

**Green Home Finance Accelerator  
Discovery Phase Evidence  
Report – Project Siberian Tiger  
led by Ashman Bank**

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Version 0.3

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## **Disclaimer**

The views and opinions expressed in this report are those of the authors and do not necessarily reflect the official policy or position of the government. The information in this report is provided for informational purposes only and should not be construed as an independent review of the project.

## Executive Summary

Ashman was founded with the desire to 'be better' than the existing offering to landlords in the banking sector today. The desire is mirrored by a team of very passionate individuals all wanting to have input toward a greener future.

The Green Homes project team had the passion to innovate and then deliver a solution that will benefit so many. Ashman designed a product that can help the UK towards net zero by 2050, providing a seamless digital experience on a low-cost basis. Ashman is offering the end user (consumer) added value through delivery of ongoing data on changing carbon consumption over time.

Ashman's aspiration is that this product will pave the way for change in the provision of finance whilst facilitating the upgrade of housing stock and a reduction of carbon emissions.

## Aims and Objectives

The Project's initial objectives were to validate and build out the blueprint of a new product called Impact Buy to Let (IBTL). The blueprint includes the design of the technology to support the product and its delivery mechanism, and also the product wireframe.

The IBTL is a variant of a standard buy to let aimed at landlords whose properties have Energy Performance Certificate (EPC) D or E ratings. The IBTL offers the landlord a physical property survey from which a bespoke report is generated that guides the landlord on how or indeed if a property could be improved. The report will make a range of suitable recommendations to which each will have an aligned Standard Assessment Procedure (SAP) score improvement aligned to it. Each recommendation will also have an indicative cost aligned to aid in cashflow analysis for the landlord. The report will at its full extent outline the full pathway to decarbonisation. Through a customer portal the landlord would then advise Ashman of the improvement work they have undertaken and request and book a reassessment, this will include an update of the actual property EPC. A cashback payment will go to the customer upon improvement of the EPC rating.

Ashman further set out to validate that the product met both customer and market expectations and aligned to the proven gap in the buy to let marketplace.

Ashman selected a collaborative approach to the delivery, seeking to validate the underlying data models and customer journey across both parties.

Several product iterations did occur, these were pragmatic small changes (iterations) rather than major wholesale changes. These included the ability for Ashman to

facilitate the surveys being instructed via a single interface to enhance the customer journey, the ability for landlords to confirm work done via an Ashman portal, the ability to seamlessly take payments, election to initially build one customer journey and then evolve others and provide downloadable data, all of these became included in the scope as a result of reviewing the product as it evolved.

Total Project cost £299,274. Total Grant Award £179,565.

## Key Barriers and Challenges

Ashman wanted to deliver a product which would go further than just offer a discount or a rebate to finance. It needed to add value to the customer whilst being low cost and digital.

Ashman sought third party expert help in sourcing specific data that would be useful to the customer in assessing and addressing their carbon footprint. It was noted that there are currently two aggregated service providers for energy efficiency certificates in the UK. Ashman partnered with ThermaFY, a company based in Edinburgh, enabling a product to be formulated by using an expert in energy efficiency alongside Ashman as the lender. Without this partnership the resulting product would not have created the desired impact and support for landlords.

The IBTL specifically tailors' improvement options for the landlord and allows the landlord to qualify for financial incentives. The process will be self-serve, with clients able to opt for the IBTL through the Ashman portal. The client will be able to register their details for a ThermaFY inspection and ThermaFY will contact the client to book an inspection date. The report will be available for the client to download from the portal when complete and view their action plan.

The client can then complete any necessary works at their own pace and once done, upload copy invoices to their portal account which can be verified by ThermaFY, who will then arrange directly with the client to complete a follow up report. Once this is provided and ThermaFY confirm that the work has resulted in an increased EPC, Ashman will issue the cash back directly to the bank accounts of the client.

A key risk identified early was possible changes to the Government agenda. This risk materialised in September 2023 when the UK government announced plans to scrap the requirements to further mandate energy efficiency improvements for both owner-occupied and privately rented homes. Instead, the policy would support voluntary improvements, relying on incentives (mainly existing or new grant programmes) alongside the wider support the business community can offer to support future change and progress towards Net Zero by 2050.

Whilst the government's decision was initially disappointing, on reflection there was opportunity for the IBTL to become a mainstream product rather than fall under the

label of a green mortgage on the basis that the IBTL is an enabler of change. It supports budgeting, provides pathways to decarbonisation and eventually rewards those landlords that take the initiative to become more climate resilient and retrofit their properties. As the product was initially set up to cover a short transition window and have short term impact, findings indicate (albeit modelling is still to be completed on the government's announcement) this product will remain viable and should have a much longer shelf life than originally intended. Once these findings are available their data will be considered, and decisions made to ensure IBTL longevity.

Two key challenges identified were the data flow between the companies and ensuring that the product is understood by customers.

The data flow challenge has been addressed by the intention to build a secure integration between the Ashman and ThermaFY alignment of information security protocols – this will then cover all data moving real time between partners and ensure all data is secure. Expected data being exchanged will be kept to a minimum and include essential information such as client name and contact details as opposed to any sensitive account level banking information. Removing the need for any email communication further improves the data security position.

Through several means, including intermediary training and detailed customer guides and access to recourses, Ashman will clearly and concisely relay the benefit to landlords from embarking on a journey to decarbonise real estate assets.

## **Key Findings - from research and other activities**

As well as completing industry research throughout the Discovery Phase, Ashman utilised a market research company (Censuswide) to complete targeted market research. Censuswide collected data by way of questionnaire from 251 landlords. The research provided first hand feedback on landlord's current attitudes and intentions around energy efficiency, as well as feedback on Ashman's IBTL product offering.

Key findings from industry research and direct follow up have confirmed that customer advice is a welcome inclusion to the product. 26% of respondents said availability of information was directly influencing their approach to improving sustainability and 20% agreed that lack of incentives from lenders also influenced their approach. It has been additionally noted as a finding that time and cost are important considerations.

Research has proven that landlords are considering the necessary improvements, but the majority have yet to put a plan in place. This product is intended to help bridge that gap and make it easier for landlords to undertake retrofitting. External research has highlighted that the average landlord is only willing to spend up to £3,000 to upgrade

their properties, even though the expected cost is between £8,807 and £27,336 depending on their current EPC rating.

To maximise the impact of the IBTL product, Ashman will ensure that the time and cost input from a landlord's perspective is kept to an absolute minimum. The IBTL will put in place a smooth customer processes that allows for a swift handoff to ThermaFY and result in a detailed action plan provided directly to the landlord.

Customer costs will be reduced as Ashman will be refunding the cost of the inspection back to the landlord once improvement works are completed. The report costs £125 for the initial inspection and £60 for a revised inspection - both of which will be refunded. The time saved by the landlord due to being able to access all data in one place, and the efficiency that the quick digital experience offers, further improves product appeal for the user. Providing the landlord with a downloadable and detailed guidance document results in a vast time savings, as the landlord will not have to undertake research from various sources and investigate what is needed to increase their EPC ratings.

## Key Process Learnings

Process learnings from the Discovery Phase have been limited to the time and resourcing required to undertake the project, whilst building the wider Ashman product set. If Ashman had been lending in the market it would have been unable to consider further work without significant time and cost investment.

## Detailed Report

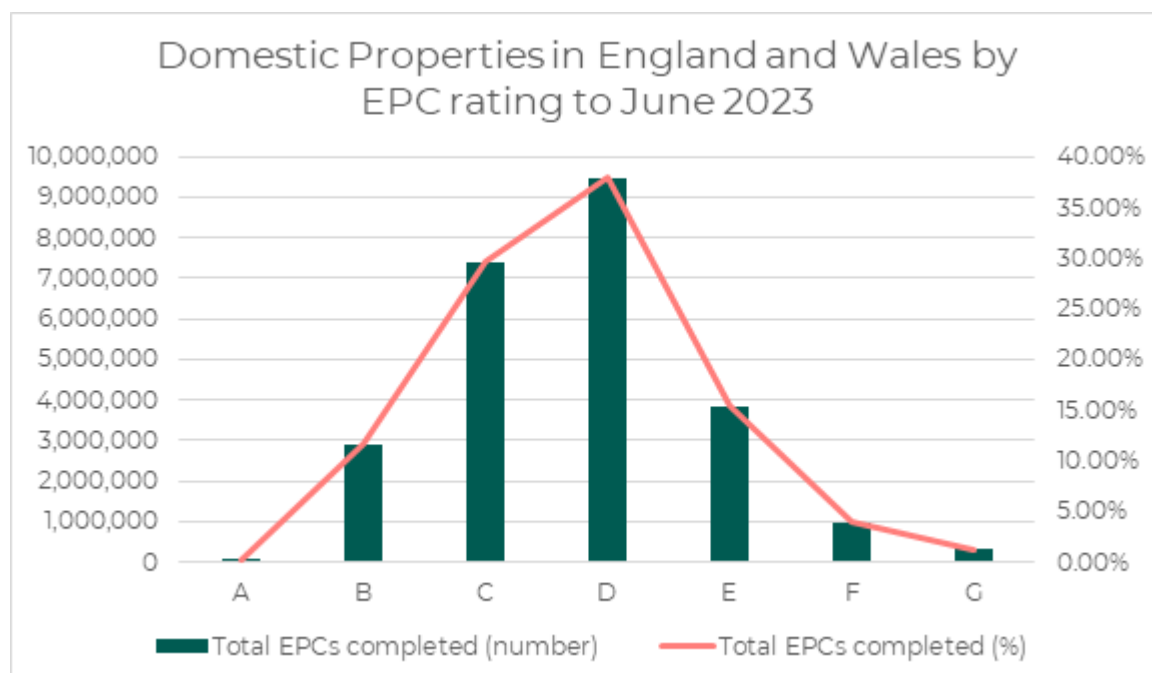
### 1 Reflections on key outcomes achieved

#### 1.1 Product Introduction

Ashman's vision is to build a bank with sustainability and technology at its core, recognising the global climate crisis is of a magnitude so big that everyone needs to play a part in the goal of Net Zero by 2050.

Most homes in the UK are heated by fossil fuel intensive gas heating systems.<sup>(1)</sup> Therefore, when considering the path to decarbonisation, the UK needs to make major changes to encourage homeowners and landlords to make much needed change by offering support and education. Furthermore, many homes are poorly insulated or incompatible with the technologies which will likely provide heating systems in the future e.g., heat pumps and hydrogen fuelled boilers.

Using Minimum Energy Efficiency Standards (MEES) and utilising Energy Performance Certificates (EPC) as the standard of energy efficiency in residential dwellings, only around 42% of housing meets the minimum future standard required of C or higher.<sup>(2)</sup> This figure though is being skewed due to the prevalence in build of multifamily units over the last 10 to 15 years.





There are an estimated 2.74 million landlords in the UK, with 8.5 billion of buy to let properties purchased by UK landlords in Q1 2022.<sup>(3)</sup> Insight work conducted by Ashman in 2022 generated a stark response in that 64% of landlords surveyed wanted to become more sustainable but did not know how.<sup>(4)</sup>

Ashman have designed and developed a new variant of buy to let to be known as impact buy to let (IBTL). The product will offer knowledge and funding for retrofitting residential assets to evidence improved energy efficiency as well as outlining a possible pathway to full decarbonisation of the asset, utilising thermal scanning, an onsite property review and formal feedback provided to the landlord. Standard assessment procedure (SAP) score linked guidance is issued for retrofitting options. The landlord can decide what works they wish to complete, in what order and to a budget that is affordable. The landlord can use the information to budget for future change. The product includes funding, cashback and preferential pricing subject to confirmation of reduced carbon emissions.

## **1.2 Incentivising and addressing consumer barriers to home decarbonisation**

Domestic property is responsible for 40% of UK energy consumption and as such has become a prime focus for reduction of energy use by 27% by 2025 and 50% by 2030, whilst there is law, such as no more natural gas boilers to be sold after 2035, these are isolated actions that will not, in isolation, create impact and may be subject to further government changes.<sup>(5)</sup>

Ashman's target market for IBTL is professional and portfolio landlords. The aim is to enable landlords, via education and incentivisation, to carry out the required improvements to their BTL assets, to increase the EPC rating and therefore reduce carbon emissions.

Ashman will deliver an innovative low-cost digital solution that focuses on decarbonisation of residential assets as part of a wider UK PLC initiative to decarbonise the real estate market.

The aim of this product is to permit retrofitting of properties and reward not only energy efficiency but decarbonisation of residential investment assets.

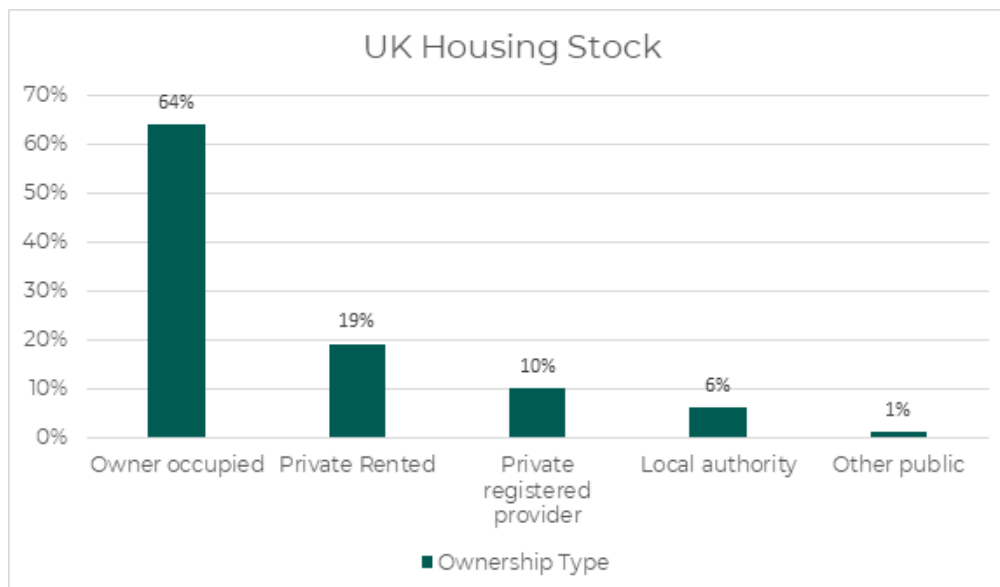
## 2 General scoping research and other activities

### 2.1 Initial Research Methodology

Ashman is a specialist lender across its product range in commercial real estate. Research started by identifying exact target customers and market sectors, then identifying customer needs to establish the solution. Ashman wanted to understand what landlords currently knew with reference to regulation, EPC requirements, attitudes to change and the cost of change, other barriers to preventing completion of the work to improve EPC ratings.

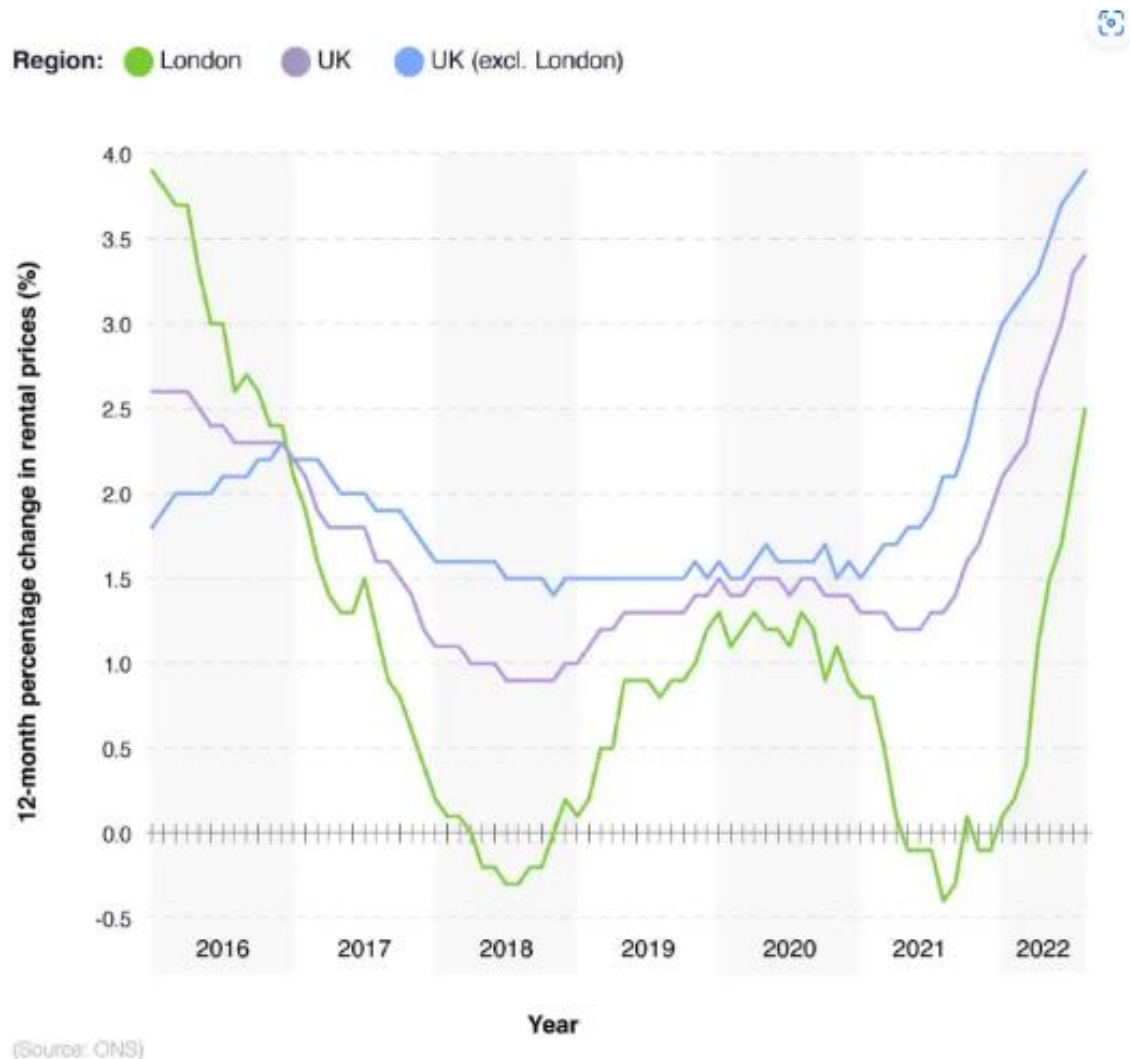
Some of the commercial analysis outlined below helped in establishing the suitability of the IBTL product. The UK has an estimated 26.4 million residential dwellings housing a population of some 67.3 million people. As a specialist landlord provider Ashman's addressable market is therefore based on the private rented sector (PRS) of the housing market understood to be c.5 million homes.

The breakdown of housing occupancy is as follows<sup>(6)</sup>:



With home ownership increasingly unattainable for large sections of the UK population, the demand for rental properties has understandably risen. In 2000, 10% of homes in England and Wales were privately rented, by 2017, this had nearly doubled.

A breakdown of the 12-month percentage change in UK rental prices between 2016 and 2022<sup>(3)</sup>



Previous energy efficiency proposals in England and Wales were that all privately rented domestic properties would need an EPC rating of C or above by 2028. This has recently been scrapped with no mandated requirement for EPC improvement required by either homeowners or landlords alike.

The Scottish Government proposes to introduce regulations requiring all PRS properties to reach a minimum standard equivalent to EPC rating C on a change of tenancy from 2025, with a backstop date of 2028 for all remaining properties in the PRS to reach the EPC standard of C.

58.4% of all dwellings in England and Wales are currently rated D or below, representing some 14.5 million properties<sup>(2)</sup>. Making pragmatic assumptions Ashman infer that c.2.75 million PRS assets are rated D or below in England and Wales with 50% of rental stock; Scotland reflecting a similar rating. Ashman identified the market

size and then used direct customer research to finely tune the product to market needs, having already established the market size.

## **2.2 IBTL and competition for the product**

Whilst there are a few lender incentive schemes that incentivise rate versus EPC rating, there is no current market solution that combines specific improvement options, aligns these measures to cash flow and provides details of resultant EPC improvements. This will then be integrated into Ashman systems allowing low-cost origination as an incentive to customers to retrofit and decarbonise.

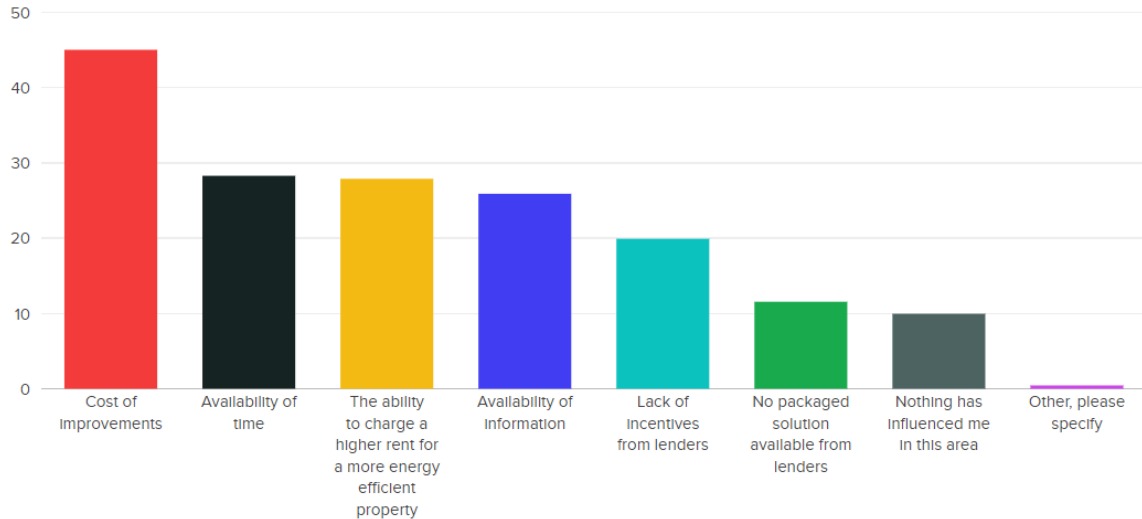
This innovative approach would be an initial market disruptor, but it is assumed that other lenders will be able to copy and widen the solution over time.

Ashman also discovered that the competitors' offerings are more geared towards homeowners rather than investors and landlords, but the research has shown that landlords equally need help and support to assist them with understanding the requirements and implementing the work required.

## **2.3 Findings**

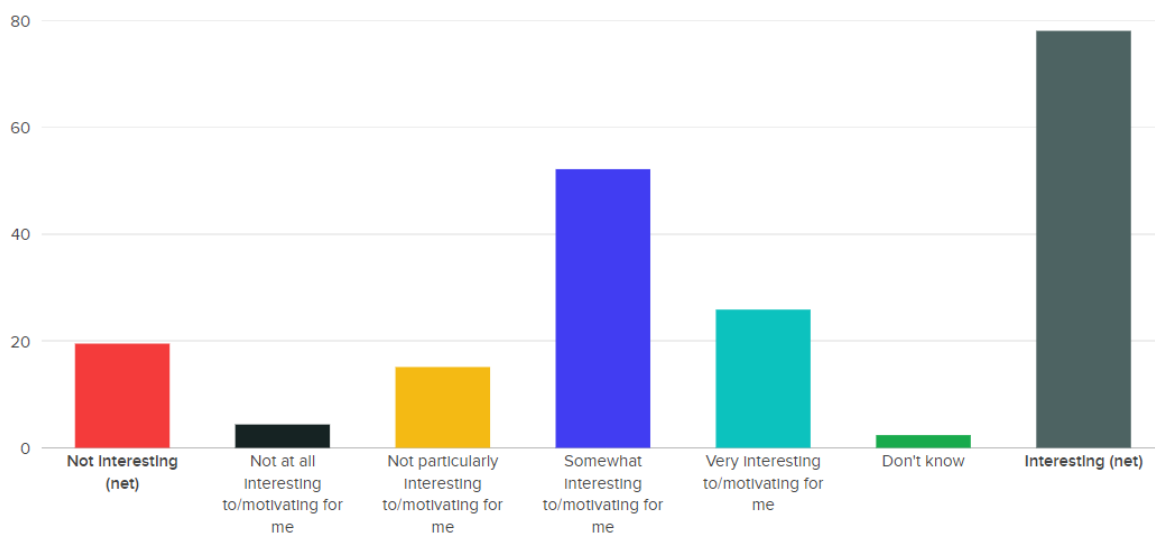
Ashman carried out quantitative research, with a selection of 251 landlords. The analysis determined that of this section of landlords, 45% have confirmed the cost of retrofit to be the major hurdle to overcome, with the time to do the retrofit second at 28%. The availability of time relates to both the time involved for the landlord having to research and investigate as well as having to actually have work completed at the property, with some work potentially only being able to be completed in between tenancies.

Q4. What, if anything, has influenced your approach to improving the sustainability of your property(ies) so far? (Select all that apply )



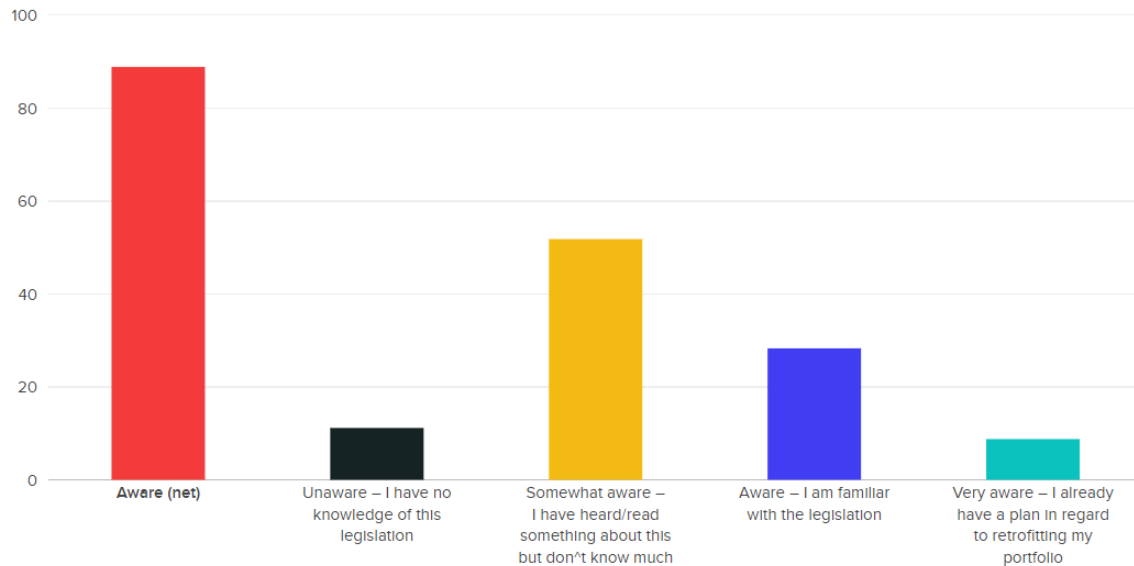
When questioned as to the Ashman proposition, 80% were interested in the concept with a third expressing a positive outlook once given the detail of the personalised energy report.

Q5. To what extent, if at all, do you find this proposition interesting / motivating?



However, only 10% of landlords suggested that they already had a plan in place to retrofit their portfolios, although 35% confirmed that nearly half of their portfolios already conformed to the proposed ratings.

Q2. To what extent, if at all, are you aware of upcoming legislation requiring rental properties to be EPC rated C or above?



Whilst we did not specifically ask what would act as a trigger point to starting retrofits, wider market research suggests this will be as and when properties come to the end of their current fixed rate. And with a change in behaviour towards shorter fixed rates because of the current high interest rates, this will likely lead to an uplift in demand in the next 24 months.<sup>(7)</sup>

## 2.4 Key Lessons Learnt

Whilst the addressable private rented sector market maybe as many as 5 million homes, the data on these homes is limited and therefore only broad scoping can be obtained. Of the research undertaken by Ashman, 35% of landlords confirm their portfolios already have an EPC rating of C or higher. This still leaves 3.25 million homes that would potentially require retrofitting to some degree to support the desire to decarbonise real estate and the ultimate target of Net Zero by 2050.

Ashman expected to see more barriers from landlords including greater lack of awareness and demand, reluctance to make the changes required, unwillingness to seek out and research what green products are available on the market and landlords delaying making any required changes until the deadline was fast approaching. There were also potential concerns around landlords' attitudes to green mortgages, with expectations that landlords would view them as expensive or harder to access, rather than being a helpful solution that could help landlords on their journey to decarbonisation.

As discussed above, cost and time were cited as the main barriers to undertaking the work. Additionally, and as mentioned previously, high current interest rates are precluding landlords from wanting to fix rates for longer terms. It is likely that the subset may not have been wide enough to enable all issues to be flagged by landlords and considering the more recent announcement on EPC change further research will be carried out.

## 2.5 Challenges relating to the cost of living and energy price crisis

Despite the unprecedented economic impact triggered by both COVID-19 and the subsequent cost of living crisis, the European commercial real estate market remains well positioned for longer term growth, even accounting for a current annual 4.6% drop in UK residential real estate values<sup>(8)</sup>.

The UK forecast allows a similar trend as the aggregate, so it is expected real estate investment will carry on at current levels until the economy starts to see more sustained growth and perhaps interest rates falling, from which point investment is forecast to start increasing again.

Appetite for assets remains strong, partly driven by the shortage in housing supply in addition to a growing population. In times of rising interest rates, it is typical for demand for rental properties to be maintained or indeed grow, this demand remains stable at around 19% of all residential dwellings.

Ashman looked at the likely impact on rent as a direct result of rising interest rates and therefore reduced landlord profitability, based on the following it is likely rent will continue to rise in the short term with the knock effect of further impacting consumers.

As of June 2023, the average yearly return on a buy to let property was £2,995, down from £7,312 in June 2022<sup>(9)</sup>. This refers to the amount remaining once interest payments have been deducted from rental income. This decrease is due to rising mortgage rates in recent months. When buy to let mortgage rates increase anyone looking to take out a new loan will have much higher monthly interest payments. This puts pressure on rental prices, which are already rising. Ashman compared how buy to let returns have changed over time in line with changing house prices, mortgage rates and rent prices.

In June 2023, landlords would have paid an average £979 monthly in buy to let mortgage interest. An average monthly rental income of £1,229 leaves the landlord with returns of £250 per calendar month (PCM) or £2,995 per annum (PA). This is a substantial decrease in returns from June 2022, when interest paid on the average buy to let was £504 per month and the average rental income was £1,113 giving returns of £609 PCM or £7,312 PA. These figures do not account for regional differences.

These estimates show the owner of the average buy to let property could earn £4,317 less a 2-year loan if it were fixed in June 2023 compared to June 2022. This is why there are concerns about landlords selling their buy to let properties and leaving the rental market.

## **2.6 How Ashman accounted for the challenges in terms of choice and design of product**

Ashman, on the back of the barriers identified, knew that any solution had to be low cost, have impact for both SMEs and consumers, and be delivered as easily and simply as possible. The cheapest ultimate way to deliver was to digitise as much of the proposition as possible to ensure the unit cost was low, thereby enabling cheaper funding and higher than average cash back to reward for work done.

Ashman also knew that the education element of IBTL would be crucial to uptake by ensuring the benefits to the consumer were fully understood. The options provided further ensure the landlord can maximise return on capital when considering the cost and impact of works carried out.

Ashman are anticipating<sup>1</sup> that landlords will look to utilise various initiatives that are available to support both homeowners and landlords with improvements to help increase their EPC rating these include:

- The Boiler Upgrade Scheme.
- Tax Relief on Energy Saving Materials.
- A Green Deal Loan.
- Energy Company Obligation Grant.
- Home Upgrade Grant.
- Great British Insulation Scheme.

## **2.7 Learnings from the discovery that caused consideration in regard to target market**

All initial lending will be intermediated through a select broker panel. The broker panel was selected by Ashman based on existing relationships held between brokers and Ashman's Chief Commercial Officer and Lending Team members. All of Ashman's brokers have worked with members of the Ashman team for many years and they operate in markets aligned to the Ashman product offering. Ashman carried out research sessions with members of our panel to explore their understanding and awareness of current green offerings on the market. The sessions demonstrated that

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<sup>1</sup> This point was not tested in initial research however these initiatives are currently the only known enablers available to landlords.



brokers are becoming more aware and indeed interested in green products and that they are keen to see more lenders offering green products, as it will enable them to provide more options to their client base when sourcing finance. Ashman will also be completing training sessions with the full broker panel on the launch of IBTL to ensure full understanding of the product and build excitement around the launch.

During the Discovery Phase Ashman concluded that the direct to customer route to origination of loans should be considered to allow greater traction for the IBTL. Further review and impact assessment is required although there are no immediate plans to make such a strategic change.

## 2.8 Why only target landlords

Ashman will be a specialist lender in the Professional and Portfolio landlord markets. The product will also only be suitable to clients whose property is EPC D or E at the time of application and will assist landlords on their journey to decarbonise their BTL assets.

The product excludes properties with an EPC rating of F or G, on the basis that to rent or sell a property it should have an EPC with a minimum of E or be exempt. As such, any property that currently sits at F or G requires improvement to be a habitable rental property and the landlord should be improving this immediately. Ashman would not consider funding this asset as a buy to let until work is completed. Ashman may consider a short-term funding solution before the asset is suitable for term debt.

Ashman will fund assets that have EPC A, B or C and will model how the journey to include the ability to benefit from the property survey and understanding the pathway to decarbonisation can be widened to this cohort of customers. Although Ashman can offer a discount for existing EPC ratings A-C, there is still also the opportunity to help and support those with B and C ratings to increase accordingly. Ashman would therefore not want to exclude these clients from being able to utilise the benefits of the ThermaFY reports.

The product construct will allow it to be diversified to other customers market segments, for example, regulated owner occupier mortgages or consumer BTL market, or other types of unregulated lending. Any change may require a review of regulatory permissions if regulated lending were to be considered, and further product mapping would be required to ensure the quality of the customer and lending journey was retained.

### **3 Relationship and Partner Building**

#### **3.1 How knowledge was gained to develop the product in regard to energy efficiency and supply chain value**

Ashman has developed the IBTL following extensive research of the market and an analysis for the current and future needs of the BTL landlords. In addition, Ashman's Chief Commercial Officer has obtained a Certificate in Sustainability Management from the Cambridge Institute of Sustainable Leadership.

Additional commercial knowledge has been gained through direct research into the green lending space and some of the Green Home Finance Accelerator team have actively been involved in industry working groups which have assisted in broadening horizons.

Ongoing resources such as Green Building Council and UK Finance have been invaluable, as has the relationship held with ThermaFY, who have worked closely with Ashman to assist in making such a disruptive product.

#### **3.2 Details of relationship with ThermaFY and how together Ashman will support future finance and retrofit delivery**

Ashman have worked closely with ThermaFY to develop a product that enables a fully evidenced retrofit delivery for both Ashman and the customer. The product offering will require customers to evidence that the current EPC rating of the property is D or E. Ashman will then instruct ThermaFY to complete a full survey on the property.

A report is then provided to the customer that will provide guidance and ways to improve energy efficiency. The ThermaFY report will also provide clients with a list of professionals that can complete the necessary work, or they can indeed find and select their own tradesperson. The customer will then be able to complete the necessary improvements and provide evidence that the work has been completed, by way of invoices.

When the customer is satisfied that the improvements have made alongside the guidance previously offered, and the EPC will be improved, they request a further property assessment. ThermaFY assessors carry the right qualifications to issue EPCs and will confirm works have been completed and upload the new improved EPC.

If the works completed result in an improved EPC rating, and increases to between A-C, the client will then be eligible for cashback at an amount directly linked to the value of their outstanding loan amount.

The product is unique in that it is a one stop, self-service, fully digital offering that combines both a financial incentive for improving energy efficiency as well as actually being able to evidence the improvement made to the property. This helps landlords who are currently unsure as to where to go for advice and support in making the required improvements to their property.

The IBTL will be a full digital offering, using a portal which will be built to enable the client to fully self-serve. Keeping the offering fully digital will ensure speed, accuracy and sustainability.

### 3.3 Potential knowledge gaps identified during Discovery Phase

As noted in section 2.8 Ashman will be a specialised lender in the professional portfolio landlord markets. The product will be sold to clients with an EPC rated D or E at the time of application and will assist landlords on their journey to decarbonise their BTL assets.

Whilst there are no current plans to expand the scope of the product to other customer segments, such as regulated mortgage customers for example, should Ashman decide to do this at a later stage the design of the product is easily transferable to other types of unregulated lending as it is property related and not linked to customer type. However, alongside additional regulatory approval, further knowledge and expertise would be required by Ashman should it decide to expand the product into the consumer regulated lending space.

## 4 Finance Product Research

### 4.1 Key activities undertaken in the design and development of the Green Homes Finance product

Key activities fell into four categories:

- 1) **Product viability** - overarching assessment to include financial viability, long time sustainability, acceptability of product and metrics within Ashman business strategy and risk tolerance.
- 2) **Technology** - full assessment of viability of, once the strategic objective was set, how the customer and lending journey must be delivered.
- 3) **Market validation and acceptance** - including customer research for both the lending product and the assessment of criteria.
- 4) **Risk assessment** - assessment of all the risks for both the Project and beyond into launch. Risk areas considered were commercial, operational, legal and

compliance and climate. Complete mapping was undertaken to establish that the product was set within Ashman's risk appetite.

## 4.2 Finance product lessons learnt

The approach has been to develop a pricing model which allows us to monitor and assess the returns on the IBTL and ensure the offering also supports Ashman's main financial model and budgeting requirements.

To allow for this, Ashman has used a series of inputs which have been flexed to allow for the assessment of where limits of either product viability or areas of further development lie.

The findings from the Discovery Phase have sustained the assumption that there is a validated commercial and profitable opportunity for this product. The product design and market testing showed us that the product was needed in the market and would be welcomed by landlords. We used financial modelling to demonstrate that there was sustainable commercial viability for the product. A key takeaway from both elements of research (market and financial) was that simplicity in cashback was easier for the landlord to visualise albeit more complex from a lender perspective.

## 4.3 Research that influenced the Green Homes Finance product

Ashman undertook its own customer research related to this specific product and the attitudes toward sustainability as a whole. Ashman also considered some publicly available research that had been carried out in the wider financial services sector.

**Encouragingly, surveys showed that SME business leaders have said that sustainability has become more important to their business in the wake of the coronavirus pandemic:**



Research demonstrates business owners understand the increasing importance of sustainable business practices and highlights the support they need: <sup>(10)</sup>



Sources: CitySprint's annual survey of over 1000 SME business owners / PwC Make it your business Engaging with the Sustainable Development Goals 2016

## 4.4 Key regulatory considerations

Ashman can confirm that the Financial Conduct Authority (FCA) have been informed of Ashman's wider Environmental, Social and Governance (ESG) intentions within its business plan and engagement with green homes and third parties.

Key legal and regulatory considerations have included:

- Law of Property Act 1925
- Landlord and Tenant Act 1954
- Land Registration Act 2002
- Housing Act 2004
- National Planning Policy Framework 2012
- Minimum Energy Efficiency Regulations 2015
- Construction Design and Management Regulation 2015
- Assured Short Hold and Agricultural Regulations 2015
- Infrastructure Act 2015
- The FCA's Treating Customers Fairly

Whilst all the above were considered, key areas of focus were the FCA's Treating Customers Fairly principles and ensuring that product could stand up to all areas of the requirement.

We are confident that the product has been built in a manner to enable straightforward incorporation of any updates relating to new policy or regulatory requirements.

## 5 Advice/Information Research

### 5.1 The approach taken to the provision of retrofit advice enabling customers to make informed and appropriate product choices

Ashman's partner ThermaFY offers home efficiency surveys to help homeowners understand where and how they can make energy improvements and save money.

As described earlier, the product offering will require customers to provide a copy of their current EPC with a rating of D or E. Ashman will then instruct ThermaFY to complete a full survey of the property. ThermaFY, who have a UK network of EPC assessors, will carry out a building efficiency survey on the property and produce a detailed report. This report will consider, for example, options from the replacement of radiators after looking at their level of efficiency, analysis of boiler life through assessment of the water system and level of corrosion, available roof space for photovoltaics, and relevance of ground source heat pumps.

The bespoke report detailing each enhancement can then be aligned to the level of SAP score improvement i.e., which are the most beneficial improvements areas within the customers budget, allowing the creation of a future wish list and budget accordingly for future upgrades.

Once the report has been completed it can be downloaded from a mobile or web application by the customer and used to demonstrate a more carbon friendly property and increased social value.

ThermaFY are also aligned to a network of EPC assessors who will confirm that the works have been carried out and that the expected efficiency improvement has been achieved meaning that the increased EPC meets the IBTL loan criteria.

Initially the digital interaction will allow access to third-party websites to make purchases, these are not linked to the product and are not recommended as suppliers; landlords will be advised to do their own research and use a site such as Trustmark to find a local contractor or supplier.

This offering combines both a financial incentive for improving energy efficiency as well as a third-party provider who can complete the assessment and offer detailed action plans to the client. This will support landlords who are currently unsure as to where to go for advice and support for making the desired improvements to their property. The IBTL will be a fully digital offering, using a portal which will be built to enable the client to fully self-serve. Keeping the offering fully digital will ensure speed, accuracy, sustainability and reduce the product carbon associated emissions.

## **5.2 Why was this approach selected**

A wider approach to sustainability was considered. However, as the market is still evolving, it was felt that the initial steps of designing a product linked to EPC ratings with a bespoke report and guidance to the landlord, was a market disrupting approach. This is appropriate for the first steps of a new lender where consideration could be made to widen the footprint following delivery of this product.

One of the considerations was to devise a product that could analyse, using artificial intelligence, the wider Environmental, Social and Governance factors that would lead to a fully sustainable offering. Our research indicated this was too purist an initial approach, particularly when landlords had other issues like cost of living, high interest rates, etc. It was decided that this was simply too much of a stretch and that starting with energy efficiency and the path to decarbonisation was a simpler starting point that would generate impact.

## **5.3 What research highlighted about customer preferences relating to advice and information**

Some 2.9 million properties in England and Wales and 1.42 million properties in Scotland are affected by the need to address EPC upgrades. Costs for upgrading range from £8,807 (EPC D) per property to £27,366 (EPC G), according to new analysis from Savills. The bulk of the problem remains with older housing stock as more than two-thirds (71%) of homes built before 1950 were given an EPC below C in 2021 to 2022, while just 12% of property-built post 1995 need improvements.

The proposals may also influence investment in the buy to let property. Data from Rightmove suggests that there has been a 16% increase in the number of rental properties entering the market with an EPC rating between A-C, however, rental properties with ratings D-G have seen a fall of 11%.<sup>(11)</sup>

Insight work conducted by Ashman in 2022 generated a stark response in that 64% of landlords surveyed wanted to become more sustainable but did not know how.



65% believe investing in more sustainable developments now will pay off financially in the future.

80% have already implemented or will implement more energy efficient retrofits builds in 2023 (80% = solar panels, 78% = greener suppliers, 77% = heat pumps, 78% = smart meters, 79% = connected tech/IoT, 78% = renewable energy source other than solar).

Only 27% said that they are satisfied with the green credential of their existing properties, and an additional 49% said whilst their properties quality as green, they would like them to be greener<sup>(4)</sup>.

This research led Ashman to design a product that will offer knowledge and funding for retrofitting residential assets to evidence both improved energy efficiency and outline a possible pathway to full decarbonisation of the asset.

Thermal scanning of an onsite property review occurs, on which feedback is provided to the landlord. Any guidance offered to the landlord is linked to potential equivalent SAP score improvement and estimated costings.

The Ashman product is designed so the report generated signposts the best way to enhance the property rating to the customer to give maximum return on investment. The report also allows the customer to make an informed decision on where to source appropriate suppliers.

## **5.4 Why Ashman went with a bespoke tool rather than signposting to GOV.UK energy advice tool**

Ashman's research has shown that landlords require a bespoke assessment of their property to determine what is needed to meet the retrofitting requirements.

This can only be done with the development of a bespoke tool and advice, however there is no reason why a landlord could not choose to use the GOV.UK tool. However, Ashman have found that landlords want and need the actual personalised support and guidance knowing that a property visit has taken place.

28% of respondents to Ashman's research confirmed the availability of information had influenced their decision making in improving their properties, while 10% cited a lack of packaged response from lenders as also influencing their decision.



## **5.5 Retrofit Advice Provision**

As outlined in the introduction to section 5.1, Ashman's partner ThermaFY offer home efficiency surveys to help homeowners understand where and how they can make energy improvements and save money.

Ashman's product offering will require customers to evidence that the current EPC has a rating of D or E, then ThermaFY are instructed to complete a full survey on their property. ThermaFY, via their network of UK EPC assessors, will carry out a building efficiency survey on the property producing a detailed report looking at for example; replacement radiators and the level of operating efficiency they provide, analysis of boiler life through analysis of water in the system that details the level of corrosion, available roof space for photovoltaics and outside space and relevance of ground source heat pumps.

The bespoke report detailing each enhancement can then be aligned to the level of SAP score improvement, which are the most beneficial improvement areas within existing customer budget and create a future wish list and budget accordingly for future upgrades.

Once the report has been completed it can be downloaded from a mobile or web application by the customer and used to demonstrate a more carbon friendly property and increased social value.

## **6 Verification Methodology Research**

### **6.1 The approach to verification and quality assurance of data provided to landlords**

Ashman's partner ThermaFY has a team of professionally qualified domestic assessors that are permitted to assess an issued Energy Performance Certificate - they will confirm that works have been carried out in accordance with the expected rise in EPC level that was initially highlighted in the report.

As the certificate is produced by an authorised domestic energy assessor, the new EPC is submitted to GOV.UK as a matter of public record.

Independent verification of the methodology has established that recommended works suggested to complete, do in fact correlate to SAP criteria.

## **6.2 How did information design evolve as part of research, how was the approach proportionate and suited to the technologies installed**

The information design evolved in conjunction with research completed by ThermaFY on the relevance to users of the data and with Ashman's requirement to enable decarbonisation with affordability and education. The product was designed so that it is financially viable from a business perspective and meets the needs and expectation of the user. The product is property specific e.g. not all homes can have a heat pump, not all homes can be fully decarbonised, some landlords may need to only spend under £200 to get an improved EPC whereas others may choose or need to spend a lot more.

Ashman aspired to deliver a simple solution where all the information is available in one place and easily accessed, which has been achieved and demonstrated in the product technology blueprint.

## **6.3 Research guided Ashman to need to include verification into the customer journey**

To qualify for the product incentive the customer will need to provide evidence they have conformed with the works outlined and achieved an EPC rating of C or better. The customer journey needed to specifically address how this was to be achieved and provide the mechanism of booking a survey by an assessor and obtaining the output data, in one place. All of this would result in easy navigation for the landlords.

Additionally, Ashman had to produce a solution that meant both Ashman and ThermaFY could retain all necessary data to support monitoring and also ensure the product was evolved correctly over time based on the actual data collected. Real time data verification also means that the cashbacks are made to customers quickly.

## **6.4 Approach taken to fraud/mischief by landlords or others in the supply chain**

Ashman, as a lender, already adheres to robust criteria and data protection and has controls in place to mitigate against fraud as per the risk framework, policies and procedures. Additionally, Ashman has documented processes to ensure the integrity in processing of data to and from third parties, where these processes will be followed and evidenced.

Given the qualification for this product is the EPC rating which is undertaken by an independent qualified assessor, further steps or controls would be considered as an audit of the undertaken reports to determine the authenticity of the reports.

## **7 Marketing Related Research**

### **7.1 Discovery Phase research findings related to customer marketing preferences**

Customers require clear information on any product they are considering and to ensure this is both relevant and adequate, guidance and training will be provided to our designated panel of intermediaries. The training will enable intermediaries to guide customers on loan options and provide all the relevant information on which decisions are then ultimately made. A bespoke product guide has also been developed specifically for the IBTL, other guides will be available as needed e.g., a guide on claiming the cashback.

### **7.2 How the marketing strategy evolved over the course of the project**

As the customer journey evolved during the Discovery phase, so did the intermediary marketing strategy and the realisation of the number and type of channels required for marketing and PR.

A multi-channel approach will be adopted but ultimately the make-up and extent will be linked to final financial forecasts and loan numbers.

During discreet pilot phases Ashman will launch awareness via a dedicated hub and microsite on Ashman's website. This will have a focus on building awareness. Then as Ashman approach full launch the layers will gradually build and culminate with external PR support with content to support a 'test and learn' strategy across paid channels. Due to the fact this type of product is new to the market, Ashman will then create some video content to bring the reasons to believe to life.

## **8 Future plans for Green Homes Finance**

### **8.1 How lessons learnt during the Discovery Phase will be used in the further development/refinement of this or future green finance products**

While Ashman is a new entrant to the financial services market, the team are well established with most (and certainly all senior hires) hired from the financial services industry. The team are therefore very familiar with the product review process with an annual review cycle scheduled for all live products - reviews happen not less than annually, but would be triggered immediately in the case of data pointing to the product not performing as intended.

For live products Ashman assesses various pieces of management information such as customer and broker feedback, complaints, competitor analysis, internal, regulatory, and other similar feedback. However, as the IBTL is new and in the design phase, Ashman have convened a cross functional working group to review and challenge the proposed design and delivery solution. Feedback from these sessions, wider observations and learnings as the development continues is logged to help assess and refine the product going forward and ahead of it going live. Where this feedback is also relevant to other products, Ashman is also using it in refining their existing product offering. Ashman spent time fine tuning the customer journey to ensure all the touchpoints were accurate.

Additionally, on key products, Ashman undertakes retrospective reviews of the project process to identify positives and negatives to both the product setup and execution. These are used to identify and build on positives and to identify, analyse and address any issues or risks, where risks are being logged internally as appropriate.

All of the above allows Ashman to log, track and review lessons learned to ensure the product and the Project approach continues to evolve. This is critical to Ashman's ethos of being a responsible lender.

## **8.2 How will lessons learnt during the Discovery Phase be applied to Ashman's approach to developing green home finance products**

As noted in section 8.1, Ashman is committed to taking its lessons from projects as well as products, to ensure the needs of customers are solved and Ashman can continue to innovate and remain efficient in the market. Lessons learnt from projects help improve processes going forward and ultimately improve Ashman's project management and delivery capabilities.

Some key lessons from the Discovery Phase were:

- As a new entrant gearing up for launch and with limited headcount Ashman needed to pivot teams and individuals between products according to meeting delivery requirements. This worked well while Ashman remained small and agile, but created stretch in teams and could have resulted in single points of failure, where they not managed properly.
- Learnings from forecasting by identifying where some teams needed longer than anticipated to complete work and others needed less time were established and Ashman continue to get more precise with forecasting project hours. Specifically, some of the modelling needed and the incorporation of the product level costings into wider bank models was very complex and required specific skill set to ensure that the data incorporated did not then create unintended consequences for the wider business. Due to the potential for wider business impact the modelling needed to go through very strict due diligence,

testing and rework to ensure both data accuracy and integrity. There was significant shortfall in anticipated time to firstly build the model and secondly to review and incorporate the functionality. Communication has been key on this Project, and updates have begun to be incorporated within weekly all team touchpoints to maintain alignment.

All lessons learnt are documented and form part of the project retrospective review, where key themes are identified and used to help improve and maintain the approach to design of products and services, and the management of key projects going forward.

### **8.3 How Ashman and ThermaFY will use the learnings from this innovation programme to further develop green finance propositions and to disseminate learnings**

From research learnings it has become clear that the reach of the Project needed to be wider, and this will lead to Ashman and ThermaFY conducting additional impact assessments considering other customer journeys and other product evolutions over time.

In addition to the points outlined above, project learnings included reflections with ThermaFY about ways of working and how to work together more efficiently going forward. It has been important to create a feedback loop with ThermaFY to better innovate and collaborate, to build on the proposition and to continue to evolve the working relationship, taking it from the theoretical to the practical.

### **8.4 Key barriers to future development to this green finance proposition**

Ashman consider the following to be some of the most critical barriers going forward (excluding success in Green Home Finance Accelerator - Pilot Phase process):

- Regulation and legislation in respect of energy performance - will it change again? When? When will the impact of the revised approach to EPC be more fully disclosed to enable product evolution?
- The wider geopolitical landscape remains a concern with a general election set for next year and potentially a new green agenda on the horizon. A clear and consistent government agenda and plan will help drive positive change in industry and is critical for the evolution of the green home finance landscape.
- Uncertainty around interest rates and rising cost of living will continue to impact the property market and may result in greater reluctance to retrofit properties where the benefits to the cost benefit ratio is not immediately apparent.

## 8.5 What Ashman perceives needs to happen in order to address any of the barriers identified

A consistent and clear government agenda supported by a detailed plan, linked to a timeline, to include relevant legislation and regulatory support.

In addition, Ashman believe a consistent definition of a “Green Mortgage” will allow the industry to build a standard and to innovate past that standard in time.

A green taxonomy for landlords linked to EPC or EPC improvement.

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