

30 March 2004

EMPLOYERS' LIABILITY COMPULSORY INSURANCE (ELCI)

PARTIAL REGULATORY IMPACT ASSESSMENT

The Department for Work and Pensions is seeking views on a proposal to remove the requirement for ELCI from limited companies that employ only their owner (incorporated owners/sole employees). It is estimated that there are about 300,000 such companies.

This consultation is primarily aimed at employers (in particular incorporated owners/sole traders) and insurers, and their representative bodies, and is delivered in the form of a partial regulatory impact assessment. Views from other stakeholders (e.g. employees, lawyers, and their representatives) and the wider public are also welcome.

The attached Partial Regulatory Impact Assessment (RIA) sets out

- the legislative background to ELCI
- the rationale for ELCI
- the recent problems in the market and the action that the Government has been taking to deal with the problems
- options for addressing the issue, and the Government's proposal for a solution
- the benefits and risks of the proposal.

As the Partial RIA mentions ELCI is a mandatory class of insurance. It insures employers for the costs of compensation for those employees who are injured or made ill at work through the fault of their employer.

It provides greater security: to firms against costs which could otherwise result in financial difficulty; and to employees that resources will be available for compensation even where firms have become insolvent.

The legislation provides that an owner/sole employee is not required to purchase ELCI if the business remains unincorporated. However the incorporation of a business creates an employer and a requirement to purchase ELCI.

The Partial RIA indicates that there might be a case for re-considering the requirement for incorporated owners/sole employees to purchase ELCI on grounds of necessity and proportionality. The consideration is whether incorporated owners/sole employees are likely to claim and whether, if they claim, they are likely to be successful.

The key risks and benefits are summarised in the following table:

Risks

- A reduced demand for EL products for insurers.

Benefits

- Removing a requirement that might be unnecessary and disproportionate.
- Benefits associated with deregulation and simplification of ELCI requirements.

Based on the Partial RIA analysis **we propose that the requirement for incorporated owners/sole employees to purchase ELCI should be removed.**

We should be grateful for your comments on the proposal and on the attached Partial Regulatory Impact Assessment. We would particularly welcome views on:

Whether you agree with the assumptions underlying the options outlined below
What other risks and benefits should be considered for each option
Your views on the Government's proposal

How to respond

Consultation ends: 22 June 2004

Comments should be sent to:

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If you would like further copies of this consultation, they can be obtained from www.dwp.gov.uk or from Bob Elam.

When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of a larger organisation, please make it clear who the organisation represents and, where applicable, how the views of members were assembled.

The information you send us may need to be passed to colleagues within the Department for Work and Pensions and within other government departments and published in a summary of responses to this consultation. **We will assume that you are content for us to do this and, if you are replying by e-mail, that your consent overrides any confidentiality disclaimer that is generated by your organisation's IT system, unless you specifically include a request to the contrary in the main text of your submission to us. Please state clearly in your response if you want your name or response kept confidential.**

Department for Work and Pensions
Health Disability and Work Division