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The Real Cost of Road Safety in New Zealand

Thank you for your warm welcome.

I am always pleased to have an opportunity to talk about road issues because it's an area of great concern to ACC. Last year we spent over \$450 million treating, rehabilitating and supporting people who had been hurt in car accidents. These annual costs are worrying but of even more concern is the impact they have on ACC's growing future claims liability.

But before we get into the motor vehicle side in too much depth I'd like to take a few minutes to give you a broader view of ACC's situation and importantly what we are doing to ensure that ACC remains a sustainable scheme into the future, particularly considering the economic environment we find ourselves operating in today.

Since I last had the pleasure of addressing this conference our world has changed very rapidly indeed.

The international economic downturn is well and truly with us and is forecast to cost the nation about \$50 billion over the next three years. ACC's investment returns alone were \$450 million below budget for the year ended 30 June. Others fared even worse. Recession also makes it more difficult for us to return injured people to work and levy income falls.

The political environment has changed too. The new Government brings quite a different perspective to the public service in general and ACC in particular.

But as significant as these things are, they have to an extent helped refocus our collective minds on some challenges that already existed for ACC.

Some of those challenges include rising claim numbers and serious injuries in particular, although these seem to have stabilised a little this year. There are problems with rapidly rising medical costs, growth in chronic disease and other issues such as changing demographics and an increase in co-morbidities such as diabetes, obesity and osteoarthritis – which all make managing people’s rehabilitation more complex.

We had begun to respond to some of these issues more than a year ago when, for example, we established a new serious injury service. But the new environment has made us broaden the scope of our efforts, set even more ambitious targets and increase the pace of change.

I’ll talk about some of the new initiatives that are underway shortly but wanted to first clarify one area for you. That is ACC’s claims liability – which is the amount we need to fund the future cost of the claims on our books. There has been a lot of media focus on this question – most of it unclear. And it’s an important issue because it affects so much of what we have to do.

Our projected liability at 30 June was an estimated \$21.2 billion, inclusive of risk margins. That was an increase of almost \$2 billion on the year before. And the fact is that the final liability for the year will be even higher than that projected figure.

Some of the liability increase is due to the rise in claim numbers, about four per cent more claims every year – until this year. Another factor is the rising cost of healthcare and services such as social rehabilitation, which have been rising faster than the rate of inflation. Importantly these cost increases apply not just to new claims but also to the thousands of long term claims that are already on our books.

However, a portion of the increase in liability is also due to changed accounting policies and economic assumptions. Basically, our approach to calculating the future liability has become much more conservative. In other words, we are taking a more pessimistic view of both our costs and revenue. This is a prudent approach but the size of the liability does now raise a significant question.

That question is about the financial sustainability of the entire ACC Scheme. Can the country actually afford to continually fund the levy increases that would be necessary to sustain the ACC Scheme as it is currently configured and implemented? The ACC Board and senior management are quite clear about the answer – no!

This situation clearly demands action on a number of fronts and I can assure you it's happening with urgency.

I'll now describe some of the work that is happening for you, covering off three broad areas – legislative or political, strategic and operational.

Very early on, the Minister for ACC, Nick Smith, announced a number of initiatives in response to the situation I have described.

The first was to appoint a new Chairman, John Judge, and other new members to our Board. The Minister's stated goal was to strengthen the Board's governance, actuarial, cost-control and investment management expertise, while providing sufficient continuity to enable the Board to transition smoothly to the Government's new direction.

The Minister also began preparing legislation which would repeal a number of previous Scheme extensions, allow ACC to consider initiatives such as experience rating, and more. I welcome the discussion this will generate about the scope of cover the country expects ACC to provide, versus its cost to households and businesses.

In addition, the Minister announced plans for a stock take to identify how the Scheme's performance can be improved to deliver better value for money. He also announced a review of the timetable for funding residual claims, i.e. those from before 1999, which impact particularly negatively on motor vehicle and business levy payers.

Stepping down a level, the new Board asked ACC to focus on four areas in particular.

The first was improving frontline service delivery.

Internationally, there is a trend of declining rehabilitation rates. In other words, irrespective of the model used, it is taking longer, and costing more, to get people back to work and their pre-injury lives. However, that doesn't mean there is nothing we can do to reverse the trend.

To date, we have trialled and are now rolling out an improved claims triage system, which enables us to immediately identify the complexity of claims, and then promptly arrange the appropriate level of intervention.

We have also developed programmes to reduce unnecessary time off work after an injury, and taken a new approach to managing long-term claims.

To implement these changes, we have hired around 100 new frontline staff, funded from savings elsewhere in the business. These initiatives are showing positive early results and the programme is expected to reduce new weekly compensation claims by 1% and reduce weekly compensation liability by \$180 million in the first year and by \$240 million a year after that.

The second area the Board asked us to focus on was better value health purchasing.

We expect to spend \$2 billion on health and rehabilitation services in 2009-2010 and these costs are rising faster than inflation, which is clearly unsustainable. So we've implemented a new approach that focuses on securing better value while still achieving appropriate client outcomes. Already major changes are underway in areas like physiotherapy and high-tech imaging. Some of the features of the new approach include limited vendor models, improved monitoring and evaluation, and purchasing outcomes rather than activities. The programme is expected to save \$14 million in claims in 2009-2010 alone and even more in future years as more value-based contracts are implemented.

But of course, ACC is an open scheme, in the sense that there's no limit on the number of claims we can accept, which makes it even more important

that we ensure the money that goes into each claim delivers optimal value, for both the client and the levy payer.

As well as being 'open', at a mere 35 years ACC is not yet a 'mature' scheme, so it may be that we continue to see growth in the total number of claims on our books for some years. This is a particular issue for the Motor Vehicle account, given the relatively high number of seriously injured clients, i.e. those who are likely to require ACC support for the rest of their lives. Again that just reinforces the need to ensure future growth is sustainable and affordable.

Which leads nicely into injury prevention. Although the cost benefit of preventing injuries, as opposed to treating them, is undeniable, there must be a clear return on investment for every dollar we spend on injury prevention.

This meant that last year we focused our attention on preventing those injuries that drive higher Scheme costs. Falls and back claims have been the initial focus of this work, as they make up 43% of new claim costs and have a high rate of re-injury.

During 2008-2009 we also devoted considerable effort towards controlling our operating costs, and this task – which aims to deliver better value for money – will be ongoing. So far it has included an external review of costs which I initiated, supported by an internal line-by-line review. These will both feed into the Government's broader stock take. We also reorganised several parts of our business, and this is a work in-progress.

All of these programmes of work involve significant change, not just for ACC but also for those who work with us. And I've been delighted with the way our various stakeholders have collaborated on these initiatives. People have

recognised that our drive towards sustainability is not at all about supporting ACC as an organisation, but is entirely about preserving a Scheme that can deliver immense value to the country.

But what does all of this mean in the context of road injuries and motor vehicles?

I'll begin with injury prevention, on the basis that it's the most effective way to drive down costs and therefore levies. The bottom line is that we need to make changes to ensure that fewer people are hurt or killed on our roads.

Over the years ACC has worked alongside the Police, Ministry of Transport, NZTA, the AA, local councils and various other organisations, many of whom are here today, to address a myriad of issues that can cause injuries. We've been involved with work on everything from speed to drink driving to fatigue to restraints, in an effort to reduce the number of people being hurt.

However, we will now be focusing our work on areas we feel we can make the biggest difference. These are safer vehicle technology and motorcycles.

I'm not saying we're pulling out of everything else, just that these will be our focus areas. For example, we will continue to support our partners in their endeavours to reduce the amount of speeding, or drink driving.

So why focus on motorcycles? It's simple. We've found that you're seventeen times more likely to be injured on a motorcycle than in a car, and I don't need to tell you that the lack of protection on a motorcycle means that the injuries sustained by the riders are often far more serious than by a car driver or their passengers.

To make it clearer, take the case of, for example, a thirty year old man, married with two children, who is seriously injured while riding a motorbike. Let's say he is paralysed from the waist down. Perhaps he's working as a builder or a farmer – jobs that make it difficult to accommodate a significant injury.

ACC will pay for his initial care and rehabilitation, his ongoing weekly compensation, perhaps home and vehicle modifications and ongoing support for, quite possibly, the rest of his life. In these situations the individual costs can be up to \$10 million. Multiply that by the 22 people who were seriously injured just last year while riding motorcycles. Then consider the other 1300 people who sustained less serious injuries, and remember that we have to budget for the same number, if not more, in the coming years.

But of course, people who are passionate about riding motorcycles will not stop riding them because of the cost to ACC, and that's fair enough. This is a lifestyle for a lot of people and we respect that. We're certainly not telling anyone to stop riding motorcycles. We're just trying to work with riders to say that there are a lot of ways you can reduce your chances of being hurt. It's taken some time but we've now formed a strong coalition with motorcycle clubs and our other sector partners in this work and are hoping to see some good results in terms of fewer claim numbers over the coming years.

Our other focus area, safer vehicle technology, is one that makes very sound economic sense in terms of the potential to reduce injuries by encouraging drivers to choose cars that have electronic stability control or ESC and side curtain airbags. This is a campaign that has worked successfully in Australia and around the world and has the potential to reduce road injuries by up to 40% if all cars in the fleet were fitted with these features.

The difficulty with introducing this change here is that, as you'll appreciate, we have one of the oldest fleets in the western world with cars, on average, being 12 years old. Although we now have over 70% of new cars being sold with this life saving technology it will take many years to filter into widespread use and to produce an effect to reduce the road toll. The continued importation of used vehicles also slows the uptake of any new safety technology.

So this is an area that we're looking at very much with the future in mind.

So what about motor vehicle levies? As you may be aware, ACC's annual levy consultation process begins soon. In recent years we have seen large rises in the motor vehicle levy, and frankly it is unlikely that there will be a change in this trend. Cost projections really don't allow for anything else.

Five years ago motor vehicle injuries cost ACC about \$298 million. Last year, those costs had gone up to \$452 million. In another five years, we expect them to increase to \$695 million and in ten years we're forecasting \$951 million. These are the annual costs – i.e. what we pay in a year.

Of even more importance is the long term liability associated with motor vehicle injuries, i.e. the cost of providing for care and support in the future. This is currently in the region of \$6.1 billion. We need to fund these costs now and we are quite some way off getting there.

In the past, the average motor vehicle levy was sometimes set below the actual costs of claims for the year, in an effort to smooth expected levy increases in future years. Unfortunately, reserves have been used up far faster than anticipated due to lower than expected investment income and increased estimates of the future liability of existing claims.

All of the work I mentioned earlier is designed to try and restrain these costs. But it won't be enough. The fact is we need to make other changes as well.

The most important change will need to be to people's individual expectations and behaviours. Whatever their situation - client, health provider, staff member or even levy payer - everyone now has to consciously consider the impact of their decisions on Scheme costs. Because those Scheme costs quickly translate into individual costs.

As I hope I've illustrated, we, as a country, simply spend too much money on road injuries. And I haven't even begun to talk about the private costs that road injuries cause. We need to send stronger signals to road users. We need to drive greater personal accountability.

There are a lot of mechanisms for making people more directly responsible for the costs they impose on the system and we will need to look at several of these. The Minister has already signalled his intention to look at options like risk rating – i.e. those with higher risks will pay more. That's standard in the private sector. We also need to look at whether there is unfair cross-subsidisation going on? The levy consultation process will begin to flesh out some of these ideas.

I expect that over the next few months there will strong debate about these issues, involving many of the people in this room, and I welcome that. But let's be clear. The debate can't be used as an excuse to hold up the urgent action that is required. It's a time for solutions and answers.

Thank you again for the opportunity to talk to you today and I would welcome any questions you might have.