

**VHI HEALTHCARE**  
**OBSERVATIONS ON REPORT BY HEALTH INSURANCE AUTHORITY**  
**ON**  
**“COMPETITION IN THE IRISH PRIVATE HEALTH INSURANCE MARKET”**

This report covers much the same ground as the recent report by the Competition Authority on the same subject and the report “Risk Equalisation and Competition in the Irish Health Insurance Market” which was prepared by the York Health Economic Consortium for the Health Insurance Authority (HIA).

We have already issued a response to the report of the Competition Authority. For the sake of brevity we will not repeat our views on issues which overlap. Thus our observations on the report issued by the Competition Authority should be read in conjunction with this response.

Our observations on the recommendations included in the report are set out in Appendix 1.

We would like to highlight the following comments following our reading of this report.

**RISK EQUALISATION**

1. We welcome the acknowledgement in the report that the current Risk Equalisation scheme does not fully compensate insurers with higher risk profiles and that insurers with lower risk profiles “will continue to have a significant advantage even with Risk Equalisation payments”. Clearly this acknowledgement totally contradicts the stated reason which BUPA gave for leaving the market i.e. that they could not make Risk Equalisation payments and achieve profitability. (The HIA in previous reports have already demonstrated that there is no foundation to this claim by BUPA).
2. We regret that the report did not acknowledge that the exemption from Risk Equalisation for new insurers is:
  - a) a regulatory subsidy made available to new entrants
  - b) a subsidy which is in fact financed not by Government but by consumers i.e. the members of insurers with a higher risk profile
  - c) a subsidy that serves to increase the overall cost of health insurance in the market
  - d) a subsidy that serves to prevent the proper functioning of Community Rating and which distorts competition
  - e) a subsidy that encourages the type of “hit and run” activity which has just been undertaken by BUPA and which saw them take off with the super-normal or windfall profits accumulated over 10 years.

The above facts are probably not generally appreciated and it would have been helpful if the HIA had fully outlined the position.

3. In the light of our observations in 2 and 3 above we find it both alarming and illogical that the HIA should recommend that the exemption or regulatory subsidy for new entrants should effectively be increased. We note that no such recommendation was made by the Competition Authority. In our view the exemption should clearly be abolished.

## **DEROGATION**

4. Vhi Healthcare has always advocated that derogation from solvency requirements would have to be phased out after the activation of Risk Equalisation. Thus we agree in principle that derogation must go.

We do not agree however, with the recommendation that the phasing out of derogation up to 2012 should be reduced or that 'consideration should be give to methods of raising capital other than through the accumulation of reserves'. This issue needs to be considered in some detail.

We welcome the acknowledgement that derogation could only be phased out when Risk Equalisation payments are being made. Since no such transfers have yet been received this means that the proposed six year period has already reduced to five years and may be shorter still. The HIA is well aware of the two year time delay before the full impact of price increases can translate into reserves. It would seem reasonable that a minimum of a five year phasing-out period should be allowed, starting from the date of the receipt of Risk Equalisation transfers. It should be noted that over the next five years, when Vhi Healthcare is building up its reserves, our competitors will enjoy a competitive advantage in that they will need to generate a smaller return on Premium Income, even after making a 15% return on capital. We can only offset this advantage by greater efficiency. This continuing advantage for our competitors is in addition to the regulatory subsidy they received as new entrants, which made it impossible for Vhi Healthcare to build up its reserves in the first place!

There are only two other methods available to Vhi Healthcare for raising capital, neither of which is beneficial to consumers:

- i) Share Capital:

This would bring to an end the not-for-profit status of Vhi Healthcare. Such an outcome would not be in the interest of consumers and would remove from Ireland the most common and popular basis for providing private health insurance around the world i.e. on a not for profit basis.

ii) Debt Finance or Reinsurance:

Even if such finance was available and/or acceptable to the Financial Regulator, it would be an intolerable burden on Vhi Healthcare and its members to have to finance debt interest or reinsurance costs while at the same time having to build up reserves so as to remove the need for such debt or reinsurance.

Finally, under this heading, it would appear that the HIA have ignored the fact that the Financial Regulator has two requirements that must be met before derogation is phased out and an insurance licence is granted to Vhi Healthcare i.e.:

- i) that the required level of solvency is achieved and
- ii) that robust financial plans and projections are produced which demonstrate that solvency can be maintained.

The structure for the market envisaged in this report i.e. that Vhi Healthcare and its members would not only have to continue to subsidise the current exemption period for new insurers but that this subsidy should be extended, together with the acknowledgement that the current Risk Equalisation scheme- even when fully operational - significantly under compensates insurers with higher risk profiles, would mean that Vhi Healthcare could not possibly meet the second condition outlined above. In other words, in an apparent attempt to ensure that all insurers other than Vhi Healthcare make big profits out of health insurance, the HIA has suggested a market structure in which Vhi Healthcare could not survive.

## COMPETITION

5. In the opening paragraph of the Executive Summary it is suggested that greater competition in the market will benefit consumers. It is disappointing that, in a report on competition in the private health insurance market that runs to 168 pages, there is no detailed analysis of the 'benefits' which competition does in fact bring to a community rated health insurance market. This is not to suggest that there are not benefits but there are also disadvantages and limitations which exist in this market which are not common to other markets e.g. competition has increased the cost of health insurance over the past 10 years; the removal of risk as a competitive issue limits the scope for competition etc. These limitations were well outlined in the York report referred to above. The HIA report would have benefited from a detailed analysis of this fundamental issue. One could form the view from reading the report that there is a pre-occupation with competition as an ideological concept, rather than with bringing actual benefit to consumers.

## SWITCHING IN HEALTH INSURANCE

6. There are two quite distinct markets for health insurance in Ireland: the low risk profitable market which is approximately up to age 50 and the high risk unprofitable market above that age. Any analysis of switching activity must bear this in mind.

The HIA statistics show that almost 90% of switching activity takes place in the low risk profitable sector. There are two reasons for this:

- i) Health insurers compete aggressively for younger, healthier lives through targeted marketing activity and product design
- ii) The absence of Risk Equalisation for 10 years (and the decision by BUPA to use this exemption to maximise profit rather than maximise market share) and the 3.5 years exemption now provided in legislation for new insurers provides a huge incentive to promote switching among younger members.

Switching activity in the low risk younger market segments has been quite high. Absolute statistics for switching over the entire market provides a totally false picture.

The HIA proposal to extend the exemption period for new insurers would only serve to increase switching among the younger profitable segments. The HIA appears oblivious to the consequences for Community Rating (and for Vhi Healthcare) if the current trend in switching (i.e. only in lower risk market segments) is encouraged. Full activation of Risk Equalisation without any exemption period is essential before further encouragement is provided for people to switch. Only then will insurers be more incentivised to encourage switching across the entire market.

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**Recommendation**

**Observation**

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| <p><b>1.</b> Vhi Healthcare should be obliged to operate in the provision of non-insurance services in the same manner as if it was regulated as an authorised non-life insurance company. The Minister for Health and Children should bring forward legislation to amend the Voluntary Health Insurance Acts including a requirement that Vhi Healthcare be allowed and obliged to establish associated companies (or subsidiaries) to carry out non-insurance activities.</p> | <p>Agreed. Decision already made by Minister.</p>                   |
| <p><b>2.</b> In the context of the commencement of Risk Equalisation payments, Vhi Healthcare should be required to satisfy the relevant prudential solvency requirements as soon as is feasible. The proposed six-year timeframe allowed for Vhi Healthcare to attain the necessary level of reserves should be reviewed with a view to shortening it. Consideration should be given to methods of raising capital other than through the accumulation of surplus.</p>         | <p>Strongly disagree. See main text under ‘Derogation’ point 4.</p> |
| <p><b>3.</b> Vhi Healthcare should be subject to prudential regulation in its capacity as a PHI undertaking by the Financial Regulator. Vhi Healthcare’s exemptions from the First and Third EU Non-Life Insurance Directives should be abolished. The Minister for Health and Children should seek the removal of these exemptions by the instructions of the EU once Vhi Healthcare is in a position to receive authorisation as an insurer.</p>                              | <p>Agreed. Decision already made by Minister.</p>                   |

## Recommendation

## Observation

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| <p>4. The requirement for Ministerial approval for Vhi Healthcare premium increases under S.3 of the Voluntary Health Insurance (Amendment) Act, 1996 should be removed, once Vhi Healthcare's exemptions from the Non-Life Insurance Directives are removed. At that stage, consideration should be given to whether it is appropriate to continue price regulation by an independent regulatory body.</p> <p>5. The Minister for Health and Children should bring forward legislation to amend the Health Insurance Acts to provide that the Health Insurance Authority has the power to direct that a health insurance undertaking alter its practices or its products to comply with the provisions of the Acts or regulations there under.</p> <p>6. The Minister for Health and Children should bring forward legislation to amend the Health Insurance Acts to assign to the Health Insurance Authority the function of taking such action as it considers appropriate to increase awareness among members of the public of their rights as health insurance consumers and of available health services.</p> <p>7. The Minister for Health and Children should introduce unfunded lifetime community rating as provided for in the Health Insurance Act 1994 (as amended).</p> <p>8. The Minister for Health and Children should consider amending the Risk Equalisation scheme by extending the phase-in period for new entrants, for example, as follows;</p> <ul style="list-style-type: none"><li>- no payments for the first three years</li><li>- payments in the fourth year at 25% of the full amount, rising to 50% and 75% in subsequent years and reaching 100% in the seventh year.</li></ul> | <p>Agreed. Decision already made by Minister. We have no problem with price regulation provided that it applies to all health insurers.</p> <p>Agreed. Long advocated by Vhi Healthcare.</p> <p>Agreed. Some control on cost implications of Health Insurance Authority requirements must be imposed to ensure the proper balance for consumers.</p> <p>Agreed. Long advocated by Vhi Healthcare, although stability of legislative and regulatory environment and a level playing field is a necessary pre-requisite.</p> <p>Strongly disagree. See main text, under 'Risk Equalisation' points 1, 2 and 3 and under 'Derogation' the final paragraph of point 4.</p> |
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## Recommendation

9. Pending the implication of Recommendation 10, PHI companies should send out the renewal notices to insured persons one calendar month prior to the renewal date. At a minimum, these renewal notices should give details of current PHI cover and cost of renewal of cover for a further year, at what age the insured can avail of reduced premiums, and information of waiting periods.

10. Following consultation with the PHI industry, a statutory requirement should be introduced requiring insurers to provide certain information at point of sale and with renewal notices. The information to be provided would include information on consumer rights concerning health insurance, switching and waiting periods.

In addition, in order to facilitate the comparison and understanding of products, each insurer would be required to illustrate the main details of an insurance policy and its price in a prescribed format.

11. The insurance companies should work with the Authority to draft a Switching Code for PHI which would, in a brief, clear and definitive manner, detail the rights and duties of consumers, outgoing health insurers and incoming health insurers during the switching process.

12. Vhi Healthcare should comply with the Financial Regulator's Consumer Protection Code as if Vhi Healthcare was a regulated entity of the Financial Regulator.

Ministerial approval for products for sale by Vhi Healthcare should only be given where it would not lead to a breach of the Financial Regulator's Consumer Protection Code.

## Observation

Agreed in principle but this might have to await action on recommendation 5. above.

Agreed. Subject to observation under 6 above. See also main text under 'Switching' point 6.

Agreed. See also main text under 'Switching' point 6.

Agreed. Subject to the same rules applying to all health insurance products e.g. a ban on the linking, bundling, discounting etc. of any product linked to a health insurance contract. Specifically in relation to the sale of travel insurance Vhi Healthcare is regulated by the Financial Regulator.

## **Recommendation**

**13.** The Minister for Health and Children should amend the Health Insurance Act, 1994 (Minimum Benefit Regulations, 1996 in order to accomplish the following goals:

- Simplify the system of minimum benefits
- Remove restrictions on the PHI products which health insurers can offer, while maintaining an obligation to provide a certain minimum level of healthcare cover to any individual covered by a health insurance contract
- Remove the fixed minimum monetary values
- Specify benefits to be covered in non-monetary terms, if possible.

**14.** The Minister of Health and Children should commission a comprehensive independent study into the feasibility of splitting up Vhi Healthcare into two or more smaller entities, considering in particular the relative costs of such a move.

## **Observation**

Agreed. In section E8 of the Executive Summary the report states that, in relation to minimum benefit regulations, insurers are obliged to provide insurance cover for all public hospitals. This has not been an issue to date but we are not aware of any such obligation.

Strongly disagree. The comments made by the Health Insurance Authority in the report clearly indicate that the break-up of Vhi Healthcare would only result in an increase in the costs of health insurance and facilitate substantial profit taking both by competitors and providers. It is interesting to note that no such recommendation was made by the Competition Authority. The reality is that a strong, highly efficient and not for profit Vhi Healthcare is in the best interest of consumers.