

## FACT SHEET

Applies to UK

AUGUST 2019

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## Deposit-free renting schemes

### CONTEXT

A number of companies have emerged that offer landlords and tenants an alternative to the traditional 'cash' tenancy security deposit. These services are often referred to as 'deposit-free' or 'deposit replacement' schemes and have gained traction, particularly in the last year as a number of new suppliers have emerged.

When using these products, instead of paying a cash deposit, tenants pay a non-refundable fee to purchase a product or join a service that offers the landlord protection against financial loss. There are also some alternative models where the landlord or agent buys the policy or bond to protect themselves.

### COMPARISON

There are several different models of deposit-free schemes, but the majority share a similar approach and claim comparable benefits. This includes tenants not having to pay a five-week deposit when moving into a privately-rented home.

For landlords and agents, they purport to offer landlords greater protection than they would get through a traditional five-week security deposit, faster on-boarding of tenants, fewer voids and potentially less hassle when tenants move out. Some of these schemes offer agents a commission for each referral, and can be an additional 'benefit' with which to market properties.

Broadly speaking, deposit-free services fall into two categories; those which are selling insurance policies to tenants (where the providers are FCA regulated but not all the products themselves fall under FCA regulation), and those which are themselves insurance-backed (where the scheme insurer is FCA regulated).

### CONSIDERATIONS

Deposit-free schemes are relatively unproven as businesses and while the early-to-market providers have a few years of experience, several have only recently launched. As such, agents who decide to include a deposit-free offering in their business should be careful when choosing their preferred partner.

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Agents should be aware of the potential risks involved in participating in deposit-free schemes and should look carefully at the protection offered and specifically the consequences should their provider fail, and their landlords are potentially no longer protected. Agents should also check the small print of any scheme to make sure there are no exclusions or conditions that could limit the protection offered.

Considerations for agents when choosing a deposit-free scheme include:

### a. FCA Regulation

FCA-regulated providers are required to follow the regulations and guidance set out in the FCA handbook, which are designed to protect customers and avoid unfair practice, along with the behaviours associated with mis-selling. The FCA rules are extensive and require that firms need to put in place a range of procedures and safeguards, demonstrate that the business is run by fit and proper persons, and have adequate working capital in place—along with other requirements.

**NB: agents who offer their customers an insurance product must be aware that they are bound by the FCA rules around promoting financial products. Agents cannot advise or sell (but merely introduce) an insurance product unless they have the required authorisation from the FCA.**

### b. Protection under the Financial Services Compensation Scheme and Financial Ombudsman Service

Although a provider may themselves be regulated by the FCA, their product may not be. Only those schemes that are classed as contracts of insurance fall under the protection of the Financial Services Compensation Scheme and give customers redress through the Financial Ombudsman Service.

The Financial Services Compensation Scheme is particularly important as it provides protection for customers in the event that a provider fails. Agents who use schemes that do not have this protection should be aware that they are reliant upon the success of their provider and may lose protection if the worst were to happen.

### c. Cover

Agents should be clear on the cover offered by any one scheme. What guarantees are offered, what type of loss is covered and is their cover limited in any way? How does this compare to a cash deposit?

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### d. Dispute resolution/Complaints handling

For landlords to be paid for any claim at the end of a tenancy, all the schemes offer some form of arbitration or dispute resolution if tenants disagree with the landlord's claim. Agents should be confident that whoever is providing this service will deliver a fair and impartial outcome for their landlords and tenants.

### e. Fair deal

Pricing varies across the sector, with some providers offering a standard price, for example one week's rent, to others who leave agents to determine the pricing.

### f. Commission

Some of the schemes pay a commission or referral fee to agents and some do not. Where commission is paid, under the Consumer Protection from Unfair Trading Regulations 2008, agents are legally required to be transparent about this with tenants and make it clear to them what commission they are receiving.

**NB: agents who offer their customers an insurance product are required to follow the Financial Promotions regime as set out in the FCA handbook and ensure they are compliant.**

### g. Tenant fees ban

**IMPORTANT:** the way that the Tenant Fees legislation is framed makes it clear that an agent can offer these kinds of 'no deposit' schemes as an alternative to a traditional one, but not as a compulsory replacement. If they do, then the agent will breach the fees ban and could face a fine of up to £30,000.

## PROVIDER COMPARISON

All of the recognised deposit-free providers have been asked to provide information to Propertymark on how their products work. We have set out their answers in the table overleaf.

These comparisons are designed to provide a reasonably quick product comparison between all the known providers. There are other factors that may be considered such as whether a) existing traditional deposits can be paid into a deposit replacement scheme, b) whether non-standard tenancies are included, c) if international tenants can be included, d) the product is available in Scotland and Northern Ireland. Also, please note that one provider, DLighted, was asked to provide comparison data but chose not to.

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Provider	FCA Regulated?	Protected by FSCS?	Cover Provided to Landlords	Mid tenancy, renewal or other conditions	Dispute Resolution	Upfront cost to tenant	Extra costs in addition to upfront fee	Commission paid to agents?
<b>Canopy</b>	Yes	Yes	Up to eight weeks' rent via Canopy's Rent Passport.	Default cover is three years regardless of tenancy length, after which renewal fee is charged.	Yes, via Hiscox.	12% of the sum insured but depends on tenant's circumstances. In the case of a claim, tenant pays excess of 10% of sum insured.	Cost of the policy is calculated based on the value of cover and not length of tenancy.	Not currently, but does offer revenue share on other products.
<b>Flatfair *</b>	Yes, insurer	Yes, insurer	Twelve weeks' worth of protection plus free recovery of any additional claim above that sum.	None other than tenants must be referenced.	Yes, via HF Resolution.	One week's rent plus VAT. Flatfair also offers good behavior discounts to tenants.	No further costs.	Yes, depending on various factors including size of letting book and rent levels.
<b>Let Alliance Nil Deposit Scheme</b>	Yes	No	Six weeks' rent equivalent for the full term of the tenancy including all extensions. Cover for arrears, cleaning costs, damages. Can be used in conjunction with Rent Guarantee insurance for the agent. Tenants also take out liability insurance for £5000.	Tenants pay an additional £15 every six months, they must pass the Let Alliance reference and have tenants liability insurance in place.	Yes, via HF Resolution.	One weeks' rent plus VAT.	Tenants pay an additional £15 every six months.	Yes. 20% of one weeks' rent.
<b>Reposit</b>	Yes	Yes	Up to eight weeks' rent including rent arrears, damage, cleaning costs.	Written inventory, check-out report, compulsory referencing or guarantor, Right to Rent.	Yes, Independent Adjudication Services.	One week's rent incl VAT).	£30 per annum renewal.	Yes. Up to 30% of the fee.
<b>The Lettings Hub</b>	Yes	Yes **	Offers two cover options; one offering up to six week's rent and another eight weeks' rent for higher risk tenants.	Tenants must be referenced and have a tenancy liability policy in place. No penalties for leaving mid tenancy. An annual renewal fee is being introduced.	Yes, via HF Resolution.	At agent's discretion. They recommend 25% of monthly rent plus VAT for its six week cover product plus cost of tenancy liability policy. Monthly payment option offered.	£30 per annum renewal.	Yes. Agent determines own fee levels.
<b>Zero Deposit</b>	Yes	Yes	Six weeks' rent covering everything under the AST.	None. Guarantee in place for lifetime of tenancy or ten years.	Yes, via TDS.	One week's rent (no tax on top).	£26 annual admin fee payable after 12 months.	Yes, amount depending on volume of lets.

\* Flatfair is not an insurance product. Instead, flatfair is an insurance-backed scheme, underwritten by an A-rated insurer (AmTrust) who is FCA regulated and protected by the FSCS; flatfair is also part of the FCA's innovation hub (Project Innovate), which provides first-hand regulatory support for innovative firms.

\*\* Both the insurers and Let Insurance Services trade as The Lettings Hub and are covered under FSCS. However, for a claim to be successful a firm needs to meet eligibility conditions—it is important to note that the policy holder is the agent and not the landlord/tenant.