An Investigation of the Provision System of Workers' Compensation Insurance

KWCWS, Korean state-run workers' compensation insurer has undergone financial difficulties and a number of measures have been designed to improve the efficiency and effectiveness of the agency involved in administering the workers' compensation law. As one of the measures, private carriers' participation in workers' compensation insurance has been the subject of controversy since proposed in the late 1990.

Advocates of the public provision of workers' compensation insurance assert that employer costs are lower where compensation is exclusively funded through a public agency, because an exclusive public fund neither incurs marketing expenses nor needs to make a profit. Exclusive public funds are allegedly more efficient than private carriers, since they are able to capture economies of scale. On the other hand, proponents of the private provision of workers' compensation insurance assert that the lack of a profit motive on the part of exclusive or competitive state funds creates administrative inefficiencies that increase costs. In addition, political factors allegedly cause state funds to create subsidies for one group of employers at the expense of another. In addition to creating obvious inequities, these state-fund subsidies also results in allocative inefficiencies that reduce social welfare. For similar reasons, it is also claimed that administrative determination by state funds of a claimant's benefit eligibility and duration of disability is less stringent than private carriers' determinations, thus exacerbating problems associated the workers'
benefit utilization in response to higher benefits.

Despite a bitter controversy over the delivery system efficiency, there is very little empirical evidence to substantiate the hypotheses concerning superior efficiency of either the public or private provision of workers’ compensation insurance, since very little research has been done in this area.

The objective of this report is to investigate how the private participation in workers’ compensation insurance affects efficiencies. To do this, we analyze the background and impact of the workers’ compensation reforms (privatization) that have been implemented in Nevada, New Zealand, and Netherlands. We conclude that the competitive provision of worker’ compensation insurance would force to private insurers to achieve greater efficiency than the public monopoly provision.