

This article was first published in the *Dominion Post* on 2 November 2009

ACC Monopoly an Idea Whose Time has Passed

In a speech about New Zealand's accident compensation scheme in 1996 I said, "The country was sold a pup which has turned into a pitbull terrier that mauls everyone it comes in contact with – accident victims, employers and politicians alike."

ACC minister Dr Nick Smith is just the last of a long line of ministers to inherit a scheme in financial crisis.

There have been endless reviews of ACC since its inception. It is to be hoped that the present Stocktake Group will help put accident insurance on a more rational and durable footing.

ACC was misconceived from the outset. There were indeed problems with the legal regime – the right to sue – and the heavily regulated workers' compensation insurance market in the 1960s.

The role of an insurance market is to compensate for losses. The role of a legal regime is to penalise wrongdoing and thereby create incentives to take care. These are separate issues: a no-fault regime, for example, could apply either to a state monopoly or a competitive market.

The Woodhouse Commission, however, confused the two roles and instead of reforming policies for each it went down precisely the wrong track and abolished both.

It also mistakenly believed that the costs of ACC would be passed on to consumers. Instead they are largely borne by workers (through lower wages) and taxpayers.

It would be an embarrassment to find the kind of shoddy analysis that pervades the Woodhouse report in any official inquiry today.

Its so-called 'principles' are more in the nature of slogans than a foundation for policy.

Complete rehabilitation? Tell that to a quadriplegic accident victim. Administrative efficiency? Any insurer can hold down administrative costs if they don't properly investigate and monitor claims. Comprehensive entitlement? What comparable insurance policy isn't 24/7? Real compensation? Meaning what exactly?

The fifth principle, community responsibility, is to be contrasted with individual responsibility: accidents were regarded by the Woodhouse Commission as acts of God – nothing to do with taking care. The scheme reflected a collectivist vision with an ultimate agenda of making ACC part of social welfare and funding it out of general taxation.

Today, the provision of accident prevention, compensation and rehabilitation services would be examined in terms of standard public policy principles of freedom, efficiency and fairness. ACC fails on all counts.

Citizens are denied the freedom to choose and pay for the kind of accident insurance they prefer. ACC is a one-size-fits-all scheme – like Henry Ford's black Model T car.

There was no likelihood that a state monopoly would be efficient. In the first year of operation the number of accidents reported jumped 400 percent, and since then costs have spiralled upwards.

Levy rates do not reflect industry accident records efficiently, experience rating of firms is at best rudimentary, and resources are wasted on small claims rather than directed to low probability/high cost events.

Fairness is lacking with the disparate treatment of accident and health disabilities, the failure to recognise the lower accident rates of women, and the unavailability of lump sum cover which is often a feature of insurance.

As far back as 1987 a Business Roundtable study concluded that the Woodhouse conception was a huge mistake and should be abandoned in favour of choice and competition.

A ministerial working party reached the same conclusion in 1991 and confirmed that accident compensation should be an insurance rather than a welfare matter.

The merits of these arguments were amply demonstrated when what is now called the Work Account was opened to competition in 1998.

The Department of Labour reported that the average premium per \$100 of wages fell from \$1.70 to \$1.20 by 2000. Cross-subsidies were reduced, accident rates tumbled, rehabilitation rates improved, and private insurers were able to operate profitably (claims of 'loss leading' were unfounded).

ACC suddenly found it could cut costs and improve its performance in the face of competition, but since its monopoly status was restored in 2000 the cycle of cost blow-outs, politically motivated expansions of the scheme, levy increases and unfunded liabilities has returned.

Past ministers and the board of ACC should surely be held to account for the present debacle.

In the short term the government will have to patch up the scheme as best it can. The only real solution, however, is a competitive insurance market.

The government seems set to open the Work Account to competition. It would be an easy step to do likewise with the Motor Vehicle Account (which would perhaps give motor cyclists some relief). There is no need for ACC to be a long-term player in the market.

Private insurers would be willing to enter the market provided the policy framework is sound and durable.

Future reversals seem unlikely despite current political statements. Modern centre left parties and unions elsewhere do not clamour for state monopoly schemes. The Woodhouse Commission deluded itself that other countries would pick up its 'pioneering' social experiment. None has.

ACC is a relic of old New Zealand – along with monopoly producer boards, airlines, telecommunications and railways.

The OECD has long recommended that the Woodhouse model be abandoned. If we are interested in moving up the OECD income ladder, its demise cannot happen too soon.

Roger Kerr (rkerr@nzbr.org.nz) is the executive director of the New Zealand Business Roundtable