



**LONDON
VENTURES**

innovation through collaboration

Transition Insurance Call to Market

May 2018

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What is London Ventures?



London Ventures is a partnership between London Councils and EY.

The programme brings innovative solutions to the local government sector to improve services, save money, and ultimately deliver benefits for Londoners.



Who do we work with already?

SOCIAL CARE & WELLBEING

xantura



COMMUNITY DEVELOPMENT

AdviceAid



BACK OFFICE

blueprism



What is the problem statement we are working on?

- Across England, Local Authorities have a statutory duty to assist those at risk of homelessness. With the introduction of the **Homelessness Reduction Act (HRA)** in April 2018, the responsibilities of Local Authorities has increased creating additional strain on already limited resources. A HRA pilot by Southwark Council **led to a 29% increase in customer numbers** with attempted **referrals to the Private Rented Sector (PRS) up by 66%**
- The findings of a recent report supports the findings of this pilot. Indeed, **'89% of Local Authorities reported difficulties in finding private rented accommodation** for homeless people last year¹
- Our research with local authorities and tenants confirmed that the challenge of raising a cash deposit to secure a PRS tenancy was identified as a key barrier. In many of these cases, the Local Authority would provide financial assistance to secure a tenancy through payment of cash deposits'
- In order to address this, the Transition Insurance Project was initiated to explore alternative options for providing financial assurance to landlords without the need for large upfront deposits. The requirements (see design criteria in Appendix) are for an **insurance based product** that could be purchased by individuals or Local Authorities to secure PRS tenancies without a deposit



Housed guests by RESTART at Christmas lunch / insights for London Ventures

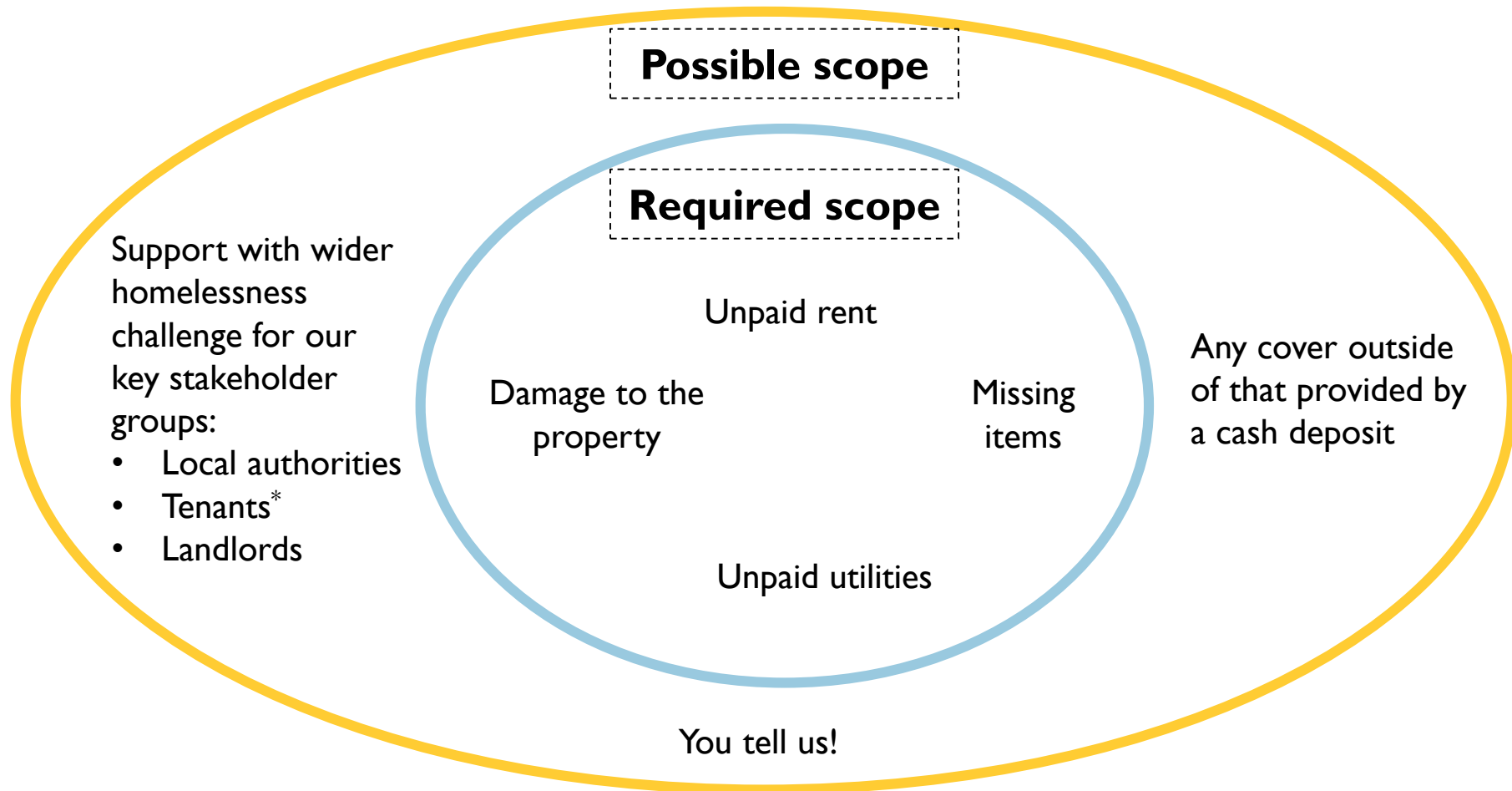


Rafal, experienced many forms of temporary housing



What is the scope of what the insurance product needs to cover?

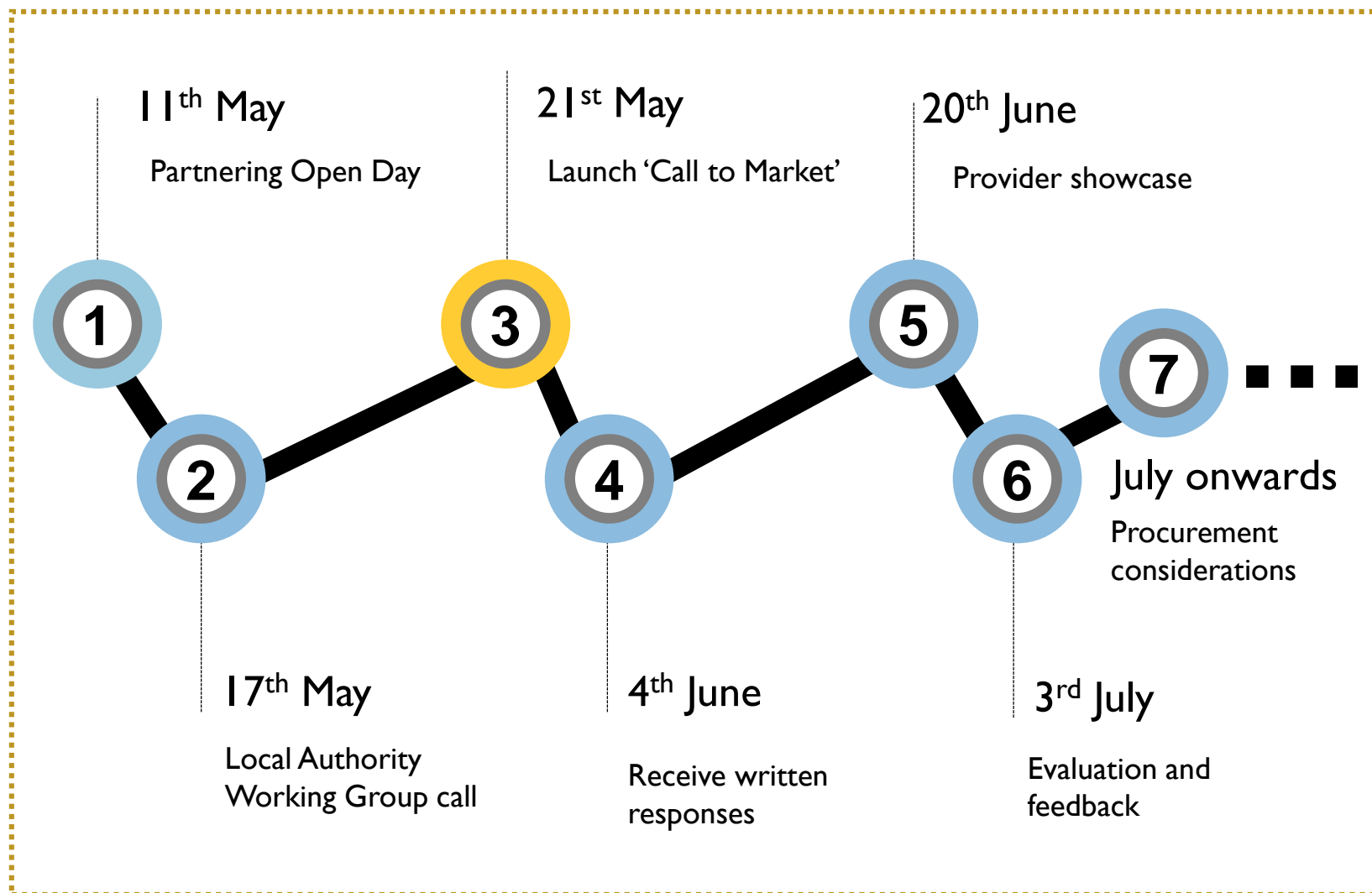
The insurance product needs to cover everything that a cash deposit does. What it does on top of that is to make the lives of our key stakeholders easier is up for debate



*For further information about the needs of tenants, see Appendix C where there are two indicative user profiles



Where are we now and what is next?



As a provider, what do you want from me and by when?

- We have engaged with providers throughout the design process and now ask providers to submit their proposals on how they would provide a product that meets the challenge.
- As the first step, please submit **no more than 5 sides of A4** to Tom Schneider (tschneider@uk.ey.com) by **4th June**
- We will then review the proposals and invite individually to a **‘provider showcase’** which will be a chance to pitch your proposal to our panel and then a short question and answer session. This will be on **20th June**
- This is not a formal procurement exercise. However, based on our conversations with the Local Authority Working Group, getting answers to the following questions was seen as important. These questions are also how we will structure our feedback to providers:
 - What is your product and how does it meet the challenge?
 - How well does it meet our design criteria? (Found in full in the Appendices of this document)
 - Does the product represent value for money and is the cost to users clear?
 - What else do you need to develop this product?
 - How have you demonstrated you are a good cultural fit?
 - How have you ensured your product delivers wider social value?
- Best of luck and for any questions, please contact tschneider@uk.ey.com



Appendices



A) Design criteria



Design principles – Accessibility / Affordability

Ref	Issue	Stakeholder	Design principle	Requirement	Category
1	We need to understand the risk profiles of individuals to price appropriately	Provider	Risk / calculation: We must have access to individuals details to understand the level of risk and thus premium paid. This will understand tenancy history, credit rating, income and coverage. Relevant organisations must obtain the consent of tenants prior to this	Must have	Accessibility
2	We want public organisations to jointly own some of the risk to make this more affordable	Provider	Underwriting: Must allow for a third party to invest / underwrite / subsidise individual or lump policies as part of risk gain / share	Could have	Accessibility

Ref	Issue	Stakeholder	Design principle	Requirement	Category
3	I feel uncomfortable with the level of risk now transferred to me by the local authority	Landlords / Tenants	Subsidy: The product must allow the flexibility for a third party (e.g. local authority, charity, family member, voluntary organisation) to underwrite / guarantee the risk of another individual	Must have	Affordability
4	I am concerned about affordability, I can barely cover my rent now.	Tenants	Affordability: Affordability should be taken into consideration when calculating premiums / cost of policy. This must allow for a third party to subsidise premiums / policy on behalf of an individual	Must have	Affordability
5	What if I stay in the PRS for 10 years – will I need to continue paying premiums for the full duration of my tenancy(ies)?	Tenant	Incentivisation: The product could detail a ‘cap out’ or loyal customer incentive for those that have no claims against a policy for a set period of time (e.g. no claims bonus, lowered premiums)	Could have	Affordability



Design principles – Commerciality / Compliance

Ref	Issue	Stakeholder	Design principle	Requirement	Category
6	How much will a policy cover me for?	Landlord	Coverage: The product should outline the amount covered for – this must be at least equal to or in excess of a normal deposit amount (e.g. 6 weeks rent currently).	Must have	Commerciality
7	My income is low and this needs to be affordable within my existing financial constraints	Tenants	Payment mechanism: The product should allow for varying payment options (e.g. monthly, quarterly by the policy holder or funded on behalf of the policy owner. This will need to outline the pricing terms of premiums and any mitigating factors that will reduce payments for individuals (e.g. compliance with tenancy training courses etc)	Must have	Commerciality
8	I want to be financially resilient eventually	Tenant / Local authority	Saving: The product should incentivise individuals to be financially resilient through a savings / payback component. This could be a bolt on or integrated into of the product. This must outline the financial regulation that this type of product would attract.	Nice to have	Commerciality

Ref	Issue	Stakeholder	Design principle	Requirement	Category
9	We cannot mandate the tenant purchasing this product	Landlords	Legislation: The product must be legally compliant (Data Protection, Homelessness Reduction Act, Landlord and Tenant Act 1984)	Must have	Compliance



Design principles – Customer Experience

Ref	Issue	Stakeholder	Design principle	Requirement	Category
10	What if my tenant defaults and I am no longer covered?	Landlords	Visibility: The product must allow a relevant third party visibility of premium payment and alert when default takes place. This may be through an easy to use electronic dashboard with automated alerts	Must have	Customer Experience
11	This means more responsibility on me and entering into a financial arrangement I don't understand.	Tenants	Tenant financial responsibility: Contractual and policy sign up parameters should clearly outline the responsibilities of the tenant. This must detail any helpful clauses to be integrated into tenancy agreements (in compliance with legislation) and align with any tenancy training / support provided by the local authority / supporting body.	Should have	Customer Experience
12	I cannot mandate that tenants take out insurance policies annually. How do I make sure I have coverage for the tenancy?	Landlords	Renewal alerts: There must be renewal and confirmation of renewal alerts to both the landlord and tenant a minimum of 9 weeks prior to the end of the policy.	Must have	Customer Experience
13	I understand that certain parties will have access to certain / personal information about me – I want to ensure my confidentiality is protected.	Landlords / Local Authority / Tenant	Confidentiality: The product should integrate processes that facilitate the sharing of information between parties both at sign up and during the policy in line with data protection principles. This will be for the purposes of affordability testing and ongoing visibility of coverage by impacted parties.	Must have	Customer Experience



Design principles – Customer Experience

Ref	Issue	Stakeholder	Design principle	Requirement	Category
14	I do not want to increase my administrative burden through this product. This will be in terms of a local authority issuing deposits or landlords making a claim at the end of a tenancy	Landlords / Local Authority	Administration: This must be easy, hassle free and not take more time nor be more onerous than existing processes which include: <ul style="list-style-type: none"> - Landlord claim and dispute processes - Issuing of deposits / policies as part of tenancy agreement 	Must have	Customer Experience
15	If I need to move properties what impact will this have if I have a pending claim under my previous tenancy and the opening of a new policy	Tenants / Landlords	Transition (property): The product should allow for opening of another policy whilst an existing policy / claim is live on a previous residence. This must facilitate a speedy move from property to property	Must have	Customer Experience
16	Adopt a 'step down' approach to building financial independence	Local authority	Passporting (individual): The product should allow for the transference of policies from one individual / body to another. This will be subject to guarantees provided by a third party. This could operate in tandem with support provided (e.g. local authority, charity) to ensure the financial sustainability of the individual as part of a 'step down' approach	Must have	Customer Experience



Design principles – Customer Experience / Sustainability

Ref	Issue	Stakeholder	Design principle	Requirement	Category
17	If additional support is provided for tenants will this help to reduce premiums?	Local authorities	Wrap around support: Policy terms should outline how housing related assessments and wrap around support offered (e.g. employment, tenancy support, budgeting support) may impact premiums (e.g. reduced premiums linked to compliance) or be integrated into policy terms as part of best practice.	Should have	Customer Experience

Ref	Issue	Stakeholder	Design principle	Requirement	Category
18	London Ventures as a programme has been designed to be financially self-sustaining whilst driving innovation to help solve the most pressing societal issues. It is critical that initiatives developed within the programme are structured in a way that supports the longer term sustainability of innovation and future initiatives.	All	Sustainability: Providers are invited to outline how they would 'payback' London Ventures for their role in developing this market opportunity.	Must have	Sustainability



Design principles – Risk Management / Social Value

Ref	Issue	Stakeholder	Design principle	Requirement	Category
19	Will I still be covered if the client defaults / policy ends and I am in the process of legal proceedings to evict?	Landlord	Default / term coverage: There must be clear timelines / a policy position on the length of coverage in place following default / end of policy. This should be for the full 'occupancy' timeline.	Must have	Risk Management
20	What if the tenant defaults on the payment of the premium – will I still be covered?	Landlord	Guarantor: The product should outline any requirement for a default guarantor to mitigate against risk transferring to landlords through non-payment of the premium by the tenant / early termination of the policy. This will need to outline the level of guarantee expected by both a third party (e.g. local authority) and insurer (e.g. provider taking on bad debt).	Must have	Risk Management

Ref	Issue	Stakeholder	Design principle	Requirement	Category
21	It is important that the product is developed in the wider context of creating a more sustainable and accessible rental market especially for those on low income	Local authorities / Tenants / Landlords	Social value: The provider of the product must outline how provision will demonstrate social value as part of corporate social responsibility as part of the national homelessness reduction agenda. This could include working with the charity sector or funding of CSR initiatives.	Should have	Social Value



B) Delivery model appraisal



What different delivery models are there?

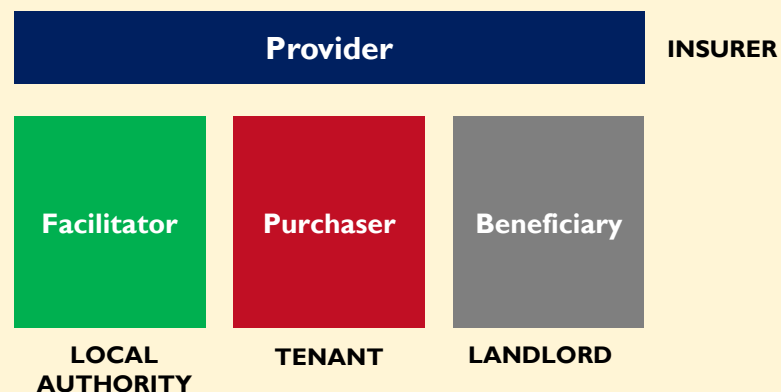
- There are several delivery options that providers could utilise. Further details on the four distinct models we have identified follow.
- However, we do remind providers that a central part of the challenge, and the most unique part of the potential product, is to allow local authorities to purchase premiums on behalf of tenants in the PRS
- We therefore advise providers that their product should be able to deliver via either model 2, 3 or both



Delivery models (1 of 4)

■ = Local Authority ■ = Landlord
■ = Tenant ■ = Insurer

Local authority as facilitator



Pros

- Cheaper than a deposit for tenants – a deposit is also dead capital
- Less administrative burden for local authorities as easier mechanism to exercise duty to prevent homelessness
- Behaviour change of tenants - more ownership on them to maintain property as linked to premium

Cons

- Risk of default
- Landlords not wanting to take insurance funded tenants as less attractive than those with deposits

Option Appraisal

- Option that best suits the open market and those that have sufficient credit rating and history to sustain a policy independently
- Local authorities may still want to sign post clients to this option once affordability tests have been undertaken as part of the housing assessment processes
- Must ensure that the product is not 'stigmatised' through association with a 'subsidised' product

Market Testing

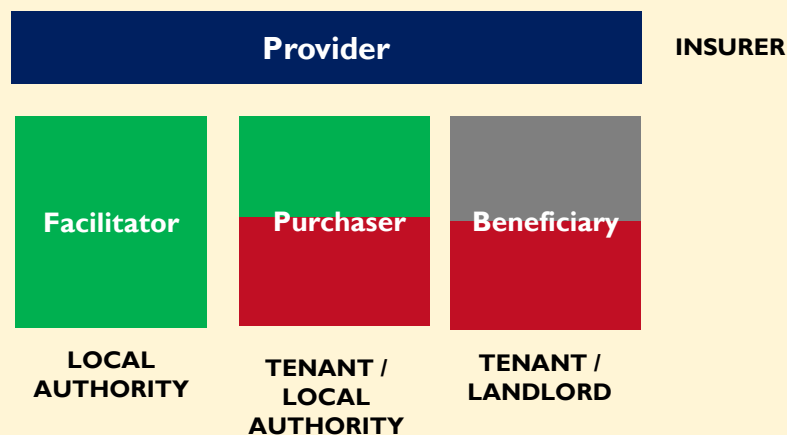
- *What is the criteria to judge who may be suitable for this type of product?*
- *What would be the impact on premiums (e.g. would these be higher than a subsidised product)?*
- *How linked would this need to be to a subsidised option and would there be a cross-subsidy across options?*
- *What would make this option more competitive when compared to existing offers /products in the market (e.g. USP)?*



Delivery models (2 of 4)

■ = Local Authority ■ = Landlord
■ = Tenant ■ = Insurer

Local authority as subsidiser



Pros

- More attractive for landlords due to local authority involvement
- More attractive for tenants as local authority involved
- Addresses the affordability issue
- Behaviour change of tenants - more ownership on them to maintain property as linked to premium

Cons

- Unquantifiable level of local authority guarantee and gearing.
- Individual subsidy is complicated and admin heavy
- Risk of discrimination / inequitable support offered to some groups and not others

Option Appraisal

- Preferred option for local authorities
- Subsidy / guarantee could include an excess coverage option
- Anticipate that a local authority subsidy would significantly reduce premiums
- The assessment of affordability needs to be linked to the housing assessment process – this will look different from authority to authority
- Providers / insurers should set a *minimum standard* that differentiates this product from the 'open access' option

Market Testing

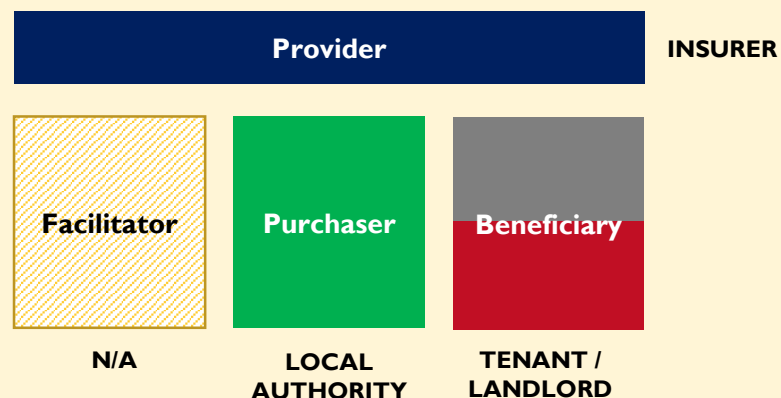
- *How would a third party subsidy impact the pricing of premiums, calculation of risk and delivery of the product / issuing of policies?*
- *How would the level of subsidy impact pricing – this should be shown as laddering / gradients / percentages.*



Delivery models (3 of 4)

■ = Local Authority ■ = Landlord
■ = Tenant ■ = Insurer

Local authority as buyer



Pros

- More attractive to landlords due to local authority involvement
- Easier than individual policies

Cons

- Challenges around procurement rules and timeline
- Risk of continual / unquantifiable volumes
- Continued administrative burden on the local authority (could be more expensive)
- May create dependency from tenants due to local authority ownership of the product

Option Appraisal

- This may be a good product for those authorities that have social lettings agencies and undertake works across a portfolio at the end of tenancies
- This would involve the authority taking out a policy and claiming back on this against any works carried out
- Alternative option for the wider PRS market would involve landlords claiming against the LAs policy – not a preferred option for local authorities
- Need to determine whether a subsidy would still be collected

Market Testing

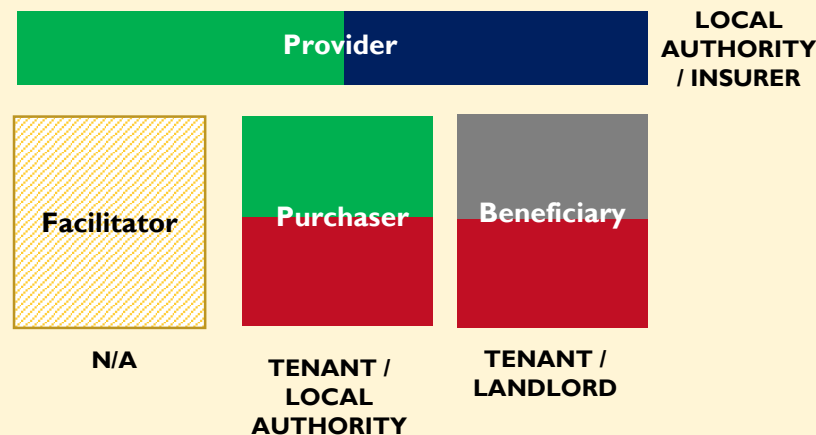
- *Would this be a viable option / product that the market is interested in providing from a PRS perspective?*
- *Would there need to be a minimum portfolio scale for the social lettings option?*
- *Would tenant contributions impact the premiums / pricing on the policy?*



Delivery models (4 of 4)

■ = Local Authority ■ = Landlord
■ = Tenant ■ = Insurer

Local authority enters joint venture



Pros

- Opportunity for risk / gain share for local authority
- More control over allocation and management of product
- Higher risk but possible higher reward

Cons

- Complex set up requirement – local authority may not have capacity / knowledge
- Upfront investment cost
- Complicated legal rules

Option Appraisal

- Least favoured option but worth testing thoughts with the market
- This could be a model that authorities may consider moving to following implementation of other options (evolution)
- There would be large start up capital sums required and detailed work to implement
- This option could help to cement the virtuous aims of investment
- Could be considered if purchasing takes place at a sub-regional level

Market Testing

- *Would this be of interest to the market?*
- *Could this be considered as part of a risk / gain share arrangement?*



C) User Profiles



Who are the people that may use the product?



Yvette and
Billy

Yvette has been living with her young son in rented accommodation for a year. Following a period of unemployment rent arrears started to mount up and the family presented at the local authority homeless.

The family have been housed in overnight accommodation. The family have been assessed as having priority housing needs.

Goals

- Stabilise their accommodation situation and be placed in more permanent accommodation (possibly PRS).
- Source employment to ensure longer term financial resilience./ independence.
- Immediate financial assistance to source accommodation from the local authority



Jason

Jason is a young, single male currently living in rented accommodation. He is a young male and on a low-waged job. His current landlord is looking to sell the property Jason is renting requiring him to search for alternative accommodation.

He is struggling to source appropriate accommodation in the private rented section and has insufficient funds to secure a deposit. Jason fears he will be made homeless and approaches the local authority for assistance. He has been assessed as non-priority housing needs.

Goals

- To secure appropriate accommodation, ideally close to his place of work
- To receive financial assistance to source alternative accommodation

It is important to recognise that local authorities interact with a large range of people. By definition, some of the vulnerable people they work with may have a lack of digital skills and a limited understanding of financial concepts, including insurance.

