

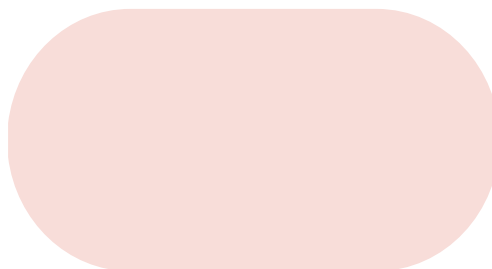


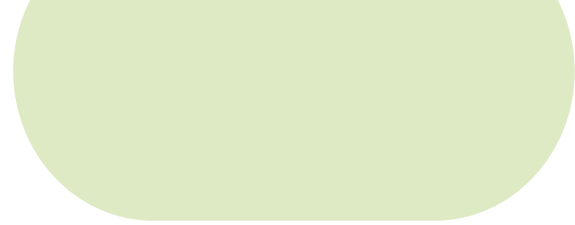
THE HEALTH
INSURANCE
AUTHORITY

Annual Report & Accounts 2005

The Health Insurance Authority
Canal House, Canal Road, Dublin 6

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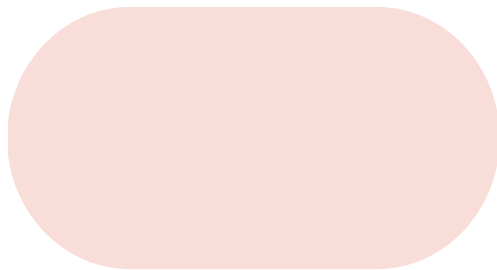




THE HEALTH
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Contents

	Page
1. Chairman's Statement	4
2. Membership and Staff of the Authority	6
3. Functions of the Authority	8
4. Regulatory Structure of the Market	9
5. The Registration of Health Benefits Undertakings	10
6. Product Issues	10
7. Consumer Interests	11
8. Risk Equalisation	12
9. Competition Issues	14
10. Minimum Benefits	14
11. Market Entry	14
12. Commissioned Research	14
13. Policy Environment	15
14. Resources	15
15. Strategy	16
16. Corporate Governance	17
17. Accounts	19
Appendix A – “Statistics Relating to the Private Health Insurance Market in Ireland, 2005”	
Appendix B – “The Register of Health Benefits Undertakings”	

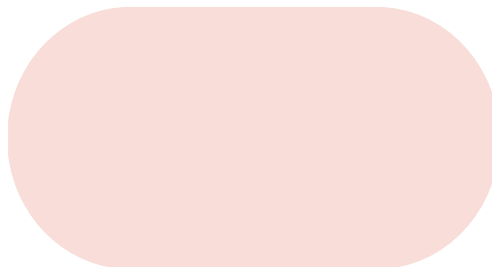
1. Chairman's Statement

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, 2005. In so doing, I should note that my own appointment as Chairman dates from 1 February 2006, on which date Professor Alastair Wood's five year term of office had expired.

It was an eventful year for the Authority, particularly with regard to risk equalisation. During the year the Authority twice recommended that risk equalisation payments be commenced. Details of the processes leading to these recommendations are given later in this report. In the event, the Tánaiste and Minister for Health and Children decided in December, 2005 that risk equalisation payments should commence from 1 January, 2006. Following the Authority's recommendation and the decision of the Tánaiste and Minister for Health and Children, legal proceedings challenging the recommendation and decision were initiated. These proceedings are ongoing.

Other work undertaken in 2005 included the completion of the Authority's second major survey of the behaviour and attitudes of private health insurance consumers. The results of the survey indicated that, while consumer knowledge and understanding of health insurance issues had increased since the Authority's first survey (the results of which were published in 2003), significant information asymmetry persists within the market. In order to address this, the Authority operates a strategy to inform consumers of their rights and to assist them in understanding and comparing health insurance products. The Authority also continues to assist consumers in other ways, for example, by responding to a large number of consumer queries and assisting in the resolution of disputes with insurers.

At the request of the Tánaiste and Minister for Health and Children, the Authority will give special attention in 2006 to increasing consumer awareness of rights to move between insurance providers and jointly with the Competition Authority, will undertake a study on competition in the health insurance market.



I am pleased to recognise the work and the dedication of the Members of the Authority during 2005. In particular, I would like to acknowledge the substantial contributions of my predecessor, Professor Alastair Wood, and former Member of the Authority, Mr Tom Greene, to the Authority's work over the last five years. I would like to welcome Mr Dónall Curtin following his appointment to the Authority by the Tánaiste. I would also like to thank the Tánaiste and Minister for Health and Children, Ms Mary Harney T.D., as well as officials in her Department for their support during 2005. Finally, the Authority expresses its appreciation of the work done in 2005 by the former Chief Executive/Registrar Mr Dermot Ryan and the other staff of the Authority. Mr Ryan returned to the Department of Health and Children in April 2006, having completed his term of office, and the Authority wishes him well in his future career. The Authority is pleased to note the appointment of Mr Liam Sloyan to replace Mr Ryan. Mr Sloyan was formerly Head of Compliance Services with the Authority.



J Joyce
Chairman

12 June, 2006

2. Membership and Staff of the Authority

The following were appointed as Members of the Authority by the Minister for Health and Children for a five year term ending on 31 January, 2006.



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



Ms. Mary Doyle
Economic and Business Consultant



Mr. Tom Greene
Accountant

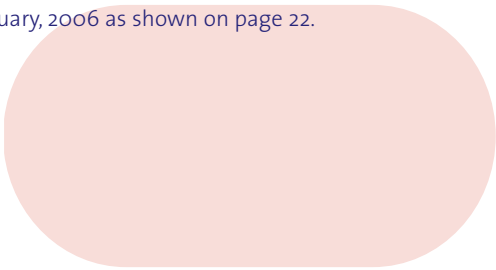


Ms. Anne Maher
Chief Executive, The Pensions Board



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

The Tánaiste appointed the new Authority 1 February, 2006 as shown on page 22.



Management

The Management Team of the Authority in 2005 was as follows:



Mr. Dermot Ryan
Chief Executive/Registrar



Ms. Nora Rahill
Corporate Affairs Manager/Secretary to the Authority



Mr. Liam Sloyan
Head of Compliance Services



Mr. Brian Turner
Head of Research/Technical Services



The offices of The Health Insurance Authority are located at Canal House, Canal Road, Dublin 6.

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3. Functions of the Authority

The Authority was established by Ministerial Order on 1 February, 2001¹ 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”)² sets out the requirements for the internal market for Member States regarding non-life insurance, including health insurance. It allows individual Member States to adopt these requirements in a manner most appropriate to their particular national legal systems and national healthcare systems. The Directive was transposed into Irish law through the enactment of the Health Insurance Acts which enshrined the four principles of private health insurance in Ireland, namely, community rating, open enrolment, lifetime cover and minimum benefit.

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

1. to evaluate and analyse returns made to it under the Risk Equalisation Scheme 2003 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 8 of this report) in relation to the Minister’s decision whether or not risk equalisation payments should be commenced;
3. to manage and administer the risk equalisation 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 his or her own request or on its own initiative) on matters relating to:
 - (a) his or her functions under the Health Insurance Acts;
 - (b) the Authority’s own functions; and
 - (c) health insurance generally;
6. to monitor:
 - (a) the operation of the Health Insurance Acts;
 - (b) the carrying on of health insurance business; and
 - (c) health insurance developments generally.

The Authority is empowered to exercise such powers as are necessary for the performance of its functions. The Minister may also assign further responsibilities to the Authority as provided for in the Health Insurance Acts.

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

² 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. Regulatory Structure of the Market

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

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

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

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

5. 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. Application for renewal of registration is required on an annual basis. The health insurer provides details of its health insurance products to the Authority and the products are reviewed for compliance with the Health Insurance Acts. A certificate is issued to the health insurer, confirming that the insurer may offer private health insurance in accordance with the terms of its rules and with the relevant legislation. There is no fee charged for the issuing of this certificate. Any health insurer that has ceased operating in the previous 12 months must notify the Authority of such cessation and is removed from the Register.

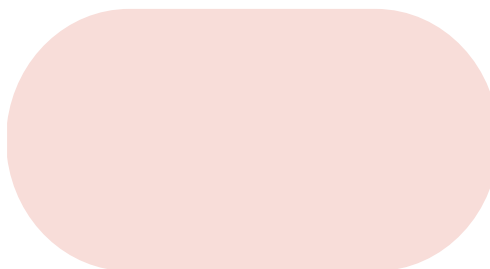
There are two types of health insurer. Open membership undertakings are health insurers that must accept all consumers who wish to obtain private health insurance (subject to certain limited restrictions specified in legislation). Restricted membership undertakings are mainly vocational schemes, membership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

Undertakings on “The Register of Health Benefits Undertakings” at 31 December, 2005 are listed in *Appendix B*.

6. Product issues

With a view to protecting the interests of consumers, 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 manner in which health insurance products are advertised and sold and has had discussions with health insurance providers about complaints processes.

During 2005, a number of new products were launched on the market. The Authority reviewed the details of the products to monitor compliance with the provisions of the Health Insurance Acts and associated regulations. The Authority also reviewed the health insurance contracts being offered by a number of restricted membership undertakings and identified some issues concerning compliance with the health insurance legislation. These were brought to the attention of the undertakings concerned and were generally resolved by appropriate amendments to product rules.



7. Consumer Interests

The Authority endeavours to inform consumers of their rights and to assist them in understanding and comparing health insurance products and, in 2005, published advertisements in major newspapers to raise consumer awareness of the assistance that the Authority provides in this regard. The level of contact between the Authority and consumers again increased significantly in 2005, during which the Authority's website averaged 2200 visits per month. However, research published by the Authority in 2005 (see Section 12), while indicating that consumers' knowledge has increased since the survey published by the Authority in 2003, confirms that there is still an information deficit amongst consumers and non-consumers alike and the Authority will continue to work to address this.

In 2005, the Health Insurance Act, 1994 (Open Enrolment) Regulations, 2005 [Statutory Instrument No. 332 of 2005] were introduced. Prior to the introduction of these regulations, insurers could refuse to effect a health insurance contract with a person aged 65 or over. The regulations removed this provision. The Authority contacted consumers who had previously enquired about this matter and advised them of the change to the legislation.

In December 2005, the Tánaiste and Minister for Health and Children requested that the Authority give special consideration to the question of improving consumers' awareness of their rights to move between insurers under the existing regulatory framework and take steps to highlight the portability rights of the insured. The Authority will be pursuing this in 2006.

The Authority continuously monitors the operation of the health insurance market from both consumer and regulatory perspectives and raises issues arising with insurers as appropriate.

Consumer Complaints and Queries

The Authority received 230 queries and complaints from members of the public in 2005, double the number received in 2004. The matters most frequently raised were:

- requests for the Authority's publications, particularly 'Understanding and Comparing Private Health Insurance Products',
- queries about insurance cover for people over the age of 65 following the change in legislation, and
- consumer rights in relation to waiting periods.

8. Risk Equalisation

Risk equalisation 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. Risk equalisation involves transfer payments between health insurers to spread some of the claims costs of high-risk members amongst all the private health insurers in the market in proportion to their market share. Risk equalisation is a common mechanism in countries with community rated health insurance systems.

The Risk Equalisation Scheme

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

The Authority is required to evaluate and analyse the returns made to it for the purpose of ascertaining the differences, if any, in the nature and distribution of insured risks among health insurers. From that evaluation and analysis, the Authority is required to determine the 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.

Where, as a result of its evaluation and analysis, the Authority determined the nature and distribution of risks among health insurers, as expressed by the MEP, to be not less than 2%, and not more than 10%, the Authority was required to include in its report to the Minister a recommendation as to whether he or she ought, or ought not, commence risk equalisation payments.

In making a recommendation the Authority was required to have regard to the criterion of the best overall interests of health insurance consumers, which 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.

Recommendations made in 2005

Twice in 2005, following an evaluation and analysis of returns received and consideration of representations from health insurers, the Authority recommended that risk equalisation payments be commenced. Following the Authority's second such recommendation the Tánaiste and Minister for Health and Children decided that risk equalisation payments should commence from 1 January, 2006.

Recommendation following the analysis of returns received in January, 2005

The third set of returns from insurers, which was for the period 1 July 2004 to 31 December 2004, was received by the Authority at the end of January 2005. From its evaluation and analysis of those returns, the Authority determined that the MEP was 4.7%.

In March 2005 the Authority proposed, following its analysis and evaluation of the returns and having regard to the best overall interests of consumers, to recommend to the Tánaiste and Minister for Health and Children to commence risk equalisation payments.

Following consideration of the representations made by the affected insurers in response to the Authority's proposal, the Authority adhered to its proposed recommendation and in its April 2005 Report to the Tánaiste and Minister for Health and Children, it recommended that risk equalisation payments be commenced.

In June 2005, the Tánaiste and Minister for Health and Children informed health insurers that, having considered the Authority's Report and its recommendation that risk equalisation payments be commenced, her proposed determination was that risk equalisation payments would commence from 1 July, 2005 and invited the insurers to make representations. Having received and considered those representations, the Tánaiste and Minister for Health and Children decided on 27 June 2005 not to commence risk equalisation payments.

In May 2005, BUPA had been granted leave to bring judicial review proceedings seeking certain reliefs including an order to quash the recommendation made by the Authority. In light of the decision of the Tánaiste and Minister for Health and Children at the end of June, BUPA did not pursue those proceedings so far as they sought to judicially review the recommendation made by the Authority and the Authority is, therefore, no longer involved in the proceedings. The Authority will be seeking to recover the legal costs it incurred when these proceedings have concluded.

Recommendation following the analysis of returns received in July, 2005

The fourth set of returns from health insurers for the period 1 January 2005 to 30 June 2005 was received by the Authority at end July 2005. From its evaluation and analysis of those returns, the Authority determined that the MEP was 4.2%.

Following its evaluation and analysis and having regard to the best overall interests of consumers the Authority wrote to health insurers in September, informing them that the Authority proposed to again recommend that risk equalisation payments be commenced and invited representations.

Following consideration of the representations received, the Authority decided to adhere to the proposal to recommend the commencement of risk equalisation payments. This recommendation was included in the Authority's October 2005 Report to the Tánaiste and Minister for Health and Children.

In November, the Tánaiste and Minister for Health and Children informed health insurers that, having considered the Authority's Report and its recommendation, she proposed to commence risk equalisation payments from 1 January 2006. The Tánaiste and Minister for Health and Children invited the insurers to make representations and, having received and considered those representations, she decided in December to commence risk equalisation payments from 1 January 2006.

9. Competition Issues

The Authority formalised its working relationship with the Competition Authority in 2005 with the signing of a Co-operation Agreement under the terms of the Competition Act, 2002.

In December 2005, the Tánaiste and Minister for Health and Children announced that she was requesting the Authority and the Competition Authority to jointly undertake a study on competition in the health insurance market and to report to her in 2006.

10. Minimum Benefits

In September 2005, the Authority made a submission to the Department of Health and Children on the Minimum Benefits Regulations (S.I. No. 83 of 1996). The Authority's submission took account of the representations it had received in a public consultation process on the Minimum Benefits Regulations. The Authority's submission to the Department is on the Authority's website at www.hia.ie.

11. Market Entry

The Authority welcomes new entrants to the private health insurance market in Ireland and is available to meet with potential new entrants and provide advice as required. The Authority works closely with the Financial Regulator in this regard.

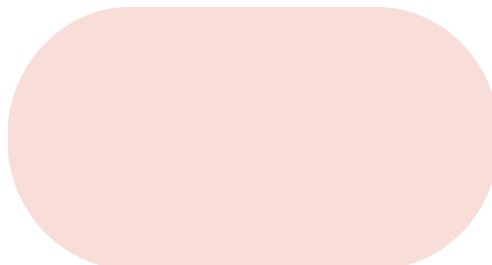
12. Commissioned Research

In late 2004, the Authority issued a request for tenders for an update of the 2003 survey of consumers. The primary aims of this survey included the following:

- To gauge the level of switching between insurers and the age profile of switchers
- To examine the level of knowledge and understanding consumers have of the market and of the products they buy
- To assess consumers' satisfaction with their policies
- To investigate the reasons for taking out, or not taking out, private health insurance

The project was awarded to a consortium led by Insight Statistical Consulting, and the fieldwork for the survey took place in March/April 2005. The report on the results of the research was published in September 2005 and is available on the Authority's website; www.hia.ie. The main findings of the survey included:

- The level of switching between insurers has risen (10% of consumers surveyed have switched insurers, compared with 6% in the previous study) but remains low
- The general level of knowledge and understanding among consumers has risen since the last survey.



13. Policy Environment

The Authority monitors issues relevant to the policy environment, for instance legislation, medical inflation and developments in the healthcare market in Ireland, as well as international developments in healthcare and health insurance.

Legislation

The Authority monitors, on an ongoing basis, developments in the areas of both domestic and EU legislation that deal with health insurance and connected matters, such as insurance and competition.

Corporate Status of Vhi Healthcare

The Tánaiste and Minister for Health and Children announced in December 2005 that the Government had approved the drafting of a Bill to amend the existing Voluntary Health Insurance Acts. The main provisions of the proposed Bill include:

- (i) giving commercial freedom on products and pricing to the Voluntary Health Insurance Board (VHI),
- (ii) obliging the Board to attain the level of reserves necessary to achieve authorisation as an insurer within six years.

The Tánaiste and Minister for Health and Children said that the Government decision also provided for the preparation of legislation to allow for the conversion of the VHI Board to a public limited company (PLC) as set out in the 1999 White Paper. She added that the implementation of the legislation would also encourage the development of greater competition in the health insurance market as VHI would be obliged to operate under similar conditions as apply to other insurers in the market.

14. 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, 1994³. 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. These statistics are summarised in Appendix A. “The Register of Health Benefits Undertakings” as at 31 December, 2005 is set out in Appendix B.

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

15. 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

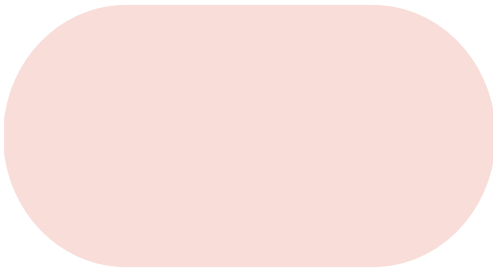
The mission of the Authority is:

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*
- *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*
 - *value its people.*
- 

16. 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 is compliant in 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 2005 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 Authority adheres to corporate governance documentation issued by the C&AG in 2003 setting out guidelines and standards for submission of accounts for audit.

Ethics in Public Office

The Authority is included on the Statutory Instrument No. 699 of 2004 for the purposes of the Ethics in Public Office Acts, 1995 and 2001. The Members of the Authority and relevant staff have fulfilled their obligations under this legislation.

Official Languages

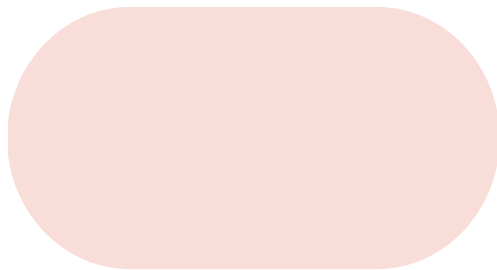
The Authority is compliant with the Official Languages legislation and maintains contact with the Department of Community, Rural and Gaeltacht Affairs in this regard.

Freedom of Information

The Authority has received notification that it is to be added to the public bodies covered by the requirements of the Freedom of Information legislation. In preparation for compliance, the Authority is preparing publications in line with the Freedom of Information Act, 1997 and 2003.

Communications Strategy

The Authority operates a policy of openness, consultation and discussion with relevant interested parties. The Authority welcomes communication with consumers, stakeholders and other interested parties in the provision of a regulatory service and in the performance of its functions. The Authority will continue to apply this policy going forward with an emphasis on the best overall interests of health insurance consumers.

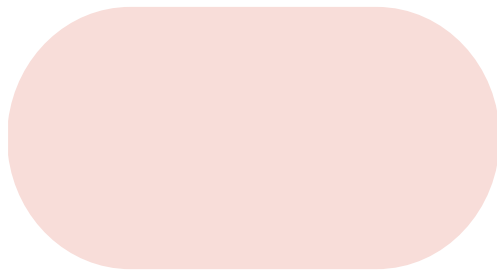




THE HEALTH
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Accounts 2005



17. Report and Accounts

for the period from 1 January, 2005 to 31 December 2005

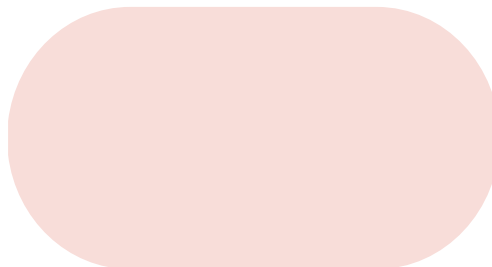
To the Minister for Health and Children

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 2005.

Contents	Page
Authority Information	22
Report of the Comptroller and Auditor General	23
Statement on the System of Internal Financial Controls	25
Statement of Responsibilities of the Authority	27
Statement of Accounting Policies	28
Financial Statements	29

Authority Information

Members of the Authority	Professor Alastair Wood (Chairman), <i>term ended January, 2006</i> Jimmy Joyce (Chairman), <i>term commenced February, 2006</i> Dónall Curtin, <i>term commenced February, 2006</i> Mary Doyle, <i>reappointed February, 2006</i> Tom Greene, <i>term ended January, 2006</i> Anne Maher, <i>reappointed February, 2006</i> Aidan O'Donnell, <i>reappointed February, 2006</i>
Chief Executive/Registrar	Liam Sloyan, appointed 6 March, 2006
Secretary	Nora Rahill, appointed 4 July, 2005
Bankers	AIB plc. 40/41 Westmoreland Street Dublin 2
Auditors	Comptroller and Auditor General Dublin Castle Dublin 2
Offices	Canal House Canal Road Dublin 6



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

I have audited the financial statements of the Health Insurance Authority for the year ended 31 December 2005 under Section 32 of the Health Insurance Act 1994.

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

Respective Responsibilities of the Authority and the Comptroller and Auditor General

The Authority is responsible for preparing the financial statements in accordance with Section 32 of the Health Insurance Act 1994, and for ensuring the regularity of transactions. The Authority prepares the financial statements in accordance with Generally Accepted Accounting Practice in Ireland. The accounting responsibilities of the Members of the Authority are set out in the Statement of Responsibilities of the Authority.

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

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

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

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

I review whether the Statement on Internal Financial Control reflects the Authority's compliance with the Code of Practice for the Governance of State Bodies and report any material instance where it does not do so, or if the statement is misleading or inconsistent with other information of which I am aware from my audit of the financial statements. I am not required to consider whether the Statement on Internal Financial Control covers all financial risks and controls, or to form an opinion on the effectiveness of the risk and control procedures.

Basis of Audit Opinion

In the exercise of my function as Comptroller and Auditor General, I conducted my audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and by reference to the special considerations which attach to State bodies in relation to their management and operation. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion, the financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Authority's affairs at 31 December 2005 and of its income and expenditure for the year then ended.

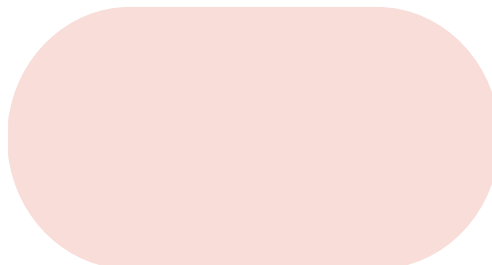
In my opinion, proper books of account have been kept by the Authority. The financial statements are in agreement with the books of account.



Gerard Smyth
For and on behalf of the

Comptroller and Auditor General

16 June, 2006



Statement on the System of Internal Financial Controls

Statement from the Chairman regarding the assessment of internal financial controls of The Health Insurance Authority as required in paragraph 10.2 (iii) of the “Code of Practice for the Governance of State Bodies” approved by the Government in October 2001

1. The Chairman and Members of the Authority acknowledge that the board of the Authority is responsible for The Health Insurance Authority’s system of internal financial control.
2. The Chairman and Members also acknowledge that such a system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded and any material errors or irregularities are either prevented or would be detected in a timely manner.
- 3-4. The Members of the Authority have set out the following key procedures designed to provide effective internal financial control within the Authority:

As provided for in Section 26(5) of the Health Insurance Act, 1994, the Chief Executive/Registrar (“the 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 to review the financial matters relating to the year 2005. 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 and it is anticipated that the next internal audit review will take place in 2006. External consultants were engaged to carry out this analysis, which involved the active participation of the Members and staff of the Authority to identify and prioritise potential risks. 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.

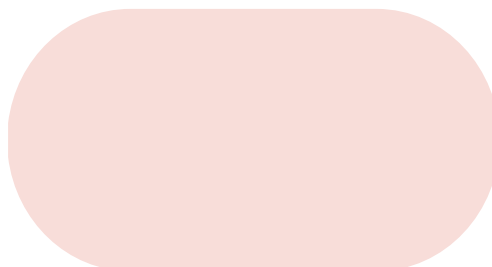
I confirm that while no formal review of the effectiveness of the system of internal control took place during the year, the system was kept under review by the Authority on an ongoing basis.

Signed on behalf of the Members of the Authority



J Joyce
Chairman, The Health Insurance Authority

12 June, 2006



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.



Chairman



Member

12 June, 2006

Statement of Accounting Policies

The significant accounting policies adopted in these financial statements are as follows:

Basis of Accounting

The financial statements are prepared in accordance with generally accepted accounting principles and under the historical cost convention and comply with the financial reporting standards of the Accounting Standards Board.

Levy Income (estimation for the final quarter)

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 1/3% for computer equipment and 20% for all other assets from date of acquisition.

Foreign Currencies

Transactions denominated in foreign currencies are converted into euro during the year and are included in the Income and Expenditure Account for the period.

Monetary assets and liabilities denominated in foreign currencies are converted into euro at exchange rates ruling at the balance sheet date and resulting gains and losses are included in the Income and Expenditure Account for the period.

Superannuation

In accordance with Section 28 of the Health Insurance Act, 1994, the Authority may, with the consent of the Minister for Health and Children and the Minister for Finance, make a scheme for the granting of superannuation benefits to staff members of the Authority. The Authority is in the process of finalising such a scheme in cooperation with both Departments and is making the necessary deductions from salaries which are retained by the Authority, but are not recognised as income. The Authority is also providing for employer contributions to the Scheme. For the purposes of Financial Reporting Standard 17, the Authority considers the scheme to be equivalent to a defined contribution scheme, from its point of view, and it has accounted for it accordingly.

General Reserve

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

Income and Expenditure Account

for the year ended 31 December, 2005

	Notes	12 months ended 31 December, 2005 €	12 months ended 31 December, 2004 €
Income	1	1,617,341	1,485,628
Administration Costs	2	(1,603,776)	(1,174,390)
Excess of expenditure over income/income over expenditure		13,565	311,238
Interest Receivable		26,476	19,746
Establishment Grant		0	507,895
Surplus for the period		40,041	838,879
Accumulated Surplus at beginning of Period		568,593	287,609
Transfer to General Reserve	8	(50,000)	(557,895)
Accumulated Surplus at end of period		558,634	568,593

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



Chairman



Member

12 June, 2006

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

Balance Sheet at 31 December, 2005

	Notes	2005 €	2004 €
Fixed assets			
Tangible assets	4	59,536	129,353
Current assets			
Bank and Cash		2,020,412	1,485,252
Prepayments and accrued income	5	443,610	383,677
		2,464,022	1,868,929
Creditors (amounts falling due within one year)			
Creditors and accruals	6	(857,029)	(371,794)
Net current assets		1,606,993	1,497,135
Total assets less current liabilities		1,666,529	1,626,488
Net assets		1,666,529	1,626,488
Representing			
Accumulated excess income over expenditure	8	558,634	568,593
General Reserve		1,107,895	1,057,895
		1,666,529	1,626,488

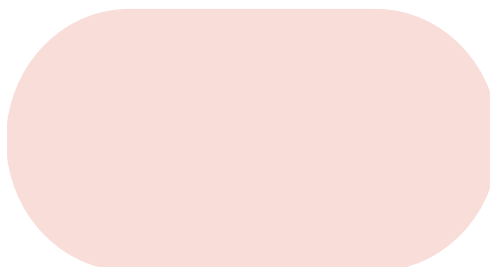


Chairman



Member

12 June, 2006



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

	2005	2004
	€	€
Salaries and staff costs (including training)	447,120	507,740
Members' remuneration	27,934	27,936
Rent, Service Charges and Maintenance	155,576	174,961
Recruitment costs	59,918	5,964
Consultancy (Note 3)	688,609	229,545
Insurance	41,088	46,060
Computer and Stationery Costs	23,453	16,978
Other Administration Costs	47,402	50,291
Consumer Interests	28,988	26,361
Audit	10,500	6,600
Depreciation	73,188	81,954
	1,603,776	1,174,390

3. Consultancy Costs

	2005	2004
	€	€
Accountancy	33,342	37,237
Actuarial Services	148,988	44,376
Legal Services	399,416	103,953
Public Relations	48,927	41,191
Research	53,579	(861)
Superannuation	1,059	756
Translation Services	3,298	2,893
	688,609	229,545

Notes

(forming part of the financial statements)

4. Tangible Fixed Assets

	Computer Equipment	Office Fitting, Furniture & Equipment	Total
	€	€	€
Cost			
At 31 December 2004	68,508	326,724	395,232
Additions during period	2,550	821	3,371
At 31 December 2005	71,058	327,545	398,603
Depreciation			
At 31 December 2004	53,963	211,916	265,879
Charge for period	6,905	66,283	73,188
At 31 December 2005	60,868	278,199	339,067
Net Book Value			
At 31 December 2005	10,190	49,346	59,536
At 31 December 2004	14,545	114,808	129,353

5. Prepayments and accrued income

	2005 €	2004 €
Accrued income	404,621	343,970
Prepayments	38,989	39,707
	443,610	383,677

6. Creditors (amounts falling due within one year)

	2005 €	2004 €
Trade creditors and accruals	619,199	178,808
Pensions provision (Note 7)	221,598	172,886
PAYE/PRSI	7,449	12,948
Professional Services Withholding Tax	5,488	4,075
Value Added Taxation	3,295	3,077
	857,029	371,794

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 to the Minister for Health and Children including employer contributions at a rate of 16.666% of pensionable pay and are charged to the Income and Expenditure Account. The Minister has agreed to reimburse the Board in respect of benefits paid under the scheme. The following amounts are included in the heading, "Salaries and Staff Costs (including training)" (Note 2):

	2005 €	2004 €
At beginning of period	172,886	108,950
Employee Contributions	13,109	17,210
Employer Contributions	41,819	51,905
Total	227,814	178,065
Net underpayment of 2003 Contributions	-	(1,094)
Refunds of Contributions	(6,216)	(8,233)
Transfers into Pension Provision	-	6,708
Refund Due	-	(2,560)
At end of period	221,598	172,886

8. Accumulated Surplus on Income and Expenditure Account

	2005 €	2004 €
At beginning of period	568,593	287,609
Surplus for period	40,041	838,879
	608,634	1,126,488
Transfer to General Reserve	(50,000)	(557,895)
Retained surplus	558,634	568,593

9. Capital Commitments

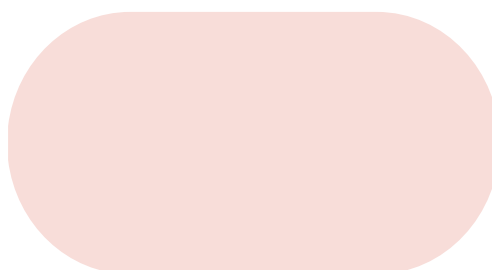
There are no capital commitments for capital expenditure at 31 December 2005.

10. Contingent Liabilities

There were no contingent liabilities at 31 December 2005.

11. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 12 June, 2006.



Appendix A

Table 1:

Statistics Relating to the Private Health Insurance Market in Ireland

Membership (1)	31-Dec-01	31-Dec-02	31-Dec-03	31-Dec-04	31-Dec-05
Total Insured Persons (000)	1,871	1,941	1,999	2,054	2,115
Private Health Insurance Coverage as a % of Total Population (2)	48.2%	49.2%	49.8%	50.4%	50.6%
Premium Income	2001 (3)	2002	2003	2004	2005
Total Premium Income (€m)	537.4	821.9	978.2	1,061.1	1,152.7

(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, 2005)

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. Health Shield Friendly Society Limited
5. Irish Life Assurance Plc Outdoor Staff Benevolent Fund
6. Irish Life Medical Aid Society
7. Motorola Medical Aid Society
8. New Ireland/Irish National Staff Benevolent Fund
9. Prison Officers Medical Aid Society
10. Royal & Sun Alliance (Republic of Ireland) Staff Medical Expenses Scheme
11. St Paul's Garda Medical Aid Society
12. The Goulding Voluntary Medical Scheme