns, the Authority determined that the market equalisation percentage was 3.7% and, as outlined in its notice to the registered undertakings of 5 March, 2004, it proposed to recommend to the Minister not to commence RE payments. The reasons given by the Authority for that recommendation were as follows:

*"The Authority proposes to make this recommendation for the following reasons:*

- *there is insufficient evidence of a threat to market stability;*
- *in light of the low MEP, the benefits that could accrue for health insurance consumers directly from the transfer of funds would appear to be small; and*
- *in this context the potential benefits of commencing risk equalisation payments at this time are outweighed by uncertain competitive consequences which could arise.*

*The Authority remains strongly of the view that, in the appropriate circumstances, the best overall interests of health insurance consumers in a community rated market could be served by the commencement of risk equalisation payments."*

Following consideration of the representations made by the registered undertakings, the Authority adhered to its original decision and, in its Report to the Minister dated 28 April, 2004 which was made available to the undertakings and published on the Authority's website, it recommended that RE payments not be commenced for the reasons that had previously been set out in its notice to the registered undertakings. It should be noted that the Authority stressed in its Report that it would revisit its recommendation as further data including more returns became available to it:

*"The Authority's recommendation is made in the context of the evidence currently available to it. This recommendation should not be understood as an indication that the Authority will not, in the future, recommend the commencement of risk equalisation payments. The Authority remains of the view that, in the appropriate circumstances, the best overall interests of health insurance consumers in a community rated market could be served by the commencement of RE payments.*

*Furthermore, the Authority recognises that further data (including more returns), which may provide a more complete picture, including an indication of the rate of evolution of the values of variables included in this report, will soon become available and will inform future deliberations. Given the importance of the decision and the other factors mentioned in this Report, it might be considered more prudent not to base a decision to commence RE payments on a single set of returns."*

Following this recommendation, the members of the Authority met separately with senior executives of BUPA Ireland and Vhi Healthcare on 22 June, 2004 to afford those undertakings an opportunity to express their views on RE (following the first recommendation of the Authority) directly to the members of the Authority.

### The Second Set of Returns

The second set of returns from scheme undertakings, for the period 1 January, 2004 to 30 June, 2004, was received by the Authority in July, 2004. From its evaluation and analysis of those returns, the Authority determined that the market equalisation percentage was 3.5% and, on 3 September, 2004, in a notice issued to registered undertakings, it proposed to recommend to the Minister not to commence RE payments.

Following consideration of the representations made by the registered undertakings including BUPA Ireland, the Authority adhered to its proposed recommendation and, in its Report to the Minister dated 27 October, 2004 which was made available to the undertakings and published on the Authority's website, it recommended that RE payments not be commenced. The reasons given by the Authority for making that recommendation were generally in accordance with those that had been set out in its notice to the registered undertakings but were expanded upon in a number of respects as follows:

- *"As a proportion of the level of claims paid in the market the Market Positive Equalisation Adjustments ("MPEA") has reduced since the previous report. This is reflected in the value of the MEP, which has reduced from 3.7% to 3.5% with a Health Status Weight equal to 0.*

*While the MPEA has reduced as a proportion of the level of claims, its absolute value for the six-month period from 1 January, 2004 to 30 June, 2004 has risen from €11.6m to €11.8m since the previous report. When viewed in the context of the number of health insurance consumers in the market and the amount of premium paid (c. €1 billion in 2003) the value of the MPEA, therefore, remains relatively low. As a result, the potential benefits, by way of any possible percentage reduction in premiums, which could accrue to individual health insurance consumers directly from the transfer of funds, would appear to be small.*

- *As detailed in its Policy Paper [see, in particular, Section 3], the Authority is cognisant of the possibility of instability arising in a community rated market, which would threaten the maintenance of community rating across the market, and that in certain circumstances the commencement of RE payments might be appropriate in order to address such instability.*

*If the Authority considered, based on the information available to it, that such a threat were imminent or would inevitably arise it would, all else being equal, recommend the commencement of RE payments in order to maintain community rating. However, based on its analysis, the Authority does not consider that such a threat is imminent or will inevitably arise. Such a threat is, however, a possibility that the Authority has taken and continues to take very seriously.*

*Specifically, as part of its deliberations, the Authority considered analyses of certain trends in the market, including the level of lapses and sales for different insurers, the growth in the memberships of different insurers, the total growth of the market, the risk profiles of insurers as well as other matters detailed in its Policy Paper [see, in particular, Section 3]. In doing so it aimed to ascertain whether there is a possibility of a threat to the stability of the market arising, which should be addressed at this stage by the immediate commencement of RE payments. While some data in relation to matters such as lapses and sales give rise to some concern and will continue to be monitored, there was not sufficient evidence of such a threat when the totality of the data available to the Authority was considered.*

*The possibility of a threat to the stability of the market arising, which would warrant the immediate commencement of RE payments, was also considered in the context of the financial positions of the insurers. In particular, in assessing whether such a threat to individual insurers exists, levels of profitability were considered relevant and in this context the Authority considered both publicly available information (Annual Report for Vhi Healthcare, returns to the UK Financial Services Authority by BUPA Insurance Limited) and other financial information provided to the Authority on a confidential basis by Scheme undertakings.*

- *The Authority notes that premium increases in the market in recent years have averaged c. 9% p.a., although this rate of increase appears to have slowed dramatically of late with the announcement of a c. 3 % increase in Vhi Healthcare's premiums for contracts renewing in 2004/2005. The Authority also notes that in 2002/2003 Vhi Healthcare increased their premiums by 18% while BUPA Ireland increased their premiums by 14.4%. In this context, the Authority is concerned about the level of competitive pressure on each insurer in the market.*

*The Authority considers that the introduction of RE, in the present circumstances, could reduce the competitive pressures within the market without significantly increasing benefits to health insurance consumers. Noting the scale of recent rises in premiums and mindful of the real and potential benefits of competition the Authority considers that to recommend, at this time, that RE payments be commenced would not be in the best overall interests of health insurance consumers.*

- *Furthermore, there appears to be some seasonality in the data of at least certain undertakings disclosed in the returns. In this context, the Authority recognises that over time further data (including more returns), which may provide a more complete picture, will become available and will inform future deliberations."*

The Authority went on to emphasise in its Report that this recommendation was made in the context of the evidence currently available to it and that it remained of the view that, in the appropriate circumstances, the best overall interests of health insurance consumers in a community rated market could be served by the commencement of RE payments.

### The Health Status Weight

The Health Status Weight ("HSW") is a parameter in the RE calculations, which influences the extent to which variations in the health status of insurers' members, other than those resulting from differences in age and gender profile, would be equalised. With a HSW equal to 0, which is currently the case, RE aims to only equalise age and gender profiles. Subject to a defined statutory process, the Authority may change the value of the HSW so that the RE calculations would aim to take account of variations in risk profile emanating from other factors.

The Authority's evaluation and analysis of the second set of returns provided evidence of material differences in claims experience within age and gender bands, indicating that differences in risk factors other than age and gender might be materially impacting on the differences in the claims experiences of different health insurance undertakings.

These findings led the Authority to consider a possible review of the value of the HSW. The Authority engaged the Government Actuary's Department in the UK, ("UK GAD") to draw up a proposal for work on the implications of differences in health status between insurers. Staff of the Authority reviewed UK GAD's proposal and discussed the proposed investigation with insurers. The matter is still being considered.

## 11. Community Rating

The Authority made a submission to the Department of Health and Children regarding Lifetime Community Rating ("LCR") in October, 2002. The Authority maintains its view that the introduction of LCR would reduce the risk of adverse selection in the market. The Authority understands that the Department of Health and Children intends to bring forward LCR regulations in 2005. In the meantime, the Authority continues to monitor the operation of community rating and LCR in a number of health insurance markets internationally, including Australia and the United States.

## 12. Competition Issues

The Authority remains committed to having regard to the facilitation of competition in the Irish private health insurance market. To this end, the Authority has had discussions with a number of stakeholders and interested parties about various competition issues and remains open to discuss such issues with interested parties. The Authority also made publicly available the report of the research study into competition in the Irish private health insurance market, undertaken in 2003 by York Health Economics Consortium.

The Authority has also continued its regular and ongoing contact with the Competition Authority during the year in relation to a range of issues. Although the Authority is not among the list of sectoral regulators that are required to sign co-operation agreements with the Competition Authority under the Competition Act, 2002, discussions have taken place between both sides in relation to adding the Authority to this list. Agreement has been obtained from the Minister for Health and Children and the Minister for Enterprise, Trade and Employment for both Authorities to sign such an agreement. In the meantime, the Authority believes that a good working relationship would be mutually beneficial and has pursued this aim.

### 13. Minimum Benefits

The Authority understands that the Department of Health and Children plans to revise the Minimum Benefit Regulations in 2005. The Government's policy, as stated in the White Paper on Private Health Insurance, 1999, is to simplify the existing Minimum Benefit Regulations, which incorporate detailed tables of medical treatments and the minimum benefits to be provided for each of these. Under these proposals, it was envisaged that the Authority would have a greater role to play in defining a number of minimum benefit levels and monitoring compliance with the new regulations.

The Authority produced a consultation paper on minimum benefits, which was circulated to stakeholders and interested parties in October, 2003. Issues raised in the consultation paper, on which the Authority welcomes submissions, include the role of the Authority, the review of minimum benefits and the scope of Minimum Benefit Regulations.

Following a number of requests from interested parties for an extension to the deadline for receipt of submissions, such an extension was granted to allow these interested parties additional time to formulate their submissions. Meetings were also held with a number of these interested parties, to discuss matters arising from the consultation process.

The Authority received a total of seven submissions in response to its consultation paper, and it took the views expressed in these submissions into account when formulating its position on the issues arising. The Authority intends to make a formal submission to the Department of Health and Children in early 2005.

Arising from a review of both BUPA Ireland's and Vhi Healthcare's product rules by the Authority during the year (see Section 9), a number of instances were discovered where members of Vhi Healthcare did not receive the prescribed minimum payments to which they were entitled. These cases related to certain procedures carried out in the Blackrock Clinic and Mater Private Hospital, and the majority of instances took place during the period 1996-2000. The Authority wrote to the Department of Health and Children in relation to this matter, as the Department was the regulator of the market until 2001. Vhi Healthcare put in place a mechanism to refund the members in question for the underpayment of benefits. The Authority is concerned that such shortfalls in prescribed payments occurred but notes the assurances it has been given that steps have been taken to ensure that such underpayments will not be repeated.

## 14. Relationship with Stakeholders

Throughout 2004 the Authority has endeavoured to maintain good 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, professional bodies, other regulators, the media and consultants.

In 2004, the Authority commenced a review of its strategy for managing its relationships with stakeholders. This review is ongoing.

### Relationship with the Financial Regulator

The Authority has a good working relationship with the Irish Financial Services Regulatory Authority ("IFSRA") in relation to matters of mutual interest. In particular, the Authority works closely with IFSRA with respect to new entrants to the private health insurance market and appreciates the cooperation it receives from IFSRA in this regard.

This relationship helps to avoid unnecessary duplication of work undertaken by the Authority and IFSRA, which could in turn have the potential to lead to an unnecessary increase in the regulatory burden on health insurance undertakings.

## 15. Commissioned Research

### Consumer Survey

In 2002 the Authority commissioned a survey of consumer attitudes towards the private health insurance market in Ireland. The Authority wished to examine trends in switching between insurers, consumer knowledge and understanding of the market and health insurance products, consumer satisfaction and the reasons for taking out or not taking out health insurance. The results of this survey were released in 2003 and have informed the Authority in a number of areas, including that of consumer interests. The survey pointed to the existence of an information deficit on the part of consumers in relation to health insurance, and this finding contributed to the Authority's decision to release consumer information leaflets and product comparison tables (see Section 8).

The Authority decided that, as two years have elapsed since this study was carried out, and as there have been a number of changes in the market since then (for example, continued growth in terms of market size, premium inflation and the entry of a third insurer), it would be timely to update this survey. A request for tenders was issued in late 2004 and the Authority expects this survey to be completed in mid-2005.

## 16. New Entrants

The Authority welcomes new entrants to the health insurance market as the arrival of new entrants has the potential to benefit consumers through increasing the level of competition and choice in the market.

The Authority meets potential new entrants in order to explain the responsibilities of health insurance undertakings under the Health Insurance Acts and in order to listen to the views of potential new entrants in relation to the Irish private health insurance market. The Authority continues to maintain a major resource for potential new entrants, which provides detailed regulatory and other information on the private health insurance market.

### VIVAS Health

In October VIVAS Health was added to the Register of Health Benefits Undertakings, making it the third open membership insurer on the Register, along with BUPA Ireland and Vhi Healthcare. This act was the culmination of a very significant amount of work by the Authority and its staff over a two-year period.

VIVAS Health first contacted the Authority in November, 2002. At this time the Authority provided VIVAS Health with the private health insurance information resource as described above. Over the following two years the Authority worked with VIVAS Health and with IFSRA in order to facilitate VIVAS Health's entry into the market as a compliant undertaking.

While the Authority does not have a specific function in relation to the vetting of insurance undertakings in advance of their entry into the market, shortly after VIVAS Health contacted the Authority it was agreed that it would be advantageous to all parties to ensure that VIVAS Health's proposed products and business practices would be compliant with the Health Insurance Acts prior to VIVAS Health's entry to the market. Such an approach would avoid a situation arising in which VIVAS Health would be forced to withdraw from the market or alter their products and business plans shortly after entering the market.

In line with this approach, the Authority held regular meetings with VIVAS Health in the two years prior to their entry to the market during which the compliance of VIVAS Health's proposed products and business practices were discussed. This was an interactive process, which involved VIVAS Health amending and resubmitting their proposals in relation to their products and processes a number of times prior to launch.

Throughout the process the Authority worked closely with IFSRA in order to ensure that all relevant areas of compliance were addressed and to minimise any duplication of work on the part either of VIVAS or the regulators.

## 17. Policy Environment

### Legislation

The Authority monitors, on an ongoing basis, developments in the areas of both domestic and EU legislation, dealing with health insurance and other relevant areas, such as insurance and competition.

### Relevant Issues/Environment

The Authority also monitors, on a continuing basis, issues such as medical inflation, which has an impact on health insurance premiums; developments in the healthcare market in Ireland; international healthcare and health insurance systems and developments therein; and other relevant issues relating to the environment in which the Authority operates.

### Better Regulation

The Authority continues to strive to ensure that its work reflects the principles of better regulation, outlined in the Government's White Paper, entitled *"Regulating Better"*, which was released in early 2004. The six principles of better regulation outlined in this White Paper are necessity, effectiveness, proportionality, transparency, accountability and consistency. Even before this White Paper was published, the Authority had reviewed material from the Better Regulation Task Force in the UK and other relevant sources, relating to regulating better. The Authority has always endeavoured to ensure that its work is transparent, consistent and effective, and wherever possible the Authority has attempted to minimise the regulatory burden on insurers.

### Organisation for Economic Co-operation and Development

In 2002, the Organisation for Economic Co-operation and Development ("OECD") initiated a study of private health insurance internationally. As part of this exercise, case studies were carried out in a number of markets, of which Ireland was one. Representatives of the Authority met a delegation from the OECD in December, 2002 and have been in contact with this delegation since then. The case study report was produced by the OECD in 2004, as were reports on similar case studies undertaken in Australia, France and the Netherlands, and an overall comparison report.

### Corporate Status of Vhi Healthcare

In the White Paper on Private Health Insurance, published in 1999, the then Government outlined proposals to change the corporate status of Vhi Healthcare, in order to give it greater commercial freedom and to allow it to respond to the needs of a competitive environment. The Authority understands that the Government has been reviewing the corporate status of Vhi Healthcare and intends to bring forward legislation in 2005 to allow for a change in this status. The Authority has considered the issues surrounding such a change that would have an impact on private health insurance consumers, and will consider making a submission to the Department of Health and Children on these issues during 2005.

### Liaison with Other Regulators

The Authority has liaised with health insurance regulators in a number of other countries, and has exchanged information and ideas with its counterparts in countries such as Australia, Slovakia and the US. Useful contacts were also held with other sectoral regulators in Ireland in relation to issues of mutual interest.







Accounts '04



## **18. Report and Accounts**

for the period from 1 January, 2004 to 31 December, 2004

### **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, 2004.

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## Report of the Comptroller and Auditor General

for presentation to the Houses of the Oireachtas

I have audited the financial statements on pages 36 to 42 under Section 32 of the Health Insurance Act, 1994.

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

The accounting responsibilities of the Members of the Authority are set out on page 35. It is my responsibility, based on my audit, to form an independent opinion on the financial statements presented to me and to report on them.

I review whether the statement on internal financial control on pages 33 and 34 reflects the Authority's compliance with applicable guidance on corporate governance 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.

### 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 auditing standards 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 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 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. I also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In my opinion proper books of account have been kept by the Authority and the financial statements, which are in agreement with them, give a true and fair view of the state of the affairs of The Health Insurance Authority at 31 December, 2004 and of its income and expenditure for the year then ended.



**Gerard Smyth**

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

17 June, 2005

## Statement on the System of Internal Financial Controls

### Report from the Chairman

**Report 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" issued by the Department of Finance 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 CEO") 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 CEO and staff are responsible for operational matters. The CEO 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 and Finance Committee reviews the management accounts, annual financial statements, budgeting and financial procedures generally. The Committee met on four occasions in 2004. Consultants have been engaged in key areas where such services were deemed appropriate including accountants and internal audit consultants.

The Authority has put 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, 2004. 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. The internal audit report issued by the consultants confirmed that they did not identify any serious weaknesses in the organisation and that the Authority had an effective system of internal financial controls.

I confirm that the Members of the Authority reviewed the effectiveness of the systems of internal control in place in 2004, at a meeting in January, 2005.

Signed on behalf of the Members of the Authority



**Professor Alastair Wood**  
*Chairman, The Health Insurance Authority*

14 June, 2005

## 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.



**Professor Alastair Wood**  
Chairman

14 June, 2005



**Mr. Aidan O'Donnell**  
Member

## 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.

### Income Levy

The levy income represents the amount estimated by the Authority as collectable 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 a defined contribution scheme and hence there is no requirement to comply with the provisions of FRS 17 dealing with defined benefit schemes.

### 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.

## Income and Expenditure Account

for the year ended 31 December, 2004

|   | Notes | 12 months<br>ended<br>31 December,<br>2004<br>€ | 12 months<br>ended<br>31 December,<br>2003<br>€ |
|---|-------|---|---|
| Income                                      | 1     | 1,485,628                                       | 1,369,469                                       |
| Administration Costs                        | 2     | (1,174,390)                                     | (1,128,953)                                     |
| <b>Excess of income over expenditure</b>    |       | 311,238   | 240,516   |
| Interest Receivable                         |       | 19,746  | 13,192  |
| Establishment Grant                         | 8     | 507,895   | –   |
| <b>Surplus for the period</b>               |       | <b>838,879</b>                                  | <b>253,708</b>                                  |
| Accumulated Surplus at beginning of Period  |       | 287,609   | 283,901   |
| Transfer to General Reserve                 | 9     | (557,895)                                       | (250,000)                                       |
| <b>Accumulated Surplus at end of period</b> |       | <b>568,593</b>                                  | <b>287,609</b>                                  |

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



**Professor Alastair Wood**  
*Chairman*

14 June, 2005



**Mr. Aidan O'Donnell**  
*Member*

The Statement of Accounting Policies and notes 1 to 12 form part of these Financial Statements.

## Balance Sheet

at 31 December, 2004

|  | Notes | 2004<br>€        | 2003<br>€      |
|--|-------|------------------|----------------|
| <b>Fixed assets</b>                                    |       |                  |                |
| Tangible assets  | 4     | 129,353          | 201,893        |
| <b>Current assets</b>                                  |       |                  |                |
| Bank and Cash  |       | 1,485,252        | 984,479        |
| Prepayments and accrued income                         | 5     | 383,677          | 367,636        |
|  |       | 1,868,929        | 1,352,115      |
| <b>Creditors (amounts falling due within one year)</b> |       |                  |                |
| Creditors and accruals                                 | 6     | (371,794)        | (258,504)      |
| <b>Net current assets</b>                              |       | 1,497,135        | 1,093,611      |
| <b>Total assets less current liabilities</b>           |       | 1,626,488        | 1,295,504      |
| <b>Creditors (amounts falling due after one year)</b>  |       |                  |                |
|  | 8     | –                | (507,895)      |
| <b>Net assets</b>                                      |       | <b>1,626,488</b> | <b>787,609</b> |
| <b>Representing</b>                                    |       |                  |                |
| Accumulated excess income over expenditure             | 9     | 568,593          | 287,609        |
| General Reserve  |       | 1,057,895        | 500,000        |
|  |       | <b>1,626,488</b> | <b>787,609</b> |



**Professor Alastair Wood**  
Chairman

14 June, 2005



**Mr. Aidan O'Donnell**  
Member

The Statement of Accounting Policies and notes 1 to 12 form part of these Financial Statements.

## Notes

(forming part of the financial statements)

### 1. Income Levy

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.

### 2. Administration Costs

|   | 2004<br>€        | 2003<br>€        |
|---|------------------|------------------|
| Salaries and staff costs (including training) | 507,740          | 455,293          |
| Members' remuneration                         | 27,936           | 27,935           |
| Rent, Service Charges and Maintenance         | 174,961          | 141,232          |
| Recruitment costs                             | 5,964            | 6,325            |
| Consultancy (Note 3)                          | 229,545          | 295,063          |
| Insurance                                     | 46,060           | 55,057           |
| Computer and Stationery Costs                 | 16,978           | 27,041           |
| Other Administration Costs                    | 50,291           | 32,310           |
| Consumer Interests                            | 26,361           | –                |
| Audit   | 6,600            | 4,250            |
| Depreciation                                  | 81,954           | 84,447           |
|   | <b>1,174,390</b> | <b>1,128,953</b> |

### 3. Consultancy Costs

|                      | 2004<br>€      | 2003<br>€      |
|----------------------|----------------|----------------|
| Accountancy          | 37,237         | 45,353         |
| Actuarial Services   | 44,376         | 28,372         |
| Legal Services       | 103,953        | 66,845         |
| Public Relations     | 41,191         | 32,308         |
| Research             | (861)          | 119,685        |
| Superannuation       | 756            | 2,500          |
| Translation Services | 2,893          | –              |
|                      | <b>229,545</b> | <b>295,063</b> |

## Notes

(forming part of the financial statements)

### 4. Tangible Fixed Assets

|                         | Computer<br>Equipment<br>€ | Office Fitting,<br>Furniture &<br>Equipment<br>€ | Total<br>€     |
|-------------------------|----------------------------|--|----------------|
| <b>Cost</b>             |                            |  |                |
| At 31 December, 2003    | 59,184                     | 326,634  | 385,818        |
| Additions during period | 9,324                      | 90   | 9,414          |
| At 31 December, 2004    | <b>68,508</b>              | <b>326,724</b>                                   | <b>395,232</b> |
| <b>Depreciation</b>     |                            |  |                |
| At 31 December, 2003    | 38,428                     | 145,497  | 183,925        |
| Charge for period       | 15,535                     | 66,419   | 81,954         |
| At 31 December, 2004    | <b>53,963</b>              | <b>211,916</b>                                   | <b>265,879</b> |
| <b>Net Book Value</b>   |                            |  |                |
| At 31 December, 2004    | <b>14,545</b>              | <b>114,808</b>                                   | <b>129,353</b> |
| At 31 December, 2003    | <b>20,756</b>              | <b>181,137</b>                                   | <b>201,893</b> |

### 5. Prepayments and accrued income

|                | 2004<br>€      | 2003<br>€      |
|----------------|----------------|----------------|
| Accrued income | 343,970        | 354,674        |
| Prepayments    | 39,707         | 12,962         |
|                | <b>383,677</b> | <b>367,636</b> |

### 6. Creditors (amounts falling due within one year)

|                                       | 2004<br>€      | 2003<br>€      |
|---------------------------------------|----------------|----------------|
| Trade creditors and accruals          | 178,808        | 130,187        |
| Pensions provision (Note 7)           | 172,886        | 108,950        |
| PAYE/PRSI                             | 12,948         | 3,805          |
| Professional Services Withholding Tax | 4,075          | 15,562         |
| Value Added Taxation                  | 3,077          | –              |
|                                       | <b>371,794</b> | <b>258,504</b> |

## Notes

(forming part of the financial statements)

### 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 including employer contributions at a rate of 16.666% of pensionable pay and are charged to the Income and Expenditure Account. The following amounts are included in the heading, "Salaries and Staff Costs (including training)" (Note 2):

|  | 2004           | 2003           |
|--|----------------|----------------|
|  | €              | €              |
| At beginning of period                 | 108,950        | 37,206         |
| Employee Contributions                 | 17,210         | 14,455         |
| Employer Contributions                 | 51,905         | 44,252         |
| <b>Total</b>                           | <b>178,065</b> | <b>95,913</b>  |
| Accrued for permanent staff for 2003   | –              | –              |
| Net underpayment of 2003 Contributions | (1,094)        | –              |
| Refunds of Contributions               | (8,233)        | (2,024)        |
| Transfers into Pension Provision       | 6,708          | 15,061         |
| Refund Due                             | (2,560)        | –              |
| <b>At end of period</b>                | <b>172,886</b> | <b>108,950</b> |

### 8. Creditors (amounts falling due after more than one year)

|                                   | 2004 | 2003    |
|-----------------------------------|------|---------|
|                                   | €    | €       |
| Department of Health and Children | –    | 507,895 |

The Minister for Health and Children may, with the consent of the Minister for Finance, advance sums of money to the Authority for the purposes of expenditure by the Authority in the performance of its functions. An advance of €507,895 was made to the Authority for establishment costs and the obligation to repay the advance has been waived. This amount has been transferred to the General Reserve.

## Notes

(forming part of the financial statements)

### 9. Accumulated Surplus on Income and Expenditure Account

|                             | 2004<br>€      | 2003<br>€      |
|-----------------------------|----------------|----------------|
| At beginning of period      | 287,609        | 283,901        |
| Surplus for period          | 838,879        | 253,708        |
|                             | 1,126,488      | 537,609        |
| Transfer to General Reserve | (557,895)      | (250,000)      |
| Retained surplus            | <b>568,593</b> | <b>287,609</b> |

### 10. Capital Commitments

There were no capital commitments for capital expenditure at 31 December, 2004.

### 11. Contingent Liabilities

There were no contingent liabilities at 31 December, 2004.

### 12. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 14 June, 2005.

## Appendix A

**Table 1:**  
**Statistics Relating to the Private Health Insurance Market in Ireland**

| <b>Quarter Ending</b>                          | <b>31-Dec-01</b> | <b>31-Dec-02</b> | <b>31-Dec-03</b> | <b>31-Dec-04</b> |
|--|------------------|------------------|------------------|------------------|
| <b>Membership (1)</b>                          |                  |                  |                  |                  |
| Total Insured Persons (000)                    | 1,871            | 1,941            | 1,999            | 2,054            |
| Private Health Insurance<br>Coverage as a % of |                  |                  |                  |                  |
| Total Population (2)                           | 48.2%            | 49.2%            | 49.8%            | 50.4%            |
| <b>Premium Income</b>                          |                  |                  |                  |                  |
|  | 2001 (3)         | 2002             | 2003             | 2004             |
| Total Premium Income (€m)                      | 537.4            | 821.9            | 978.2            | 1,061.1          |

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

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

(3) Premium figures for 2001 relate to the period April-December only.

## Appendix B

### The Register of Health Benefits Undertakings (at 31 December, 2004)

#### Commercial Undertakings

1. BUPA Insurance Limited
2. The Voluntary Health Insurance Board
3. VIVAS Insurance Limited

#### Restricted Undertakings

1. C.I.E Clerical Staff Hospital Fund
2. ESB Marina Staff Medical Provident Fund
3. ESB Staff Medical Provident Fund
4. Gallaher (Dublin) Limited Medical Benefits Society
5. Health Shield Friendly Society Limited
6. Irish Life Assurance Plc Outdoor Staff Benevolent Fund
7. Irish Life Medical Aid Society
8. Motorola Medical Aid Society
9. New Ireland/Irish National Staff Benevolent Fund
10. Prison Officers Medical Aid Society
11. Royal & SunAlliance (Republic of Ireland) Staff Medical Expenses Scheme
12. St Paul's Garda Medical Aid Society
13. The Goulding Voluntary Medical Scheme
14. Xilinx Ireland Medical Benefits Society