

Hon Sir ROGER DOUGLAS (ACT): ACT will be voting for the Injury Prevention, Rehabilitation, and Compensation Amendment Bill. Unlike Sue Bradford, the member who has just spoken, ACT takes an opposite view. The member who has just spoken said that this legislation was too harsh, but ACT believes that it does not go far enough. However, the legislation makes improvements, and we will, therefore, be supporting it.

This bill does not reform the accident compensation scheme. This bill keeps the scheme largely in its current form. It continues to fund the scheme through compulsory levies, and it does not apply any ongoing commercial pressure to the scheme's operation. All it does, in fact, is manage the pay-out system a little differently. It stops those who harm themselves on purpose from getting payouts. It stops criminals who injure themselves breaking into someone's house from getting payouts.

In reality, there is nothing of great substance in this bill. There is the same kind of management of the scheme that Labour undertook, except that this bill, rather than expanding entitlements, reduces them in a number of ways. Nothing in this bill deals with the fact that from the scheme's inception, it was a flawed Ponzi pyramid scheme. In the beginning it operated on a "pay as you go" basis. That meant that for many years it seemed to be cheap. The full costs were not apparent, because the scheme had not fully matured. All those people with long-term injuries were not in the claims system in those early years. Unfortunately, those years of low costs saw the range of entitlements expand, so that by the time the system had reached maturity and had absorbed all those with long-term injuries and covered the expanded entitlements, the scheme no longer looked cheap. It looked as if it cost an awful lot.

These problems are set to get worse. We have in New Zealand an ageing society. An ageing society implies not only payouts but also a lower proportion of people paying levies to cover the non-earners account. Because the scheme was essentially a Ponzi scheme in the beginning, it required an ever-increasing number of people who were working to pay levies or substantial rate increases.

To Labour's credit, it realised that that was a problem. It realised that operating the scheme as a "pay as you go" scheme was not viable when we have an ageing population. That is why, I believe, Labour announced that the scheme would be fully funded by 2014. Unfortunately, Labour also undertook a massive expansion of entitlements under the scheme, meaning that despite its promises to have the scheme fully funded, the unfunded liability expanded.

The scheme's unfunded liability now stands at around \$13 billion, up \$5 billion in the past year. If any private insurance company had the books that the scheme has, it would be declared bankrupt. The only reason that the scheme still exists is that it has the capacity to increase its levies. In essence, it is solvent only because it can force people to cover its costs and has the Government standing behind it.

In these circumstances, the only viable way to ensure that the scheme delivers results for reasonable prices is to open it up to competition. If people can get cheaper rates elsewhere, then they should be allowed to leave. If that means that risky workplaces start paying higher premiums, then so be it. It will encourage them to improve workplace safety.

The benefits of competition become apparent if one listens to the nonsense peddled by Labour in its opposition to it. The first thing Labour will tell us—and its members said so today—is that costs will increase because we now have to pay the profit margins of private companies. The facts speak otherwise. The last time that competition was introduced, premiums declined by around 30 percent. The argument that profit margins lead to higher prices is simply absurd. By that logic, Labour would nationalise everything.

The second thing that Labour has said is that premiums were lower only because private companies offered cheap rates as loss-leaders. Well, that is very interesting. A private insurance company has to have its books signed off by an actuary. That actuary has to say that the income the company received in that year takes into account not only its costs in terms of what it wrote out in cheques during that year but also whether sufficient funds are left over to put into an account that would meet its future liability. Labour, on the other hand, oversaw a scheme that was meant to be moving towards being fully funded, yet its funding liability moved in the other direction and actually expanded.

The system needs to be fully funded, but, in my view and in ACT's view, it should also be opened to competition. We can look at it this way. Every single monopoly, be it the post office, Telecom, or coal has always delivered more for less when it has been opened up to competition. Three things happened: prices went down, the quality of their services went up, and there was more variety in the products offered. I believe that that would happen if the accident compensation scheme was opened to competition. In other words, there is no reason to think that the scheme would be any different from the post office or Telecom. In fact, it is even more important in some ways to open up the scheme to competition.

Currently, the scheme sets a flat-rate levy based on the risk in an industry. Those employers that have a safe environment subsidise those that have an unsafe environment. There is little commercial incentive to create safer workplaces. Private competition would ensure that that happened. By keeping the scheme as a monopoly and not properly allowing risk pricing to emerge, we are increasing the number of workplace accidents.

In the private market, we have insurance excesses. We have no-claim bonuses. We have risk-based insurance. The private market is all about mitigating risk. The scheme, on the other hand, is about forcing good employers to subsidise bad ones. That is why the last time the scheme was opened to competition, not only did costs decrease but also we saw a decline in the number of accidents. Those who oppose competition in the scheme are not just wasting taxpayers' money. They are also ensuring that more people suffer accidents in the workplace than is necessary.