

Questions & Answers

Decision in principle for introduction of choice in the Work Account

1. Why has the Government decided in principle to allow insurance companies to compete with ACC in providing workplace cover?

Choice will put pressure on ACC to be more effective and efficient in providing accident insurance cover. This pressure will come on ACC both in the quality of service it provides for claimants as well as the amount it charges in levies.

2. Why has the Government decided to open up the Work Account to choice rather than other ACC accounts, particularly as the Work Account is in better financial shape than the other accounts?

First, National committed in the 2008 election to an investigation into providing choice in the Work Account.

Secondly, introducing choice to the Work Account is the least administratively complex. Risk is already partially priced in the Work Account. An invoiced payments system is already in place for work cover whereas the other accounts are funded through car registration, fuel sales and levies collected through the PAYE system.

Thirdly, a large number of employers and self-employed want the choice of an alternative provider of workplace insurance to ACC, because they are not satisfied with the existing service and costs. The demand for choice in this account has been far stronger than for other ACC accounts.

Fourthly, one of the reasons the Work Account is in far better shape is the introduction of competition in 1998 and the ongoing option of some choice through the Accredited Employers' Programme.

Finally, the Government needs to be particularly focused on doing everything it can to improve the competitiveness of New Zealand businesses in these recessionary times so as to protect jobs and expand exports.

3. Is this a decision to privatise ACC?

No. ACC is to remain a provider of workplace accident insurance and there are no proposals to sell ACC. This is simply a decision to remove ACC's monopoly and allow employers the choice of obtaining workplace accident insurance from providers other than ACC.

4. How does this vary from the reform of ACC workplace insurance introduced by National in 1998?

The key difference to 1998 is that this proposal is for ACC to remain a provider. In 1998, every employer had to choose an alternative insurer whereas under this proposal only those wishing to change will need to search out an alternative insurer.

The 1998 reforms were very successful in driving down costs and there was evidence of improvements in safety, albeit it is difficult to draw conclusions because the reforms were dismantled a year later.

5. Why has the Government not accepted the Stocktake recommendation of ACC being removed from the workplace insurance market?

The advice we have received on the difficulty of ACC being a provider is somewhat contradictory. Some have argued that ACC is disadvantaged and will not be able to compete effectively as its cost structure is too high, it does not price risk well, and it is not able to provide packaged insurance products (i.e. fire and general, public liability and health insurance). Other advice is that ACC will have an unfair advantage from its scale, it not having to provide a return on capital, and the risk of it cross subsidising from ACC's other accounts.

The Government has pragmatically decided that allowing both public and private provision is workable. There are many sectors of the economy where public and private compete alongside one another and a number of other jurisdictions where this occurs in workplace insurance. We are satisfied that we will be able to put in place adequate measures to ensure that ACC does not cross subsidise or compete unfairly in the workplace insurance market.

6. Is the Government considering providing choice of accident insurer in ACC's other accounts?

Yes, but the immediate priority is the Work Account. The Government recognises that decisions on providing choice in ACC's other accounts is a lot more complex. We have sought further advice from officials by July 2011 on exploring the potential for choice in ACC's other accounts.

7. What specific areas of work are officials focussed on to advance choice in the Work Account?

The Government is using the experience of the competitive model in the 1990s to improve on the model for choice.

A particular focus is on developing a simple claims clearing house so as to minimise compliance costs for health providers.

There is also important work on ensuring transparency in how ACC manages the Work Account, how it sets levies and how it operates in a competitive market.

8. What is the work programme going forward on introducing choice to the Work Account?

The Government is intending to issue a discussion paper around May 2011 on the important details of how it intends to introduce choice into the Work Account.

Following public submissions, officials will develop final detailed policy for Government to provide drafting instructions to Parliamentary Counsel.

The introduction of legislation for choice in the Work Account of ACC would be after the 2011 General Election and subject to an appropriate mandate from the public.