



Dear Colleague,

CLIENT MONEY PROTECTION REVIEW

We are writing to you to inform you of how we plan to take forward work on Client Money Protection. We have established a working group with colleagues from the House of Lords to look at how Client Money protection is currently operating and whether to go further by making use of the powers taken through the Housing and Planning Act 2016 to make Client Money Protection (CMP) mandatory. This letter invites you to submit your views and evidence on whether and how this should be done.

Client Money Protection Schemes

CMP schemes protect the money of landlords and tenants in the event of a letting or property agent going into administration and against theft or misappropriation by the agent whilst it is in their custody or control. These monies are frequently tenants' deposits and landlords' rental payments but can also include monies held for repairs and maintenance to the property.

Industry estimates that letting agents currently hold approximately £2.7 billion in client funds but if a letting agent is not covered by client money protection, both the landlord and tenant could stand to lose their money.

Agents pay a membership fee (typically around £300-£500) to join a scheme and this forms part of a central pot of money that can then be used to pay successful claims by landlords and tenants.

Government encourages firms to join CMP schemes and landlords and tenants to choose agents with CMP via the [Safe Agent Kite Mark](#)¹ which denotes that the agent has CMP. Participation is currently voluntary and we estimate around 60% - 80% of agents already offer CMP.

The government's concern about making CMP mandatory is that requiring agents to pay to belong to a scheme would force honest agents to buy insurance against themselves being fraudulent. Something the vast majority of agents are not.

There are two main reasons why a landlord or tenant could lose their money which is held by a letting agent. The first is that the agent is fraudulent; the second is that the agent has gone bankrupt. While an agent will not always be aware that they are about to go under, client money held in registered client accounts agreed in advance with the bank will be protected and returned to the client rather than used to settle the agent's debts. This is standard business practice and not expensive so good agents can protect their client's money without having to join third party insurance arrangements, which could result in higher rents for tenants.

The voluntary system was reinforced by the Consumer Rights Act 2015 which required letting agents to transparently display prominently in their offices and on their websites:

- their fees;
- whether or not they are part of a CMP scheme; and
- which redress scheme they belong to

It was the government's view that with this the balance of regulation for letting agents was about right, and we need to allow time for the transparency measures to bed in. The Government are committed to review the broader transparency measures later this year.

Through the passage of the Housing and Planning Act 2016 it became clear that there was a broad range of support for taking action on CMP specifically. Therefore the Government took a power to make CMP mandatory, if a working group demonstrated it was, in fact necessary.

¹ <http://safeagents.co.uk/>

The Working Group

To look at the available evidence and make recommendations to ministers we are establishing a small group of experts from local government, the private rented sector and a technical expert, to work with DCLG officials and Baroness Hayter and Lord Palmer. We are minded to keep this group small in order not to fetter the views of those wishing to present evidence or create conflicts of interest for those who may be affected by making CMP mandatory or not.

What evidence do we need?

We would like to gather views through an open call for evidence over a 6 week period starting today and closing on 3 October 2016, enabling recommendations to be put to Ministers in the autumn. In particular we welcome any information you can provide on the following questions:

1. How many letting agents offer CMP schemes and what proportion of the market is this?
2. How many CMP schemes exist?
3. What services are typically offered by a CMP scheme?
4. How much does membership of CMP schemes cost?
5. What benefits do you receive as a member of a CMP scheme?
6. Have agents offering CMP seen an increase in business attributable to offering CMP?
7. Does an agent offering CMP affect your decision on whether to use that agent either as a landlord or a tenant?
8. Since transparency measures were introduced in April 2015, what increase or decrease has there been in the percentage of agents voluntarily offering CMP?
9. How many claims have been made on CMP schemes? And what proportion are successful?
10. What is the main reason given for a claim?
11. How many claims are a result of fraudulent activity?
12. What is the average level of a claim?
13. In addition to insurance based schemes, are there any other CMP models?
(please describe them, including pros and cons)
14. Should Government make CMP mandatory? (please give reasons)
15. What would be the impact on rents in the PRS?
16. Would tenants be prepared to pay an additional fee if agents offered CMP?
17. How should membership be enforced?

How to respond

Please email written responses to CMP@communities.gsi.gov.uk or complete the [online survey](#)² as soon as possible but by 3 October 2016 at the latest. The working group may want to discuss your evidence if needed, please indicate whether you would be happy to meet with the panel.

Yours Sincerely,

Gavin Barwell

Dianne Hayter

Monroe Palmer

Gavin Barwell MP
Minister for Housing and
Planning

Baroness Hayter of
Kentish Town

Lord Palmer of Childs Hill

² <https://www.surveymonkey.co.uk/r/clientmoneyprotection>