

Deposits and deposit alternatives: Introducing choice

Eddie Hooker

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“Choice is good for any marketplace.”

I write this paper as the conclusion of three years of investigation into deposit alternatives, the finale of three annual opinion pieces on the topic and, finally, as the beginning of a new chapter in Hamilton Fraser’s suite of deposit protection products.

For me, the reality is simple: the introduction of deposit alternatives can be good for all parties. If managed correctly deposit alternatives help to introduce greater choice into the rental market and, when accepted by landlords, provide tenants with a new way to manage their money and personal cash flow. I have been quite public with my concerns about the ‘banana skins’ when selling these products but I believe that when they are sold in a transparent way there is no reason why they cannot be part of a combined offering of deposit products that enhance the rental experience for landlords, agents and tenants alike. With this in mind my team at Hamilton Fraser intend to offer the market the most transparent and fair deposit replacement product in 2020.

I opened my first opinion piece (Deposit or No Deposit Insurance: What we need to know) by asking a series of pertinent questions that I felt had been overlooked as the initial wave of deposit alternative providers started launching their products. Credit where it is due, since this piece, a good number of the providers have indeed made steps to improve in the areas where many of my concerns lay. I don’t claim to have been the single catalyst for change, more so I believe the deposit alternative market has started to mature and, not unlike in the early years of traditional deposit protection, the providers have reacted to customer demand for greater transparency. Those that have not adapted to the increasingly savvy customer challenges have fallen by the wayside, leaving only a few capable providers to battle it out for market share.

My primary concerns, and the trending themes across my opinion pieces, have been those of providing protection for tenants and fortifying the significant progress the industry has made since the introduction of tenancy deposit protection in 2007. The principle of the products in general, as I say, should be good for all parties. My challenges were in the detail of the products and the execution by their providers.

In this final paper on the subject I want to revisit the discussion and bring us up to date in the modern world of deposit protection. I also want to provide context to our decision to enter this emerging market; both as a result of socio-politico-economic changes in our industry but also following some sizeable changes to Hamilton Fraser as well.

With this in mind I am delighted to introduce you to our newest brand: Ome - the vehicle for our deposit alternative product. We can’t wait to show you what we have to offer!

Eddie Hooker

Eddie is the longest serving CEO of all the tenancy deposit protections schemes and CEO of the Hamilton Fraser Group



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A recap on the deposit alternative debate

Firstly, I would like to start by readdressing the debate that has surrounded the growth of the deposit alternative market. I have spent the best part of three years investigating, observing and engaging with the new entrants to the deposit market and I believe there is now significant scope for a complementary balance between traditional tenancy deposit protection and deposit alternative products. There are clear benefits to tenants, landlords and agents when using deposit alternative products. However, the products do pose some challenges, and I think it is important the wider industry looks to address these.

Benefits of a deposit alternative over a traditional deposit

A tenancy deposit is an integral element of the rental process, offering landlords financial peace of mind when entering their property into the private rental sector. However, for some, a deposit alternative can provide a landlord with equal financial protections whilst making their property more appealing to prospective tenants.

Let me address three of the key benefits I believe deposit alternatives can offer to the market:

A. Cash flow option for tenants

Cash flow for tenants is the most significant benefit that deposit alternatives offer. With the current tenancy deposit taken across England and Wales, according to all three deposit schemes, averaging £1,100 (this is significantly higher in London and the South East) the up-front cost to a tenant can be substantial.

Existing deposit alternative providers shrink the upfront cost to a tenant by up to five times as they align their product to the approximate cost of one weeks' rent. A property that is advertised offering a deposit alternative effectively reduces the tenants' up front cost from nine weeks (first months' rent in advance plus a five week deposit) to around five weeks (first months' rent in advance plus the cost of the replacement product).

Whilst the benefits of the reduced costs are clear for a tenant, it is often overlooked as to how this can significantly benefit a landlord. Aside from the extra marketing appeal (this will no doubt diminish as these products gain traction), the key benefit is the extra cash liquidity the deposit alternatives provide tenants. For a landlord, this means their tenant has an extra financial buffer that they wouldn't have otherwise had. The biggest risk to a landlord, financially, is the failure of the tenant in paying their rent. This risk is reduced when the tenant has a financial buffer - an unplanned emergency is less likely to impact the ability of a more financially liquid tenant to pay rent.



B. Eliminates the "Double Bubble" effect

Tenancy deposit protection legislation, introduced in 2007, has created significant improvements to the rental industry through professionalising the market and creating a fairer environment for tenants, landlords and agents alike. However, implicitly linked to a tenant's improved cash flow is what I like to call the "Double Bubble" effect, which occurs when the tenant finishes one tenancy and is ready to start another in a new property.

The "Double Bubble" effect is where tenants have to raise an additional deposit for their new property whilst their current deposit is being either released by a custodial scheme or their landlord or agent, or whilst the deposit is subject to a dispute. Unfortunately, in both cases this takes a significant amount of time due to legislative constraints. For some tenants this means sourcing funds for two deposits, which is both costly in terms of time and money and can also be somewhat of a burden for landlords who are looking to secure a new tenancy in their buy to let property. Considering a dispute process can extend to a period of months, the need to have two deposits can leave some tenants without a significant amount of money for a period of time, perhaps causing some to borrow money from friends and family or, worse still, high interest credit cards or pay-day loans.

Whilst in theory a tenant should be in custody of their money within hours or days of leaving the property, in practice a good number of tenants experience at least some sort of material delay in the return of their deposit prior to moving into a new property. There are a host of reasons for this, however by using a deposit alternative these reasons should not impact a tenant's ability to move into a new property immediately, providing them with greater flexibility over their rental decisions.

C. Reduces the legislative burden on landlords

When tenancy deposit protection legislation was introduced this imposed a requirement on landlords to protect a deposit within 14 days of receipt, later extending this to 30 days. The penalties for failing to do so are quite onerous. Firstly, failing to protect a deposit means that landlords can no longer issue a Section 21 notice that requires tenants to vacate the property (Section 21 regulations are currently under review and may be removed). Secondly, landlords can be hit with a fine of up to three times the amount of the deposit plus the original deposit. These penalties also extend to the failure to provide the 'Prescribed Information' to their tenants and all interested parties, such as guarantors, within the same time period, meaning that landlords must ensure that they correctly follow their legal obligations.

Perhaps more controversially, for landlords that have instructed an agent to manage their property on their behalf, they do not necessarily pass on their responsibility to protect the deposit to their agent. The landlord always remains responsible for the protection of deposits unless that agent has taken on explicit responsibility through their terms and conditions. Whilst there are avenues for redress available to the landlord, it cannot be denied that the minefield of recent legislation placed in front of a landlord can be tough to navigate.

For landlords open to offering their tenants the choice of a deposit alternative option there is the possibility of mitigating the threat of the sanctions provided by the current legislation altogether as there will have never been a physical deposit exchanged in the first place. Assuming the providers of the alternatives are ethical and fair businesses, all parties would keep the security and financial benefits provided by a cash deposit whilst removing the potential pitfalls of the traditional deposit model.

But let me make this clear. I am not in support of landlords and agents using these products to avoid their responsibilities to provide tenants with a fair and reasonable tenancy experience, safe and secure properties and open lines of communication with their renters. It is imperative that landlords, agents and tenants understand this point completely. Deposit alternatives are there to provide choice, but do not detract from landlords' and agents' other legal responsibilities or ethical property management.



Challenges deposit alternative providers face

One of the strengths of traditional deposit protection is that both the insurance-backed and custodial deposit models offered by mydeposits, TDS and DPS are heavily regulated and monitored by the government and adhere wholly to current legislative requirements. Therefore they offer similar robust customer experiences and standards of their products. There is recourse available to landlords and tenants if their experiences fall below what they should expect and schemes can face sanctions if they fail to adhere to key performance metrics imposed by the authorities.

Unfortunately, not all deposit alternatives and their providers are made equal. This can create significant differences in the types of products offered and the promises that are made by their providers. Some providers charge bizarrely high fees that match the size of a deposit (and remain non-refundable), others include messaging and processes that I don't think are consistent with a product that is aimed at helping tenants. Some are provided with no regulatory framework to prevent 'sharp practices' and there is limited recourse for complainants if they fail in these promises, from what we have seen so far.

There are several different models currently being sold in the market from pure insurance products to membership schemes backed by insurance to self-funded DIY models. Then there is the challenge as to whether the providers themselves are financially robust or are just an ill-equipped operation hiding behind a flash website. Many landlords and tenants don't yet understand traditional deposit protection and are now expected to understand the nuances of these new products and their operators. 'Let the buyer beware' springs to mind.

If we assume the motivation of each provider is to improve our industry and their intentions are noble in nature, as I do, I believe there are still several challenges that have not yet been addressed.

A. Deposit alternatives do not address affordability

Affordability is a big concern in the housing market – both when renting and purchasing homes. With rents (and mortgage payments) now making up a larger portion of an individual's monthly income it is understandable that the cost of living comes under scrutiny.

Within our rental sector in some areas of the country (primarily urban centers and broadly the South East) rents often impact a prospective tenant's ability to pay. Although in the minority, some tenants unfortunately find themselves paying a small fortune for a room in conditions that wouldn't be suitable for some pets! Therefore many initiatives have been looked at to redress this issue. The economy works more efficiently if people can live in good quality housing with a short commute to their place of work.

I don't believe that deposit alternatives completely address the affordability issue. In fact, I think the messaging surrounding some of the products actually exacerbates the issue. Critically, landlords often state words to the effect of: "If my tenant can't raise a deposit how can I be sure they can pay their rent?!" A fair challenge, although one that I think is overly harsh considering the tenants still need to go through rigorous referencing.

You could argue that as these products are non-refundable, even when the tenant honours all the terms of the tenancy agreement, they actually reduce the net wealth of the tenant. At least with a traditional deposit, if a tenant has looked after the property they get their money back. Therefore, as I have debated earlier, I strongly believe these products are 'cash flow' options for tenants that want to manage their money in a way that better suits them and their personal circumstances. For example, this could be useful for tenants who are, or wish to be, transient or who have other pressing financial commitments at the same time as needing to raise the deposit. Just because a tenant does not want to pay the traditional deposit does not mean that they are a bad tenant!

B. Are tenants made explicitly aware of their responsibilities?

For those that have read my previous papers, follow Hamilton Fraser's regular podcast or have seen my articles in the industry press, they will know that this is my main concern. I'm not sure whether all tenants are explicitly aware of their responsibilities with these products.

In the early days of deposit alternatives they were described as insurance products. Some were even marketed to landlords combined with rent guarantee insurance and to tenants with tenants' liability insurance (not totally bad ideas but this somewhat defeats the whole purpose of these products). As deposit alternative products have matured some have attempted to move away from labelling the product as insurance – and rightly so! They are not insurance products, as the tenant receives no material benefit other than being able to move into a rented property for a far lower cost than paying a traditional deposit.

If a tenant believes they have bought an insurance policy that covers the damages they make to the property or the rent they owe then I believe the product has been mis-sold. Thankfully there haven't been any significant reports of this happening on a wide-scale, however I personally have been contacted by aggrieved tenants (and the occasional landlord) when they discover they are still on the hook at the end of the tenancy.

Whether or not these products should be formally regulated or not (the debate rages on!), I think it is right that the companies selling these products should be more transparent with their explanations, marketing messages, sales processes and more importantly their complaints procedures. Their focus should be on ensuring that consumers understand what they are purchasing and what the terms and conditions of the product are.

With this in mind, the industry needs to make a clear statement to address the risks when agents offer the products to tenants. I do not believe agents need to be regulated to offer deposit alternatives. However, to ensure they do not fall foul of 'mis-selling' they must avoid the hard sell to a tenant of their own chosen deposit alternative based on what they can earn from it. Tenants must continue to have the clear choice as to whether they opt for a traditional deposit or a deposit alternative and ideally have a choice as to which alternative product works for them. I have said before, my perfect scenario would be that the tenant is in control of the choice of product they wish to use, subject to minimum standards and terms, which the agent/landlord is duty bound to accept. But we are not yet in a perfect world!



C. Alternative dispute resolution must be free to use

The final of my three main challenges is one I consider a matter of principle and one that I feel extremely passionate about. Since the advent of tenancy deposit protection it has been a requirement of each authorised scheme to offer free and accessible dispute resolution. The cost of professional and qualified dispute handling and adjudication has been factored into the running costs of every scheme.

This wasn't due to the altruistic nature of the businesses, but rather because the core principle of tenancy deposit protection was to offer impartial resolution between landlords and tenants who were locked in a financial dispute that did not discriminate between the complexity of the dispute or on the ability to pay for this service. This was to ensure that cases did not unnecessarily escalate to the courts and provide all tenants with equal and fair representation. Whether the dispute value is £1 or £1,000, the same principles of adjudication are always employed.

Since I last checked, many of the largest providers of deposit alternatives charge fees often in excess of £100 for disputing the charges the landlord is making. Frankly, I have no time for the argument that these are designed to put off "*frivolous*" or "*unscrupulous*" disputes or that the tenant is refunded the charge if they are successful in their dispute. Who is the arbiter of what is or isn't a legitimate dispute? The result of this practice, and I can assure you it is already happening, is to put off vulnerable or anxious tenants that are not willing to dispute for fear of losing even more money. Why would a tenant dispute a charge that is sub-£100 when, should they lose or be deemed unworthy of a dispute, they'll have to double what they owe? Traditional deposit schemes faced the same challenges back in 2007 but we solved the problem with innovation and expertise. Yes, this does impact on costs and does hit the bottom line for all the schemes, but it is the right thing to do and if practised correctly delivers a better experience for all of the parties involved.

If I were to give one piece of advice to the deposit alternatives it would be to stop charging these dispute fees. Just like traditional deposit protection has had its fair few legal challenges, it wouldn't surprise me if these dispute fees are one day challenged as a contravention of the Tenant Fee Act 2019.



Why is Hamilton Fraser launching a deposit alternative?

As I mentioned in my introduction, Hamilton Fraser has decided to launch a deposit alternative of its own. I'm really excited about our offering and how it will add further choice into the market. This will be the most transparent deposit alternative, designed and delivered by deposit experts. We are the only deposit protection scheme that operates across the UK, including Northern Ireland and Jersey and have spent many years supporting the sector and driving positive change to help continue to improve standards for landlords, agents and also tenants.

Now before I explain why we are entering this market, I want to dispel a myth about my opinions on these new products. Never have I been one to write these products off, despite my initial concerns I have always emphatically explained that if correctly implemented they offer a great deposit alternative. My key concern however, was always that insufficient rigour and transparency I felt marred the products in their early days.

In fact, I closed my first paper by saying: *"Who knows, perhaps one day we will launch a deposit alternative that delivers against these concerns whilst retaining the drive towards better standards and communication between the parties."*

A combination of external market factors as well as some changes within Hamilton Fraser have all had their impact on our decision. So as that day approaches, and we continue to prepare for our launch in 2020, I'll explain exactly why I believe now is the right time for Hamilton Fraser to enter the market with a deposit alternative product that really has landlords, agents and importantly tenants in mind.

Market changes

Since my first paper the market has changed significantly, with new legislation and feelings towards the rental industry impacting the day-to-day lives of its stakeholders.

Tenant fee ban

The first of these changes is the Tenant Fee Act 2019, which introduced a five-week cap on deposits (sub-£50,000 rental per annum), limiting the amount of security a landlord or their agent can request from a tenant. This is significant because it was the first time since the Housing Act 2004 that the legislature introduced laws that would significantly impact the act of taking a deposit.

Since then it has thrust the upfront cost of renting into the limelight and has sparked tenant interest in how they can better make their money work for them. Considering that the government's intentions when introducing tenancy deposit protection was to protect tenants, whilst maintaining the financial interests of the landlord, the introduction of the tenant fee ban instilled a clarity in my mind that Hamilton Fraser could offer a comprehensive suite of deposit products alongside our existing traditional deposit protection scheme, mydeposits.

Client money protection

I see the introduction of client money protection (CMP) for letting agents as a major milestone for Hamilton Fraser. Not just from a commercial perspective, as we won another government-authorized contract with our scheme Client Money Protect, but from a campaigning perspective. Our team has campaigned tirelessly over the years for the introduction of client money protection and actually launched the first voluntary, standalone product, in 2013. This finally gave agents an opportunity to protect their client's money without the need to join a trade body.

From a deposit perspective this adds an interesting complexity. CMP is an additional layer of consumer protection that makes it more onerous for agents to hold money on behalf of their clients. For some agents it might not be worth the hassle of holding client money. With deposits making up a large portion of client monies held, an agent may opt to limit their exposure and risk. Therefore marketing properties without a deposit could become a far more attractive option.



Renting as a lifestyle choice

The last decade has had an interesting impact on the numbers of private renters in the housing sector. According to the latest Office of National Statistics UK Private Sector report, in the decade following the introduction of TDP in 2007, the number of rental properties has almost doubled to over 4.5 million. The report also shows that the average age of renters has increased. Whilst there are other socio-economic factors at play, I'd argue that the rental environment has improved significantly enough that renting is now, more than ever before, a legitimate lifestyle choice and a positive alternative to homeownership.

With those changes in mind I'd argue that innovators in the market should recognise that our industry, and indeed the wider environment, has changed and look to provide choice to the renting masses. Choice is key in today's market and offering choice empowers individuals to live and rent in a way that matches their lifestyle.

Changes at Hamilton Fraser

The last four or so years have also seen some significant changes within Hamilton Fraser, meaning that launching a deposit alternative is not only possible, but desirable for our customers, ourselves and the wider market.

HF Resolution

Over the last four years one of our portfolio businesses, HF Resolution, has grown from strength to strength. The business offers consumer redress services via the Property Redress Scheme, legal services through our Solicitor's Regulation Authority governed operation and adjudication services. Interestingly, HF Resolution already provides the adjudication services to many of the leading deposit alternative services.

Having operated a deposit scheme for over 12 years, I can tell you that the hardest part of the process is managing the disputes and the adjudication process. The deposit alternatives providers want their products to look, feel, smell and sound as close to their traditional competitors as possible, because they have been tried and tested over many years, and that is why they approach HF Resolution. With this in mind, we have absolutely no worry about the standard of adjudications of many of the products on the market.

As I have already explained, we do have some concerns and challenges towards the new products. Therefore, considering we already have the infrastructure to offer the most complex piece of the puzzle, and bearing in mind our concerns with some of the existing and emerging deposit alternative models, it makes sense for us to develop our own deposit alternative and structure it in a way that addresses these concerns.



Demand from key industry players

Around the time of my first opinion piece we started to receive requests by some of the largest brands in the property industry to work together and build a product that could rival the "disrupters" in the deposit market. These brands ranged from the largest tech brands in the industry to some of the largest insurance businesses that have interest in the private rental sector. The consistent theme to their approach? They all recognised our unique position and expertise in the market. We have a unique insight into the inner workings of traditional deposit protection as well as the infrastructure, systems, process and unique staff knowledge that helps us to build on our product offering.

Although very flattering, each and every time we were approached by key industry players the conversations ended without the launch of a new product. Some of our conversations progressed significantly, however not one proposal we received managed to meet the requirements that I set out in my papers and it was for this reason that we decided not to go further. As I have mentioned, for us to offer a deposit alternative product we had to be sure that this would provide a fair and transparent option for all parties involved.

I also started to receive contact out of the blue from a large number of our long-standing relationships asking if we were going to launch our own product - including some of the largest and most well-known brands in the market. Unlike the new start-ups, Hamilton Fraser's long history has created a legacy of fantastic customer service and trust. I found it interesting that despite the fact many of these brands were already offering a deposit alternative there was still demand for a Hamilton Fraser product to sit alongside our traditional deposit option.

100% ownership of mydeposits

When Hamilton Fraser announced the acquisition of the [then] National Landlord Association's 50 per cent ownership of mydeposits, we explained that this was a significant moment in our history. We made the purchase because we wanted to highlight our commitment to being a completely independent organisation that, importantly, supports both landlords and tenants equally.

For us, this was a game changer and has allowed us to investigate new ways in which we could look to enhance our offering to our customers and also provide support for some new ones! I'm always reiterating the importance of choice and I wholeheartedly believe that tenants need to rent in a way that suits their lifestyle. Landlords that understand this will experience a much better rental journey. For Hamilton Fraser this means adapting and enhancing our suite of products and, where required, rewriting our own rule book.

Raising market standards

I'd argue that this final internal change is perhaps the most significant for Hamilton Fraser going forward. The last few years has seen us revisit, clarify and revamp our culture and values. We've also crystallised our mission as a business. This was important for us because since 1996 we've grown organically, taking opportunities as they've presented themselves. Since our 20th anniversary in 2016 we've been able to take a step back and pro-actively plan the direction we want the business to go in, using the opportunities we have created for ourselves.

Our business ethos is to offer products that protect businesses and consumers, to provide market-leading customer service and to educate the market where we can. We have a mission to raise standards in the private rental sector, as well as our own. For that reason, we also want to challenge the new crop of deposit products and show them the standards we expect.

We have never been afraid to challenge the status quo and understand that sometimes we need to diversify for the benefit of everyone involved. This is not always an easy step for a company to make, as often it is far easier to just continue to offer the same products and services. However, we would be doing a disservice to the sector we feel so passionate about if we just sat back without offering a solution to problems we have identified and previously challenged.

One of our internal values is innovation. Rather than react immediately to the deposit alternatives, we've decided to take our time and are in the final months of developing what we believe will be a sector defining product.

Introducing: Ome

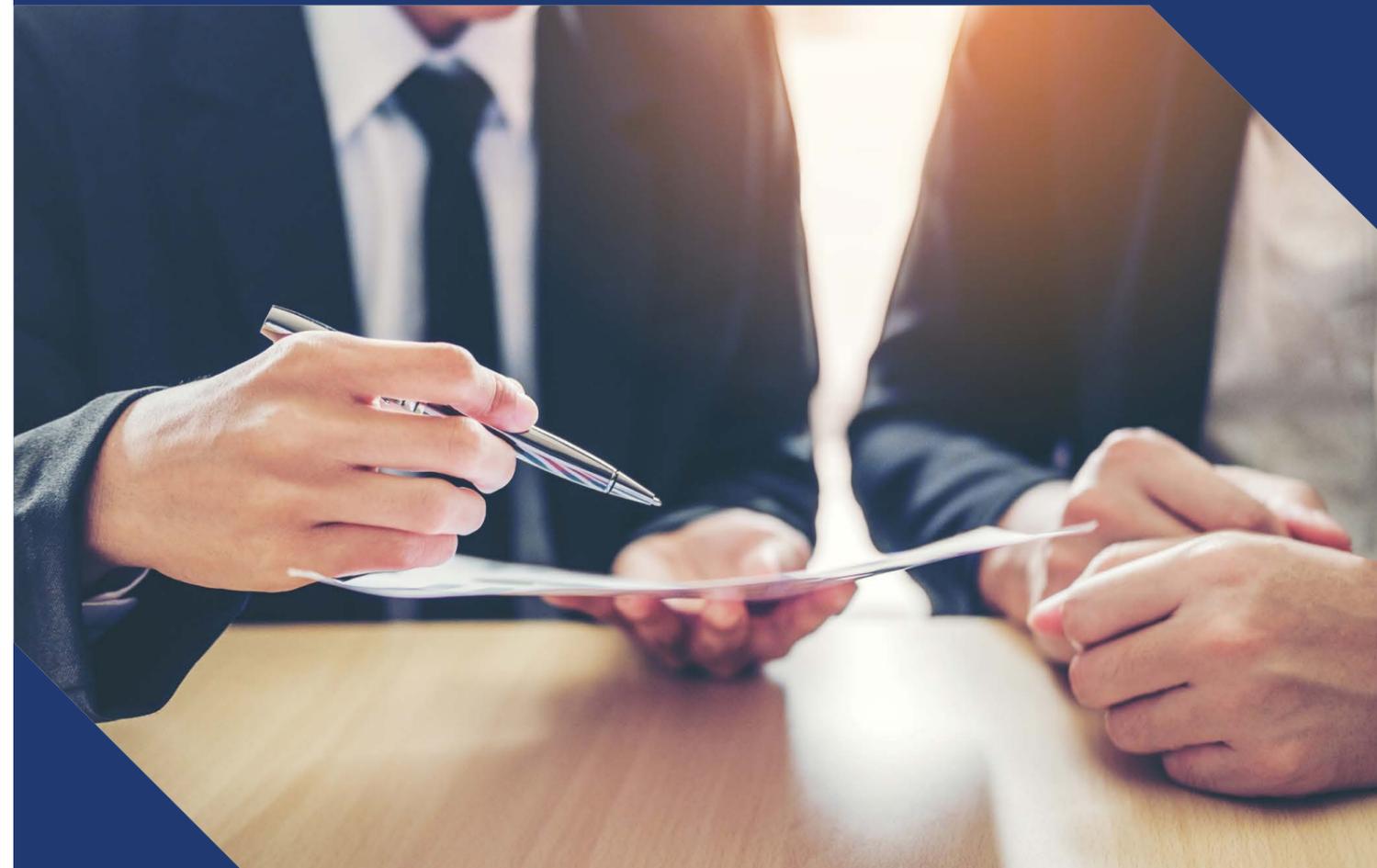
So, without further ado, I'd like to introduce our new brand: Ome.

Ome is the latest brand in the Hamilton Fraser Group and will be the vehicle for our Deposit Replacement Membership. I can't wait for you to see it in early 2020!

As we approach our launch date we'll announce more details about our proposition, but for now let me dig into Ome and our promises to the industry.

Why the new brand?

So the first question I'd like to answer is *"Why are you launching a new brand?"* It's a question we have debated internally quite a lot and our response, I believe, makes a lot of sense.



Agility

The first reason we're launching our new product under a new brand is to give it the agility to take on the adapting market. The rental market is constantly changing and we need to be able to be flexible without risking Hamilton Fraser's "business as usual" operations. Ome will operate as if it were a start-up itself but with the added support and resource of its bigger sister, mydeposits, and the rest of the Hamilton Fraser family.

Independence

Many of Hamilton Fraser's existing brands are either product specific, stakeholder specific or a government scheme. In many cases it's a combination of all three. We didn't want our new product to be restricted as a secondary-product; limited to tenants, landlords or agents; or mislead the public into thinking our product had government backing. By launching a new brand that is agnostic to what has come before it we can service the industry in its entirety.

Platform for the future

Ome is an important step in the digital and business transformation of Hamilton Fraser. Its digital first approach will provide Hamilton Fraser with a pioneering brand with regards to improvements to customer service and operations that new technology can bring. Many of our existing products rely on legacy technology and so by building a bespoke platform that can adapt and grow independently we can react to the demands of Ome independent of our other platforms.

Equally, Ome has the potential to be much more than just a vehicle for the Deposit Replacement Membership. We want to provide additional products, services and tools for tenants, landlords and agents in the future. Ome can be an integral component to improving the rental wellbeing of the entire private rental sector community.

The promises our Deposit Replacement Membership will deliver

I think it's important to show our hand and lay out the promises we are making when launching Ome and its Deposit Replacement Membership. We have been critical of the practices we have seen in the market and have been careful to design a product that will meet the standards we expect.

Should we falter on our promises we want to be called out for it so we can improve.

Transparency

Our first promise is to guarantee honesty and transparency. This is incredibly important to us and is an integral value that all of our businesses share. We want to make sure that the entire rental community that uses Ome knows exactly what they are purchasing or using. We want them to know the great things about our Deposit Replacement Membership, but also why they may rather use a traditional deposit. We do not want to dissuade landlords, agents and tenants from using traditional deposit protection services if they feel that this is better suited to their current needs, we do however want to provide options and choice so that there is flexibility in the rental choices of our customers.

We know that our products speak for themselves, therefore we'll be as honest as we can and let our customers make their own decisions.

Cash flow

I've mentioned already, but will say it again - deposit alternatives are not an affordability product. Our Deposit Replacement Membership has been designed as a cash-flow solution and will be advertised as such. We know that it is more expensive than a traditional deposit long-term, however the benefit of not laying out a large lump sum provides its own advantages for tenants.

Protect landlord's interests

Landlords need a little bit of love at the moment. The market is changing around them at an incredibly difficult pace and you could forgive some for thinking it's not worth it. We want to make sure that offering our Deposit Replacement Membership is a positive experience and one that provides them with the exact same financial protections that they would receive with a traditional deposit.

The only question we want a landlord asking themselves is whether or not they want to deal with the administrative and legislative burden a traditional cash deposit requires.

Tenants keep same obligations

This is very important to me. Tenants should be held to the same standards and obligations as a cash deposit. Yes, they have purchased the ability to rent without a cash deposit but they must understand they are still responsible for leaving the property in the same condition they found it and importantly pay all the rent and bills they have contracted to pay within the tenancy agreement. If a tenant does not look after the property then our long standing adjudicators will assess the settlement figures owed to the landlord and the tenant will be obliged to pay them. If they don't the landlord will not be financially disadvantaged and we will hold the tenant liable under contract.

Raising standards

Our Deposit Replacement Membership will build on the good work done by the traditional deposit schemes in raising standards and improving communication between all parties to the tenancy agreement.

Tenants will still be required to be referenced but, in line with our theme of offering choice, we will not dictate what referencing supplier can be used. Landlords and agents can continue to rely on their existing referencing relationship with the only requirement being that the landlord must comply with our minimum referencing standards.

We will require landlords and agents to perform formal property inventories and formal check-in and check-out services. This is not only because disputes at the end of the tenancy will be evidence based, but more because it creates better transparency and communication between the landlord and tenant and can help to reduce conflict at the end of the tenancy should a dispute arise.

Customer experience

We have learned much in our 12 or so years operating a traditional deposit scheme. We've also spent many days and hours exploring the customer journeys that are out there in the market. We know that customer experience is integral in a digital world and we want to be the pioneers. We've also taken inspiration from the innovations outside of our own sector where there are examples of progress the property industry has not yet made.

Continuous improvement

We promise to continuously improve our product and digital platform to remove hurdles and make life easier. There is so much scope for improvement and we believe that by listening to our community we can push the deposit market into a new era. We will be adding to our platform with better products and services so tenants, landlords and agents can succeed in their individual rental targets.



To conclude...

I'm very excited about the future and I believe the Hamilton Fraser way of doing things gives us a good foundation to improve the standards and products available in the sector. I want to break my conclusion into two distinct summaries so I can address the prominent arguments in my opinion piece.

A) Deposit protection and deposit alternatives can complement each other

I can see a future where we have two flavours of deposit protection. Traditional, custodial deposit protection where scheme providers hold and protect the money and deposit alternatives. Both options remove the requirement, for the most part, of landlords and agents to hold any money on behalf of tenants. This is a good thing for the market as it clearly lowers the risks of misappropriation of the money by the more unscrupulous landlords and agents. However, more importantly, for the vast majority of tenants and landlords it means that there will be some degree of verified communication and explanation as to the causes of deposit deductions. Many of the problems our industry faces can be solved primarily by better communication.

Ome is part of the Hamilton Fraser Group of companies. We are experts in deposit protection, insurance and consumer rights. We already have trust in our marketplace and if there is one business that could and should be leading the way in the deposit alternative market, it is us.

I'd be surprised if in the short to medium term these products don't become subject to some degree of formal regulation or authorisation. Regulation is good for the market and will help to raise standards and levels of protection for consumers, however the pace of its introduction can be difficult to manage. I do have a lot of sympathy for landlords and agents as their markets are rapidly changing and it is hard to maintain a high level of service as these changes take place. I see some parallels in the private rental sector as I experienced with Hamilton Fraser's original insurance brokerage in the early 2000s with the introduction of financial regulation. It is up to us, as an industry, to continue to voluntarily improve the way the private rental sector operates. If we don't we can expect a lot more regulation at an equal, or faster, pace as we are currently seeing.

Competition in the deposit protection market is a good thing – so long as it improves the experience of our consumers. Tenants are at risk of being seen as a commodity by businesses that have a *"win at all cost"* mentality. Thankfully, Hamilton Fraser is privately owned and our destiny is not dictated by the

targets of venture capitalists and the corporate giants. I make no apologies for the commercial approach we take to the market as commerciality pushes innovation and an inbuilt drive to improve our services. We want to compete on the quality of our product and the strength of our network. We will not be competing by throwing good money after bad on fruitless 'pay per click' campaigns and vanity marketing that is often associated with venture-backed businesses.

Deposit protection and deposit alternatives can complement each other and, through Ome, Hamilton Fraser will be showing the market that this can work.

B) Ome opens Hamilton Fraser up for business to the entire private rental sector

If you told me in 1996 that Hamilton Fraser would be directly servicing over 15,000 letting agents, 300,000 landlords and over 1,000,000 tenants I would have laughed you out the door of our small second floor, high street office! The foundations we have built give us a fantastic opportunity to further grow and offer market-leading products to landlords, agents and now, through Ome, directly to tenants.

In the early days we often described ourselves as a 'one-stop-shop' to landlords needing insurance products. This gradually evolved into a 'one-stop-shop' for the entire legal, insurance and regulatory requirements of landlords and letting agents. However, as the digital revolution has continued to take hold of our industry we accept that we need to provide a better experience to our customers. Ome is our first step in providing a first-class digital experience for tenants, landlords and agents. Ome, over time, will grow into a central hub for the private rental sector by offering products and services without the need to re-enter information over and over again on different websites. We hope this will provide a slick, user-friendly journey that will help project us further into the modern digital world of renting.

The learnings we gather from Ome will be applied to the rest of our businesses and products. The Hamilton Fraser you know now will provide a substantially superior experience to an already award winning service in the future. You can expect improvements to our services such as Total Landlord Insurance, mydeposits, Property Redress Scheme, Client Money Protect, Landlord Action and LandlordZONE (amongst others) over the next few months and years.

For businesses like ours it is unusual to have the flexibility, adaptability and drive to re-define the experiences we give our customers. Ome's Deposit Replacement Membership is just the start.

Closing statement

I began this discussion three years ago to spark debate and challenge. I can safely say I have been encouraged by the feedback and response I have received. I have seen some exciting developments in the market. I have also seen some things that scare me and undermine the positivity that has come from the formal protection of deposits and other subsequent regulation.

We need to strike the correct balance between innovation that drives our industry towards better standards and communication between all parties, and innovation for the sake of it. We may be entering this market later than our competition, however we have searched for our own answers, and taken a calculated and well thought out route, launching Ome's Deposit Replacement Membership to deliver against the concerns I had in 2017.

I continue to encourage my people to innovate and create new and exciting products for the private rental sector. I'm really excited to see how the use of Ome's technology will make people's lives easier, now and with future improvements. We will also continue to collaborate with others so that our services can be easily accessed to raise standards in the market.

I also remain an ardent fan of traditional tenancy deposit protection. It has improved consumer protection and provided transparency to the letting process. Yes, there need to be improvements to the processes but mydeposits, TDS and DPS will continue to push the law-makers to make the system fairer for everyone. I support deposit protection and will operate our traditional schemes with the same rigour and passion as we have since 2007 for as long as we are allowed or the market accepts us. But as an entrepreneur and business owner I also recognise that choice is important. Ome allows Hamilton Fraser to offer that choice.

For some, our direction will come as a surprise. For others, it will be seen as a natural step and perhaps a little belated! Hamilton Fraser will continuously look to improve, protect the things that matter most to our customers and engage in rigorous debate on the future of our market.

Ultimately this conversation is about choice. Choice about how tenants manage their money, but also about how their partner landlords and letting agents choose to supply them. Choice, so long as it is informed, is an important aspect of a fully functioning marketplace. I encourage competition and choice and I eagerly await Ome's launch.

Eddie Hooker

Eddie is the longest serving CEO of all the tenancy deposit protections schemes and CEO of the Hamilton Fraser Group



Hamilton Fraser

Premiere House
1st Floor
Elstree Way
Borehamwood
WD6 1JH

T: 0345 310 6300

F: 0345 310 6301

E: enquiries@hamiltonfraser.co.uk

www.hamiltonfraser.co.uk

Ome

Premiere House
1st Floor
Elstree Way
Borehamwood
WD6 1JH

@: OmeHQ

E: hello@omehq.com

www.omehq.com