

**2011 Modularization of Korea's Development Experience:
Development and Operation of
Workers' Compensation
Insurance Scheme in S. Korea**

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Prepared by	Workers' Compensation Research Center under Korea Workers' Compensation&Welfare Service (COMWEL)
Author	Jang Gi Kim, Researcher, Workers' Compensation Research Center under Korea Workers' Compensation&Welfare Service(COMWEL) Yoon Jo Duk, Vice President, Korean Social Policy Institute (Collaborative Researcher)
Advisory	Se-hyeon Lee, Jeju Special Self-governing Province National Labor Relations Commission
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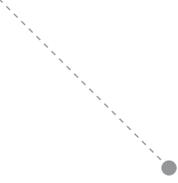


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Preface

The study of Korea's economic and social transformation offers a unique opportunity to better understand the factors that drive development. Within one generation, Korea had transformed itself from a poor agrarian society to a modern industrial nation, a feat never seen before. What makes Korea's experience so unique is that its rapid economic development was relatively broad-based, meaning that the fruits of Korea's rapid growth were shared by many. The challenge of course is unlocking the secrets behind Korea's rapid and broad-based development, which can offer invaluable insights and lessons and knowledge that can be shared with the rest of the international community.

Recognizing this, the Korean Ministry of Strategy and Finance (MOSF) and the Korea Development Institute (KDI) launched the Knowledge Sharing Program (KSP) in 2004 to share Korea's development experience and to assist its developing country partners. The body of work presented in this volume is part of a greater initiative launched in 2007 to systematically research and document Korea's development experience and to deliver standardized content as case studies. The goal of this undertaking is to offer a deeper and wider understanding of Korea's development experience with the hope that Korea's past can offer lessons for developing countries in search of sustainable and broad-based development. This is a continuation of a multi-year undertaking to study and document Korea's development experience, and it builds on the 20 case studies completed in 2010. Here, we present 40 new studies that explore various development-oriented themes such as industrialization, energy, human capital development, government administration, Information and Communication Technology (ICT), agricultural development, land development and environment.

In presenting these new studies, I would like to take this opportunity to express my gratitude to all those involved in this great undertaking. It was through their hard work and commitment that made this possible. Foremost, I would like to thank the Ministry of Strategy and Finance for their encouragement and full support of this project. I especially would like to thank the KSP Executive Committee, composed of related ministries/departments, and the various Korean research institutes, for their involvement and the invaluable role they played in bringing this project together. I would also like to thank all the former public officials and senior practitioners for lending their time and keen insights and expertise in preparation of the case studies.

Indeed, the successful completion of the case studies was made possible by the dedication of the researchers from the public sector and academia involved in conducting the studies, which I believe will go a long way in advancing knowledge on not only Korea's own development but also development in general. Lastly, I would like to express my gratitude to Professor Joon-Kyung Kim for his stewardship of this enterprise, and to his team including Professor Jin Park at the KDI School of Public Policy and Management, for their hard work and dedication in successfully managing and completing this project.

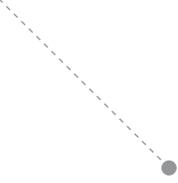
As always, the views and opinions expressed by the authors in the body of work presented here do not necessary represent those of KDI School of Public Policy and Management.

May 2012

Oh-Seok Hyun

President

KDI School of Public Policy and Management



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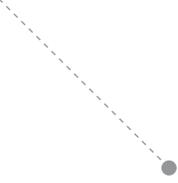
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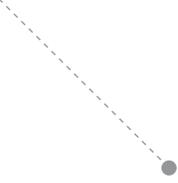
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Summary

The introduction of workers' compensation insurance ("WCI") scheme in South Korea ("S. Korea") dates back to the time when a military junta, so-called Supreme Council for National Reconstruction ("SCNR") pushed a new governmental regime through, not so long since the end of the Korean War. At that time, few people had an understanding of the scheme. Majority of Koreans did not expect that it would significantly contribute to the development of the economy. Rather, many of them went as far as to believe that the Government tried to use it to compensate for deficient budgets.

Though it was almost impossible to collect even the premiums, a standing advisory council under the SCNR decided to introduce the scheme in 1964 to protect both employers and industrially-injured workers ("IIWs"), an act of reckless courage.

The scheme, as the first social insurance scheme ever introduced in S. Korea, is characterized by "no-fault" rule and public liability, functioning as policy insurance with limited compensation liability. It has played an important role in industrial development in that it not only protected the basis of business for employers but also insured workers' income and health. This suggests that social insurance schemes like the WCI scheme have provided workers and employers with social security in a practical sense, thereby giving rise to pursuit of rapid economic growth in a very short period.

Given the key role of the scheme in terms of social security, it is hoped that this study, entitled "Development and Operation of Workers' Compensation Insurance Scheme in S. Korea" will provide a better understanding of how it has been developed, matured and internalized since its introduction in S. Korea, including its institutional operation. In particular, the development experiences with, and operation framework for, the scheme are based on experiential facts, which, in turn, implies that the case of S. Korea with the scheme can be used as an empirical case for the LDDCs (Least Developed among Developing Countries) that will potentially introduce the scheme.

The study consists of the following topics; institutional legislation&characteristics, development stages&success factors, legal framework, operation framework, etc. of, or in relation to, the scheme in S. Korea:

First, the internalization and success factors of the scheme in S. Korea are addressed. The success factors can be summarized into social security buildup (as through continuously extending insurance coverage in terms of eligible worker types throughout its introduction to internalization), timeliness&fairness (of compensation), balanced insurance budgets, functional buildup (as through providing health, income security and rehabilitation services), social consensus toward legal and institutional reforms, etc.

The second topic is about stage-by-stage development experiences with the scheme in S. Korea. The development experiences can largely be classified into 4 stages: Pre-introductory, introductory, growth and internalization. In terms of practical internalization, they have been realized as through forming a legal and institutional basis for the scheme; building a system for the introduction and operation of the scheme; establishing the WCI fund&extending its applicability; sophisticating&extending the coverage and application of benefit services; diversifying WCI services and programs; pursuing the balance of insurance budgets, etc.

In the third topic, important issues as provided in the 26 amendments to the WCI Act are addressed with a particular focus on criteria for the acknowledgement of an accident as work-related (which are one of key issues relating to the development of the scheme in S. Korea), categorization of WCI-covered workplaces by business type, introduction of various wage-indexed WCI benefits (for extending the applicability of insurance coverage), sophistication of WCI premium rating (for securing balanced insurance budgets), etc. Along with this, a framework for the stage-by-stage development and institutional operation of the scheme was also suggested.

The fourth concerns the up-to-date achievements of the scheme since its introduction in S. Korea, including its management framework. There have been lots of changes in the scheme in terms of operational scale, when compared with the scheme at the early stage of its introduction; a substantial growth in the operational scale of the scheme in S. Korea can be found not only in the scale of the economic growth of S. Korea, but also in a sharp increase in the scale of WCI coverage&premium collection, the frequency of industrial accidents, the provision of medical care&compensation services (as shown in trends in WCI benefits paid), the development&extension of rehabilitation&welfare programs, etc.

Finally, the operation framework of the scheme in S. Korea is described in terms of organizational roles and characteristics. In S. Korea, the operational functions of the scheme can be divided into three in terms of what functions an organization or entity in charge carries: Policy management, screening and execution. Policy management function is carried out by the WCI Division of the MOEL (Ministry of Employment&Labor), and the others (i.e. screening and execution) by the WCI&Prevention Screening Commission and the Korea Workers' Compensation&Welfare Service ("COMWEL"), respectively. Especially,

the policy and execution functions of the scheme constitute operation framework based on close cooperation between the two organizations (i.e. the MOEL and the COMWEL), even if the latter function (i.e. execution) is commissioned to the COMWEL.

This suggests that the scheme can represent itself as historically&politically diverse development experiences when it mixes into, or gets mixed with, different socioeconomic environments unique to different countries. As mentioned above, the WCI scheme is the first social insurance scheme ever introduced in S. Korea although it is the military junta that introduced it to S. Korea left almost into ruins, not so long after the end of the Korean War. It is true that there are some criticisms about whether socioeconomic situations at the time of its introduction were ripe enough for its acceptance. As of now, however, S. Korea carries with it resourceful experiences with the institutional operation of the scheme that have been sufficiently accumulated, along with a startling growth in its operational scale, since its introduction.

Given these experiences of S. Korea with, the operation of, the scheme, any country ready to introduce the scheme or in pursuit of its institutional reform should take into account the following issues before its introduction:

First, an accurate understanding of the purport&purpose of the scheme is required. For the purpose of this understanding, it should identify what type of the scheme will, in a real sense, fit into situations and conditions it faces, and thereafter, construct a basic framework for the operation of the scheme and drive its sustainable development on a mid- and long-term basis.

Second, the financial soundness (i.e. balance) of insurance budgets should be taken into account. At the early stage of introducing the scheme, how to secure balanced insurance budgets may stand out as a very important issue. In S. Korea, all financial contributions to the scheme are borne by employers. Accordingly, a country ready to introduce it or in pursuit of its institutional reform needs to estimate the potential scale of required insurance budgets based on the scale of its own industries, and thereby, identify how to secure the balance of insurance budgets. Actually, S. Korea tried to minimize financial loads by maintaining, at the early stage of its introduction, a basic framework focusing on medical care&compensation services.

Finally, it should be noted that, given the development experiences of S. Korea with, and its operation framework for, the scheme, the industrial development of the economy may be conflicting with the development of the scheme itself in the matter of a reciprocally complementary relationship. With regard to this, however, S. Korea has maintained a policy to protect employers and IIWs both even at the stage of industrial development.

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Chapter 1

Institutional Introduction of WCI Scheme in S. Korea: Background

1. Why Introduce the WCI Scheme?
2. Major Reasons for the Institutional Introduction of the WCI Scheme
3. How was the WCI Scheme Put into Practice?
4. Expected Benefits of the Institutional Introduction of the WCI Scheme

Institutional Introduction of WCI Scheme in S. Korea: Background

1. Why Introduce the WCI Scheme?

It is general that most countries introduce the Workers' Compensation Insurance ("WCI") scheme as their first social insurance system. The first introduction of the scheme in the Western world dates back to the late 1800s and early 1900s, when industrialization began in earnest¹; before its introduction, any compensation for work-related accidents was borne by individual employers. At that time, workers injured while at work had no choice but to depend on a civil action or suit for being compensated for their consequent injuries or diseases. However, this kind of legal action tediously cost them lots of time. And further, when employers could not afford to bear responsibilities for compensation, those industrially-injured workers ("IIWs"), including their dependents, had to suffer from extreme difficulties without receiving required medical treatments, and still less income replacements. There were often even cases an employer went as far as bankrupt to compensate for work-related accidents. Given the fact that an accident happening while an IIW is at work is inevitable, this situation might put pressure on economic growth that would be enabled through social stability and industrialization. Faced with a need to overcome these challenges, the Western world came up with a collective solution, the very WCI scheme.

The WCI scheme was designed to pool risks related to, or attendant upon, industrial accidents, which had been individually borne by employers, and secure stable, satisfactory compensation to IIWs. In other words, it is the WCI scheme whose purpose is to provide reasonable compensation for industrial accidents inevitably accompanied by an industrial society, and thereby, reduce wasteful disputes among stakeholders and difficulties that not

¹ U.S. Social Security Administration, *Social Security Programs throughout the World*, 2010., "Major countries introduced the WCI scheme in the following years: Japan in 1947; the U.S. in 1908; Canada in 1908; Australia in 1889; the U.K. in 1897; Germany in 1884; France in 1898; Italy in 1898; the Netherlands in 1901; Switzerland in 1911; Sweden in 1901; Denmark in 1898; and Norway in 1894."

only the injured workers but also their dependents would have to go through. In this regard, the WCI scheme was indispensable to industrialization.

In S. Korea, the WCI scheme was first introduced in 1963 when industrialization began to take off. In 1962, just one year prior, the First Five-Year Economic Development Plan started. This suggests that, also in S. Korea, the WCI scheme may have been required as a part of preconditions for industrialization. At that time, S. Korea was in a dire situation not just economically but also politically.

The autocratic government that had ruled the country since the 1945 Liberation from Japanese colonialism was brought down by the April 19 Revolution in 1960. In just one year, however, the May 16 Coup took place and a military junta seized power. Challenged by political turbulences like this, S. Korea's per capita GNP fell short of even USD 100, and a high unemployment rate posed serious social problems with most income earners being petty farmers. Under the cause of bringing society back in order and building a wealthy country through economic growth, the military junta started the Five-year Economic Development Plans and organized the Social Security System Council, which later introduced the WCI scheme. Taking into account the circumstances of the time, a need to institutionalize workers' compensation insurance can be induced as below:

1.1 What's the Status Before the 1960s?

It was under the Japanese rule that, in Korea, industrial accidents began being compensated for in a historical sense. However, most of compensations at that time were just nominal and condescending reliefs or monetary assistances; hardly were they institutionalized except for cases with a few industry types exposed to extraordinary high accident rates. All that regular Korean workers could do to be compensated for their work-related injuries or diseases was to seek just reliefs directly from their employers who were mostly Japanese. The only industries that granted compensation such as it was concerned public sectors (e.g. patent, postal and rail services, etc.) that many Japanese were involved with. Their employees could manage to be compensated for an accident happening while at work as part of the supplementary means to the government-subsidized mutual aid system that was introduced in 1922, when the only sector in which any institutionalized compensation was found was the mining industry as the most dominating business with high accident rates. The 1915 Chosun Mining Decree provided that the Governor-General of Chosun might cause the regulation of mining right holders on protection measures for miners to require a prior approval. In 1938, the Decree was revised to the Chosun Regulation on Reliefs for Miners. The Regulation contained a new provision that, as dictated by the Governor-General of Chosun, mining right holders should give reliefs to eligible miners with a work-related injury, disease or invalidity, or who died due to a work-related accident. The regulation was the first accident compensation insurance scheme ever introduced for regular workers in the colonial period.

Liberated from the Japanese imperialism in 1945, Korea was reborn as an independent, democratic state. Not so long after the 1945 Liberation, however, its territory was divided into the North (“N. Korea”) and the South (“S. Korea”) that were governed by the Soviet Union and the United States, respectively. The US Military Government tried to address the challenges of compensation for industrial accidents through collective agreements between labor and management. In July 1946, it proclaimed the “Act on the Institutionalization of Public Policies on Labor Issues & the Establishment of the Ministry of Labor,” which contained provisions on industrial accidents, including the ones on recommendations on compensation for industrial accidents through labor-management agreements, regulated salary negotiation between employers and labor unions, work hours, employment conditions, etc. (KORCHAM, 1970). These efforts worked out at least partially well. Some workplaces adopted compensation regulations through collective agreements between labor and management as recommended by the Act. But compensation to IIWs at a workplace without any organized labor union or small and medium-sized enterprises (“SMEs”) were still left unaddressed since most trade unions were established within each individual workplace (Woo, 2007).

S. Korea had had an institutional opportunity to better compensate IIWs for industrial accidents even before the Korean War ended in April 1953. It enacted the “Labor Standards Act,” and thereby secured a legal means to make individual employers are held accountable for accident compensation. This enactment contributed to the reinforcement of employers’ responsibilities for accident compensation. Article 8 of the Act mandated employers to provide compensations for workers with a work-related injury, disease or invalid, or who consequently died due to a work-related accident. The Act also contained provisions on prototypic compensations benefits (e.g. medical care benefits, temporary disability benefits, permanent disability benefits, survivor’s benefits, etc.). Employers, however, failed to properly or reasonably comply with the Act by arbitrarily providing compensation according to their unilateral judgment. They went as far as to think that, when an accident occurred, a worker should be more blameful for the accident, instead of taking due responsibilities for compensation. IIWs’ rights to be compensated for a work-related accident was not protected or completely ignored. The Act alone could not address the issues of compensation for industrial accidents, and naturally, injured workers’ livelihood was left unprotected in a society where people tended not to abide by laws and social order, hence very vulnerable (Oh, 2006).

1.2 Factors Facilitating the Institutional Introduction of the WCI Scheme

In S. Korea, it was the government that decided to introduce the WCI scheme. There is no compelling evidence that civil society stakeholders, such as labor unions or economic organizations, called for the scheme. In other words, employers or workers were not directly involved in the decision-making procedure. But they were just informed of the government’s

plan to introduce the scheme and efforts to persuade them of why their introduction was required (Woo, 2007). Admittedly, the deciding factor behind the introduction of the scheme was the powerful military government, which pushed ahead with the plan because of the following reasons:

First, the government was making all-out efforts for economic growth under the goal of building a wealthy nation. With its industrialization in full swing, S. Korea faced the need to install an institutional measure to insure IIWs against potential accidents happening while they're at work. Given the fact that accidents at a workplace were inevitably accompanied along with industrial development, the WCI scheme was more than necessary to secure accident compensation to workers. At that time, injured workers could only gain relief through the fault-based liability principle under the civil law. In this case, workers themselves had to prove that major fault or negligence of with their employers, who mostly tried to evade the consequent or causal responsibilities. In a real sense, however, it was impossible for workers with an injury or disease at work to prove the fault of employers because of their subordinate relations to the employers.

Second, to gain public supports and secure legitimacy, the military government had to accept, to some degree, the social call for reform demonstrated through the April 19 Revolution. To do so, the most stable and feasible way was to strengthen social security which had been poor at that time. The military government needed means to gain people's supports without threatening the survival of the regime, and came up with the idea of building a social security system because, for example, the development of labor unions or civil society was considered conflicting with social stability, and consequently, threatening to the survival of the regime. In March 1962, the establishment of the Social Security System Council was approved, and four months later, President Park, Chung Hee handed down a policy directive on the establishment of social security system to the Prime Minister.² Among various measures, the WCI scheme must have been the most attractive one to the Government because it could go hand in hand with economic growth and minimize financial burdens on the state. This can be seen in that the only institution produced by the Council was the very WCI scheme.

Third, the members of the Social Security System Council had expertise in, and substantial commitments to introducing a social security system. The Council was not a make-shift body that was hastily organized after the military coup. Actually, its establishment was recommended even before the Park administration; the Chang Myon Regime gathered experts in all areas and organized a massive academic conference (so called "National

² The policy directive goes: "...[abridged] pursuant to the Livelihood Protection Act, social assistances have been being provided for the needy; still, economic growth will have to go hand in hand with a sustainable social security system where people, employers, and the Government can be jointly or collectively responsible for secure decent livelihood to peoples. Among different social insurances composing the integral part of social security system, the Government must select the one whose applicability is relatively high in a practical sense, so that it may implement it as part of a pilot case to exploit and internalize the most suitable insurance scheme in terms of locality, and thereby, realize an integrated social security system of S. Korea's own." (Woo, 2007)

Economic Meeting”) right after its inauguration. These experts recommended the establishment of the Council. This indicates that, although the Council was made by the military government, its members were experts from the private sector who had been on the candidate list from the previous administration. For them, making a social security system was a way of participating in social reform against the public sector’s complacency. Therefore, they had passion, and even a strong sense of duty, for the mission (Woo, 2007). They played a role in not only designing the WCI scheme themselves but also convincing government officials, labor unions, and employers of the need for the scheme.

1.3 Impediments to the Institutional Introduction of the WCI Scheme

In S. Korea, the reason for the government-driven institutionalization of workers’ compensation for industrial accidents is that other social players than the Government itself, such as political parties, civil society, labor-unions, employers’ groups, etc. did not feel the need to do so. The circumstances of the time show some of impediments to introducing the WCI scheme in S. Korea:

First, S. Korea was then an underdeveloped, agricultural society with low employment rate. In 1963, only 52% of the population had jobs, making the tight labor market a serious social problem. Its industrial structure was also old-fashioned with the agricultural sector taking up 63%. The share of mining and manufacturing sectors was only 8.6%. Economic situation like this served as a stumbling block to adopting the WCI scheme. People were more interested in getting a decent job than insurance benefits. From the April 19 Revolution in 1960 to the May 16 Revolution in 1961 (i.e. for just one year and two months since the revolution), there were 1,840 uprisings nationwide. Every day, protestors called on the government to solve prevailing unemployment problems (MOEL, 2004). In response to this, the Democratic Party pledged to address the unemployment issue by establishing an employment insurance system, and other opposition parties came up with similar promises. Still, this left no room for raising the issue of protecting IIWs.

Second, trade unions had no interest in the WCI scheme because other forms of accident compensation already existed, as in collective agreements between labor and management, or the principle of employer’s liability as provided in the Labor Standards Act (Woo, 2007). Although few employees were entitled to such benefits in reality, labor unions did not consider the issue of WCI important because they were the main players of labor movements. Their indifference to the introduction of the WCI scheme like this can be inferred in that, at the time in S. Korea, most labor unions were organized within individual workplaces. Because the influential members of labor movements belonged to large-sized workplaces equipped with well-organized labor unions, receiving compensation for work-related accidents was not a big problem for them.

Third, employers did not have enough financial capacity to pay WCI premiums that were appropriated for WCI budgets. They had to bear, in a practical sense, 100% of responsibilities for the WCI budgets. If they could not manage to do so, accordingly, the

introduction of the scheme wasn't possible in itself. Their financial capacity was a key factor of consideration. Given the fact that accident compensations already existed in the form of collective agreements and the Labor Standards Act, it can be assumed that large-sized workplaces were already significantly contributing to the balance of WCI budgets. But that was not the case with SMEs. This was why the government had to limit WCI coverage to large-sized workplaces with 500 full-time workers or more that could afford to accept the coverage.

Fourth, the government did not have sufficient administrative and budgetary resources to introduce the WCI scheme. Its budgets were tight because of a reduction in counterpart funds (i.e. monetary reserves earned by selling aids from the US), and ministers and lawmakers were not supportive of the scheme.

2. Major Reasons for the Institutional Introduction of the WCI Scheme

The WCI scheme is based on a mechanism where employers give financial contributions to the scheme and the government, in turn, uses them to provide compensation services for IIWs. This suggests that the scheme involves three stakeholders: The government, employers, and workers. This section addresses what the three groups took different positions on the introduction of the WCI scheme in terms of costs and benefits.

As far as workers were concerned, the introduction of the WCI scheme would increase benefits without incurring costs to them. During the US Military Governance, workers received accident compensation based on collective agreements, and since 1953, the Labor Standards Act held employers liable for industrial accidents as provided in the same act, although few employees were entitled to such benefits. When an industrial accident occurred at workplaces not subject to any collective agreement or the Labor Standards Act, injured workers had no other way but to rely on a civil suit or action for damage compensations. And further, even if a workplace with no financial capacity to bear responsibilities for accident compensation was subject to a collective agreement or the Act, injured workers could not be given accident compensation in a practical sense. To them, accordingly, the WCI scheme was perceived as an institutional guarantee for workers' compensation.

Since workers' groups that had led labor movements at that time were mostly composed of workers at large-sized workplaces, some of them expressed their preference toward accident compensation through a collective agreement. Informed of the Government's position to extend WCI coverage to so-far uncovered SMEs, however, they did not have any objection to the introduction of the scheme.

At first, employers, the ones with responsibilities for financial contributions to the WCI scheme, were hesitant to support its introduction; large-sized workplaces were legally mandated to compensate for work-related injuries in accordance with a collective agreement or the Labor Standards Act. In addition, they did not like the idea of the Government being

an entity to manage accident compensation rather than that of them bearing financial responsibilities. That is, they asserted that, if it was right that they be the ones paying for WCI coverage anyway, the continued adoption of the existing methods of directly giving accident compensation to workers were by far more desirable in improving management-labor relations than otherwise in that the methods could enable them to show how much they care about workers.

However, they did not object so greatly to the introduction of the WCI scheme either after they had been informed that the scheme would immunize them from responsibilities as mandated by the Labor Standards Act, and that it was kind of liability insurance enabling the diversification of employers' risks. In many cases, even a well-founded, solid workplace went bankrupt at the occurrence of a big, sizable accident. Therefore, it can be said that risk diversification was an attractive function that the WCI scheme could appeal to employers.

It was reported that high-ranking government officials were not for the introduction of the WCI scheme because of budgetary problems. If, with increasing interests trending toward the institutionalization of social security schemes, it was those for the introduction of the WCI scheme whose purpose was to pursue the implementation of relevant pilot programs, the government officials asserted that they could not put any kind of equivalent programs into practice for the same reasons. This atmosphere prevailing among the government officials continued until the operation of the scheme was transferred to the private sector.

When compared with other social security schemes, the WCI scheme can bring a lot more benefits. Since an industrial accident may be the one leaving behind very physically and mentally serious sufferings to an affected worker (of which occurrence is attributable to works at a workplace), it is definitely employers that should bear responsibilities for consequent compensation. This suggests that the funding comes from employers, and that financial burdens on the government are very low. The scheme also functions as a countermeasure against poverty because it provides financial security to injured workers, reducing the government's spending on protecting the livelihood of the disadvantaged. In addition, the scheme does not hamper worker's morale, which is a concern raised in other social insurance systems, such as employment insurance ("EI"). All of these are the major reasons for the introduction of the WCI scheme in S. Korea.

3. How was the WCI Scheme Put into Practice?

3.1 Institutional Introduction of the WCI Scheme

The introduction of the WCI scheme was first discussed by the Social Security System Council established in 1962. In October 1963, the Supreme Committee for National Reconstruction ("SCNR") finally approved its adoption. The SCNR, established with the military coup in 1961, proclaimed that it would set up a solid basis for a social security system in the creation of a welfare country, as one of its basic plans for 1962. To put the plan into practice, the SCNR elected to organize the Social Security System Council so

that it could conduct researches and other activities to identify social security schemes fitting the status quo of S. Korea at that time, and pursue legislation and undertake a stage-by-stage research to extend the coverage of social security schemes over to the vulnerable populations, as through first carrying out a pilot program for social security and assessing its performances. As part of these efforts, the Council composed three teams that would be involved with medical insurance, public assistance, and labor insurance, respectively. The final decision of the SCNR to introduce the WCI scheme was based on the research outcome of the Labor Insurance team.

The labor insurance team had to decide which one (of the EI scheme and the WCI scheme) to implement first. This was about the prioritization of the insurance schemes to be put into practice. Since the 1945 Liberation, various groups, including political parties, social organizations, labor unions, etc., had called for introducing the EI scheme for a long time, and this continued request was even documented. So, the public, including workers, were well aware of what the EI scheme was and supportive of its prioritized introduction (MOEL, 2004).

It took S. Korea as short as 6 months to put into orbit the WCI scheme (whose framework was modeled after that of Japan's) since it started preparing for introducing the scheme. There should have been sufficient time or opportunities to hear and coordinate different opinions about its introduction that came from different stakeholders, including management and labor, before the scheme drafted by the military regime was legislated with the approval of the National Assembly.

On the other hand, there is no evidence that the WCI scheme was raised as a social issue. Still, a number of workers left without any protection from industrial accidents existed. Although the Labor Standards Act provided that IIWs were entitled to accident compensation, those who worked at a workplace not subject to the Act could not receive any protection. In addition, even if a workplace is subject to the same act, injured workers could not receive any benefits in a real sense when their employer could not afford to accept the coverage. There were also many employers who evaded giving compensation using workers' ignorance. 17 years had passed since the liberation, yet a number of IIWs who did not receive due compensation ended up in poverty or went back to rural areas. Advanced countries were already using the WCI scheme to protect IIWs, which was developed in the late 18th century. By the early 1960s when S. Korea was considering introduction of the scheme, half of the countries in the world already had the scheme in place. Under the circumstances, the government had to put priority on the WCI scheme, even if it had to start with limited coverage that was already provided in the Labor Standards Act (MOEL, 2004).

In spite of this, one of major reasons for the adoption of the WCI scheme prior to that of the EI scheme would be financial considerations. The introduction of the latter would require employers and workers to equally bear responsibilities for financial contributions. That is, the government had to collect premiums from workers to some degree if it was to introduce the EI scheme. However, this was hardly feasible when the economic situation

at that time was taken into account. In 1962, S. Korea's per capita GNP was as low as USD 87, with unemployment rate estimated at 8%. People were living in absolute poverty. The introduction of a new social program that could charge some part of the funding to workers was simply unrealistic. Meanwhile, it was acknowledged that the introduction of the WCI scheme, entirely funded by employers, would not only put no financial burdens on workers but also pose no additional financial burdens on employers who had already borne legal responsibilities for accident compensation as provided by the Act. When the scheme was first introduced, the government limited its coverage to workplaces with 500 full-time workers or more to take into account employers' financial capacity and minimize the collective resistance of employers' groups.

Given the fact that the purpose of the WCI scheme is to protect workers (especially, those working with SMEs) who are left in a blind spot without receiving any compensation for occupational injuries or diseases, the ultimate goal of the government was to extend WCI coverage to all workplaces in a timely manner although the coverage was limited to large-sized workplaces at the initial stage of its introduction, The Social Security System Council clarified the following reasons for introducing the WCI scheme in its "Proposal for the Implementation of the WCI Scheme" (MOEL, 2004).

Reasons for the implementation of the Workers' Compensation Insurance Scheme in S. Korea are as follows:

...(abridged) First, the Labor Standards Act alone could not timely and accurately respond to compensation for work-related accidents, especially when it involves a matter of employers' financial capacity or attitude. Employers who do not fulfill legal responsibilities for accident compensation, which (non-fulfillment) is attributable to their unjust attitude, can be addressed with punishment. However, there is no solution to their non-fulfillment arising from financial reasons. This is why the technical mechanism of WCI coverage should be inevitably used. Second, people are seldom law-abiding in practice, and there are employers who are ignorant of relevant legal provisions or who use the ignorance of workers, all of which may cause the serious violation of a legally-mandated protection of industrially-injured workers' eligibility for accident compensation.

3.2 Issues Raised at the Time of Introducing the WCI Scheme

As mentioned earlier, in S. Korea, the military government that seized power through a coup led the introduction of the WCI scheme. Therefore, the opinions of the stakeholders (i.e. employers, workers, and government officials) may not have been fully reflected in pursuit of its introduction. They were just a target of persuasion rather than a negotiation counterpart, and the Social Security System Council kept most of decision-making practices or procedures to itself. Although there was a consensus on the need to secure accident

compensation for IIWs, each stakeholder had different opinions on how to do so. The following are some of the issues that were raised then:

The first issue was about the scope of inclusively deemed accidents. When the WCI scheme was put on the discussion table, it was called the “Workers’ Accident Compensation Insurance Scheme.” However, the term was replaced by the “Industrial Accident Compensation Insurance Scheme” (for the purpose of discussion in this paper, the two terms are hereinabove and hereinafter referred to as the “workers’ compensation insurance scheme” (i.e. WCI scheme), except that there is a need to differentially or concretely use them.) in accordance with an order from the government. However, at issue was the term “industrial accident,” which was used more prevalently than “workers’ accident.”³ With the concern that WCI budgets might be used to compensate for a somewhat inclusively deemed accident that could be tagged “industrial accident” rather than “workers’ accident,” the Labor Insurance team submitted a revised proposal saying, “we are worried that some people might apply for accident compensation with any cases relevant to industrial accidents, making the WCI scheme a jack-of-all-trades insurance” (MOEL, 2004).

One of the most important reasons why those pioneers tried to limit the scope of WCI-covered accidents is that they thought expanding the scope of WCI-covered beneficiaries was a priority. A member of the Council wrote, “We cannot afford to waste another minute before the WCI scheme is applied to SMEs where a social protection for injured workers is desperately needed” (MOEL, 2004). To limit the scope of WCI-covered accidents, they came up with the two measures. For one, Article 1 (Purpose) of the draft Industrial Accident Compensation Insurance Act (corresponding to the current Workers’ Compensation Insurance Act) specified “the purpose of the WCI scheme is to timely and fairly compensate workers for industrial accidents” without annexing a second purpose as one of usual practices. It confined the operational scope of the scheme to such services as statutory benefits (e.g. medical leave/care, vocational training, etc.) that could help injured worker return to work. Another measure was to enact the Act on Social Security and to insert the phrase “by implementing the WCI scheme in accordance with the Act on Social Security” in Article 1 of the Industrial Accident Compensation Insurance Act. By doing so, the government made experts’ arbitration mandatory in the process of planning a social security program (MOEL, 2004).

The second issue was about who runs the scheme (i.e. the government or a private entity). From the planning stage of its legislation, the draft Industrial Accident Compensation Insurance Act was based on an assumption that the government would be the operator, specifying provisions on field studies, detailed plans, and other attendant details to implement the WCI scheme. Four months before it was passed, however, the Minister of the Ministry of Health and Social Affairs (“MOHSA” as integrated into the present Ministry of Health&Welfare) put pressure on the Council to change the operator to a private

³ The term “industrial accident” was often used to mean not just workers’ injuries caused by industrial activities but also pollutions that affect the public and other physical damages.

insurance company. Some states in the U.S. were adopting private insurance for workers' compensation, and there were countries where the government entrusted the corresponding scheme to a government organization. Yet, the Labor Insurance team insisted that the government should be the operator, and in the end, the same act was passed as what it was.

The Labor Insurance team, insisting that the government should be the one to run the scheme, had two arguments in mind: First, they argued that accident compensation and industrial safety were indivisibly complementary to each other, so the WCI scheme could not be left entirely to the private sector. Second, the WCI scheme was the first social insurance ever introduced in S. Korea. This suggested that the scheme could be deemed as a pilot scheme for all. They added it was the government that could sophisticate the program through trials and errors, so that it might serve as a reference for potentially adopting other social insurances (MOEL, 2004).

4. Expected Benefits of the Institutional Introduction of the WCI Scheme

The expected benefits of the WCI scheme can be summarized as follows:

First, it was anticipated that the introduction of the scheme would enable institutionalizing adequate accident compensation to industrially-injured workers who had been otherwise excluded from such compensation, and thereby secure the stable reproduction of labor forces. Although it started with limited coverage to workers at large-sized workplaces, its coverage would be ultimately extended to all workers with entitlement to the compensation. It was expected to minimize the loss of labor forces by providing adequate medical care and relieve financial difficulties faced by IOWs and their dependents by providing monetary compensation without discontinued income.

Second, its introduction would enable the minimization of labor-management conflicts, contributing to the stabilization of relations between them. Although the Labor Standards Act mandated employers to bear responsibilities for accident compensation, injured workers could hardly receive it. Workers and employers often confronted over entitlements to accident compensation with each other, and with so many people seeking an employment opportunity in the job market, workers were considered the weak in an absolute sense. It was no wonder that the conflicts put negative influences on the labor-management relations. In the case of large-sized workplaces, the amount of compensation was decided in accordance with a collective agreement between labor and management, and accident compensation was one of the agendas that pit the labor against the management. Under this situation, the mandatory implementation of the WCI scheme was expected to reduce similar conflicts because IOWs could receive accident compensation from the government.

Third, the implementation of the scheme was expected to prevent an employer from going bankrupt due to a massive industrial accident. By pooling many employers' risks, the scheme relieved employers of extreme financial burdens caused by similar massive

accidents. Before the WCI scheme was mandatorily put into practice, employers had been entirely responsible for accident compensation to IIWs. Therefore, they suffered significant damages from industrial accidents too. Workplaces that could not afford to bear financial responsibilities for accident compensation went bankrupt, and even workplaces with sound financial status also closed down their business when faced with massive industrial accidents. The WCI scheme enabled risk sharing or diversification among member employers, and thereby, the prevention of their bankruptcy.

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Chapter 2

Institutional Implementation of WCI Scheme: Organizational System&Funding Method

1. Organizational System for Implementing the WCI Scheme
2. How to Raise the WCI Fund for Implementing the WCI Scheme

Institutional Implementation of WCI Scheme: Organizational System&Funding Method

1. Organizational System for Implementing the WCI Scheme

1.1 Establishment&Composition of Social Security System Council

As mentioned earlier, it was the Social Security System Council that drafted the WCI scheme and led its introduction. The Council was established as an advisory board for the Minister of the MOHSA to investigate, review, and screen social security issues under the supervision of the same ministry. Some 20 members, including the Chairman and the Vice Chairman, composed the Council,⁴ all of whom played a role as non-permanent members in discussing, reviewing, and screening technical commissioners' proposals; technical commissioners functioning under and with the Council conducted actual researches&studies on social security system. They served as permanent members of the Council who had "abundant knowledge about, and lots of experiences with, social security system." They were appointed by the Minister of the MOHSA, all of whom were experts from private sectors since it was ensured that government officials could not be appointed as such. When the Council started up, its technical commissioners were positioned at one of the four teams (i.e. integrated insurance, medical insurance, public assistance, and labor insurance teams); each team could use one technical commissioner, including his/her assistant.

⁴ The Chairman was assumed by the Vice Minister of the MOHSA, and the Vice Chairman by Head of the Office of Planning and Coordination under the same ministry. Other members were appointed or commissioned, by the Minister of the same ministry, among experts and relevant government officials who had ample knowledge about, and lots of experiences with, social security system. The tenure of members was one year; however, those serving as government officials could hold the position only while they served as such.

What is noticeable about the composition of the Council lies in the involvement of private-sector experts. Except for ex officio government officials, four out of six members were professors, and all of the eight technical commissioners came from private sectors. It was true that not only these private-sector experts but also high ranking government officials (including senior members, the Minister, and the Vice Minister) had a great sense of duty and pride in their mission. For them, a directive, of the military regime, to have a social security system in place was a golden opportunity to overcome complacency that prevailed among government officials whether high or low ranking ones.⁵

1.2 Administrative Screening&Public Justification of the WCI Bill Before its Legislation

The WCI scheme in S. Korea can be characterized by furtiveness and clandestine nature in its legislation and introduction in that only the limited number of stakeholders (including the SCNR, the Culture, Education and Social Affairs Committee under the SCNR, the MOHSA, the Social Security System Council under the MOHSA, and other relevant government ministries) were involved in decision-making. The WCI bill drafted by the Council was approved by a standing advisory council under the SCNR in October 1963 after going through a series of deliberations and screenings.

– *Administrative Screening&Public Justification of the WCH Bill* –

Review/screening by the Social Security System Council→Approval by the Minister of the MOHSA→Discussion among relevant ministries (including the then MOCI (Ministry of Commerce and Industry as integrated into the present Ministry of Knowledge Economy), the MOPS (Ministry of Postal Service as integrated into the present Ministry of Knowledge Economy), the Economic Planning Board (the present Ministry of Strategy&Finance), etc.)&deliberation by the Office of Legislation→Open presentation, as through holding explanatory sessions→Deliberation by the Culture, Education and Social Affairs Committee→Deliberation by the Legislation and Judiciary Committee→Deliberation by a standing advisory council under the SCNR

⁵ It should be noted that the private-sector experts were not joining hands with the military regime. Rather, they wanted to utilize the regime's pledge of reform that would be a turnaround from the previous administrations' inaction. Because the military regime created an atmosphere for social reform such as it was, the experts developed a sense of duty to grab the change and participate in such move. On the other hand, government officials were mostly cynical and pessimistic about the activities of the Council.

1.2.1 Administrative Efforts to Legislate the WCI Bill

The Social Security System Council approved the WCI bill without any amendment to it. However, there were some controversies before the Minister of the MOHSA's approval. The Minister gave an order to consider change of the operator of the WCI scheme to a private sector entity. The Council spent a month convincing the Minister as to why it was the government that should run the system,⁶ and the Minister finally approved the bill.

Discussions among relevant ministries, including deliberations by the Office of Legislation, were simultaneously undertaken. Although the ministries involving in such discussions were limited to economy-related ones, the Economic Planning Board did not respond to a query for reviewing, saying that the scheme was unnecessary when there already was the Labor Standards Act and per capita GNP was less than \$100. The bill, however, was approved by the Office of Legislation with the active cooperation of the officials in charge and the supports of private sector experts.

At the Vice Ministerial meeting, an issue over who would have to run the scheme was raised once again. Since WCI itself was a form of insurance some members held, it should be entrusted to offices in charge of insurance such as the MOPS, or even a private insurance company. In response to this insistence, government officials with the ministry discussed the issue and ended up in the conclusion that the MOPS could not afford to handle a new service area like WCI.⁷ With the conclusion, the draft WCI bill was approved as it was, and then referred to the Cabinet. The Minister of the MOHSA visited in person heads of the Economic Planning Board, the MOAF (Ministry of Agriculture and Forestry as integrated into the present Ministry for Food, Agriculture, Forestry and Fisheries), and the MOCI to explain to them why the introduction of the scheme was required; the WCI bill was approved by the Cabinet.

Then, the bill was laid before the SCNR, and approved by its Culture, Education and Social Affairs Committee and the Legislation and Judiciary Committee without any amendment to it, with a subsequent approval from the standing advisory council under the SCNR.

1.2.2 Efforts to Justify the WCI Bill as Through Holding Explanatory Sessions

The government tried to justify the legislation of the WCI bill, as through holding explanatory sessions consisting of round-table talks (under the sponsorship of the MOCI) and public forums (under that of the KORCHAM (Korean Chamber of Commerce and

⁶ The arguments of the Council were that the WCI was inextricably linked with the prevention of industrial accidents, and that the WCI scheme was in effect a pilot program for other social security schemes.

⁷ There was a good reason why the MOPS was deemed as inappropriate to take over the new scheme. The Ministry used to handle the military pension plan, and something went wrong while processing the plan with the Ministry of Defense, causing double payments. After the incident, the operation of the military pension plan was transferred to the Ministry of Patriots and Veteran Affairs.

Industry). The most important purpose of the sessions was to inform and convince employers' groups and labor unions of why the introduction of the WCI scheme was required, and thereby, gain their supports.

Employers' groups were reluctant to accept the idea of introducing the WCI scheme because they could not afford to provide accident compensation for IIWs and had been already complying with the Labor Standards Act. They thought it was an unnecessary addition. Their concern was that, even if the WCI scheme was implemented, it would just be a double burden because, after all, they had to directly indemnify injured workers and their dependents to some degree in order to manage a good relationship with labor unions. To ease such worries, the government pointed out that an unexpected accident might bring irrevocable damages to a workplace itself, however large and solid it may be. It went on to say that the WCI scheme is a crucial system to alleviate risks that entail industrial activities. Therefore, S. Korea must introduce the scheme for industrialization as many other countries had done for the past century.

Labor unions were also concerned about the introduction of the WCI scheme, pointing out that the WCI scheme guaranteed workers to receive just 60% of their regular income as temporary disability benefits. Actually, this was far below the target of 100%-something that they were working on through collective bargaining. Workers thought that the scheme would rather lower their due compensation level. Faced with this uninformed view, the government explained that the 60% figure was a minimum standard as provided in the Labor Standard Act, and the WCI scheme just took it as a baseline. If labor and management agreed on 100% or more of incomes as a compensation level so that they could be paid to an IIW with time-off from works, the government said, the agreement would continue to be valid without any legal intervention. Going further, it reiterated that the WCI scheme aimed to protect all workers, not just the ones working for workplaces with 16 full-time workers or more. Its ultimate goal was to extend the coverage over to all workplaces, regardless of their scale in terms of the number of full-time workers.

2. How to Raise the WCI Fund for Implementing the WCI Scheme

The financial structure of the WCI scheme was so designed that all necessary funding, including costs appropriated for compensations, came from employers. This means that the government did not have to bear financial burdens except for some spending on internalizing the scheme at the initial stage of its introduction. The following annual project plan shows that the financial contributions of the government to the WCI fund would be limited to just two years (i.e. 1963 when the WCI scheme was introduced and 1964), and no more after that:

Table 2-1 | Annual WCI Scheme Plan

Year	No. of expected beneficiaries	No. of workers at WCI-covered workplaces	Budgetary requirements	Contributions of the government	Employers' contributions
1963	90,000 ppl	500 ppl or over	KRW 37,221,000	KRW 15,900,000	KRW 21,321,000
1964	90,000 ppl	500 ppl or over	KRW 150,126,000	KRW 22,200,000	KRW 127,926,000
1965	150,000 ppl	100 ppl or over	KRW 263,230,000	KRW 0	KRW 263,230,000
1966	150,000 ppl	100 ppl or over	KRW 263,230,000	KRW 0	KRW 263,230,000
1967	400,000 ppl	16 ppl or over	KRW 690,390,000	KRW 0	KRW 690,390,000

Note: Employers' contributions to the WCI fund for the year 1963 just represent two months' premiums.

Source: MOEL, the 40-year History of the WCI Scheme, 2004.

It was in the 1971 amendment to the WCI Act that the contributions of the government to the WCI fund, which would be appropriated for execution costs to run the scheme, was mentioned. The amendment opened the possibility of the financial contributions of the government by providing that it might bear costs required for the administrative implementation of the WCI scheme. This provision, however, was problematic by vaguely mandating the government to be responsible for a part or the whole of operation expenses, such as labor costs, at its discretion within given budgets; before the 1990's, labor costs for government workers in charge, including office rental fees and other relevant expenses, came from premiums borne by employers.

The government raised required WCI funding directly from workplaces and managed it with special accounting. To alleviate employers' resistance to these additional costs, two methodological measures were devised. The first was to apply the WCI Act to large-sized workplaces with 500 full-time workers or more in early stage, based on an assumption that they would feel less burdened in that they had already been providing workers' compensation to a significant degree. The second was to quantitatively set premium rates in accordance with the Actuarial Principles. The government separated insurance policies so that each employer could be charged with a different amount of premiums depending on its different experiences with (i.e. its past record of) industrial accidents. At first, this merit

rating was used only for workplaces with 500 full-time workers or more, with premiums adjustable within the range of $\pm 30\%$.⁸

⁸ Later, the applicability of the merit rating system gradually became stricter; in 1967, workplaces with 200 full-time workers or more began being subject to merit rating with premiums adjustable within the range of $\pm 30\%$, but in 1975, the applicability of the merit rating was stricter to cover workplaces with 100 full-time workers. This requirement for the applicability of merit rating in terms of the number of full-time workers and the adjustable range of premiums continued to be stricter as follows: in 1986, 50 full-time workers or more with premiums adjustable within $\pm 40\%$; in 1999, 30 full-time workers or more with premiums adjustable within $\pm 50\%$; and finally in 2009, 20 full-time workers with premiums adjustable within $\pm 50\%$.

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Chapter 3

WCI Practices in S. Korea: Development Experiences

1. History of Institutional Reform
2. Institutional Reforms&Development Experiences

WCI Practices in S. Korea: Development Experiences

For forty-seven years since the introduction of the WCI scheme, the institutional development experiences of S. Korea with the scheme have been in parallel, or closely linked, with its socioeconomic growth and structural changes in industries. This suggests that there is a chronological timeline categorizing the development of the WCI scheme. The development experiences can be sequenced into the three stages: the introductory stage at which the scheme was operated by the Labor Administration under the MOHSA; the growth stage at which the operation of the scheme was borne by the MOL (Ministry of Labor; the present MOEL) established as an independent central government ministry in 1981; and the internalization stage at which the government commissioned the then Labor Welfare Corporation (the present COMWEL (Korea Workers' Compensation&Welfare Service)), a government-funded agency, to operate the scheme. In short, the first two stages (i.e. the introductory stage and the growth stage) are the government-driven stages (1964 to 1994), and the last stage is the COMWEL-commissioned stage (1995 to 2010).

1. History of Institutional Reform

1.1 Government-Driven Growth Stage (1964~1994)

1.1.1 Social Environment (I): Economic Growth&WCI Practices

The economic policy of S. Korea was focused on “growth” from the early 1960s to mid-1990s. For the same period, placing an emphasis on growth itself rather than balanced growth, the government concentrated its investments in a few sectors that could trigger the development of other industries.

One of the main strategies (to do so) was the pursuit of the Five Year Economic Development Plan. It started with the first development plan in 1962, and ended with the seventh one in 1996. The government-driven development policies for the three decades accompanied changes in industrial structure which, in turn, had lots of influences over the

growth of the WCI scheme (e.g. diversification of WCI-covered workplaces in terms of their business types, maintenance of balanced WCI budgets, enhancement of compensation level, etc.).

The economy grew at a remarkable pace during this period. Heavy capital investments from home and abroad stimulated economic growth by leading the economy from an agricultural, underdeveloped country to an industrial, developing country. To get the economy along a fast track, the government put priority on light and heavy industries.

In doing so, S. Korea could not but rely on labor-intensive industries because it did not have available natural resource. Hence, those labor-intensive industries (e.g. mining, manufacturing, heavy industries, etc.) flourished, bringing about an exponential increase in industrial accidents at individual workplaces. Against this backdrop, the WCI scheme, the only protection for workers at that time, was rapidly expanded in scale. Yet, little attention was placed on its stable development.

In 1970s, the share of construction and heavy chemical industries increased, and so did the severity and frequency of industrial accidents, especially in the same industries. When compared with the light industry, heavy chemical and construction industries showed higher death toll in terms of the ratio of ten thousand times death toll to the number of total workers engaging in target industries. The diversification of industrial structure led to a shift in not only values added by industry and employment composition, but also the distribution and share of IIWs by industry,⁹ all of which indicated that the thus-far growth-oriented policies required the expansion of WCI coverage.

The 1980s was another heyday for the economy as its growth was driven by both labor- and capital-intensive industries with high-skilled workers producing diverse manufacturing products. As such, manufacturing, mining, and heavy industries that depend on labor force kept backing economic growth (Kim, 1994). According to Professor Kim, Jin Su (1997), growth-oriented policy accompanied a drastic increase in not only WCI budgets but also WCI expenditures (including WCI benefits). While the economy was focusing itself on economic growth, the WCI scheme was oriented toward the extension of WCI coverage over to the vulnerable and the improvement of capacity to operate the scheme, which would strengthen social security.

1.1.2 Institutional Inception (1964~1969)

At their institutional inception, the WCI practices were no better than what could be tried at the stage of a pilot program.

With few experiences with the operation of the WCI scheme, S. Korea went through institutional transplantation, and took a baby step to operate the scheme within a

⁹ The share of IIWs from manufacturing industries, which is reported to be the highest at 64.2% of IIWs from all industries in 1976, shrank to 44.3% in 1992. On the other hand, that of IIWs from the construction industry gradually increased to 33.8% in 1992 [Na, 1994].

manageable scope. At the time of its institutional inception, the scheme was characterized by compensation for a work-related accident, no-fault rule, limitative compensation liability, timely compensation, responsibilities for liability insurance, etc.

The clause 3.1 of the then WCI Act provided that “a work-related accident used herein shall refer to an accident arising out of or in the course of employment.” The Act also contained a provision on no-fault rule, under which the scheme had to compensate for any work-related accident, regardless of an employer’s ill will or negligence. With regard to compensation level, the Act specified compensation on a flat-rate basis; an eligible worker was given his/her due benefits assessed using his/her daily average wages, so that his/her lost capacity to work could be compensated for.

To more timely deliver compensation than what seeking a suit would do in accordance with the then Labor Standards Act, the government itself was the very operator of the scheme. Also, the scheme was a form of liability insurance that shielded employers from going bankrupt due to compensation for an industrial accident, and that addressed the problem of delayed compensation to an IIW.

Upon introduction of the scheme, the government established the WCI Division and seven WCI offices under the Employment Security Bureau of the Labor Administration (under the MOHSA), which took over the operation of the scheme from the Social Security System Council. The Administration consisted of the Employment Security Bureau and the Labor Policy Bureau with six divisions under the two bureaus; the operation of the WCI scheme was taken charge of by the WCI Division (under the Employment Security Bureau), which, in turn, was composed of the Management Team, the Compensation Team and the Insurance Team. The Division started up with eight employees alone. In 1966, the operation of the scheme was taken over to the Labor Policy Bureau that was equipped with the Insurance Management Division and the WCI Division that planned&coordinated nationwide WCI services and handled insurance relations in a more specialized way. The WCI offices scattered nationwide were at the forefront of administrative operation and maintained close relationship with employers and workers.

With all these characteristics, the pursuit of enlarging and diversifying WCI coverage continued. As a result, at this stage of institutional inception, WCI-covered workplaces totaled up to 61 workplaces with 500 full-time workers or more that engaged in mining or manufacturing, with their workers amounting to approximately 81,000.¹⁰

The coverage was expanded to workplaces with 200 full-time workers or more in 1965; 150 full-time workers or more in 1966; and 50 full-time workers or more in 1968. In 1969, workplaces engaging in construction with KRW 20 million or more in contract amount were included into mandatory WCI coverage. As a result, in 1964 to 1969, the number of

¹⁰ Workplaces excluded in the WCI coverage were subject to the then Labor Standards Act. That is, notwithstanding the institutional introduction of the WCI scheme, there existed not only mandatorily-covered workplaces but also voluntarily-covered workplaces, including workplaces subject to the Labor Standards Act that served as a blind spot for the scheme itself.

WCI-covered workplaces jumped from 64 to 3,696, with that of their workers from 81,000 to 683,000, respectively (Lee, 1972).

Medical care benefits (MCBs) and temporary disability benefits (TDBs) were serviced to an IIW who required at least 11 days of medical care services due to a work-related accident. If he/she has a residual disability even after having received the same services (i.e. at least 11 days of medical services) due to him/her, permanent disability benefits (PDBs) were serviced on a lump-sum basis.

Thus, WCI coverage at the stage of institutional inception was limited to workplaces with a high risk of industrial accidents within a manageable scope. Yet, the Labor Administration as the operator of the scheme claimed that, to serve the purpose of the scheme, all workplaces then subject to the Labor Standards Act should be mandatorily covered (Lee, 1967).

1.1.3 Institutional Improvement&Growth (1970~1988)

After the first seven years of the institutional inception, the WCI scheme experienced various institutional changes. On April 10, 1970, the Korea Labor-Management Research Institute and the Korean Chamber of Commerce and Industry (KORCHAM) jointly hosted a special symposium to discuss problems and issues related to the operation of the scheme.

Major agenda addressed in the symposium was to assess if the scheme had fulfilled its roles and sufficiently functioned as a social security system. At issues also were that compensation level was limited to about 75% of total premiums collected, which raised the question on premium assessment; that the compensation to an eligible worker requiring up to 10 days of medical care would put heavy burdens on employers; that compensation lacked timeliness and accuracy, along with complicate claim processes and forms; and that personnel in charge of the scheme was not properly trained.¹¹

The symposium shed light on what should be improved for the further development of the scheme at this stage of institutional improvement and growth in 1970 to 1988, when it was required to institutionally improve the suitability of premium assessment, expand and enhance compensation level, and strengthen administrative functions and capacity to address insurance services.

With the amendment to the WCI Act in 1976, provisions that the Act on Social Security and the Labor Standards Act shall be used as reference laws for the scheme were removed. In the 1981 government reshuffle, the Labor Administration was promoted to become the Ministry of Labor (the present MOEL). With that, the MOL, an independent administrative body, became a full-fledged authority in charge of the WCI scheme. In 1974, the regional WCI offices and the job centers were reorganized and integrated into the regional labor

¹¹ For more details, see what was addressed in the symposium held with a theme "Problems with the operation of the WCI scheme and their solutions" (Korea Labor-Management Research Institute&KORCHAM, 1970).

offices, which were divided into Primary and Secondary. As of 1977, there were 20 primary labor offices and 15 secondary labor offices nationwide that functioned as a base for the nationwide operation of the scheme.

Since the 1981 amendment to the WCI act, the WCI fund was established to save up liability reserves that would be appropriated for WCI benefits. Also, the mandatory coverage was expanded to workplaces with 30 full-time workers or more in 1972; workplaces with 16 full-time workers or more in 1973; and workplaces with 5 full-timer workers in 1976, except for some engaging in mining, manufacturing, etc. In 1986 to 1988, more workplaces with 5 full-time workers were added to the coverage. Also, workplaces engaging in construction with over KRW 10 million in contract amount began being subject to mandatory coverage. When it comes to workplaces engaging in terminable businesses (i.e. businesses lasting only while a contract continues), the mandatory coverage was expanded from the ones employing 8,000 man-days or more in 1972 to the ones employing 2,700 man-days in 1982.

Table 3-1 | Comparison of Compensation Level: Labor Standards Act vs. WCI Act

Category	Labor Standards Act	WCI Act
TDBs (temporary disability benefits)	-	◆ Based on sliding scale method
PDBs (permanent disability benefits)	<ul style="list-style-type: none"> ◆ Payable on a lump-sum basis ◆ DG 1~ 1,000 days of DAWs ◆ DG 10~ 50 days of DAWs 	<ul style="list-style-type: none"> ◆ Payable on a lump-sum basis ◆ DG 1 ~: 1,340 days of DAWs ◆ DG 10 ~: 270 days of DAWs ◆ DG 14~: 50 days of DAWs ◆ Payable in annuity ◆ DG 1~3: 240 to 188 days of DAWs
SBs (survivors' benefits)	◆ Payable on a lump-sum basis	◆ Payable on a lump-sum basis or in annuity
Provisional benefits	◆ 1,000 days of DAWs after 1 year of medical care	◆ 1,340 days of DAWs after 2 years of medical care

Source: Recited from Lee, 1980

* DG: Disability Grade, DAWs: daily average wages

Institutional reforms in the payment schedule of WCI benefits that determines compensation level was also pursued. Before the 1970 amendment to the WCI Act, eligible IIWs requiring at least 11 days of medical care could be paid MCBs (medical care benefits) and TDBs; in 1970, eligible IIWs in need of at least 8 days of medical care began being paid the same benefits, and since 1981, IIWs requiring at least 4 days of medical care have been

eligible to them. Disability grades used for assessing PDBs (permanent disability benefits) were more segmented into 14 grades (from 10 grades), with a raise in compensation level available to an eligible worker with Disability Grade 1 (i.e. from 1,000 days of DAWs (daily average wages) to 1,340 days of DAWs). In addition, beneficiaries could elect to be paid PDBs and SBs (survivors' benefits) in annuity.

As mentioned above, at this stage of institutional improvement and growth, various institutional reforms in the operation of the scheme (e.g. securing of balanced WCI budgets through reforming payment method, such as payment in annuity, step-by-step expansion of the coverage, reduction of financial burdens on employers, enhancement of compensation level, etc.) were achieved, all of which contributed to develop and build the operation framework of the scheme beyond trials and errors as experienced at the stage of institutional inception. Especially, compensation level noticeably increased when compared with the corresponding compensation level as provided in the Labor Standards Act, and the institutional introduction of long-term payment system (i.e. annuity) opened a new chapter in the area of accident compensation that had been mostly given on a lump-sum basis.

1.1.4 Institutional Maturity (1989~1994)

In S. Korea, the institutional maturity of the WCI scheme appeared in 1989 to 1994, when people's demands and expectations for social democratization were very high with democratic movement spread throughout the country, with pro-democracy protestors taking streets. This entailed yet another shift in the development of the WCI scheme.

In 1989, the revised WCI Act mandated all projects and workplaces subject to the Labor Standards Act to be WCI-covered. This expansion accompanied diversification in industry types, with the coverage reaching all workplaces, including SMEs. The minimum number of full-time workers required for a workplace subject to the mandatory coverage was reduced to 10 in 1991 and 5 in 1992.

Meanwhile, compensation level was also raised. For instance, daily TDBs payable went up from 60% to 70% of DAWs, which was higher than what the ILO recommended. PDBs and IDCA (Injury-Disease Compensation Annuity) increased by 5-10 %. Especially, it was mandated that an eligible worker with any of Disability Grades 1 to 3 should be paid PDBs in annuity.

The stage of institutional maturity was a stage at which compensation level was drastically enhanced to prepare for the subsequent internationalization of the scheme. In short, this stage pursued the enhancement of compensation&social security level to secure stable livelihood to IIWs and their dependent, while the stage of institutional improvement and growth focused on the expansion of WCI coverage to protect more workers and employers.

1.2 COMWEL-Commissioned Internalization Stage (1995~2010)

1.2.1 Social Environment (II): Pressure for Institutional Reforms from Advanced Countries

Having pursued economic growth for the past years, people started to call for democracy since the late 1980s. The military regime gave way to a democratic administration in 1993 when the so called Civilian Government took power. The new government stressed that conflicts and disputes caused by authoritarian ruling must be replaced by participation and cooperation in order to improve people’s quality of life, and thereby, enhance national competitiveness (MOEL, 2006).

The society of S. Korea is characterized by the pursuit of economic growth followed by democratization, which can be labeled as “economic growth first, democratization later.” Despite its achievement of remarkable economic and political growth, S. Korea was hit by the Asian Financial Crisis in 1997 and bailed out by the IMF. The IMF took the lead in restructuring affected companies, which brought about significant changes in not just business activities but also labor-management relationship (Kim, 2011).

After the Asian Financial Crisis, labor-management relationship became the matter of not just employers and workers but also the government itself, which bore responsibilities for improving it. The government had proactively worked on developing institutional operation framework for labor-management relationship in parallel with efforts to have the economy and its social order in place (Choi, 2008).

The 1997 Crisis also took jobs from a number of people, and consequently, demands for building a social safety net increased. In response to this, the government maintained that all people must be covered by 4 major social insurance schemes (“4 Major SISs”) to provide against contingencies. In a broad sense, the social security net may include public-service employment programs, loan services for the unemployed, vocational trainings for the jobless, etc. However, the government put priority on the 4 Major SISs (i.e. WCI, EI, NP (national pension), and NHI (national health insurance) as S. Korea’s most important social safety net.

Table 3-2 | Social Safety Net in S. Korea: Structure&Operation Framework

Type		Operator	Introduced in:
1 st social safety net (social insurances)	WCI	Ministry of Labor (the present MOEL)	1964
	EI		1995
	NP	Ministry of Health and Welfare	1988
	NHI		1977
2 nd social safety net (public assistances)	Public assistances		1961

Source: Park et al., 2000, adapted

In the mid 1990s, various socioeconomic and political challenges, including globalization, the Asian Financial Crisis, call for democracy, etc., arose in S. Korea, which in turn led to the pursuit of reforming the institutions and systems of the government. Also in labor relations, there was a strong pressure to reform relevant institutions to satisfy at least international standards. In response to this, internally, the government tried to ease regulations on, and increase the flexibility of, labor market, and improve unreasonable systems and practices with various policies.

Moving into the 2000s, a driving force for economic growth shifted, from manufacturing and heavy industries, to cutting-edge industries, such as technology-intensive industries. This shift, in turn, accompanied a sharp increase in aging population, female workers, self-employed workers, etc. (Woo, 2005). Especially, a shift to aging, or even aged, society was found in S. Korea more noticeably than in any other advanced countries, and accordingly, leaving behind various social challenges (e.g. establishment of social security system, stabilization of livelihood, health protection, etc.).

Responsibilities for the operation of the WCI scheme, which, in terms of service scale, had expanded in parallel with economic growth, was handed over from the MOL to the then Labor Welfare Corporation (the present COMWEL) in 1995. This commissioned hand-over was not limited just to some parts of the operation; the COMWEL became the on-site operator of all WCI services in a real sense.

Some are of opinion that, since, at the government-driven growth stage, the scheme experienced a fast, vast institutional growth; it was too much for the MOL, which was why its operation was commissioned to the COMWEL. Others, however, point out that this hand-over was accelerated because employer groups dissatisfied with such government-driven operation voiced complaints.

1.2.2 Institutional Changes through the COMWEL-commissioned Operation of the WCI Scheme

The COMWEL-commissioned internalization stage of the scheme can be explained with the past 15 years for which it has engaged in the operation of the scheme since it took over responsibilities for such operation in 1995. This shift in the operator of the scheme was the representation of a shift in structural relations through separating its execution functions from the policy-making body (i.e. the Government), and thereby, commissioning the Labor Welfare Corporation (the present COMWEL) to take over the execution functions. One of the most noticeable changes during its commitments to the operation of the scheme is that there has been increasing social interests in occupational diseases, along with new trends in public attitude toward the prevention of industrial accidents.

With its dedication to addressing various issues and problems attendant on the scheme, the COMWEL has led a stable institutional development, and strengthened its own functions as one component of a social safety net by additionally servicing various rehabilitation and labor welfare programs for IIWs and their dependents. It began to recognize IIWs as

external customers and redesigned compensation services in an effort to make the scheme more efficient and sustainable. Also, it started servicing VRBs for disabled workers, and integrated a collection system for the 4 Major SISs to make employers pay premiums more conveniently and easily.

First of all, a mechanism was tried to service step-by-step benefits for IIWs with different needs at different compensation steps, which is often called the “cycle of accident compensation.” Based on this mechanism, various service practices have been methodologically serviced. Before 2005, the office-based execution of compensation services occupied most of service practices. Since then, however, the field-based outreach service practices in which case managers visit in person workplaces or general practitioners/hospitals, and provide counseling services (including relevant information) for IIWs and their dependents replaced the office-based service practices.

In 2008, the outreach service practices, in turn, were replaced by so called “custom-made” service practices, with the aim of meeting various demands and expectations from IIWs as external customers. This required a new service delivery mechanism designed to provide mentoring services for IIWs as external customers at multiple stages after the occurrence of an industrial accident to them (e.g. stage of medical care/treatments/return to works, etc.).

Meanwhile, WCI services were systematized or grouped, according to the expertise and types of services, into general compensation services, medical care/treatment services, and rehabilitation services. Base on this systematic grouping, relevant personnel in charge provided necessary services (e.g. outreach counseling) in a timely manner and streamlined compensation process. The identification of the cycle of accident compensation contributed to the establishment of a field-based support system to provide medical care, compensation and rehabilitation services for IIWs over one complete cycle of accident compensation (i.e. from the occurrence of an industrial to a return to works/community) (Kim and Roh, 2010).

The COMWEL began servicing rehabilitation programs and VRBs (vocational rehabilitation benefits) to facilitate an IIW’s return to works and community. It started the rehabilitation programs around 2000 with its own budgets, and since 2008, supports for rehabilitation were institutionalized with the acknowledgement of VRBs as one of statutory benefits. VRBs are categorized into several statutory compensation components: allowances for job training, return-to-work subsidies, job adaptation expenses, and rehabilitation therapies. The VRBs are paid to an eligible IIW with any of Disability Grades 1 to 12 and under the age of 60. Especially, an IIW entitled to job training allowances are paid actually-required expenses within the amount of the corresponding allowances as assessed and announced by the Minister of the MOEL considering training expenses&period, labor market conditions, etc.

Going further, the COMWEL gave employers subsidies for helping IIWs to return to work. When an employer maintained the employment of a disabled worker who had returned to work, and provided job adaptation training and rehabilitation exercise programs for them, the COMWEL paid for return-to-job subsidies, job adaptation training expenses and

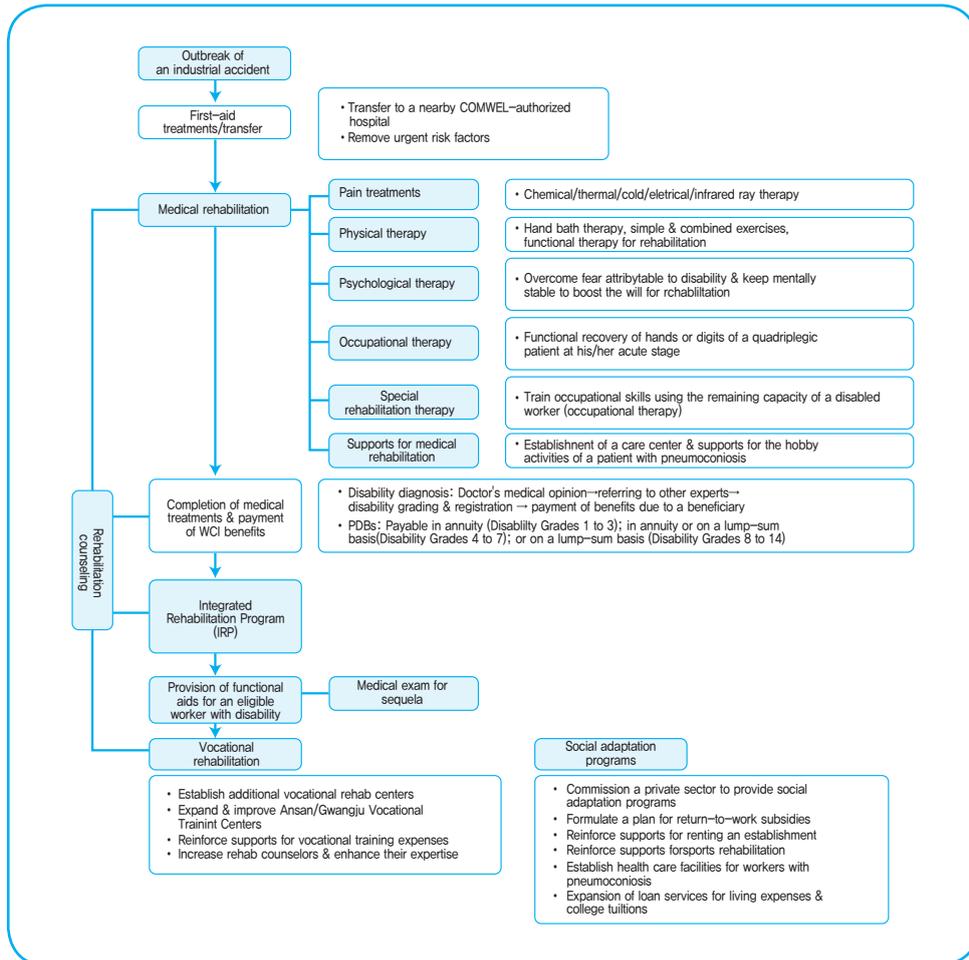
rehabilitation therapy expenses. Thus, the VRBs were provided to both IIWs and employers to help the IIWs return to job in a timely manner. They were benefits to secure a stable livelihood to the IIWs. Before then, the focus of the WCI scheme had been on providing medical care and income security to them. After the scheme was stabilized together with its growth, however, its focus shifted toward supports for IIWs' rehabilitation and return to work.

The shift began with the establishment of the Rehabilitation Service Dept. in 1998 that would take charge of servicing rehabilitation programs. In 2000, the COMWEL (the then Labor Welfare Corporation) focused on helping with IIWs' return to works and community. As part of these efforts, it started running the Ansan and Gwangju training centers and servicing various welfare programs (including loan services and other supports to secure a stable livelihood to IIWs).

The COMWEL's second move was to formulate the 5-Year Rehabilitation Service Plan in 2001, which was followed by the 1st Mid-term Rehabilitation Service Plan (2006 – 2008) and the 2nd Rehabilitation Service Plan (2009-2011). It is believed that the mid- and long-term rehabilitation service plans have contributed to the realization of social integration, higher quality of life, and productive welfare. The purpose of these plans was to help IIWs to integrate into (i.e. return to) their family, works, and further, community, and to achieve the ultimate goal of securing decent life to individual workers and improving their quality of life (Shin, 2004).

On December 31, 2003, the Act on Integrated Collection of WCI&EI Premiums was enacted, under which respective provisions on the collection of EI and WCI premiums were integrated on the same date, and then went into force on January 1, 2005. Actually, given similarity between the two schemes in terms of premium collection system, it was judged that their separated premium collection systems would cause administrative inefficiency to internal customers and inconvenience to external customers.

Figure 3-1 | Structure of the 5-Year Rehabilitation Service Plan



Source: MOEL, The 5-Year Rehabilitation Service Plan, 2001.

For small workplaces with less than 5 full-time workers—which represented 65% of all workplaces, special provisions on the collection of WCI&EI premiums were added to the same act to enhance convenience in assessing premiums and registering with the schemes. At the same time, it was expected that they would help relieve the COMWEL of lots of administrative loads, and enable the establishment of an efficient collection system.

Later in 2010, the integration of independent collection systems for 4 Major SIS was pursued. Before then, their collection systems were different from one another in terms of billing criteria, payment time, payment method, and payment place, except that there was similarity in collection systems between the WCI and EI schemes. Pursuit of integrating those individual collection systems required the unification of their different billing and

collection criteria, which, some believed, would not be so difficult if there was a common information system among them.

To integrate the different collection systems, average wages used as a basis to assess EI&WCI premiums, which requirement was provided in the Labor Standards Act, had to be replaced with taxable earned incomes that could be adopted as a common basis in the 4 Major SISs. The National Health Insurance Cooperation (NHIC) was selected to operate the integrated collection system. It had enough human resources; 70% of social insurance workers were working with NHIC. Actually, this integration was required to enhance customers' convenience, remove redundancy in works, save unnecessary administrative expenses, and rotate relevant human resources.

2. Institutional Reforms&Development Experiences

From the early stage on, such issues as work-relatedness of an industrial accident, WCI coverage, scope of compensation, assessment of premiums, etc. were importantly addressed in the introduction and development of the WCI scheme in S. Korea. The scheme has evolved and developed itself through several stages, including the introductory stage, the government-driven growth stage and the COMWEL-commissioned internalization stage (at which the government commissioned the COMWEL to manage&operate the scheme); at each stage, there was a notable improvement in the key service areas of the scheme.

Built on accumulated experiences with stage-by-stage institutional reforms, the scheme, as of now, is considered a successful one in terms of operation framework and structure. Along with so-far economic growth, those reforms have had substantial influences on its growth and services (including application&collection, medical care&compensation, rehabilitation, etc.), and consequently, on the success of the scheme; the reason why, unlike other kinds of social security schemes ever introduced in S. Korea, its development experiences with the WCI scheme turned out to be a success can be found in the continued growth of its services.

2.1 Institutional Reforms by Key Issue

2.1.1 Work-Relatedness of Industrial Accident

A legal framework for the WCI scheme varies among countries. In S. Korea, the work-relatedness of an industrial accident is determined based on the types of works (including their preparation/wrap-up and other entailing works) an affected worker has engaged in at the time of the occurrence. The legal acknowledgement of such accident requires the work-relatedness of works he/she has involved in when the accident happens. This legal acknowledgement of work-relatedness is very important since it is directly related to an IIW's eligibility to WCI benefits. At the early stage of the implementation of the WCI scheme, an accident arising "out of" and "in the course of" employment was legally

acknowledged as work-related. To be compensated for an industrial accident, an affected worker had to be consequently exposed to personal damages significantly related to works, together with the legally-acknowledged work-relatedness of the accident (Maeng, 2001).

In short, workers could legitimately claim for, and have legitimate eligibility for, WCI benefits only when they could prove a significant causal link between an accident occurring while they're at work and a work they had engaged in at the time of its occurrence. At first, a work-related accident was only roughly defined as "an accident or disease that arises out of and in the course of performing work-related duties." However, criteria for legally acknowledging an accident as work-related were specified by the Ordinance of the MOL with the amendment to the WCI Act on December 31, 1999.

Currently, the legal acknowledgement of a work-related accident is applicable to an IIW's mental or physical damages arising out of and in the course of his/her work-related duties. The theory of work-relatedness like this is very useful to effectively protect workers, including their dependents, from various industrial accidents accompanied by the sophistication of capitalism and the introduction of new production methods and transportation means.

As mentioned above, the WCI scheme at the early stage of its introduction legally required that an accident should strictly meet two requirements (i.e. arising "out of" and "in the course of" employment) to be legally acknowledged as work-related. As of now, however, criteria for acknowledging an accident as work-related are not so strict; accidents happening while at work, accidents due to defects in facilities, etc., commuting accidents, accidents happening while participating in events, accidents happening while taking a rest, accidents in specific places for the purpose of the WCI Act, accidents happening while engaging in medical care, and accidents attributable to a third party's acts may be all categorized as work-related on the condition that they meet relevant requirements. Diseases legally acknowledged as work-related include diseases developed due to the handling of, or exposure to, elements (including physical agents, chemical substances, dusts, pathogens, and physically straining duties which can do harm to a worker's health while at work), diseases attributable to a work-related injury, or any other work-related diseases (COMWEL, 2011).

Although there are growing social demands for the better protection of workers exposed to work-related accidents or diseases, it is often hard to prove their causal relationship with work-related duties in an objective manner. According to the MOEL (Ministry of Employment and Labor), about 15% of all S. Korean workers are diagnosed with illnesses such as cardiovascular diseases or noise-induced hearing loss, or in need of further examinations. Therefore, further investments are called for to prevent work-related diseases and set a framework for the objective assessment of work-relatedness (Lee, 2007).¹²

¹² There are three methodological principles in legally providing the scope of work-related diseases: The first principle concerns blanket clauses under which a disease can be legally acknowledged as work-related if it meets general, universal requirements as provided in the WCI Act, and the second is a principle under which a allegedly work-related disease can be legally acknowledged only if it is among diseases as specifically provided by industry and occupation in the WCI Act. The final principle is the combined one of the foregoing two.

2.1.2 WCI Coverage

In terms of WCI coverage, workplaces can be divided into two: Workplaces subject to mandatory WCI coverage and the ones excluded from mandatory WCI coverage. A worker at a mandatorily-covered workplace can be paid his/her due WCI benefits even if an employer has not declared insurance relations or the employer has failed to pay assessed insurance premiums. A workplace excluded from mandatory WCI coverage refers to the one engaging in any of business types as specified by the Presidential Decree in consideration of its risk, size, location, etc. However, a workplace not subject to mandatory WCI coverage can be voluntarily covered with a prior approval from the COMWEL. In the following paragraphs, how WCI coverage has been extended over to workplaces is addressed:

First, the extension of WCI coverage has been pursued in terms of the number of full-time workers. At the introductory stage of the WCI scheme, the mandatory coverage was limited to workplaces engaging in mining or manufacturing with 500 full-time workers or more, and then gradually extended to other sectors until all workplaces with at least one full-time worker could be mandatorily covered in July 2000. This full-scale extension of WCI coverage to all workplace was part of efforts to match the coverage of the WCI scheme with that of other social insurance schemes, including the EI scheme, and thereby, to minimize the blind spots of the social insurance system.

Table 3-3 | Extension of WCI Coverage by Year in terms of the Number of Full-Time Workers¹³

Year	1964	1965	1966	1967	1969	1972	1973	1976	1982	1987	2000
No. of full-time workers	500	200	150	100	50	30	16	(16) 5	10	5	1

Source: MOEL, History of Labor Administration, 2006

Second, the WCI coverage has been extended in terms of industry sectors. Since the early stage of its introduction, when only workplaces engaging mining and manufacturing were allowed to be mandatorily covered, the scheme has been extended to cover such sectors as electricity/gas, transportation/warehousing, construction, water services, sanitary facility services, commerce, communications, etc. It should be noted that, as far as the construction industry was concerned, a principal office was used as a base for WCI coverage. In here, there were lots of controversies over whether its individual construction projects should be covered in a separate or integrated way. In 1969, the Enforcement Decree of the WCI

¹³ In 1976, only workplaces with 5 full-time workers or more engaging in such sectors as mining, manufacturing, chemicals, coal, petroleum, rubber/plastic product manufacturing, etc. were allowed to be mandatorily covered.

Act mandated construction projects with KRW 20 million or more in total contract amount to be covered separately. Meanwhile, in 1973 and 1982, construction projects whose total contract amount is less than KRW 10 million and 40 million, respectively, was mandated to be excluded from WCI coverage; construction projects amounting to at least KRW 20 million in total contract amount which are undertaken by other service providers than housing developers or building contractors to construct a building with a total floor area of 330m² or more, or repair on a large scale were allowed to be covered.

Later in 2000, the WCI coverage was further expanded to cover all workplaces with one full-time worker or more, except for workplaces engaging in agriculture, forestry (however, logging excluded), fishery, hunting, and others¹⁴ that were covered by other laws than the WCI Act. Since 2001, all projects directly conducted by the government or local municipalities have also been included in WCI coverage.

Third, coverage requirement has been less strict in terms of the number of full-time workers. With the amendment to the Enforcement Decree of the WCI Act on December 20, 1965, daily workers were deemed as full-time workers for the purpose of counting the number of full-time workers in total as provided in the same act. With another amendment to the same decree on December 20, 1966, the provision on daily workers deemed as full-time workers for the purpose of WCI coverage became less strict to cover workplaces with 100 full-time workers corresponding to 25,000 man-days that engaged in mining, manufacturing, electricity/gas, and transportation/warehouse. In 1982, the requirement of 25,000 man-days got loosened to that of 27,000 man-days, and, in 1983, this man-day requirement was removed.

Fourth, special provisions on WCI coverage in terms of the types of injured workers were newly mandated. The purpose of the special provisions was to protect deemed workers who might be otherwise excluded from WCI coverage. Along with an effort to protect special types of workers, these special provisions to protect deemed workers was part of efforts to strengthen social security.¹⁵

2.1.3 Scope&Level of Compensation

At the early stage of its introduction, the WCI scheme provided six types of benefits for eligible workers: medical care benefits (“MCBs”), temporary disability benefits (“TDBs”), permanent disability benefits (“PDBs”), survivors’ benefits (“SBs”), provisional benefits, and funeral expenses. All WCI benefits (except for MCBs, NCBs (nursing care benefits), and VRBs (vocational rehabilitation benefits) were assessed using an injured worker’s daily average wages. In here, daily average wages refer to wages for months before the date of

¹⁴ Workplaces with 5 full-time workers or more that engaged in these sectors were allowed to be mandatorily covered.

¹⁵ Deemed workers include workers with overseas projects, workers seconded overseas, on-the-job trainees, employees of SMEs, etc. Special types of workers include insurance consultants, concrete batch truck drivers, outreach tutors, golf caddies, etc.

an accident (acknowledged as work-related) divided by the number of days for the same period.¹⁶

Generally, WCI benefits are paid to eligible workers as part of an effort to guarantee basic livelihood to them and their dependents. But the Constitutional Court and the Supreme Court ruled that they had compensation function in that, if a member employer bore the whole amount of premiums and his/her eligible worker was given due benefits, the employer should be exempt from or relieved of responsibilities for any additional compensation (Han, 2008).

As shown in Table 3-4, WCI benefits as provided in the WCI Act can be categorized into two groups by function. For example, VRBs provided at the completion of medical care have social security function. This suggests that the functional augmentation of the WCI benefits has been pursued in terms of the scope and level of compensation (i.e. mandating employers to fulfill their due responsibilities and securing social protection to IIWs with).

Table 3-4 | Comparison of WCI Benefits

Category	Types of benefits	Remark
Compensation function	Medical care benefits (MCBs), temporary disability benefits (TDBs), permanent disability benefits (PDBs), injury-disease compensation annuity (IDCA), nursing care benefits (NCBs), survivors' benefits (SBs), funeral expenses (FEs), special benefits	Survivors' compensation annuity and injury-disease compensation annuity have social security function as well.
Social security function	Minimum compensation program, time-off-from-work benefits for low-income workers, vocational rehabilitation benefits, job training expenses/allowances, supports for preventing work-related accidents	Vocational rehabilitation benefits provided at the completion of medical care are related to job-seeking.

Source: Han, 2008

¹⁶ In most of cases, daily average wages used as a base to assess the amount of benefits due to an injured worker are calculated by dividing wages for months before the date of an accident (acknowledged as work-related) by the number of days for the same period.

How has the functional augmentation of the WCI benefits been methodologically pursued?

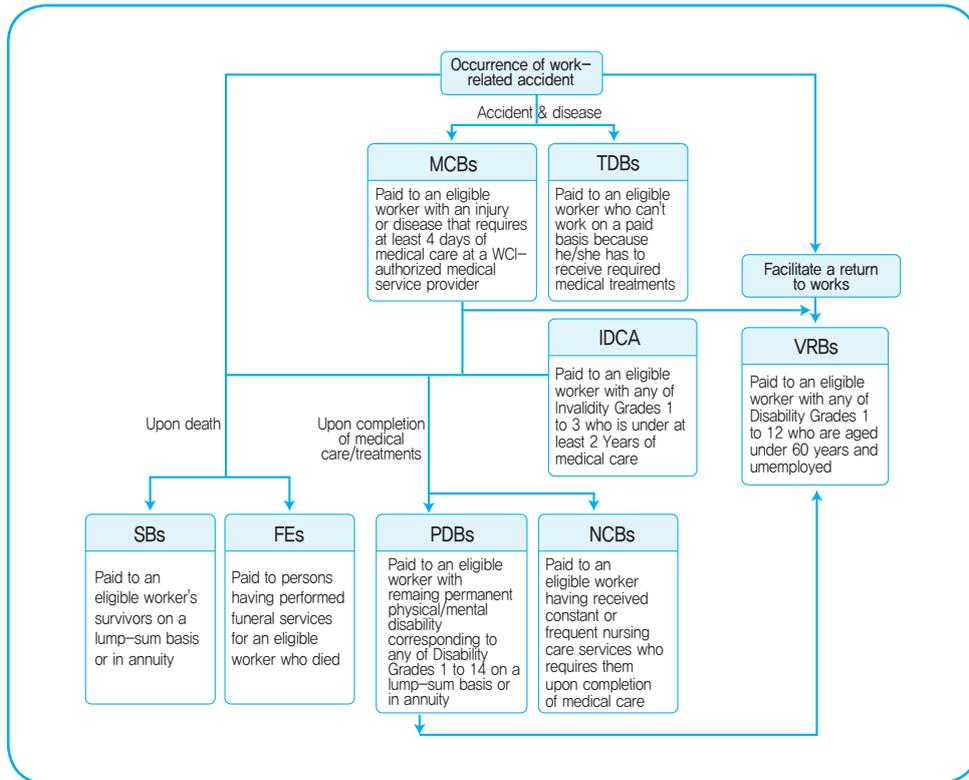
The first methodological initiative was to introduce and service new types of benefits in addition to the existing six, and thereby, to diversify the scope of compensation. In 1982, provisional benefits, one of the six, were replaced by IDCA, and, in 2000, NCBs began being provided.

The NCBs were newly introduced to protect seriously injured workers with Disability Grade 1 or 2. The benefits were designed to be paid on a monthly basis to eligible workers who would need constant or frequent nursing care upon completion of medical care. They aimed at providing follow-up supports for injured workers who have completed any required medical care and mitigating inconveniences arising from physical or mental disability they might feel while engaging in daily or routine activities. VRBs, funded by COMWEL's budgets since they weren't part of statutory WCI benefits, were first introduced in 2000 to help injured workers timely return to works. Since then, the VRBs became one of statutory WCI benefits in 2008, with a tripartite agreement reached among labor, management and the government in 2006 and the amendment to the old WCI Act in 2007. As of now, eligible workers can receive the statutory benefits such as allowances for job training, return-to-work subsidies, job adaptation expenses, and rehabilitation therapies.

Second, requirements for WCI eligibility have become less strict, and the scope&level of compensation have increased. When first introduced, MCBs were provided only for those who required 11 or more days of medical treatments. However, with the amendment to the WCI Act in December 1981, the required number of recovery days was reduced to 4 or more days. In the case of TDBs whose assessment began being indexed to daily average wages without taking into account daily given wages in 1974, they have been assessed using daily average wages that are indexed to daily given wages since 1997.¹⁷ Also, a provision that, if daily average wages used as a basis to assess TDBs fall short of statutory minimum wages, the said statutory minimum wages shall be used as such was newly established. In 1989, daily TDBs payable increased up to 70% of daily average wages, which was higher than what the ILO recommended.

17 Since 2010, TDBs have been assessed using a claimant's daily average wages indexed to all workers' daily average wages. However, until an injured worker reaches 65 of age after having reached 60, TDBs due to him/her since then are assessed using his/her daily average wages indexed to inflation rate and age. That is, as he/she grow older, the age-indexed average wages will decrease, while, as inflation rate get higher, the inflation-indexed average wages will increase. Since 65 of age, an eligible worker is entitled to a fixed amount of TDBs.

Figure 3-2 | WCI Benefits



Also, the level of compensation has increased. In the case of IDCA paid to workers with invalidity grade that would require at least 2 years of long-term medical care services, workers with Invalidity Grade 1 are paid 329 days of daily average wages, with 291 and 257 days of daily average wages for Invalidity Grades 2 and 3, respectively.¹⁸

Disability grades as an index to assess PDBs were subdivided into 10, and then 14. Eligible workers can elect to be paid the benefits in either annuity or on a lump-sum basis. For example, workers with any of Disability Grades 1 to 3 could be paid, at their discretion, some of their due benefits in annuity and the rest of them on a lump-sum basis. Since 1981, workers with up to Disability Grade 7 have become eligible for ICDA. Workers with any of Disability Grades 1 to 7 can be paid as long as 329 days and as short as 138 of daily average wages in annuity. Workers with any of Disability Grades 1 to 14 who want to be paid on a lump-sum basis are entitled to as long as 1,474 days and as short as 55 days of daily average wages.

SBs have been paid in annuity or on a lump-sum basis, with the amendment to the WCI Act on December 31, 1970. The purpose of the benefits was to protect an eligible worker's

¹⁸ Assessment of IDCA: Daily average wages x no. of days corresponding to an applicable invalidity grade x no. of days corresponding to claim period/365

survivors who might be exposed to difficulty in maintaining a livelihood. Before 1989, SBs payable on a lump-sum basis were limited to 1,000 days of daily average wages. In 1989, however, they increased to 1,300 days of daily average wages. Before 1981, SBs payable in annuity were limited to 30 to 45% of yearly average wages. In 1981, they were adjusted to 52 to 67%. When it comes to FEs, they are paid on the basis of actual incurrence. In other words, expenses actually spent in holding funeral services were reimbursed.

Before 1989, FEs corresponding to 90 days of daily average wages were paid. In 1989, they increased to 120 days of daily average wages. With the amendment to the WCI Act on December 31, 1999, a provision to place lower and upper limits on FEs paid to a deceased worker's survivors, employer or any other third party who have actually held funeral services for the eligible worker was mandated.

Thus, some points out that the development of the WCI scheme in S. Korea can trace back to an emphasis on the introduction of new types of benefits and the enhancement of compensation level. This seems to be a persuasive account in the case of, in particular, PDBs, SBs and IDCA that were mandated to be selectively paid on a lump-sum basis or in annuity. Since the 1997 Asian financial crisis, however, cast dark clouds over S. Korea, beneficiaries came to prefer being paid benefits in annuity to on a lump-sum basis, which required pension budgets to provide the payments despite budgetary risks (e.g. deficiency in WCI budgets). Proactive responses to these potential budgetary problems include the saving-up of liability reserves, anti-measures to moral hazards among stakeholders causing unaccounted-for leaks in WCI budgets, etc.

2.1.4 Assessment of Premiums

Insurance premiums for WCI funding are borne entirely by employers. They are calculated by multiplying estimated wages in total paid to all workers for the year with applicable premium rate. In 1964, premium rate for each industry was determined using accidents rate for the previous 5 years, but, since 1978, for the 3 previous years.¹⁹

However, benefits paid in the form of annuity have increased since 1986. In order to secure the financial soundness of WCI budgets, not only accident rate for the previous 3 years but also the amount of funding needed for annuity payable was also taken into account in determining premium rate. Before 2010, employers had to pay premiums on a lump-sum basis. Since 2010, however, they were allowed to pay premiums in installments depending on the amount of premiums and the number of day since the business operation began. Currently, WCI premiums are paid monthly, and premium rate is determined by business type using the ratio of total WCI benefits paid to total wages paid for the past 3 years as of June 30 ever which is computed by adding to, or subtract from, the basic premium rate

¹⁹ Accident rate refers to the number of injured workers per year divided by the number of total workers.

by business type a certain amount of rate computed by multiplying the ratio of benefits to premiums for the past 3 years by the said basic premium rate by business type.²⁰ The components of WCI premium rate include the net premium rate (85%) and the loading premium rate (15%), of which the former, in turn, consists of the ratio of total benefits to total wages for the past 3 years and the loading factor (adjustable based on WCI benefits to be additionally paid for the insurance year). <Table 3-5> shows the number of workplaces subject to WCI premium rating and merit rating:

Table 3-5 | Number of Workplaces Subject to WCI Premium Rating & Merit Rating by Year

(Unit: no. of workplaces, %)

Year		1969	1979	1991	1993	1995	1997	2000	2003	2005	2007	2009	2010
Category													
No. of business types		65	59	66	74	67	67	64	59	61	61	61	61
Premium rate (%)	Min.	3	2	3	5	4	5	3.5	4	4	6	7	6
	Avg.	22.5	10.8	16.4	22.1	15.0	16.8	17.6	13.6	16.2	19.5	18.0	18.0
	Max.	90	81	227	335	351	299	304	343	489	522	360	360
No. of workplaces subject to merit rating		225	3,629	11,131	10,834	11,276	17,612	15,238	18,017	30,925	33,443	37,015	37,716

Source: MOEL, Annual WCI Report

All employers have to pay premiums billed by the COMWEL on a monthly basis. The COMWEL assesses monthly premiums for an individual workplace by multiplying by an applicable premium rate the total monthly average wages of all individual workers (the workplace uses), which, in turn, are calculated by summing up the monthly average wages of the individual workers that are computed by dividing total wages paid to those individual workers in the previous year by the number of months they worked for the same period as declared by the employer not later than the end of February of the year.

Unlike other mandatorily-covered workplaces that shall declare total wages paid to their individual workers in the previous year by the end of February every year, workplaces engaging in construction and others as prescribed by the Presidential Decree are subject to special provisions on the declaration&payment of estimated/finalized premiums and the

²⁰ Under merit rating system, premium rate applicable to individual workplaces may increase or decrease depending on their different experiences with (i.e. their past record of) industrial accidents.

settlement of premium differences. This is because, in the case of contract-based projects, such as construction projects, it is very difficult to assess premiums on a monthly basis. Workplaces subject to these special provisions can elect to pay their due estimated as well as finalized premiums on a lump-sum basis or in quarterly installments. To help SMEs efficiently and conveniently handle highly complex insurance affairs like this, COMWEL-authorized WCI agency service providers have been established and operated.²¹

2.2 Development Experiences with the WCI Scheme (1964~2010)

2.2.1 Growth Indicators

In S. Korea, the WCI scheme has not only contributed to its economic growth but also played a pioneer role in introducing other types of social insurance schemes. It is very meaningful in that the scheme has functioned as a social safety mechanism to protect the basis of business for employers and insure workers' income and health in S. Korea's so-far pursuit of rapid economic growth within a very short period.

Since 2000, the operation of the WCI scheme has been stabilized in terms of insurance benefits&budgets, service delivery system, etc. (Kim, 2003). Compared with the scheme at its introductory stage, what it is represents a dramatic growth itself, especially in the number of WCI-covered workplaces&workers, the scale of premiums collected&benefits paid, etc. As of 2010, the WCI scheme covers 1,610,000 workplaces (140,000 workers), with KRW 4.8 trillion and KRW 3.5 trillion in amount of premiums assessed&billed and benefits paid respectively.

Table 3-6 | Growth of WCI in terms of Quantitative Indicators

Year	No. of covered workplaces	No. of workers (ppl.)	Assessed&billed premiums (KRW one mil.)	Benefits paid (KRW one mil.)
1964	64	81,798	-	25
1970	5,583	779,053	4,730	1,844
1975	21,369	1,836,209	16,231	10,380
1980	63,100	3,752,975	91,676	62,505
1985	66,803	4,495,185	228,440	185,999
1990	129,687	7,542,752	698,758	539,351
1995	186,021	7,893,727	1,702,531	1,133,577
2000	706,231	9,485,557	2,504,685	1,456,266

²¹ Entities founded under a special law or with the Minister of the MOEL's prior approval and other corporations or individuals authorized to engage in WCI agency services that meet requirements as set out in the Presidential Decree.

Year	No. of covered workplaces	No. of workers (ppl.)	Assessed&billed premiums (KRW one mil.)	Benefits paid (KRW one mil.)
2005	1,175,606	11,059,193	3,894,265	3,025,771
2010	1,608,361	14,198,748	4,824,798	3,523,734

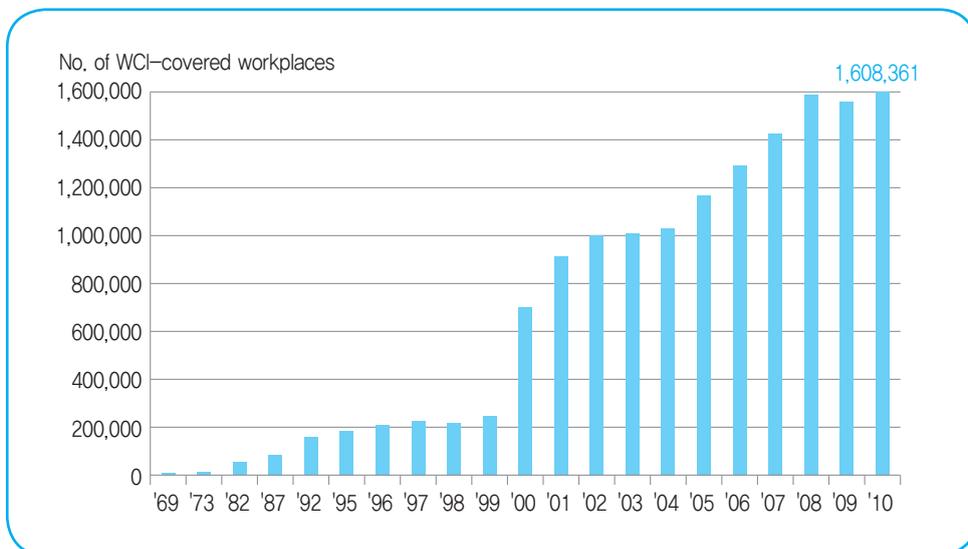
Source: MOEL, Annual WCI Report, 2010

2.2.2 Growth in the Scale of Coverage and Collection

When first introduced in 1964, the WCI scheme covered only about 80,000 workers at 64 workplaces. As a result of continuous efforts to expand WCI coverage, the coverage dramatically increased in the 1980s, when workplaces with 5 full-time workers or more were subject to mandatory coverage, and then in 2000, when all workplaces with 1 full-time workers or more were subject to mandatory coverage.

Especially in 2000 when the coverage was extended to cover all workplaces in a practical sense, there was a sharp increase in the number of WCI-covered workplaces and workers; as of 2000, about 9.5 million workers were working at covered workplaces. Since then, the number of covered workplaces has been on the increase, so that, in 2010, it increased to about 1,610,000 (about 14,200,000 workers). This represents about 25,130-fold and 177-fold increases in terms of the number of covered-workplaces and workers, respectively, when compared with the coverage status of the scheme at its introductory stage.

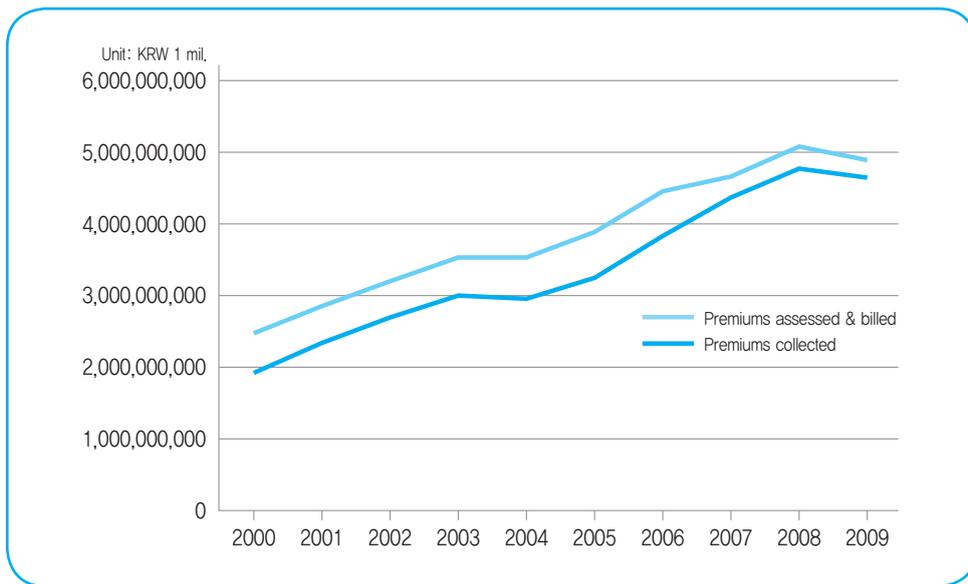
Figure 3-3 | Trends in the Number of WCI-Covered Workplaces (1969~2010)



Source: MOEL, Annual WCI Report, 2011

Since 1964, when WCI premiums collected stood merely at KRW 75.27 million, they had sharply and continuously increased every year, except during the 1997 Asian financial crisis. With the economic growth, consequently, wages paid to workers increased. However, part of the reasons for this sharp, continuous increase can be found in an increase in the number of covered workplaces and workers themselves. As of 2010, WCI premiums collected increased to about KRW 4.6 trillion, a 61,098-fold increase when compared with the corresponding ones at the introductory stage of the scheme. As shown in Figure 3-4, it can be seen that the gap between the amounts of WCI premiums assessed and billed and that of WCI premiums collected has been gradually narrowing since 2000; still, there is a need to more effectively manage the assessment, billing and collection of the premiums based on the results of objective trend analysis:

Figure 3-4 | Trends in the Amount of WCI Premiums Collected (2000~2009)



Source: MOEL, Annual WCI Report, 2011

2.2.3 Growth in the Scale of Medical Care&Compensation Services

The WCI scheme had focused its own functions on providing follow-up protection for employers and workers already exposed to an industrial accident before the need to prevent industrial accidents from happening. Hence, minimizing consequent social losses drew attention. The number of WCI-covered injured workers reached 97,821 in 2009 although the rate of increase had slowed down since 1995.

This slow-down can be explained by various efforts to prevent the occurrence of industrial accidents, including the introduction of merit-based premium rating system. However, the

share of workers with a work-related disease in affected workers in total has been on the sharp increase. As shown in <Table 3-7>, the same share rose from as low as 0.72% in 1975 to as high as 8.1% in 2009.

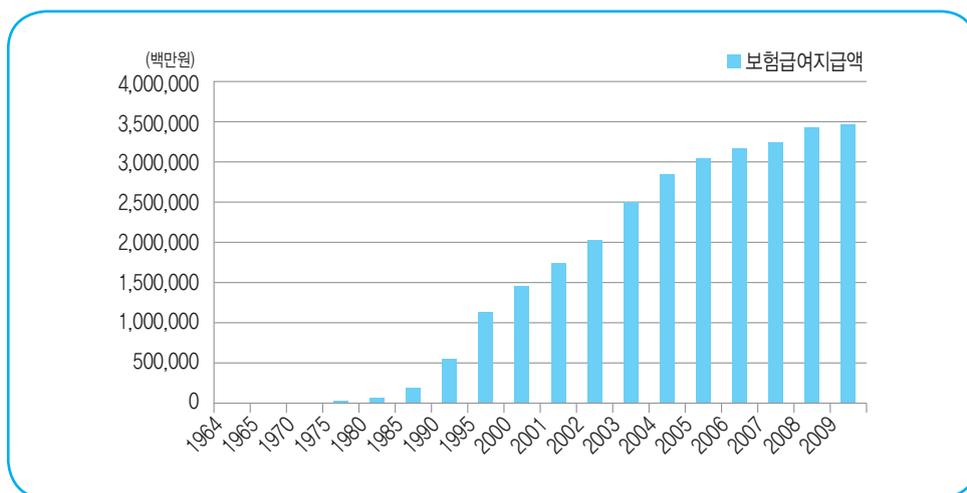
Table 3-7 | Trends in the Occurrence of Industrial Accidents

Category	1964	1970	1975	1980	1985	1990	1995	2000	2005	2009
Total (i.e. no. of affected workers)	1,489	37,752	80,570	113,375	141,809	132,893	78,034	68,976	85,411	97,821
No. of workers with a work-related disease	0	0	582 (0.72%)	1,183 (1.0%)	1,558 (1.1%)	1,638 (1.2%)	1,120 (1.4%)	2,937 (4.3%)	6,400 (7.5%)	7,941 (8.1%)

Source: MOEL, Status Analysis of Industrial Accidents, 2010

Since the enactment of the WCI Act, the payment of WCI benefits has led to the pursuit of higher compensation level and diversified types of benefits. This pursuit represents efforts to secure and maintain WCI benefit system consistent with economic growth and provide better protection for IIWs in terms of medical care, income security, livelihood, etc. WCI benefits paid increased to KRW 3.5237 trillion in 2010, with KRW 580 million in 1967, which corresponds to a 6,054-fold increase for the same period. This increase is attributable to an increase in wages, medical care expenditures, compensation level, accumulated annuity payable, etc. The continued maintenance of excessive compensation level would endanger the financial soundness (i.e. balance) of WCI budgets although it enables the enhancement of social security on the part of injured workers. This is why there is a need to keep compensation at an acceptable level.

Figure 3-5 | Trends in the Amount of WCI Benefits Paid



Source: MOEL, Annual WCI Report, 2011

2.2.4 Growth in the Scale of Rehabilitation Services

Recently, rehabilitation services have become one of the most noteworthy WCI services. Since 2008, VRBs were among statutory WCI benefits. The number of beneficiaries rose from 802 in 2009 to 1,752 in 2010, a 218.5% increase for the same period. Although VRB services seem to be still at their introductory stage, they have increased by 226.4% in terms of service scale just in one year (i.e. from KRW 1,976 billion in 2009 to KRW 4,474 billion in 2010). Unlike other WCI benefits whose purpose is to provide medical care and income security, the VRBs focus on helping IIWs return to works and community, so that they can pursue a happy life as a productive member of the society.

Table 3-8 | VRBs paid in 2009 vs. 2010

Category	No. of beneficiaries			Amount		
	2009 (ppl.)	2010 (ppl.)	Increase (%)	2009 (KRW 1 mil.)	2010 (KRW 1 mil.)	Increase (%)
VRBs (vocational rehabilitation benefits)	802	1,752	218.5	1,976	4,474	226.4

Source: MOEL, Annual WCI Report, 2011

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Chapter 4

Relevant Laws and Amendments

1. Amendments to Relevant Laws
2. Changes in WCI Operation Framework
3. WCI Budget Management

Relevant Laws and Amendments

1. Amendments to Relevant Laws

1.1 Amendments Subsequent to the Enactment of the WCI Act

The WCI Act (for the purpose of discussion in this chapter, the WCI Act may be referred to as “Act” here in the chapter, as far as the use of the same word does not cause any contextual misunderstanding.) went through about 30 amendments (including amendments in accordance with other laws) since its enactment and announcement on November 5, 1963. The Act, a reference law that contains provisions on the operation of the WCI scheme in S. Korea, is conditional upon, and can be defined in, relations with other relevant laws, such as the Act on Social Security, the Labor Standards Act, the Occupational Safety and Health Act, and other social insurance laws. In this chapter, major institutional amendments to the Act will be addressed at the two stages of development experiences with WCI practices: The government-driven growth stage and the COMWEL-commissioned internalization stage at which the Government commissioned the COMWEL to manage&operate the scheme.

1.1.1 Government-Driven Growth Stage (1964~1994)

The basic framework of the WCI scheme was mostly established during this stage. Since its enactment in 1963, the Act went through multiple amendments to meet changing socioeconomic needs. Starting with the first amendment on December 31, 1970, about ten additional amendments were made during the growth stage. Major changes include:

Extension of coverage over to workplaces with 5 full-time workers or more; easing of eligibility requirements for MCBs; sophistication of disability grades; introduction of annuity type benefits/minimum compensation system/ICDA (Injury-Disease Compensation Annuity);

enhancement of compensation level; establishment of the WCI fund; establishment of the COMWEL; commission of WCI services to the COMWEL, etc.

Table 4-1 | Amendments to the WCI Act (I)

Category	As dated of:	Major changes
Government-driven growth stage	1 st Amendment (Act No. 2271)	<ul style="list-style-type: none"> ◆ Easing of requirements for entitlement to MCBs: Payable to an eligible worker who requires 8 days or more of medical care services ◆ Sophistication of disability grades into 14, adjustment of compensation level ◆ Servicing of annuity-type PDBs and SBs ◆ Extension of WCI coverage over to workplaces with 30 full-time workers or more (effective as of Jan. 1, 1972 in accordance with the Enforcement Decree of the Act) ◆ Servicing of Special Benefits for Survivors
	5 st Amendment (Act No. 3026)	<ul style="list-style-type: none"> ◆ Adoption of minimum compensation system ◆ Enhancement of benefit-type compensation level (PDBs&SBs)
	7 st Amendment (Act No. 3467)	<ul style="list-style-type: none"> ◆ Enhancement of annuity-type compensation level (PDCA (Permanent Disability Compensation Annuity)&SCA (Survivors' Compensation Annuity)) ◆ Easing of requirements for entitlement to MCBs: Payable to an eligible worker who requires 4 days or more of medical care services ◆ Extension of WCI coverage over to workplaces with 10 full-time workers or more (effective as of Jul. 1, 1982 in accordance with the Enforcement Decree of the Act)
	8 st Amendment (Act No. 3631)	<ul style="list-style-type: none"> ◆ Servicing of IDCA (Injury-Disease Compensation Annuity) ◆ Abolition of provisional benefits ◆ Servicing of Special Benefits for the Disabled&easing of requirements for entitlement to Special Benefits for Survivors ◆ Addition of provisions on WCI coverage to deemed-as-single workplaces (that refer to workplaces whose multiple construction projects are deemed as one single workplace for the purpose of mandatory WCI coverage) ◆ Addition of special provisions on the assessment of average wages of workers suffering from pneumoconiosis

Category	As dated of:	Major changes
Government-driven growth stage	10 st Amendment (Act No. 3818)	5/9/1986 <ul style="list-style-type: none"> ◆ Addition of accident prevention and welfare services to registered service items ◆ Adjustment of merit-based premium rate to 40% (from 30%) ◆ Extension of WCI coverage over to workplaces with 5 full-time workers or more (effective as of May 15, 1987 in accordance with the Enforcement Decree of the Act) ◆ Expansion of the scope of COMWEL-authorized WCI agency service providers to engage WCI agency services
	11 st Amendment (Act No. 4111)	4/1/1989 <ul style="list-style-type: none"> ◆ Extension of WCI coverage over to all workplaces or projects with 1 full-time workers or more ◆ Enhancement of benefit-type compensation level (TDBs (60% → 70%), PDBs paid on a lump-sum basis or in annuity, SBs paid on a lump-sum basis, FEs) ◆ Mandating of eligible workers with any of Disability Grades 1 to 3 to be paid PDBs only in annuity ◆ Increase in Survivors' Benefits(lump-sum), Funeral Expenses, Injury-Disease Compensation Annuity ◆ Enhancement of annuity-type compensation level (IDCA)
	13 rd Amendment (Act No. 4826)	12/22/1994 <ul style="list-style-type: none"> ◆ Establishment of the COMWEL&commission of the COMWEL to engage in WCI services ◆ Abolition of special WCI accounting system&establishment/operation of the WCI fund ◆ Abolition of the Act on Labor&Welfare Corporation&enactment of a transitive law

1.1.2 COMWEL-Commissioned Internalization Stage (1995~2010)

As mentioned earlier, the basic framework of the WCI scheme was mostly established while it went through the government-driven growth stage of the scheme. During the COMWEL-commissioned internalization stage, amendments to the Act were made with an emphasis placed on developing additional services and implementing institutional reforms to identify and solve operational problems, and thereby secure the efficient operation of the scheme.

At the internalization stage, major amendments to the Act include the following:

Addition of a provision that daily average wages used as a basis to assess WCI benefits may neither exceed an upper limit of daily average wages for maximum compensation nor fall short of a lower limit of daily average wages for minimum compensation as determined by the Minister of the MOEL in accordance with the Presidential Decree; servicing of NCBs&VRBs; integration of the Industrial Accident Prevention Fund and the Industrial Accident Compensation Insurance Fund into the WCI Fund; improvements of WCI services, etc.

Especially, the 26th amendment, which went into effect on December 14, 2007, was very meaningful in that it was a major overhaul of the scheme. The amendment was the representation of efforts to secure a framework for the efficient and effective operation of the scheme through legally reforming and improving WCI service areas (including application&collection, medical care&rehabilitation, WCI benefits, management&operation system, etc.).

Table 4-2 | Amendments to the WCI Act (II)

Category		As dated of:	Major changes
COMWEL-commissioned internalization stage	18 th Amendment (Act No. 6100)	12/31/1999	<ul style="list-style-type: none"> ◆ Addition of a provision that daily average wages used as a basis to assess WCI benefits may neither exceed an upper limit of daily average wages for maximum compensation nor fall short of a lower limit of daily average wages for minimum compensation as determined by the Minister of the MOEL in accordance with the Presidential Decree ◆ Addition to a provision that, since 65 of the age, an eligible worker shall be subject to a 5% decrease in TDBs&IDCA due to him/her ◆ Mandating of an eligible worker's survivors to be paid 50% of SBs in annuity, with the rest on a lump-sum basis ◆ Addition to a mandatory provision to place lower and upper limits on FEs paid to a deceased worker's survivors, employer or any other third party who have actually held funeral services for the eligible worker ◆ Servicing of NCBs ◆ Addition of rehabilitation and return-to-community services to registered service items

Category		As dated of:	Major changes
COMWEL-commissioned internalization stage	19 th Amendment (Act No. 6590)	12/31/2001	◆ Integration of the Industrial Accident Prevention Fund and the Industrial Accident Compensation Insurance Fund into the WCI Fund
	26 th Amendment (Act No. 20875)	12/14/2007	Comprehensive legal&institutional reforms on the following: ◆ Provisions specifying 10 items related to WCI budgets&collection (provisions on the institutional improvement of legal liability reserves); ◆ Provisions specifying 16 items related to medical care and rehabilitation (including provisions on medical care claim procedure); ◆ Provisions specifying 14 items related to WCI benefits (including provision on TDBs); and ◆ Provisions specifying 10 items related to the management and operation of the WCI scheme (including provisions on the establishment of the WCI Screening Committee, the Technical Committee&Sub-Committees, etc.)

1.2 Enactment of&Amendments to the Act on Integrated Collection of WCI&EI Premiums

The WCI Act was first enacted in 1964 to provide compensation for a work-related accident, and the EI Act was put into effect in 1995 to introduce the EI scheme as a social safety mechanism to address unemployment problems. Given the similarity between the two schemes in terms of premium collection system, it was judged that their separated premium collection systems would cause administrative inefficiency to internal customers and inconvenience to external customers. On October 1, 1999, accordingly, the Minister of the MOL (Ministry of Labor; the present MOEL (Ministry of Employment&Labor) elected to commission the Labor Welfare Corporation (the present COMWEL (Korea Workers' Compensation&Welfare Service) to take over EI coverage and collection services.

The need to facilitate the efficient management&operation of collection service system, which was similar in the two schemes, led to the enactment of the Act on Integrated Collection of WCI&EI Premiums on December 31, 2003. Pursuant to the same act, respective provisions on the collection of EI and WCI premiums were integrated on the same date, so that the said act went into force on January 1, 2005.

Since its introduction through 2009, the Act on Integrated Collection of WCI&EI Premiums went through 11 amendments. The same act containing provisions on the integrated collection of EI&WCI premiums set out the following:

Establishment&expiration/termination of EI&WCI relations; insureds mandatorily covered by EI&WCI; determination of premium rate by industry&occupation; special provisions on premium rating; due date of estimated&finalized premiums; premium assessment&collection methods; initial date in reckoning delay penalties additional to premiums in arrears; authorization of WCI/EI agency service provider to engage in EI/WCI agency services, etc.

Table 4-3 | Amendments to the Act on Integrated Collection of WCI&EI Premiums

Category	As dated of:	Major changes
3 rd Amendment (Act No. 8117)	12/28/2006	<ul style="list-style-type: none"> ◆ Removal of special provisions on the settlement of premium differences that SMEs engaging in construction are subject to&addition of a provision allowing SMEs to pay WCI premiums in installments ◆ Prioritization in the use of premiums paid in excess
6 th Amendment (Act No. 8812)	12/27/2007	<ul style="list-style-type: none"> ◆ Legislation of the tripartite agreement between labor, management and the Government ◆ Notification of the amount of wages which is used as a basis to assess WCI premiums for those in special types of employment
11 th Amendment (Act No. 9896)	12/30/2009	<ul style="list-style-type: none"> ◆ Standardization of premium rating for the integrated collection of 4 MSI (major social insurances) (i.e. WCI, EI, NHI (National Health Insurance), NP (National Pension) premiums

1.3 Prevention of WCI Budget Deficits²²

The effective management of the insurance budgets requires a timely response to a change in service environment. It is general that the risk of running budget deficits is relatively high at the introductory stage of the WCI scheme although the risk goes down with the development of the scheme. To prevent the budget deficits, the following institutional tools were introduced:

Collection&reimbursement of additional premiums indexed to the total amount of WCI benefits paid; limitations on entitlement to WCI benefits (including TDBs, PDBs, SBs, etc.); recovery of WCI benefits attributable to an employer's negligence in declaring WCI information; double recovery of undue benefit gains&collection of penalties additional to undue benefit gains; payment of WCI benefits in installments to an eligible worker with any of Disability Grades 1 to 5; prioritization of WCI benefits payable, etc.

²² This section was produced with the help of Lee Se Hyun, a COMWEL Advisory Committee member.

2. Changes in WCI Operation Framework

Respective changes in WCI operation framework can be traced back to the three chronological divisions: 1963 to 1980, for which period the WCI scheme was operated by the Labor Administration under the MOHSA; 1981 to 1994 in which the operation of the scheme was borne by the MOL (the present MOEL) established as an independent central government ministry in 1981; and 1995 to 2010 when the Labor Welfare Corporation (the present COMWEL) was commissioned to operate the scheme. Actually, the respective changes in WCI operation framework are similar to development experiences with the WCI scheme itself. An understanding of these chronological divisions will be helpful in better understanding the operation framework of the scheme. It is judged that these changes were required to establish and maintain the efficient and effective operation framework of the scheme.

2.1 Reorganization of the Labor Administration under the MOHSA

Upon introduction of the scheme, the Government established the WCI Division and seven WCI offices under the Employment Security Bureau of the Labor Administration (under the MOHSA), which took over the operation of the scheme from the Social Security System Council.

The Administration consisted of the Employment Security Bureau and the Labor Policy Bureau with six divisions under the two bureaus; the operation of the WCI scheme was taken charge of by the WCI Division (under the Employment Security Bureau), which, in turn, was composed of the Management Team, the Compensation Team and the Insurance Team. The Division started up with eight employees alone. In 1966, the operation of the scheme was taken over to the Labor Policy Bureau that was equipped with the Insurance Management Division (18 employees) and the WCI Division (13 employees). In 1968, the operation of the scheme was moved to the level of the Bureau (i.e. Labor Policy Bureau), from the two divisions, which was led by the CIMO (Chief Insurance Management Officer) of the bureau.

In 1970, the WCI Division was renamed the Insurance Collection Division, and in 1972, the bureau was reorganized into three divisions (i.e. the Insurance Management Division, the Insurance Collection Division, and the Accident Compensation Division) headed by their respective three chief officers, who, in turn, were supervised by the CLIO (Chief Labor Insurance Officer). In 1979, the three divisions were repositioned under the Labor Insurance Bureau.

In 1974, the regional WCI offices and the job centers were reorganized and integrated into the regional labor offices, which were divided into Primary and Secondary. In terms of job-ranking system, the head of the former was ranked higher than that of latter. As of 1977, there were 20 primary labor offices and 15 secondary labor offices nationwide that functioned as bases for the nationwide operation of the scheme.

In short, when it comes to the operation framework of the scheme at its introductory stage, organizational reforms mainly focused on the reorganization of divisions or bureaus in charge under the central government administration (i.e. the Labor Administration) and the nationwide expansion of the regional labor offices to secure the efficient operation of the scheme.

2.2 Promotion of the Labor Administration to the MOL

In 1981, the Labor Administration under the MOHSA was promoted to an independent central government ministry (i.e. the then MOL (Ministry of Labor)). Upon promotion to the MOL, it was reorganized. However, there was no significant change in the functions of the Labor Insurance Bureau, under which the old Insurance Management Division was renamed as Insurance Policy Division in 1994.

Meanwhile, the nationwide expansion of the regional labor offices continued. In 1987, regional labor offices scattered in Seoul, Busan, Daegu, Incheon, Gwangju, and Daejeon were reorganized to regional labor administrations, to form a nationwide network, which in turn consisted of 24 primary labor administrations and 17 secondary labor administrations.

2.3 Reorganization of the COMWEL

As the expansion of WCI budgets' scale and coverage continued with overall economic growth since 1995, a need to reform the operation framework of the WCI scheme for the provision of more specialized and efficient WCI services was raised. In pursuit of its policy orientation toward a small government, the government elected to commission the Labor Welfare Corporation (the present COMWEL) under the MOL (the present MOEL) to operate the scheme.

Based on an assumption that responsibilities for supervision over the operation of the WCI scheme, as public liability insurance, should be borne by the government, the operational functions of the scheme were separated into two: policy management and execution. Thus, the MOEL (the then MOL) carried out the former functions (e.g. determination of premium rating&compensation level) with it, while the COMWEL took over the latter functions (e.g. collection of premiums, payment of benefits, etc.), for which responsibilities had been formerly borne by regional labor administrations.

After having commissioned the execution functions of the scheme to the COMWEL, the MOEL reorganized the Labor Insurance Bureau into the WCI Policy Bureau, under which the Accident Insurance Policy Division and the Accident Compensation Division were newly established. In 1996, when there was the reorganization of the WCI Bureau, the bureau was downgraded to the WCI Division under the Labor Standards Bureau. With the COMWEL taking over the execution functions from regional labor administrations scattered nationwide, the MOEL's operational functions of the scheme were downsized.

In 1994, with a move to formulate a master plan for handing over the execution functions to the COMWEL, a working-level task force team headed by Director General of the Labor Insurance Bureau under the then MOL was organized to work on the hand-over of the functions. The then Labor Welfare Corporation newly established a series of departments to take charge of those execution functions, including the Insurance Management Bureau, the Insurance Collection Bureau, the Insurance Benefits Bureau, the Workers' Compensation Eligibility Review Office, the Welfare Development Bureau, etc. Since then, it began providing WCI services through its 6 Regional Headquarters and 40 Branch Offices.

As a part of the Ministry of Strategy and Finance's initiatives to reform government organizations in April 2010, the COMWEL was integrated with the K-medi. As a result, it not only grew in terms of its organizational size, but also provide conjunctional operation of services, such as compensation, medical care, rehabilitation, etc.

As of now, the COMWEL operates 6 Regional Headquarters, 49 Branch Offices, 6 Occupational Disease Award Commissions, Human Resource Development Center, 1 Customer Support Center, 9 WCI Hospitals, 1 Research Center, 2 Care Centers, etc.

2.4 Current Operation Framework of the WCI Scheme: Roles&Functions

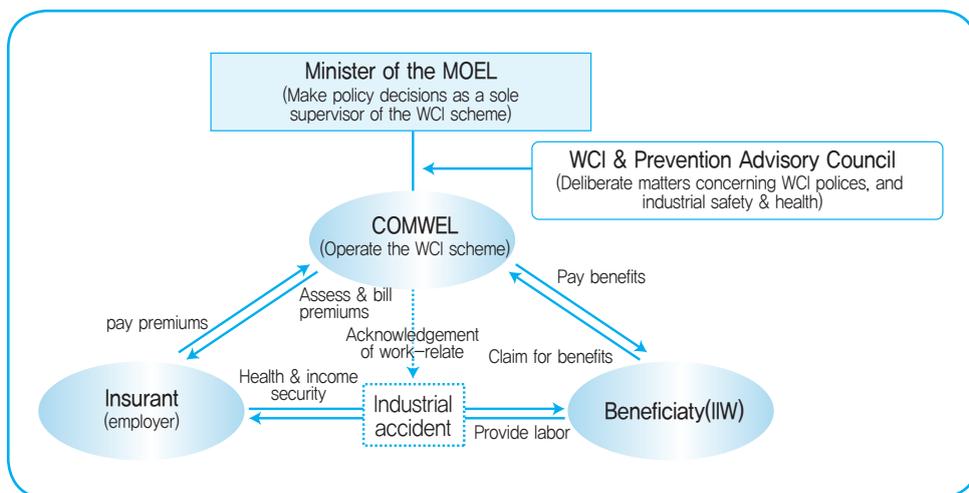
As mentioned above, the operation of the WCI scheme was commissioned to the COMWEL in 1995. Since then, the MOEL has been in charge of carrying out its policy management and screening functions, while its execution functions have been borne by the COMWEL.

Responsibilities for policy management functions are exclusively assumed by the WCI Division of the Industrial Safety Bureau under the MOEL. The Division performs various functions as follows:

Developing WCI policies&formulating relevant mid-/long-term WCI plans; conducting researches on WCI for institutional reforms; developing&improving criteria for entitlement to WCI benefits; formulating mid-/long-term plans for insurance coverage&collection system; managing&supervising insurance coverage&collection; (formulating mid-/long-term plans for) raising&operating the WCI fund; guiding&supervising the COMWEL and other WCI facilities, etc.

In 2009, the former WCI Advisory Council was reorganized to the WCI Advisory&Prevention Council to inclusively screen and unify systems to prevent and compensate for industrial accidents.²³ The new Council, which is chaired by the Vice Minister of the MOEL, consists of 5 members representing public interests, workers' groups and employers' groups, respectively. The Council is supported by its subordinate technical committees, including Technical Committee on WCI Policy, Technical Committee on WCI Medical Care, and Technical Committee on Industrial Safety&Health, each of which is composed of some 25 committee members.

Figure 4-1 | Operation Framework of the WCI Scheme



Source: Song (2010; 18), cited&re-composed

As mentioned above, the COMWEL (the then Labor Welfare Corporation) took over the execution functions of the WCI scheme from the MOEL. It has provided compensation for IIWs, established and operated WCI facilities, and serviced welfare programs for workers in a specialized as well effective way, under the commission of the MOEL. As such, the operation framework of the scheme came to be largely divided into two separate functions: policy management&screening functions (e.g. formulating the mid-/long-term plans for developing the scheme), which have been performed by the MOEL, and field-specific execution functions for which responsibilities held by the COMWEL. This functional division represents the pursuit of effectiveness in making WCI policies that will be

²³ The functions and roles of WCI Advisory&Prevention Council include screening and reviewing the following: assessment of MCBs; premium rating; formulation of plans for the operation of the WCI fund; development of major policies on industrial safety and health; formulation of plans for preventing mid-/long-term industrial accidents; and other issues on WCI services and industrial safety and health referred to the Council for screening and reviewing by the Minister of the MOEL.

inevitably subject to the conflict of interests among stakeholders, and further field-specific expertise in performing execution functions.

3. WCI Budget Management

The balanced and sound management and maintenance of WCI budgets are critical to the successful operation of the scheme since they are also linked to the sustainability&expansion of WCI services, the determination of compensation level, and organizational sustainability. At the early stage of their operation, the WCI budgets were managed with Special Accounts for WCI in accordance with the Act on Special Accounts for WCI. With the amendment to the WCI Act on December 17, 1981, it became possible to use legal liability reserves appropriated for WCI benefits (including payables in annuity) to meet required revenue-expenditure budgets), and then pool the WCI fund.

In 1995, when the operation of the scheme was commissioned to the COMWEL (the then Labor Welfare Corporation), the WCI Fund was established with the abolishment of the Act on Special Accounts for WCI, and a reserve account was created to save up liability reserves. In 2002, the WCI Fund and the IAP (Industrial Accident Prevention) Fund, of which the latter was formed using contributions from the former, were integrated into the WCIP (WCI&Prevention) Fund to enhance management efficiency.

In addition to this, the government made contributions from its general accounts to the Fund to some extent. Out of the 2010 WCI budgets totaling up to KRW 4.3331 trillion, KRW 15.5 billion (some 0.36%) came from government contributions. It is desirable to have additional the government contributions because they can lead to more effective operation of insurance services.

Table 4-4 | Expenditures from WCI Budgets (as of 2010)

(Unit: KRW 100 million)

Category	Total	Accident compensation	Prevention	General loan services	Loan services to prevent accidents	Labor administration supports
Expenditures	43,331	37,746	1,920	252	762	2,651

Source: MOEL (2010), adapted from the WCI Fund Budget Report

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Chapter 5

Performance Evaluation&Applicability

1. Performance Evaluation
2. Recommendations on Applicability to Other Countries

Performance Evaluation & Applicability

1. Performance Evaluation

It has been nearly half a century since the WCI scheme was first introduced in S. Korea. In the process of pursuing its government-driven growth stage followed by its COMWEL-commissioned internalization stage, lots of valuable development experiences with WCI practices, which turned out to significantly contribute to the internalization of its operational framework, have been accumulated.

In their past, present and future development experiences, any kinds of governmental institutions are closely interrelated with one another because the future development can always be secured through experiences with development practices accumulated in the past. In this regard, the development experiences of S. Korea with the WCI scheme as addressed below will help developing countries that are preparing for, or pursuing, the introduction of the scheme enhance its applicability to their own situation.

1.1 Introduction of the WCI Scheme at the Stage of Transition & Establishment of Basic Principles

As mentioned earlier in this paper, the WCI scheme was the first social insurance ever introduced in S. Korea. However, the decision to introduce the scheme was rather political. In other words, the military regime (in the early 1960s), which pursued rapid socioeconomic growth, introduced it with a political intention to gain public support and secure legitimacy.

In advanced countries, such as Germany or the U.K., the scheme was first put in place during the 18th century industrial revolution to address the problems of rapidly increasing industrially injured workers. However, this is not the case with S. Korea. In the 1960s, when the scheme was first introduced in the country, there was literally nothing left in the country due to war destruction. Industrial infrastructure could hardly be seen. Back then, not so long

since the end of the Korean War, the economy was substantially dependent on agriculture; over 60% of total workers were engaging in agricultural activities.

In this sense, the introduction of the scheme prior to government-led economic, industrial growth can be said to be a proactive attempt to prepare for the subsequent industrialization that would be driven by the government through a series of national economic development plans. Notwithstanding this proactive, or even reckless attempt, the scheme evolved and developed over time, expanding its service scale at a rapid pace. If it were not introduced at this politically and economically unstable stage of transition, it would have been impossible to develop stable, well-functioning and sound social safety net Koreans enjoy today.

At the introductory stage of the scheme, the government faced various impediments to its introduction. It had to go through series of administrative reviews and screenings, first by the Social Security System Council, and then by relevant ministries and other councils. Conflicting interests between employers and workers were another serious obstacle. In spite of all these obstacles, basic principles to introduce the scheme (e.g. “no-fault” rule, criteria for acknowledge the work-related of an accident, merit-based premium rating, establishment of special accounts, categorization of WCI-covered workplaces, etc.) were adopted during the introductory stage.

If developing countries that are considering introduction of the scheme would remain just at such introductory stage, their compensation system will also stop at a stage employers provide direct compensation for their IIWs. Accordingly, in designing the scheme at the same stage, an emphasis will have to be placed on containing and specifying in legal provisions on the basic principles as mentioned in the above paragraph.

1.2 Realization of Institutional Reforms&Strengthening of Social Security Function at Each Stage

The introduction of the WCI scheme in S. Korea was followed by continuous institutional reforms. Actually, since the development of the WCI scheme is closely related to socioeconomic growth, the scheme would be of no use if it fails to meet changing social and economic needs. Its institutional development was directed by changes in income level, social demands and expectations among various stakeholders, pursuit of institutional reforms on the part of WCI operators, etc.

The focus of this pursuit of institutional reforms that had been on individually providing compensation for IIWs moved on to the strengthening of their social security. That is, at the introductory stage, an emphasis was placed on mandating employers to share liabilities for an industrial accident, while, in the course of pursuing an industrial, economic growth, practical efforts were made to strengthen social security for both workers and employers.

Institutional reforms at each stage mainly consisted of the establishment of a timely and fair compensation system such as the stage-by-stage expansion of WCI coverage, the

enhancement of compensation level, and the securing of balanced, sound WCI budgets, most of which was as part of efforts to provide better social security for IIWs and their dependents, and backed up with the sophistication and improvement of relevant laws and operation framework.

There is possibility that efforts to strengthen the social security function of the scheme will appear all over society and in the form of the stage-by-stage expansion of WCI coverage and compensation level. In here, the expansion of WCI coverage may concern not only that of the coverage to SMEs, but also special provisions on collection and the protection of special type of workers. The scope and level of compensation was enhanced through the introduction of new types of benefits, annuity-type payments, and minimum compensation program.

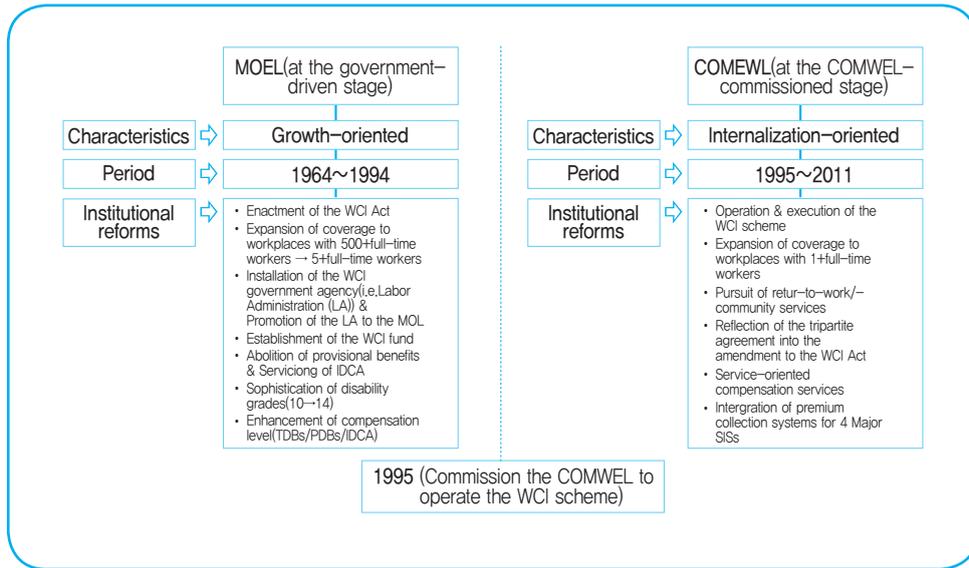
Thus, the institutional reforms of the scheme were developed through expanding the coverage to minimize its blind spots and strengthening its social security function to protect basic livelihood for IIWs.

1.3 Shift from a Growth-Oriented Stage to an Internalization-Oriented Stage

The institutional reforms of the scheme can largely be analyzed into two stages; the government-driven growth stage at which the MOL (the present MOEL) and regional labor offices operated the scheme, and the COMWEL-commissioned internalization stage at which its operation (i.e. execution function in terms of operational framework) was commissioned to the COMWEL (the then Labor Welfare Corporation) in 1995.

Although these institutional reforms slowed down when the economy was hit by the 1997 Asian financial crisis, efforts to meet international standards did not stopped. At the COMWEL-commissioned stage, the reforms could be found also in the area of labor policy. In short, they can be characterized by growth and internalization at the two respective stages. Hence, the operation of the scheme since its introduction can be divided into depending on what entity is the operator.

Figure 5-1 | Institutional Reforms by Entity of Operation



The first institutional reforms were made during the period of government-driven growth that lasted until 1994 since the introduction of the scheme. During this period, reforms were directed, mainly, toward facilitating its institutional growth in the key area of WCI services, such as coverage, collection, insurance benefits&budgets, etc. The examples of these institutional reforms include:

Amendments of WCI Act to enlarge WCI services; expansion of the coverage to workplace with 5 full-timer workers or more; installation of the government agency (i.e. the Labor Administration) to operate the scheme, which was later promoted to the central government ministry (i.e. the MOL); establishment&operation of the WCI fund; abolition of provisional benefits&servicing of IDCA; upward adjustment of DAWs (daily average wages used as a basis to assess due benefits; more detailed segmentation of disability grades, etc.

The period of the second institutional reforms refers to that of the COMWEL-commissioned internalization, which has continued since 1995. This period can be characterized by the internalization of the scheme that went through the period of growth. The examples of the pursuit of this internalization include:

Expansion of the coverage to all workplaces with 1 full-time workers or more; supports for the facilitation of IIWs' return to works and community; reflection of the tripartite agreement between labor, management and the government into the amendment to the WCI Act; service-oriented compensation services, etc.

In short, the operation of the scheme in terms of its institutional development can be divided into government-driven operation and COMWEL-commissioned operation, and the operation of the scheme in terms of its institutional reforms into growth-oriented operation and internalization-oriented operation.

1.4 Completion of the Entire Cycle of Accident Compensation

The protection of injured workers is the inherent purpose of the WCI scheme. In this regard, one of the most meaningful changes in the scheme is the servicing of the VRBs. Before the VRBs were serviced as one of statutory benefits as provided in the WCI Act, rehabilitation services were provided by the COMWEL on its own budgets, although later, the MOEL formulated and implemented the “5-Year Rehabilitation Service Plan” to offer better rehabilitation supports to injured workers.

It can be said that the introduction of rehabilitation services completed the entire cycle of accident compensation ranging from the occurrence of an industrial accident to a return to works or community. With the completion of the entire cycle of accident compensation like this, the scheme went one step further from merely providing medical care and income security for IIWs and their dependents.

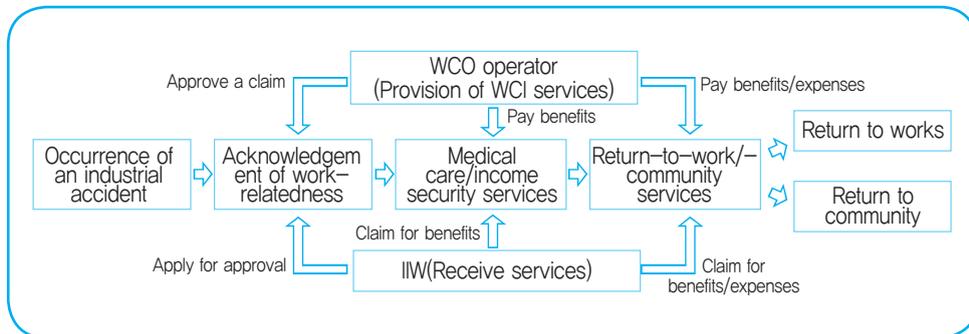
The provision of rehabilitation services was part of efforts to expand compensation services, mainly directed toward medical care and income security to protect IIWs and thereby strengthening livelihood security by supporting for their return to works or community. Especially, the acknowledgement of VRBs as one of statutory benefits in 2008 contributed to the strengthening of compensation function over the entire cycle of accident compensation and the expansion of follow-up supports.

In 2005, the COMWEL began to redesign its conventional system for delivering care, compensation and rehabilitation services with the aim of realizing more service- or customer-oriented services. This attempt to redesign the service delivery system helped build up its compensation capacity and re-direct the conventional system toward the customer-oriented and friendly one.²⁴ Rehabilitation services protect injured workers' livelihood in a more proactive manner in that they help them become the productive members of their own society again by facilitating their return to works and community. In this regard, the addition of rehabilitation services to the existing compensation cycle focusing on providing medical

²⁴ Redesigning the accident service delivery system has been pursued since 2005. As a part of this, the “Outreach Service” program began being serviced in 2005, which was replaced by the “Customer-made Service” program in 2008.

care and income security meant the completion of the entire cycle of accident compensation to secure a better protection to IIWs whose due medical care has been completed. This suggests that the practicality of a WCI scheme can be determined by identifying whether or not rehabilitation services are provided along with medical care and income security compensation.

Figure 5-2 | Entire Cycle of Accident Compensation



Drawing from S. Korea’s development experiences with the scheme, the enhancement and expansion of compensation level are very important in that they should be able to meet social demands and expectations. Especially when determining compensation level, it is also important to keep in mind that the compensation level is closely related to the soundness of WCI budgets which could be endangered by excessive compensation level. In spite of this, meeting socioeconomic demands requires the continuous improvement of service management functions, as through enhancing and expanding compensation level and improving a service delivery system.

1.5 Independent Management/Operation&Flexibility of WCI Budgets

The soundness of WCI budgets should continue throughout the growth and maturity stages. Actually, the WCI scheme is a 2-step mechanism consisting of the collection of premiums from employers’ groups and the paying of benefits to injured workers and their dependents with the aim of securing basic livelihood to them. Therefore, this budgetary soundness should be pursued by managing premium collection and compensation services strictly.

However, the enhancement of compensation level is often inevitable to strengthen the role of the scheme as part of social safety net and secure social security to IIWs. In terms of the balance of insurance budgets, it may be important to determine, and strictly manage, proper compensation level. Flexible management must meet various social demands and expectations. Especially the WCI operator should be able to assess factors that can threat

the soundness of insurance budgets, as through forecasting the frequency of industrial accidents, demands for compensation (including annuity-type benefits), accident rate by business type, etc.

In this regard, the insurance budgets were managed with special accounts at the introductory stage of the scheme to secure flexibility in operating the insurance budgets. By doing so, the WCI operator could properly respond to occasional claims for benefits. Other efforts, including the saving-up of legal liability reserves, establishment and operation of the WCI fund, improvement in management efficiency, etc. were also made to secure the medium and long term soundness of the insurance budgets.

2. Recommendations on Applicability to Other Countries

Half a century has passed since the scheme was first introduced in S. Korea. Although it can be said that, in a real sense, it was based on the Japanese model, S. Korea has accumulated its own development experiences with the successful operation of the scheme while going through the economic, industrial development. It has also strived to attain the most appropriate operation framework at the introductory, growth-oriented and internalization stages of the scheme.

The medium and long term priority of development experiences has lied in the strengthening of social security for injured workers and their dependents, and institutional reforms have focused on expanding WCI coverage, and identifying as well as maintaining proper compensation level.

Countries preparing to introduce the WCI scheme or at the stage of its growth will be able to derive or identify the following policy implications or recommendations from S. Korea's development experiences with the scheme:

First, a clear understanding of what the purport and purposes of the scheme are is required. Countries looking to introduce the scheme should keep in mind that there are various types of WCI schemes. After having identified any acceptable operation framework, they will have to make modifications and improvements required to meet their own needs.

In the case of S. Korea, the purport and purposes of the scheme consisted in establishing an accident compensation system, independent of other laws (e.g. Labor Standards Act), and therewith, providing social security for IIWs and their dependents based on the "no-fault" rule. Countries looking to introduce the scheme should identify, develop and design operation framework to address various issues or challenges (e.g. purpose&entity of insurance operation, insurance coverage, assessment&billing of premiums, types&level of compensation, insurance facilities, insurance budgets, etc.) by taking their own socioeconomic situations into account.

Second, the development and formulation of a rigorous plan for developing the scheme is required because it can be influenced by pressing demands for institutional reforms that are attributable to political interests as much as the economic growth of an individual country.

Especially, a medium and long term development plan should be put in place to sustainably pursue social security system free from various social pressures.

At the early stage of its introduction, institutional reforms need to be “growth-oriented.” At the growth stage, the reforms will have to focus on expanding coverage and compensation level, assessing and billing premiums, etc. On the other hand, the medium and long term direction of institutional development should be oriented toward the “internalization” of the scheme. The combined, consecutive pursuit of the two orientations in institutional reforms could minimize the occurrence of any blind spots in terms of social security for IIWs and their dependents.

Third, the expansion of WCI coverage should be built on the principle that burdens on not only payers (i.e. employers) but also the government be minimized in a real sense. At its introductory stage of the scheme, the government of S. Korea limited the mandatory coverage to workplaces with 500 full-time workers or more, which were believed to be large enough to bear responsibilities for financial contributions to balanced WCI budgets. This underlying implication directed the subsequent pursuit of coverage expansion by stage toward the minimization of burdens on payers (as financial contributors to the WCI budgets).

At the introductory stage, insured employers’ responsibilities for 100% of billed premiums represented the minimization of financial burdens on the government, which was also found in how premium rate by business type was assessed; premiums billed to an individual workplace were assessed using its own merit rating, which in turn was determined using accident rate applicable to business type the workplace engaged in.

In short, coverage expansion or premium rating like this was a part of efforts to minimize financial burdens on payers or the government, and thereby secure the sustainability of the scheme in terms of WCI budgets.

Fourth, the soundness of the insurance budgets should be secured. In the case of S. Korea, responsibilities for all financial contributions to the scheme are borne by employers. However, there may be other options, such as contributions from tax resources, combined contributions based on premiums due to employers and tax resources, contributions shared by workers and employers, etc.

To secure the soundness of the insurance budgets, a balance should be maintained between premiums collected or collectible from employers and benefits paid or payable to IIWs and their dependents. On top of this, the insurance operator should put in place proper measures to forecast and assess customers’ future needs for services.

Fifth, relations between the WCI scheme and other social security insurance schemes should be taken into account, in the context of the structure of all social security insurance schemes. The inherent purpose of the WCI scheme is to strengthen social security for workers by providing them with proper medical care and income security when in need. In here, however, serious problems may arise if the coverage of the scheme is overlapped

with that of other social security insurance schemes. Accordingly, if there is any other social security insurance scheme in operation whose coverage might be overlapped with that of the WCI scheme, reasonable plans for solving the potential problem of double payments should be considered in the course of designing the latter.

Finally, claiming for excessive benefits is one of the most serious problems frequently revealed in the operation of the scheme in S. Korea. Some patients look for medical treatments or claim for TBDs unnecessarily, with dishonest intention to seek a financial compensation for more comfortable life without having to work. Accordingly, measures to prevent insurance frauds like this should be put in place at the stage of its introduction.

But for any proper measures that may be implemented, the scheme can be faced by moral hazards where some patients take advantage of the scheme by repeatedly or continuously claiming for MCBs or TBDs. This may raise a serious problem because excessive expenditures might threaten the soundness of the insurance budgets. In particular, insurance frauds would lead to unaccounted-for budgetary leaks, which may be problematic in not only private insurance but also the WCI scheme itself as one of the most effective social security programs. Accordingly, the scheme operator should consider taking institutional measures to prevent such moral hazard(e.g. implementing a proper MCBs management system, mandating IIWs to return to a workplace they used to work before the occurrence of an accident, determining the standard period of medical care by injury-disease, installing a unit to handle insurance frauds, etc.).

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Chapter 6

Conclusion

Conclusion

With the enactment of the WCI Act in 1963, S. Korea introduced the WCI scheme to protect both employers and workers from potential industrial accidents. Since its introduction, the Act—and consequently, the scheme—went through various amendments and institutional reforms with the aim of securing strengthened social security to IIWs and their dependents.

Looking back on the operation of the WCI scheme in S. Korea, one can clearly see that the operation of the scheme in terms of its institutional development can be divided into government-driven operation and COMWEL-commissioned operation, and that the operation of the scheme in terms of its institutional reforms into growth-oriented operation and internalization-oriented operation. This suggests that S. Korea has sufficiently accumulated the development experiences with the operation of the scheme.

The period of the government-driven, growth-oriented operation (i.e. 1964 to 1994) refers to a period during which the MOEL (the then Labor Administration/MOL(Ministry of Labor)) operated the scheme, placing an emphasis on expanding coverage and compensation level to meet IIWs' increasing expectations in parallel with economic, industrial growth. With all of these efforts, the scheme not only backed up economic growth but also played a pioneering role in introducing other types of social insurance schemes. Also, it can be said that, as public liability insurance, the scheme significantly contributed to the establishment and maintenance of social security systems.

The period of the COMWEL-driven, internalization-oriented operation (i.e. 1995 to 2010) is a period for which the Government commissioned the COMWEL (the then Labor Welfare Corporation) to operate the scheme. For the same period, it pursued institutional reforms to establish a more mature and stable system. This is the period in time when S. Korea has become a role model for other Asian countries. It demonstrated a high level of socioeconomic and institutional growth in a very short period of time, despite having been a

small underdeveloped country. S. Korea reached a stage where it is possible to share its own development experiences with other developing countries. This indicates that, although in a real sense the scheme was based on the Japanese model, S. Korea has accumulated its own development experiences and operation framework.

These development experiences with the scheme, in turn, represent comparative competitiveness in WCI services. Accordingly, they can be used to help developing countries introduce and develop a WCI scheme. S. Korea has rich and unique development experiences accumulated throughout its operation of the scheme for the past 47 years. The experience can readily be shared with other developing countries who are seeking to introduce the scheme or in pursuit of institutional reforms. It is hoped that, by building cooperative system with those developing countries where relevant knowledge and information can be effectively shared, S. Korea will contribute to the strengthening of social security for IIWs and their dependents.

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“+” means “or more” or “or high.”

	1964	1965	1966	1967	1968	1969	1971	
Purpose	To timely and fairly compensate for a work-related accident To establish facilities to provide WCI services							
Operator	Labor Administration under the Ministry of Health and Social Affairs (MOHSA) 7 regional WCI offices 11 regional WCI offices 16 regional WCI offices							
Advisory	WCI Screening Commission							
Workplace size	500+ full-time workers	200+ full-time workers	150+ full-time workers	* 100+ full-time workers	* 50+ full-time workers * construction project worth KRW 20 million +	expanded to all business types	* 30+ full-time workers Mandating a contractor to make a subcontractor's workers subject to WCI coverage	
Coverage	Mining, manufacturing	Increase in mandatorily-covered business types	Mandatorily-covered: mining, manufacturing, electricity&gas, transport&storage	Government-run enterprises excluded	Mandatorily-covered: mining, manufacturing, electricity/gas, transport/storage, communication, construction, wholesale/retail sales&restaurants/accommodations, finance, insurance, real estate&business service. Excluded from mandatory coverage: government-run enterprises, agriculture/forestry/fishery, service industry, education/medical&healthcare/religion/social welfare	Mandatorily-covered business types	Decrease in mandatorily-covered business types	
Waiting time	11 days							
Benefit	<ul style="list-style-type: none"> * Medical Care Benefits (MCBs): Full amt. of medical care expenses incurred at an authorized medical service provider * Temporary Disability Benefits (TDBs): 60% of daily average wages ("DAWs") * Permanent Disability Benefits (PDBs): 1,000-50 days of DAWs to IWs with Disability Grade 1-10 * Survivors' Benefits (SB): 1,000 days of DAWs * Funeral Expenses (FE): 90 days of DAWs * Lump-sum Benefit (LB): 1,000 days of DAWs after 2 years of medical care 							
Premium rate	Average	-	23%	23%	26%	22.5%	18.7	
	No. of business type	-	31	36	40	65	57	
	Merit-based	±30% for workplace with 500+ full-time workers ±30% for workplace with 200+ full-time workers						
Year	1964	1965	1966	1967	1968	1969	1971	

	1973	1975	1976	1977	1981	1982	1983	1986	1987	1988
Purpose		To protect workers To timely and fairly compensate for a work-related accident To establish & operate facilities to provide WCI services								To protect workers To timely and fairly compensate for a work-related accident To establish & operate facilities to provide WCI services To prevent industrial accidents & promote welfare
Operator		Labor Administration under the MOHSA Regional WCI offices renamed as regional labor administration, annually expanded			MOL (Ministry of Labor) [former Labor Administration] Regional labor offices					
Advisory		Possible to commission employers' groups to collect premiums WCI Screening Commission		Possible to commission any financial institution to pay benefits		Possible to commission any financial institution to pay benefits				Possible to commission any COMWEL-authorized agency service provider to handle complicate insurance affairs
Work place size	* 16+ full-time workers	* 16+ full-time workers (mining, manufacturing (limited to 5 business types), 5+ workers)			* 10+ full-time workers (mining, manufacturing 5 business types, 5+ full-time workers)		* 10+ full-time workers (6 types, 5+ full-time workers)	* 10+ full-time workers (21 types, 5+ full-time workers)	* 10+ full-time workers (41 types, 5+ full-time workers)	* 10+ full-time workers (56 types, 5+ full-time workers)
Coverage		* Construction project worth KRW 10 million +			Construction project worth KRW 40 million +		* 1,700m ² +logging	* 800m ² +logging		
		Decrease in mandatorily-covered business types			Logging: additionally included into mandatory coverage		Consignment sale & brokerage of agricultural, fishery products: additionally included into mandatory coverage			
Business type		Mandatorily-covered: mining, manufacturing, electricity & gas, construction, transport/storage/communication, part of service industries Excluded from mandatory coverage: agriculture/forestry/fishery, financial/insurance/securities, wholesale/retail, real estate, some of service industries			Concept of work-related diseases legally acknowledged					
Waiting time	8 days			4 days						
Benefit		Declaration of rehabilitation efforts Limitation of coverage to 70% in the case of worker's gross negligence		Based on minimum compensation Abolition of limitation of coverage in the case of a worker's gross negligence	Annuitly-type compensation payable to an eligible worker with Disability Grade 4+		Abolition of PBs (provisional benefits) Servicing of IDCA Servicing of Special Benefits for the disabled			
Type and Amount		Enhancement of compensation level (SBs)		Enhancement of compensation level (SBs)						* MCB: Full amt. of medical care expenses incurred at an authorized medical service provider * TDB: 60% of DAWs * PDB: Re-classified to 14 Disability Grades, 1,340-50 days of DAWs * SB: 1,000 days of DAWs * Injury-disease Compensation Annuity (IDCA): 313-245 days of DAWs for IIWs diagnosed as any of Disability Grades 1-3 * EE: 90 days of DAWs
Average	13.5%	13.2%	12.8%	11.8%	11.2%	11.8%	12.4%	16.5%	17.8%	16.4%
No. of business type	57	51	54	60	59	59	60	66	67	61
Premium Rate		±30% for workplace with 100+ full-time workers								±40% for workplace with 50+ full-time workers
Year	1973	1975	1976	1977	1981	1982	1983	1986	1987	1988

		1989	1991	1992	1995	1996	1997	1998	2000	2001	2005
Purpose	Supervision	Ministry of Labor							To protect workers To timely and fairly compensate for a work-related accident To establish & operate facilities to facilitate I/Ws' rehabilitation and return to works To prevent industrial accidents & promote welfare		
	Operator	Regional labor offices Managing administrative costs with general accounts	Commissioned to the COMWEL	Abolition of special accounts & establishment of the WCI fund	Establishment of Workers' Compensation Eligibility Review Commission under the COMWEL						Integrated collection of WCI&EI premiums
Advisor		WCI Screening Commission									
Application Scope	Workplace size	10+ full-time workers (56 business types with 5+ full-time workers)	5+ full-time workers						1+ full-time workers (5+ full-time for agriculture/forestry/fishery industry, except for logging)	1+ full-time workers	1+ full-time workers
	Business type	Expansion of coverage to workplaces not subject to the Labor Standards Act	Expansion of coverage to all business types	Agriculture/forestry/fishery, wholesale/retail, real estate/business services, personal/domestic service added to coverage	Education service, healthcare/social welfare, R&D, etc. added to coverage	Interns & migrant workers added to coverage	Finance/insurance services added to coverage	International/foreign organizations, public social services, personal services, etc.: Member added to coverage; household work services excluded from coverage	Expansion of coverage to government-run projects Making SMEs subject to voluntary coverage		Agriculture/fishery/forestry incorporations with less than 5 workers added to coverage
Benefit	Waiting time	4 days									
	Type & amount	Benefit increase									
Premium rate	Average No. of business type	59	60	67	67	67	67	67	64	62	61
	Merit-based workers	+40% for workplaces with 50+ full-time workers	+40% for workplaces with 30+ full-time workers	+40% for workplaces with 30+ full-time workers	+50% for workplaces with 30+ full-time workers						
Year		1989	1991	1992	1995	1996	1997	1998	2000	2001	2005

		2008	2009	2010
Operator	Purpose			
	Supervision	Ministry of Labor		
Coverage	Execution	Commissioned to the COMWEL Workers' Compensation Eligibility Review Commission, Occupational Disease Award Commission, Insurance Benefits Advisory Committee		WCI and Prevention Fund
	Advisor	WCI Screening Commission		WCI&Prevention Screening Commission
Benefit	Workplace size	1+ full-time workers		
	Business type	Expansion of coverage to special types of employment		
Premium rate	Waiting time	4 days		
	Average	New servicing of VRBs (Vocational Rehabilitation Benefits); provision of partial TDBs to employed IIWs Establishment of Occupational Disease Award Commission & Adoption of Disability Re-assessment System Enhancement of compensation level (NCBs), Establishment of Workers' Compensation Eligibility Review Commission		18%
Year	Type&amount	* MCBs: * TDBs: * PDBs: * NCBs: * SBs: * IDCA: * FEs: * VRBs:		18%
	No. of business type			61
	Merit-based	±50% for workplaces with 30+ full-time workers		±50% for workplaces with 20+ full-time workers
		2008	2009	2010

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Ministry of Strategy and Finance, Republic of Korea

427-725, Republic of Korea Government Complex 2, Gwacheon, Korea Tel. 82-2-2150-7732 www.mosf.go.kr

KDI School of Public Policy and Management

130-868, 87 Hoegiro Dongdaemun Gu, Seoul, Korea Tel. 82-2-3299-1114 www.kdischool.ac.kr



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