

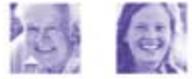


THE HEALTH
INSURANCE
AUTHORITY



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THE HEALTH
INSURANCE
AUTHORITY

Annual Report and Accounts 2006





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1. Chairman's Statement

I am pleased to present the Annual Report and Accounts of The Health Insurance Authority ("the Authority") for the year ending 31 December 2006 in accordance with Section 33(2) of the Health Insurance Act, 1994. The year was eventful and challenging in relation to the regulatory, policy advisory and consumer interests functions of the Authority.

Much of the Authority's work in 2006, under its regulatory function, was focussed on community rating and risk equalisation. It was the first year in respect of which risk equalisation transfers are payable, although there is currently a stay on payments pending the outcome of legal proceedings referred to below. The Authority issued two reports on risk equalisation to the Minister in 2006. The reports describe evaluations and analyses of returns received from insurers and show that the significance of risk profile differentials between insurers continues to grow.

As noted in the Authority's Annual Report for 2005, BUPA had instigated legal proceedings against the Risk Equalisation Scheme in the High Court in Ireland and in the European Court of First Instance. In December of 2006, the High Court dismissed BUPA's arguments and found that the Risk Equalisation Scheme is necessary and "*moreover it is fair, reasonable and proportionate*". The Court also found that the Authority's role in the process "*is crucial given not only its independence but also its expertise*". The judgment of the High Court is now being appealed by BUPA. In addition, in January 2006 BUPA instigated proceedings against the process leading to the commencement of risk equalisation payments. These proceedings, the appeal of the first set of High Court proceedings and the judgment in relation to the European proceedings are currently pending.

Following the High Court judgment in favour of the Risk Equalisation Scheme, BUPA decided to leave the Irish market. It subsequently sold BUPA Ireland Ltd to Quinn Direct Insurance Ltd. Arising from the manner in which this was proposed, the Authority communicated to the Minister its views regarding the potential consequences of organisations that acquire the business of existing insurers availing of the temporary exemption from risk equalisation payments. Subsequently, in February 2007, legislation was passed which removed the three year exemption from risk equalisation payments for new entrants to the market. Quinn Direct Insurance Ltd was added to the Register of Health Benefit Undertakings in April 2007.

In early 2006, the Minister for Health and Children ("The Minister") requested that the Authority and the Competition Authority report to her on "*further measures to encourage competition in the private health insurance market and the strategy or strategies that might be adopted in order to create greater balance in the share of the market held by competing insurers*". Terms of reference were agreed in March 2006 and a public consultation process was conducted in April 2006. The Authority's Report, which was submitted in January 2007, considered the extent to which barriers to rivalry and barriers to entry exist in the Irish Private Health Insurance Market. It contains a number of recommendations aimed at reducing such barriers, bringing about a situation as soon as possible that all health insurers operate under the same regulatory framework and otherwise increasing the level of competition in the market. The recommendations in the Report were made in the context of effective risk equalisation payments being made and, in the absence of such payments, many of the recommendations would not be feasible.

Following the announcement by BUPA that it intended to exit the Irish market, the Minister established a three person group (the Barrington Group) to examine whether "*it is possible for current and prospective participants in the health insurance market to earn a return on capital employed which would be regarded as adequate for the insurance industry*". This Group reported in March 2007. The Authority is examining the Group's Report and will communicate with the Minister in relation to it as appropriate.

1. Chairman's Statement [continued]

Following consideration of the Reports of the Health Insurance Authority, the Competition Authority and the Barrington Group, the Government announced a number of measures aimed at creating a level playing field and enhancing consumer choice. The measures include additional tasks for the Health Insurance Authority, in particular with regard to consideration of possible changes to the structure of community rating and to the Risk Equalisation Scheme.

Other matters in relation to which the Authority issued advice to the Minister in 2006 are risk equalisation, lifetime community rating and the definition of a health insurance contract.

The Authority maintained its focus on the interest of consumers throughout 2006. The Authority continues to assist consumers by responding to consumer queries, assisting in the resolution of disputes with insurers and providing consumers with information on their rights and on the insurance products available in the market. In addition, following a request by the Minister, the Authority carried out a media campaign to inform consumers of their rights under health insurance legislation. The campaign was particularly aimed at informing consumers of their right to switch insurer without penalty.

I am pleased to recognise the work and dedication of the Members of the Authority during 2006. In doing so, I wish to acknowledge the substantial contribution of Ms Anne Maher, who resigned at the end of 2006 after six years as a Member of the Authority. I would also like to thank the Minister for Health and Children, Ms Mary Harney T.D., as well as officials in her Department, for their support during the year.

Finally, the Authority expresses its appreciation for the work done by the staff of the Authority and for the commitment shown by them throughout 2006.



J. Joyce
Chairman

2. Membership and Staff of the Authority

Membership

The Members of the Authority are appointed by the Minister for Health and Children for a term of five years, the current term ending on 31 January 2011.

There is currently one vacancy on the Authority.

The current Members of the Authority are:



Mr. Jim Joyce (Chairman)

Mr. Joyce became Chairman of the Authority on 1 February 2006. Mr. Joyce is a Fellow of the Institute of Actuaries and the Society of Actuaries in Ireland and served as President of the Society for 1999/2000. His early career was in the Civil Service ending as Assistant Secretary in the Department of Posts and Telegraphs, following which he was Executive Director of Telecom Éireann from 1984 to 1992. He was Actuarial Consultant to the Department of Enterprise, Trade and Employment and then to the Irish Financial Services Regulatory Authority from 1992 to 2005.



Mr. Dónall Curtin

Mr. Curtin is a founder and Senior Partner of Byrne Curtin Kelly (Certified Public Accountants). He is a member of the Institute of Certified Public Accountants in Ireland. He is a Director on the Board of the Dublin Docklands Development Authority. Mr. Curtin is also a director of Chambers Ireland and a member of the Chartered Institute of Arbitrators with considerable experience in arbitration, mediation and dispute resolution.



Ms. Mary Doyle

Ms. Doyle is a Project Manager with Bank of Scotland Ireland. She is an economist with extensive experience of Irish business and banking, having focused on strategic economic, business and market analysis. She has also acted as an Economic Consultant for the World Bank and has research experience in the fields of training, tourism and EU regional policy. She managed the introduction of the euro currency for ICC Bank/ Bank of Scotland Ireland (BOSI) and is currently programme manager for the introduction of Basel II International Banking Regulations in BOSI. Her qualifications include a Master of Arts degree in Economics and a Diploma in Accounting and Finance. She has been a member of a number of industry wide advisory groups, including for IBEC and the IBF.



Mr. Aidan O'Donnell

Mr. O'Donnell is an actuary. He has over 20 years of experience in the financial services industry having worked in a variety of senior roles with Irish Life, Bank of Ireland and Anglo Irish Bank. Currently he is Chief Product Officer and Actuary for Hartford Life's operations in Europe. He is a Fellow of the Society of Actuaries in Ireland and also holds a Masters in Business Administration from University College Dublin.

2. Membership and Staff of the Authority [continued]



Ms. Anne Maher – resigned 31 December 2006

Ms. Maher is the former Chief Executive of The Pensions Board. She is now a board member of Allied Irish Banks plc, the Irish Auditing and Accounting Supervisory Authority, the Professional Oversight Board (UK) and the Retirement Planning Council of Ireland. She is also Chairman of the Medical Council Performance Committee, a member of the FTSE Policy Group and of the Pensions Policy Institute (UK). Her background is a law degree from University College Dublin.

The following Members' terms ended during 2006.



Professor Alastair Wood (Chairman) – term ended 31 January 2006

Professor Emeritus of Applied Mathematics
Honorary Fellow of the Society of Actuaries in Ireland



Mr. Tom Greene – term ended 31 January 2006

Accountant

Management

The Management Team of the Authority at the 31 December 2006 is as follows:



Mr. Liam Sloyan
Chief Executive/Registrar



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



Mr. Brendan Lynch
Head of Research/Technical Services



Mr. Michéal Ó Briain
Head of Regulatory Affairs



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3. Functions of the Authority

The Authority was established by Ministerial Order on 1 February 2001 under the Health Insurance Act, 1994 and operates in accordance with the provisions of this Act, the Health Insurance (Amendment) Act, 2001, the Health Insurance (Amendment) Act, 2003 and the Health Insurance (Amendment) Act, 2007 (“the Health Insurance Acts”).¹ 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”) sets out the requirements for the internal market for Member States regarding non-life insurance, including health insurance.² 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 legislated for 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 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).

3.1 Regulation

Regulatory Structure of the Market

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 pool.

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 regulations 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.

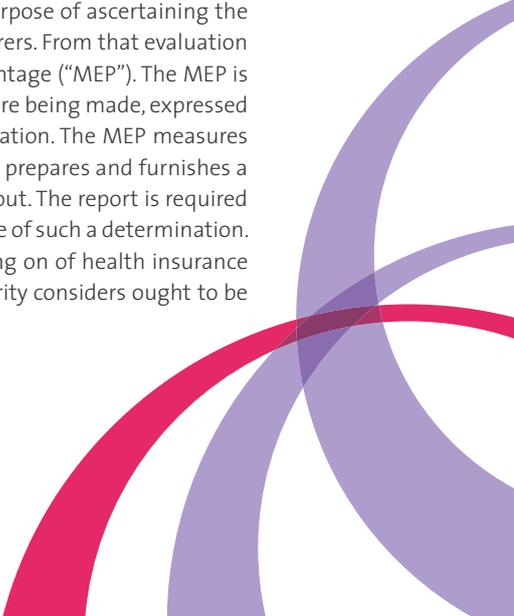
Risk Equalisation

Risk equalisation is a process that aims to equitably neutralise 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 MEP is equal to the amount that would be transferred if full risk equalisation payments were being made, expressed as a percentage of the total benefits in the market that are subject to risk equalisation. The MEP measures the significance of any risk profile differences between insurers. 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 a determination. The report also contains 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.



Risk Equalisation [continued]

Under the Risk Equalisation Scheme, while the MEP lay between 2% and 10% risk equalisation payments could only be commenced if the Authority recommended that they be commenced and if the Minister so determined. In making its recommendation, the Authority was required to have regard to the best overall interests of health insurance consumers including the need to facilitate competition between undertakings and to maintain community rating across the market for private health insurance.

The fourth set of returns from health insurers for the period 1 January 2005 to 30 June 2005 were received at the end of July 2005. The Authority determined that the MEP was 4.2%. Following its evaluation and analysis of the returns and consideration of representations received from health insurers and having regard to the best overall interests of consumers, the Authority recommended the commencement of risk equalisation payments. In December 2005, the Minister decided that payments would commence and that the commencement date would be 1 January 2006.

Legal Proceedings

In May 2005, BUPA Ireland commenced High Court proceedings in relation to the Risk Equalisation Scheme. The proceedings were originally brought against the Minister for Health and Children, the Attorney General and the Authority, but the Authority was subsequently released from the proceedings. Vhi Healthcare was a notice party to the proceedings.

The High Court, on 30 May 2005, determined that a stay on the risk equalisation payments would apply until the conclusions of the above proceedings. This stay on payments remains in place.

Mr. Justice McKechnie delivered his judgment on 23 November 2006 and dismissed the BUPA Ireland claim. In his judgment McKechnie J stated that “*within the statutory framework of the Irish system, this market is potentially unstable without risk equalisation. Moreover it (the Risk Equalisation Scheme) is fair, reasonable and proportionate.*”

The Authority's costs in relation to these proceedings have been awarded against BUPA Ireland.

Following the High Court judgment BUPA Ireland announced on 14 December 2006 that it was commencing its withdrawal from the Irish market. It ceased to sell new policies and announced that it would not renew contracts from 1 February 2007. On 31 January 2007, BUPA Ireland and the Quinn Group announced that agreement had been reached for the purchase of BUPA Ireland Ltd. by the Quinn Group.

On 30 January 2007 BUPA Ireland lodged an appeal to the Supreme Court against the High Court decision.

BUPA Ireland is also challenging a decision of the European Commission that the Irish Risk Equalisation Scheme does not constitute a State Aid. These proceedings were heard in the European Court of First Instance on 7 March 2007 and judgment is awaited.

In addition, on 30 January 2006 BUPA sought a judicial review challenging the October 2005 recommendation of the Authority and the December 2005 decision of the Minister to commence risk equalisation payments. These proceedings have yet to be heard.

Risk Equalisation Reports made in 2006

Report following the analysis of returns received in January 2006

The fifth set of returns from insurers, which was for the period 1 July 2005 to 31 December 2005, was received by the Authority at the end of January 2006. From its evaluation and analysis of those returns, the Authority determined that the MEP was 5.1% (with a HSW=0).

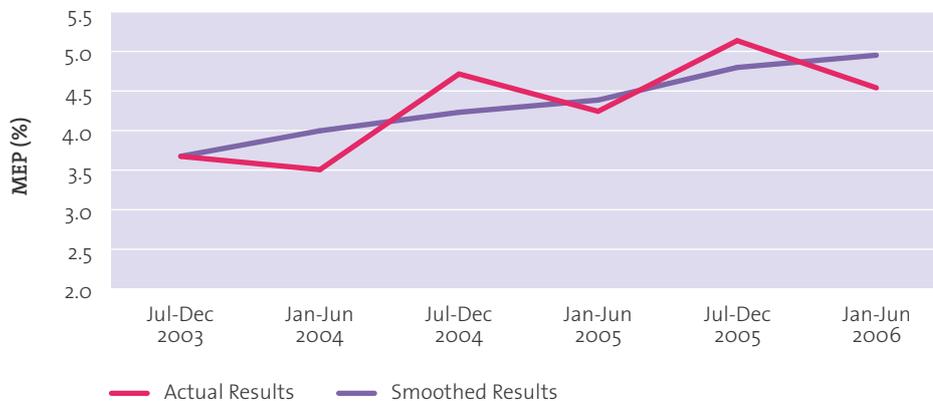
The Authority reported to the Minister on these returns in April 2006.

Report following the analysis of returns received in July 2006

The sixth set of returns from health insurers for the period 1 January 2006 to 30 June 2006 was received by the Authority at the end of July 2006. This is the first period for which payments under the Scheme are due. Under the Scheme, payments are phased in for the first year, the phasing factor being 50%.

From its evaluation and analysis of those returns, the Authority determined that the MEP was 4.5% (with a HSW=zero). This is a decrease of 0.6 percentage points from the previous period, 1 July 2005 to 31 December 2005. The chart below shows the trend in the MEP, with HSW equal to zero, over the six periods for which returns have been received.

MEP with HSW = 0.0 for the six periods for which returns have been received



Smoothed values for the MEP are also plotted. When seasonality and random fluctuation are allowed for, it can be seen that the underlying trend continues to be upward.

The Authority reported to the Minister on these returns in September 2006. Taking phasing into account, the amount each insurer is due to receive from/(contribute to) the Risk Equalisation Fund for the period is as follows:

| | |
|----------------|--------------|
| BUPA Ireland | (€8,326,647) |
| ESB SMPF | €605,929 |
| Vhi Healthcare | €7,720,718 |
| VIVAS Health | €NIL |

As a recent entrant to the market VIVAS Health will not be required to make or receive risk equalisation payments until October 2007.

The Register of Health Benefit 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.

3. Functions of the Authority [continued]

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 as specified in the 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 2006 are listed in Appendix B.

Monitoring Regulatory Compliance

The Authority monitors the operation of the health insurance market and the products of registered undertakings for compliance with the health insurance legislation. On occasion, the Authority may directly contact a registered undertaking if it believes that there is a possibility that it is not fully compliant with the legislation. It also monitors the way in which health insurance products are advertised and sold and has had discussions with health insurance undertakings in this regard.

During 2006, a number of new products were launched and the Authority reviewed the details of those products for compliance with the provisions of the Health Insurance Acts, 1994-2007 and associated regulations.

3.2 Research and Advice

Competition Report

In January, the Minister for Health and Children requested that the Health Insurance Authority and the Competition Authority report on “*further measures to encourage competition in the private health insurance market and the strategy or strategies which might be adopted in order to create greater balance in the share of the market held by competing insurers.*” Terms of Reference were agreed in March 2006 and a public consultation process was conducted in April 2006. The Competition Authority and the Health Insurance Authority worked closely together in the preparation of their reports. The Health Insurance Authority submitted its Report to the Minister in January 2007.

The Report sets out the background to the private health insurance (“PHI”) market and the regulatory regime. There is an assessment of whether impediments to competition exist using the main benchmarks of competition policy; for instance, barriers to entry and barriers to rivalry. The Report considers buyer power, market power and market structure. It also considers relevant international comparisons and contains appendices on a comparison of the Irish and Australian risk equalisation schemes and a summary of an OECD review of private health insurance internationally.

A conclusion of the Report is that the necessary regulations for the maintenance of a community rated market have an impact on competition, but one that is fair and proportionate and that facilitates competition between insurers. Nevertheless, the Irish market is concentrated and there are a number of measures recommended in the Report, designed to benefit consumers by encouraging greater competition in the market.

A primary objective of the Report’s recommendations is to bring about a situation as soon as possible that all health insurers operate under the same regulatory framework. To this end, a number of recommendations are aimed at facilitating Vhi Healthcare becoming an authorised insurer, regulated by the Financial Regulator and required to achieve solvency levels specified in insurance legislation.

The recommendations in the Report are made in the context of effective risk equalisation payments being made and in the absence of such payments, many of the recommendations would not be feasible.

Minimum Benefits

The Authority monitors compliance with the Minimum Benefit Regulations, which are important for the effectiveness of community rating and for consumer protection.

In its 1999 White Paper on Private Health Insurance, the Government indicated its intention to amend the current system of minimum benefits. In 2005, the Authority recommended that the system of minimum benefits should be simplified in a submission to the Department of Health and Children. In its Report to the Minister on *Competition in the Irish Private Health Insurance Market*, the Authority recommended that the Minimum Benefit Regulations should be amended by simplifying them, removing some restrictions on what insurers can offer and removing references to monetary values as far as possible.

Lifetime Community Rating

Lifetime community rating is a system whereby insurers may charge a higher premium to those who take out health insurance for the first time later in life. Under lifetime community rating a 70 year old person who has been insured since the age of 30 would pay the same premium as a 30 year old but a 70 year old who was not previously insured could be charged a higher premium. The Authority maintains its view that the introduction of lifetime community rating would reduce the risk of adverse selection in the market.

The Health Insurance Acts provide for the introduction of regulations establishing a system of lifetime community rating in Ireland. In 2006, the Authority provided advice to the Department of Health and Children in relation to the drafting of such Regulations and had discussions with Departmental officials in this regard.

Legislation

The main legislative sources of regulation of private health insurance in Ireland are the Health Insurance Acts, 1994-2007, EU Non-Life Insurance Directives as transposed into Irish law, the Voluntary Health Insurance Acts, the Insurance Acts and the Central Bank and Financial Services Authority of Ireland Acts. The bodies responsible for overseeing the regulation of private health insurance in Ireland are The Health Insurance Authority and the Financial Regulator. There were no legislative changes made in 2006 to the Health Insurance Acts.

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. The Authority has also advised the Minister and her officials of the effects in the health insurance market of various detailed provisions of the health insurance legislation and the potential effects in the market of possible amendments to some provisions of the legislation.

In particular, the Authority and the Department of Health and Children held discussions regarding the legislative provision contained in the Health Insurance (Amendment) Act, 2001 that excluded some types of contracts of insurance by certain companies from the definition of a health insurance contract (clause (c) in the definition). Competition policy issues arise in respect of the exclusion and these have been raised by companies that would not be entitled to avail of it.

Health Insurance Environment

The Authority also monitors issues relevant to the wider health insurance environment, for instance related legislation, medical inflation, developments in the healthcare market in Ireland and in international healthcare and health insurance systems.

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.



3. Functions of the Authority [continued]

3.3 Consumer Services

The interests of consumers are of key importance to the Authority. The Authority assesses the effect of any regulations or new legislation on consumers. The Authority also aims to increase consumers' awareness of their rights and to assist them in comparing and understanding health insurance products. Under its function to monitor the operation of health insurance business, the Authority monitors the provision of information to consumers by insurers as well as monitoring compliance with the Health Insurance Acts.

Consumer Queries and Complaints

The Authority assists consumers by answering queries regarding health insurance and by assisting them in resolving complaints against insurers. In 2006, the volume of queries and complaints received rose to almost 250.

Topics that were frequently raised with the Authority were:

- requests for Authority publications, particularly the table 'Understanding and Comparing Private Health Insurance Products',
- rights in relation to switching insurers,
- waiting periods,
- risk equalisation and
- general queries regarding health insurance.

Consumer Information Campaign

In December 2005, the Minister for Health and Children requested that the Authority give consideration to the question of improving consumer awareness of their rights to move between insurers under the existing regulatory framework and to take steps to highlight the portability rights of the insured.

The Authority undertook a campaign to highlight the portability of private health insurance. The campaign involved print advertisements in the national and regional media in tandem with interviews with the Chief Executive/Registrar in the print and broadcast media. A copy of the print advertisement used in the campaign is included in Appendix C.

The Authority also sought the cooperation of insurers in relation to distributing consumer rights information with renewal notices. However, such a process would require the cooperation of all insurers and not all insurers were prepared to become involved.

The Authority plans to intensify its campaign in 2007.

Website

As part of the ongoing maintenance and development of its website, in 2006 the Authority increased its website's consumer information content. In addition to information on consumer rights (including the right to switch insurance cover without penalty), the Authority's website includes information aimed at assisting consumers in understanding and comparing health insurance products and in selecting the most appropriate product for their circumstances. To this end, the Authority publishes a table providing summary details of all products in the market in a consumer friendly format. This table is regularly updated to allow for changes in products and prices.

4. Corporate Affairs

4.1 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.

4.2 Corporate Governance

Corporate Governance Code of Practice

The Authority prepared a “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.

4. Corporate Affairs [continued]

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.

Annual Report and Accounts

The Annual Accounts for 2006 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 5. 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.

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.

4.3 Relationship with Stakeholders

Throughout 2006 the Authority has endeavoured to maintain appropriate 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, insurers, professional bodies and other regulators.

Financial Regulator

The Authority has a close working relationship with the Financial Regulator in relation to matters of mutual interest. In 2006, the Authority signed a co-operation agreement with the Financial Regulator.

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.

4.4 Freedom of Information

The Health Insurance Authority came within the scope of the Freedom of Information Act with the passage of the Freedom of Information Act 1997 (Prescribed Bodies) Regulations 2006, effective from 31 May 2006.

In addition to processing requests made under the Freedom of Information Acts as they were received, the Authority prepared two booklets, “A Guide to the Functions of and Records Held by the Authority” and “A Guide to the Rules, Procedures, and Practices of the Authority”, which together guide applicants through the Freedom of Information process. The guides are compiled in accordance with the Freedom of Information Acts and are published on the Authority’s website.

4.5 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.

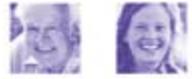
Funding

The operations of the Authority are funded by a levy on registered undertakings in accordance with Section 17 of the Health Insurance Act, 1994.³ 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 2006 is set out in Appendix B.

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







THE HEALTH
INSURANCE
AUTHORITY

Accounts 2006





5. Report and Accounts

for the year 1 January 2006 to 31 December 2006

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 2006.

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Authority Information

The Members of the Authority are appointed by the Minister for Health and Children for a term of five years ending on 31 January 2011.

Members of the Authority

J. Joyce (Chairman), *appointed 1 February 2006*

Dónall Curtin, *appointed 1 April 2006*

Mary Doyle, *reappointed 1 February 2006*

Aidan O'Donnell, *reappointed 1 February 2006*

Anne Maher, *reappointed 1 February 2006*

The following Members term ended during 2006

Professor Alastair Wood (Chairman), *term ended 31 January 2006*

Tom Greene, *term ended 31 January 2006*

Anne Maher, *resigned 31 December 2006*

Chief Executive/Registrar

Liam Sloyan

Secretary

Nora Rahill

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 2006 under the Health Insurance Act, 1994.

The financial statements, which have been prepared under the accounting policies set out therein, comprise the 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 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.

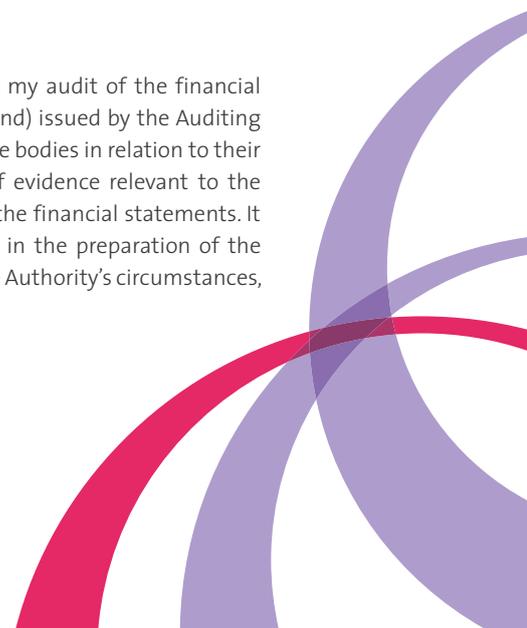
I also report if I have not obtained all the information and explanations necessary for the purposes of my audit.

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.

I read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with 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 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.



Report of the Comptroller and Auditor General [continued]

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 2006 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

19 June 2007

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 CE”) is responsible for carrying on, 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 CE and staff are responsible for operational matters. The CE 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 2006. 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.

An internal audit review of the Authority and its business in October 2006 was carried out. 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.

Annual Review of Controls

I confirm that in respect of the year ended 31 December 2006, the Authority conducted a review of the effectiveness of internal financial control.

Signed on behalf of the Members of the Authority



J. Joyce

Chairman, The Health Insurance Authority

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

19 June 2007

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.

Levy Income

The levy income represents the amount collected by the Authority 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 2006

| | Notes | 12 months ended 31 December 2006 € | 12 months ended 31 December 2005 € |
|---|-------|--|--|
| Income | 1 | 1,819,334 | 1,617,341 |
| Administration Costs | 2 | (1,736,876) | (1,603,776) |
| Excess of expenditure over income/ income over expenditure | | 82,458 | 13,565 |
| Interest Receivable | | 35,071 | 26,476 |
| Surplus for the period | | 117,529 | 40,041 |
| Accumulated Surplus at beginning of period | | 558,634 | 568,593 |
| Transfer to General Reserve | 8 | (50,000) | (50,000) |
| Accumulated Surplus at end of period | | 626,163 | 558,634 |

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



Chairman

19 June 2007



Member

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

Balance Sheet at 31 December 2006

| | Notes | 2006 € | 2005 € |
|--|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 4 | 5,616 | 59,536 |
| Current assets | | | |
| Bank and Cash | | 2,022,382 | 2,020,412 |
| Prepayments and accrued income | 5 | 494,599 | 443,610 |
| | | 2,516,981 | 2,464,022 |
| Creditors (amounts falling due within one year) | | | |
| Creditors and accruals | 6 | (738,539) | (857,029) |
| Net current assets | | 1,778,442 | 1,606,993 |
| Total assets less current liabilities | | 1,784,058 | 1,666,529 |
| Net assets | | 1,784,058 | 1,666,529 |
| Representing | | | |
| Accumulated excess income over expenditure | 8 | 626,163 | 558,634 |
| General Reserve | | 1,157,895 | 1,107,895 |
| | | 1,784,058 | 1,666,529 |

Chairman

19 June 2007

Member

The Statement of Accounting Policies and notes 1 to 11 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.

| | 2006 € | 2005 € |
|------------------------|------------------|------------------|
| Income Levy | 1,819,304 | 1,617,341 |
| Freedom of Information | 30 | – |
| | 1,819,334 | 1,617,341 |

2. Administration Costs

| | 2006 € | 2005 € |
|---|------------------|------------------|
| Salaries and staff costs (including training) | 512,516 | 447,120 |
| Members' remuneration | 37,333 | 27,934 |
| Rent, Service Charges and Maintenance | 146,939 | 155,576 |
| Recruitment costs | 56,013 | 59,918 |
| Consultancy (Note 3) | 720,245 | 688,609 |
| Insurance | 43,756 | 41,088 |
| Computer and Stationery Costs | 29,731 | 23,453 |
| Other Administration Costs | 38,892 | 47,402 |
| Consumer Information | 85,263 | 28,988 |
| Audit | 11,500 | 10,500 |
| Depreciation | 54,688 | 73,188 |
| | 1,736,876 | 1,603,776 |

3. Consultancy Costs

| | 2006 € | 2005 € |
|----------------------|----------------|----------------|
| Accountancy | 71,043 | 33,342 |
| Actuarial Services | 79,903 | 148,988 |
| Legal Services | 505,232 | 399,416 |
| Public Relations | 46,718 | 48,927 |
| Research | 14,388 | 53,579 |
| Superannuation | 961 | 1,059 |
| Translation Services | 2,000 | 3,298 |
| | 720,245 | 688,609 |

4. Tangible Fixed Assets

| | Computer Equipment € | Office Fitting, Furniture & Equipment € | Total € |
|-------------------------|----------------------------|--|------------|
| Cost | | | |
| At 31 December 2005 | 71,058 | 327,545 | 398,603 |
| Additions during period | (1,923) | 2,691 | 768 |
| At 31 December 2006 | 69,135 | 330,236 | 399,371 |
| Depreciation | | | |
| At 31 December 2005 | 60,868 | 278,199 | 339,067 |
| Charge for period | 4,217 | 50,471 | 54,688 |
| At 31 December 2006 | 65,085 | 328,670 | 393,755 |
| Net Book Value | | | |
| At 31 December 2006 | 4,050 | 1,566 | 5,616 |
| At 31 December 2005 | 10,190 | 49,346 | 59,536 |

Notes [continued]

5. Prepayments and accrued income

| | 2006 € | 2005 € |
|----------------|----------------|----------------|
| Accrued income | 457,430 | 404,621 |
| Prepayments | 37,169 | 38,989 |
| | 494,599 | 443,610 |

6. Creditors (amounts falling due within one year)

| | 2006 € | 2005 € |
|---------------------------------------|----------------|----------------|
| Trade creditors and accruals | 412,585 | 619,199 |
| Pensions provision (Note 7) | 306,258 | 221,598 |
| PAYE/PRSI | 19,550 | 7,449 |
| Professional Services Withholding Tax | 146 | 5,488 |
| Value Added Taxation | 0 | 3,295 |
| | 738,539 | 857,029 |

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 25% from July 2006, (16.66% previously) of pensionable pay and are charged to the Income and Expenditure Account. The Minister has agreed to reimburse the Authority in respect of benefits paid under the scheme. The following amounts are included in the heading, "Salaries and Staff Costs (including training)" **(Note 2)**:

| | 2006 € | 2005 € |
|------------------------|----------------|----------------|
| At beginning of period | 221,598 | 172,886 |
| Employee Contributions | 19,295 | 13,109 |
| Employer Contributions | 74,056 | 41,819 |
| Total | 314,949 | 227,814 |

7. Pensions Provision [continued]

| | | |
|----------------------------------|----------------|----------------|
| Refunds of Contributions | (8,691) | (6,216) |
| Transfers into Pension Provision | – | – |
| Refund Due | – | – |
| At end of period | 306,258 | 221,598 |

8. Accumulated Surplus on Income and Expenditure Account

| | 2006 € | 2005 € |
|-----------------------------|-----------|-----------|
| At beginning of period | 558,634 | 568,593 |
| Surplus for period | 117,529 | 40,041 |
| | 676,163 | 608,634 |
| Transfer to General Reserve | (50,000) | (50,000) |
| Retained surplus | 626,163 | 558,634 |

9. Capital Commitments

There are no capital commitments for capital expenditure at 31 December 2006.

10. Contingent Liabilities

There were no contingent liabilities at 31 December 2006.

11. Approval of Financial Statements

The Financial Statements were approved by the Members of the Authority on 18 April 2007.



Appendix A

Statistics relating to the Private Health Insurance Market in Ireland, 2006

Membership (1)

| | Total Insured Persons (000s) | Private Health Insurance coverage as % of population (2) |
|----------|------------------------------|--|
| Dec-2001 | 1,871 | 48.2% |
| Dec-2002 | 1,941 | 49.2% |
| Dec-2003 | 1,999 | 49.8% |
| Dec-2004 | 2,054 | 50.4% |
| Dec-2005 | 2,115 | 50.6% |
| Dec-2006 | 2,174 | 50.9% |

Premium Income

| Year | Total Income (€m) |
|------|-------------------|
| 2002 | 821.9 |
| 2003 | 978.2 |
| 2004 | 1,061.1 |
| 2005 | 1,152.7 |
| 2006 | 1,236.2 |

Notes

- (1) All figures relate to the total private health insurance market, i.e. open enrolment and restricted undertakings.
- (2) Population figures are based on CSO population estimates and interpolation/extrapolation.

Appendix B

The Register of Health Benefits Undertakings (at 31 December 2006)

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. St Paul's Garda Medical Aid Society
 11. The Goulding Voluntary Medical Scheme
- 

Appendix C

Print advertisement used in the consumer information campaign

You're in control

Under Irish law you have the right to switch health insurer without penalty

Have you shopped around for health insurance lately? You could be offered a lower premium, or find coverage that better suits your needs. The Health Insurance Authority provides information to assist you in understanding your rights and comparing your options. Visit www.hia.ie to find out more.

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

Phone **01 4060080**
Email info@hia.ie

The HIA is the independent statutory regulator for private health insurance in Ireland



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