

Potential Impact of Universal Employment Insurance on the Insurance Sector

ABSTRACT

The government is in the process of introducing universal employment insurance to strengthen the job safety net. Mandatory implementation of employment insurance to insurance solicitors will cost insurers and GAs about 89.3 billion KRW, which could result in personnel restructuring. Formulating employment insurance for insurance solicitors requires delicate deliberations on their job characteristics, specifically in terms of eligibility criteria, benefit payment standards, and operating schemes.

1. Key facts

Increasing social interest in vulnerable groups after the COVID-19 pandemic and emerging diversified employment types due to the 4th industrial revolution have raised the necessity of a more inclusive employment safety net. Therefore, the government proposed a partial amendment to the 「Employment Insurance Act」 which mainly extends the application of employment insurance to persons in special types of employment (hereafter, 'special employment'). The bill extends the application scope of employment insurance to "special employment, artists, etc." by changing the term "employee" in the Act to "employee, etc." and adding the clause regarding the application of "a person providing labor" rather than establishing a new clause with the definition of "special employment." While special employment is to be insured by employment insurance for granted, specific matters, such as eligibility criteria, benefit payments standards, and contribution rates, are to be delegated to the enforcement decree.

Mandatory implementation of employment insurance to insurance solicitors will cost insurers and GAs approximately 89.3 billion KRW, and it consequently could trigger personnel restructuring. Applying employment insurance to insurance solicitors is anticipated to incur additional costs of 29.1 billion KRW, 24.6 billion KRW, and 35.6 billion KRW per year for life insurers, non-life insurers, and general agencies (GAs), respectively. If insurers and GAs try to offset the additional costs incurred by

employment insurance through fixed costs reduction, nearly 7,035 solicitors would lose their jobs, which makes up 1.7% of the current workforce level (413,895 people).

<Table 1> The Effect of Applying Employment Insurance to Insurance Solicitors

(Unit: persons, billion KRW)

	Life	Non-life	GA	Total
Workforce	88,986	92,139	232,770	413,895
Additional cost in applying employment insurance to solicitors ¹⁾²⁾	29.1	24.6	35.6	89.3
Estimated personnel restructuring scale ¹⁾²⁾	2,240	1,960	2,835	7,035

Note: 1) It is the estimated amount of employment insurance contributions paid by insurers and GAs based on the manpower and commissions of exclusive solicitors in 2019.

2) It is assumed that insurers and insurance solicitors equally share the current insurance rate (1.6%).

2. Implications

Formulating employment insurance for insurance solicitors requires delicate deliberations on their job characteristics, specifically in terms of eligibility criteria, benefit payments standards, and operating schemes.

First, insurance solicitors show high turnover. The solicitors with normal sales activities for more than one year after registration account for only 38.2% and 53.3% of the life insurance and the non-life insurance markets. Thus it needs to limit eligibility for the coverage to those who have maintained their registered status for a certain period for the fund stability.

Second, the revision bill allows the insurance to provide unemployment benefits even to those who have moved for higher income. Therefore, the benefit payment standard should be clarified to prevent moral hazard. Since the sales commission is much larger than the maintenance fee currently, insurance solicitors can arbitrarily adjust their income levels and abuse the system upon their convenience.

Third, further examination is required on how to improve the equity of the contribution burden among insureds, to set the proper cost-sharing ratio between insurance solicitors and relevant business owners, to decide eligible groups for employment insurance coverage, and the application method for cross-selling agents. Also, consultation with stakeholders is essential to minimize possible conflicts.

Donggyum Kim, Research Fellow
dgkim@kiri.or.kr