Submission

By

BusinessNZ

The voice of business

to the

Accident Compensation Corporation

on the

2013/14 Levy Consultation Documents

October 2012

PO Box 1925
Wellington
Ph: 04 496 6555
Fax: 04 496 6550

2013/14 ACC LEVY CONSULTATION DOCUMENTS
SUBMISSION BY BUSINESSNZ[1]

1.0 INTRODUCTION

1.1 BusinessNZ welcomes the opportunity to comment on the 2013/14 ACC Levy Consultation Documents.

1.2 A much more rigorous approach to the running and financing of NZ's accident insurance (ACC) scheme has taken place over the last few years, including the introduction of sound insurance principles such as experience-rating, which are now starting to show dividends in the form of reduced numbers of claims and a consequential reduction in premiums.

1.3 Despite these improvements, BusinessNZ emphasises the importance of ACC maintaining a strong focus on injury prevention. BusinessNZ notes that overall spending from ACC on injury prevention has declined from around $40 million in 2007/08 to less than $20 million for 2012/13 (forecast). This outcome is potentially at odds with the fact that government recently established an Independent Task Force on Workplace Health and Safety, with a strong emphasis on harm prevention in its mandate. While expenditure by itself is not necessarily a good indicator of performance, it is critical that ACC maintains a clear focus on injury prevention initiatives as a significant factor in the continuing reduction of accident rates.

1.4 A 13% reduction is proposed for the average Work levy (from $1.15 to $1.00 for every $100 of liable earnings), a decrease of 12% for the Earners Account (from $1.48 to $1.30), while the Motor Vehicle account levy is projected to remain constant. Overall reductions are possible while still maintaining levels of funding that will insure the accounts are fully funded well before the legislative deadline of 2019. Essentially, the Work and Earners Accounts are more or less fully funded, while the Motor Vehicle Account has improved relatively strongly from the disastrous position of a few short years ago.

1.5 Notwithstanding these significant improvements, BusinessNZ continues to have concerns about a number of areas relating to levy transparency for the various accounts. This submission covers five broad areas:

- First, the overall funding policy adopted by ACC to ensure full funding across accounts within a "funding band" of between 100% and 140% funded. Proposed funding levels in the out years appear excessive given that ACC continues to be a state monopoly with the power to tax future employers, earners and motorists;

- Second, the policy of capping changes to levy rates;

[1] Background information on BusinessNZ is attached as Appendix 1.

- Third, the significant degree of continued cross-subsidisation in the Motor Vehicle Account which has not been adequately addressed in the proposed levy rate changes for the 2013/14 year.

- Fourth, issues concerning the extension of the Workplace Safety Management Practices (WSMP) and more specifically, the extension of Workplace Safety Discounts (WSD) to all industries; and

- Fifth, the proposed Fleet Safety Incentive Programme (FSIP) in respect to operators of heavy vehicles.

2.0 RECOMMENDATIONS

1. BusinessNZ **recommends** that:

ACC re-examine whether the proposed effective funded risk margin of between 0 and 40% is justified for the Work, Earners' and Motor Vehicle Accounts given the unique circumstances of New Zealand's ACC scheme (i.e. the power to tax future levy payers) and its implications for costs on levy payers across the various ACC accounts.

2. BusinessNZ **recommends** that:

Given that ACC is a statutory monopoly, if the Minister decides to reject or modify its premium recommendation(s), the reasons for doing so, including actuarial analysis, should be made public to allow both premium payers and ACC to scrutinise the Minister's decision-making.

3. BusinessNZ **recommends** that:

If ACC wants to retain caps on levy changes, then these should be set at a much higher level than currently proposed to ensure any areas of cross-subsidisation are dealt with reasonably quickly.

4. BusinessNZ **recommends** that:

The significant cross-subsidisation between motorists and motorcyclists be addressed as a matter of some urgency, recognising that realistically, over the next 3-5 years, current cross-subsidisation will make necessary a staged process for reviewing levies to more accurately reflect risk.

5. BusinessNZ **<u>recommends</u>** that:

Consideration be given to mechanisms which ensure all road users (whether of cars, trucks, motorcycles, or bicycles) pay the relative costs associated with road use.

6. BusinessNZ **<u>recommends</u>** that:

The Workplace Safety Discount (WSD) programme be extended to all industries (as proposed), but ensuring that an outcomes-based approach to premium setting (experience-rating) is retained and strengthened, where appropriate, as the primary driver of improving safety incentives for business.

7. BusinessNZ **<u>recommends</u>** that:

ACC consult widely with potentially affected parties before introducing the Fleet Safety Incentive Programme (FSIP) for heavy motor vehicle owners.

3.0 FUNDING POLICY

3.1 Proposed approaches to levy setting have improved over the last few years with the ACC Board taking a much more rigorous and transparent approach, as indicated by its levy-setting principles/goals.

3.2 It is important for both the ACC Board, and ultimately the Minister, to be held to account in setting premium rates which reflect sound commercial practice and minimise the risk of ongoing interference to meet political objectives.

3.3 While levy stability is a desirable objective, it should not override the important signals which levy payers ought to receive about the true costs associated with accidents (whether the result is a reduction or an increase in premiums over time).

3.4 Notwithstanding factors impacting on the number and cost of claims, which make forecasting future liabilities difficult, Business NZ considers that ACC's need for a fully funded risk margin is open to question. In BusinessNZ's view the margin (if any) should be more in the order of 5 – 15 percent than the 0 – 40 percent band proposed, for three reasons.

3.5 First, while BusinessNZ accepts that some private sector insurers may build in an additional risk margin to cover unexpected risks in insurance premium setting, it is not at all obvious why ACC should do likewise. As ACC is effectively a state-monopoly provider of accident insurance, it has (via government legislation) the power to tax future employers if premiums collected in any one year are insufficient to fund the ongoing costs of claims associated with accidents in that particular year.

3.6 Second, if the accounts are effectively "over-funded" (i.e. fully funded plus a substantial margin), the temptation may be for the government of the day to expand the scheme knowing that the costs of the expanded scheme will be hidden, at least for the first few years. Given that ACC is a state-sanctioned monopoly, without the ongoing discipline that competition would provide, taking a very conservative approach to funding as envisaged in the Discussion Document is unlikely to be necessary.

3.7 Third, tying up unnecessary funding from employers (and earners) effectively means depriving the economy of money. On the margin at least, this will reduce employer investment in plant and equipment thereby limiting economic and employment growth.

3.8 *None of the above should be interpreted as in any way suggesting that BusinessNZ does not support a fully funded scheme, rather that the rationale for ACC retaining reserves well beyond those required to ensure the full funding of claims is questionable in light of the three important factors referred to.*

BusinessNZ **recommends** that:

ACC re-examine whether the proposed effective funded risk margin of between 0 and 40% is justified for the Work, Earners' and Motor Vehicle Accounts given the unique circumstances of New Zealand's ACC scheme (i.e. the power to tax future levy payers) and its implications for costs on levy payers across the various ACC accounts.

BusinessNZ **recommends** that:

Given that ACC is a statutory monopoly, if the Minister decides to reject or modify its premium recommendation(s), the reasons for doing so, including actuarial analysis, should be made public to allow both premium payers and ACC to scrutinise the Minister's decision-making.

4.0 CAPPING CHANGES TO LEVY RATES

4.1 The Consultation Document states that in order to smooth any financial impacts of annual levy changes, ACC has capped them for each individual classification unit in the Work Account.

4.2 For the 2013/14 levy year, ACC is proposing to apply the following capping rules:

- Increases will be capped at +10% or 4 cents (whichever is the greater)
- Decreases will be capped at -25% in addition to the change in the average rate of -18%.

4.3 As the Consultation Document correctly states, ACC must ensure that the ACC scheme continues to fund overall expected costs. However, as a consequence of the cap, any shortfall caused will be funded by all other work levy payers – i.e. significant cross-subsidisation will continue to exist. This is essentially a direct subsidy from lower risk business groupings to higher risk business groupings.

4.4 While BusinessNZ considers there may be the occasional justification for the imposition of a cap e.g. if for some reason industry classifications move around radically with significant short-term cost implications for particular levy payers, as a general rule, caps perpetuate the problems associated with cross-subsidisation between levy payers. They should therefore be removed as rapidly as possible.

BusinessNZ **recommends** that:

If ACC wants to retain caps on levy changes, then these should be set at a much higher level than currently proposed to ensure any areas of cross-subsidisation are dealt with reasonably quickly.

5.0 CROSS-SUBSIDISATION IN THE MOTOR VEHICLE ACCOUNT

5.1 BusinessNZ notes that efforts have been made this year to more accurately ensure premiums reflect risk between certain vehicle types, notably goods service vehicles.

5.2 Notwithstanding the above, a number of road users, principally cyclists, pay nothing towards the cost of accidents involving motor vehicles (although it is noted that if they have a car, they will contribute to ACC costs through both petrol taxes and relicensing fees). Meanwhile, motorcyclists continue to be grossly subsidised by motor vehicle owners.

5.3 Given a trend towards the greater use of motor cycles and/or bicycles, it would be desirable to examine seriously whether ACC premiums should apply to those regularly using their cycles on-road and, as well, should better reflect the cost of motor cycle accidents. Motor Vehicle Account funding currently involves significant cross-subsidisation from motor vehicle owners to motor cyclists.

5.4 While there have been some moves over the past few years to reduce cross-subsidisation in the levies proposed for the Motor Vehicle Account, the moves have been rather tentative to say the least and mainly focused on removing some of the distortions within each class of vehicle (e.g. between small and large motorcycles) rather than on addressing cross-subsidisation between motorists and motor cyclists per se. Business NZ considers a thorough investigation of the funding of the Motor Vehicle Account is justified in order to align more closely the costs associated with the scheme to scheme claimants.

BusinessNZ **recommends** that:

The significant cross-subsidisation between motorists and motorcyclists be addressed as a matter of some urgency, recognising that realistically, over the next 3-5 years, current cross-subsidisation will make necessary a staged process for reviewing levies to more accurately reflect risk.

BusinessNZ **recommends** that:

Consideration be given to mechanisms which ensure all road users (whether motorists, truck drivers, motorcyclists, or cyclists) pay the relative costs associated with road use.

6.0 EXTENSION OF WORKPLACE SAFETY DISCOUNT (WSD) PROGRAMME

6.1 While, in principle, Business New Zealand supports the extension of the WSD programme to all industries, it should be noted that on its own it may be an ineffective injury prevention tool because there is no link to actual injury incidence, only to the implementation of systems which may or may not be effective. Conversely, notwithstanding a large increase in injuries, an employer enjoying the rewards of participation may not be penalised because there are audited systems in place. This is specifically why BusinessNZ continues to be a strong supporter of experience-rating as the primary driver for improving workplace performance.

6.2 While Business New Zealand supports WSD, the scheme is “systems-based” rather than output based which means there is an assumption that if employers have received a satisfactory audit from ACC, the risk of accidents occurring in the workplace is lower.

6.3 Business New Zealand considers it is much better to have an outcomes-based approach where the rate of injury is the relevant factor in setting premiums, hence our support for the continuation of experience-rating.

BusinessNZ **recommends** that:

The Workplace Safety Discount (WSD) programme be extended to all industries (as proposed), but ensuring that an outcomes-based approach to premium setting (experience-rating) is retained and strengthened, where appropriate, as the primary driver of improving safety incentives for business.

7.0 PROPOSED FLEET SAFETY INCENTIVE PROGRAMME (FSIP)

7.1 BusinessNZ notes that ACC proposes introducing a Fleet Safety Incentive Programme (FSIP) for heavy motor vehicle fleet owners.

7.2 While the programme will be voluntary and certain conditions will be attached to the scheme (e.g. minimum number of vehicle in a fleet etc), BusinessNZ considers it will be important that users and representatives of heavy vehicle owners e.g. the Road Transport Forum, be adequately consulted to ensure the workability of the proposed scheme.

7.3 It will also be important to test and understand both the risk factors and the costs associated with accidents involving heavy motor vehicles to ensure the scheme will play its part in reducing such accidents.

BusinessNZ **recommends** that:

ACC consult widely with potentially affected parties before introducing the Fleet Safety Incentive Programme (FSIP) for heavy motor vehicle owners.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESSNZ

BusinessNZ is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, Employers' Chamber of Commerce Central (ECCC), Canterbury Employers' Chamber of Commerce (CECC), and the Otago-Southland Employers' Association (OSEA) – and 70 affiliated trade and industry associations, Business NZ represents the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, BusinessNZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the Business and Industry Advisory Council (BIAC) to the Organisation for Economic Cooperation and Development.