Risk Equalisation Scheme Consultation

1. A risk equalisation scheme is essential to underpin a community rated health insurance market in Ireland. The problem with the risk equalisation scheme introduced in 2016 is that it compensates firms for less than 60 per cent of the cost of the difference in having a young healthy customer compared with having an older sicker customer. In the Netherlands, the risk equalisation scheme covers 95 per cent of the difference in cost. In Ireland, the inadequacy of the risk equalisation scheme results in profits for the commercial companies of an estimated 20-30 per cent in a market where the norm is 5-10 per cent. It is not at all clear how profits of this order benefit the Irish health services or the insured population. A consequence of the inadequacy of the risk equalisation scheme is the segmentation of the market with multiple policy offerings primarily aimed to attract young, healthy customers and to deter older, sicker customers. Health insurance companies are incentivised to compete for young health customers and not to reduce health care costs or to improve the quality of the services they offer to all customers. A further consequence is a disincentive to firms to hold on to 'loyal' customers as they age or become sicker. The approach of Health Insurance Authority to 'simplifying' health insurance distracts from the source of the problem, which is the inadequacy of the risk equalisation scheme.

2. The introduction of a high claims cost pool as part of the risk equalisation scheme is an important step towards increasing the effectiveness of the scheme. However, no rationale has been presented as to why a 40 per cent quota share and an excess of €50,000 has been proposed. Without knowing how the proposed quota share and excess will improve the level of effectiveness of the scheme, it is very hard to judge whether the right levels have been set. The aim in setting the quota share and the excess should be to make the risk equalisation scheme at least 95 per cent effective on the Dutch model, even if this is done progressively over the five years of the new scheme.

3. As the 'regulator of the private health insurance market' the Health Insurance Authority should be responsible for ensuring the effectiveness of the risk equalisation scheme –to the level of

European norms in a community rated market. The responsibility for determining the most effective risk equalisation scheme should be devolved to the Authority from the Minister and Department of Health which have other and potentially conflicting interests in the health insurance market.

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