

## Speech to the ACC Futures Seminar – Maryan Street

Thank you for inviting me to speak to you today.

It's always a pleasure to talk to groups with an interest in ACC. I want to consider briefly how the scheme has performed to date and then focus on the policy challenges of the future, which include the interface with health and associated issues such as work-induced hearing loss, the management of the motor vehicle levy and its collection and the question of ethical investment.

Since 1974, the ACC scheme has served New Zealand in a truly unique way. It is the only system in the world providing universal, 24-hour, no-fault coverage for all physical injuries.

A good place to start when considering both performance and future challenges is the PriceWaterhouseCoopers research commissioned by the ACC Board.

The researchers concluded that ACC's contribution to New Zealand society arises largely from its no-fault and comprehensive features. They say there is strong evidence demonstrating that no-fault schemes are linked with better client outcomes, higher coverage, lower administration and legal expenses and fewer delays in payments.

The researchers identified six main areas of economic value and five of social value, some of which I will go through now.

### Increased labour pool and productivity

The research found that New Zealanders' immediate access to treatment, rehabilitation and compensation has a very positive impact on recovery and return to work.

In New Zealand, the average days lost per worker due to work-related injury and illness is 1.02 a year, compared with 1.44 in the UK and Australia.

The estimated impact on GDP of the extra hours gained is about \$315 million. Overall, however, the scheme's impact on increased productivity is probably higher. In the US, one study notes that states with no-fault, rather than tort-based schemes, experience 1.7 per cent greater aggregate productivity growth than those without.

### Reduced long term spending on health care and other government services

The research found that rapid and regular weekly compensation payments to injured workers promoted better injury management and improved health outcomes.

In 70% of cases, ACC weekly compensation is in place within 10 working days of the injury – a phenomenal achievement unmatched by other countries, where legal disputes are commonplace and payments are often deferred as a result.

In Australia the research found that the average time for finalisation of a common law claim was 4.7 years.

### Legal cost savings

The research found that not having to pursue compensation through the common law system saves New Zealanders vast expense.

Common law claims impose considerable costs on clients. In Australia, the legal cost of common law claims amounts to about eight to 10 per cent of average compensation paid, with the insurer paying five to six per cent.

The research found that legal costs as a proportion of total costs are much less in schemes with limited or no access to common law. In hybrid schemes, when lump sum compensation is sought through common law, legal costs are about 60 to 93 per cent higher than through statutory avenues.

#### Increased sport and leisure activities

The research showed that by reducing the cost and financial risk for people taking part in sport and recreation, the ACC scheme creates economic and social value for New Zealand. Clubs and organisations in this country, unlike many others, don't need private insurance cover to protect against tort style claims.

New Zealand has one of the lowest rates of physical inactivity worldwide, just 30%. This compares favourably with 34% in Australia, where recent increases in insurance premiums have had an adverse effect on recreation.

At a conservative estimate, New Zealand saves about \$26 million a year through avoided direct and indirect health costs caused by inactivity.

#### Increased tourism activity

The ACC scheme also has a direct impact on the tourism industry by effectively easing the development of adventure activities. In addition, Tourism New Zealand notes the importance of the superior coverage and care for tourists provided by ACC as an important contributing factor to the country's overall appeal as a tourist destination. The New Zealand tourism industry contributed 8.9% towards total GDP in the year ending March 2006, and a significant proportion of that contribution may be associated with New Zealand's reputation as an outdoors adventure holiday destination.

#### Greatly improved equity in the distribution of resources

The research noted that without ACC, only clients with work injuries would receive benefits beyond the level provided by the public health and social welfare system. For all other injury types, clients would only be able to access appropriate compensation, where fault could be proven against a third party with access to funds. Only a small percentage of injuries would qualify – about half of motor injuries, one quarter of treatment injuries, and about 1% of sporting and domestic injuries. The majority of clients not covered by workers' compensation or unable to prove fault would be left to their own resources, personal insurance or a range of social welfare and public health schemes. Overall, this would represent about 70% of all clients.

In other words, ACC provides help to three times as many injured people as would be supported otherwise - particularly lower socio-economic and other disadvantaged groups. Under the ACC scheme vulnerable groups that typically have lower access to support enjoy equity of entitlement with the rest of society.

#### Critical trends and current risks for ACC scheme

ACC has identified from a more focused perspective, the same areas of serious future risk for the scheme as researchers. Specifically, ACC has noted that:

- Claim numbers are rising steadily. Over the past two years the rate of new claim registrations per 100 people has grown 4.2% a year.
- Costs per claim are rising steadily and higher than inflation.
- Serious injury costs are rising even more. They account for about 56% of scheme costs.
- Changes in the injury profile such as falls by older people and noise-induced hearing loss are a big concern.
- People within certain groups experience difficulties when accessing the scheme.
- Road injuries are a major concern, with casualties rising and hospitalisations remaining high.

Towards the future

The researchers identified several changes which would ensure that the ACC scheme remains sustainable.

The ACC board will use the research to assist with its long-term planning and the implementation of strategies already being implemented, such as the new national model of serious injury service rolled out this year. Injury prevention needs constant renewal and monitoring. The Implementation Strategy Action Plan which Cabinet is considering this morning is part of that process of constant improvement. Rehabilitation in all its aspects also needs quality improvement and refinement.

There are other challenges. It's clear to me that Health and ACC policy will become increasingly interconnected as scientific and medical progress establishes clearer links between some illnesses and work-related conditions.

There are some causal effects which we presently can't link to the workplace, but which may well in future be shown to result from it. In other cases improved causation testing may establish a range of contributory factors to an illness which may be work and non-work related, which raise further policy issues.

The government recently amended the ACC legislation to make it easier to make a work-related hearing loss claim by simplifying the causation test. Yet this issue remains challenging. Determining compensation for a worker in the service industry suffering hearing loss is complex when they work in a noisy bar, but also have a habit of listening to their iPod at a very high volume. Improved causation tests will certainly be advantageous.

As we increase our injury prevention focus, complex questions also arise around the extent to which we seek to influence behaviour through the collection of levies. In terms of the motor vehicle account, other questions also emerge. We need to become more sustainable, as well as safer, in terms of transport patterns and behaviour. To what extent should we incentivise changes through the levy process? How does the Woodhouse principle of community responsibility interface with user pays-type deterrents? What is the appropriate balance?

I have long been an advocate of socially responsible investment. I'm pleased to say ACC is making progress on this front. In 2006 ACC stopped making investments in tobacco companies and in 2007 ACC excluded investments in four companies because of their actual or potential involvement with the production of landmines which was not in compliance with the Ottawa Mine Ban Treaty.

ACC is in the process of excluding investments in companies involved with the design, testing, assembly and/or refurbishment of nuclear explosive devices and in March ACC became a signatory to the United Nations Principles of Responsible Investing.

My next step with ACC is to encourage more open reporting on investment policy and practice. More accessible reporting of ACC's investments and disinvestments will help to keep that issue actively in front of both the public and the Government.

It is heartening to note the steady increase in public trust and confidence in ACC which, since January 2005, has risen from 47% to 60 per cent. Of those who interact with ACC through their individual case management, the percentage of trust and confidence sits at 86 per cent for short-term clients and 80 per cent for long-term clients.

Public debate around the scheme in recent months has confirmed while there is always room for improvement, New Zealanders value ACC immensely. It is a scheme I am proud to defend and keen to improve. Its foundation principles remain as apposite and as beneficial to New Zealanders today as they were 40 years ago. I'm looking forward to your questions and feedback.

Thank you.