**Submission by the Insurance Council of New Zealand**

to the

**Transport and Industrial Relations Select Committee**

on the

**Accident Compensation (Financial Responsibility and Transparency) Amendment Bill**

**1.0 INTRODUCTION**

1.1 The Insurance Council of New Zealand (‘ICNZ’), which represents the interests of general insurers, that is, not Life nor Health insurers, welcomes the opportunity to submit on this Bill.

1.2 ICNZ notes the monopoly status of ACC in providing accident coverage for New Zealanders. In that regard, it is important that ACC levies are neither set too high nor too low to meet its liabilities.

1.3 If levies are set too high then that is unfair on levy payers while if set too low creates risks that impact on the sustainability of the scheme.

1.4 ICNZ notes that the most efficient and fair way to ensure this does not occur is to open ACC up to competition. By doing this, levies or premiums would be set efficiently, consumers would be given choice and where competition exists innovation would thrive. None of this is inconsistent with the key principles of the scheme, namely its no-fault nature and full coverage through compulsory purchase of cover.

**2.0 ACC FUNDING POLICY**

2.1 Absent any move to introduce competition to the scheme, ICNZ supports the thrust of this legislation to provide greater transparency around the setting of levies. It is absolutely essential that a monopoly provider of services that are paid for by a compulsory levy is accountable to the public for how those levies are set.

2.2 This is not only a matter of good governance and accountability, but enables independent public scrutiny of the levy, so the rationale for the levy that is set is understood.

2.3 ICNZ supports the three key principles of the Bill, namely, that funding the scheme and the setting of levies meet the lifetime costs of claims in a particular year, the long-term solvency of the levies accounts and that levy rates remain reasonably stable. The first two of these principles are fundamental to any well managed insurance scheme and should be fundamental to the ACC.

2.4 Clause 166A(c) states that ‘large changes to the levy must be avoided’. While it is desirable to avoid volatility of levies, there will inevitably be occasions during the life of the scheme where extreme events occur. In the general insurance sector, the period 2010-2012 saw some of the most expensive insured claims globally as a result of the massive flooding in South East Asia, the Canterbury earthquake series, the Tohuku tsunami and Hurricane Sandy to name a few catastrophes. The result was a sharp rise in reinsurance costs globally which saw a significant increase in premiums to consumers in New Zealand. It is quite conceivable that another global financial crises would have a major impact on the ACC’s investments. ACC should be able to respond to such extreme circumstances.

2.5 ICNZ suggests Clause 166A(c) be amended to reflect the notion that large levy changes should be avoided unless extreme circumstances require such change.

2.6 Clause 166B requires the Minister to issue a funding policy statement which must meet certain criteria set out in 166(B) (2). ICNZ supports the requirement for this statement to be consistent with the funding policy principles in section 166(A).

2.7 However, to ensure full transparency consistent with the thrust of the Bill, ICNZ recommends that there be a requirement to have an independent, actuarial review of the funding policy statement to ensure that it is consistent with sound insurance principles. There should also be a requirement for this independent review to be publicly released, so the Ministerial funding statement can address any issues raised by the independent review.

2.8 As the Bill establishes a process whereby the Government sets the policy and the ACC is held accountable for implementing it, it is critical for transparency that premiums are set to reflect the full costs of accidents. It is sound insurance practise that premiums respond to risks.

2.9 However, ICNZ notes that successive Governments have tinkered with levies reflecting political as opposed to sound actuarial reasons. This is not desirable and the funding policy statement’s requirement to follow sound insurance principles is commended.

2.10 However, there is nothing to prevent the funding policy statement to support significant cross-subsidisation across accounts or within accounts. ICNZ believes that the Bill should include a requirement for the Minister to provide a rationale for any cross-subsidisation in the funding policy statement.

**APPENDIX**

ICNZ’s members underwrite cover for about $650 billion of New Zealand’s assets and liabilities. Its members underwrite over 95% of all general insurance cover written in New Zealand.

ICNZ is a member of the Global Federation of Insurance Associations and a signatory to the UNEP Principles of Sustainable Insurance.