key partnerships

Introducing the Introducers

A look at the equity release referral market

2020

Foreword

The equity release market has grown almost four-fold in the past decade with lending last year reaching £3.92bn and 85,497 homeowners over the age of 55 accessing their property wealth, figures from the Equity Release Council[1] show. But this is just the tip of the 'later life' iceberg if you consider how much is borrowed by over-55s via standard mortgages, later life mortgage and retirement interest-only mortgages.

There are more than 20.5 million people aged 55 and over in the UK[3] with estimates that this will rise to just over 24 million by 2030. As the population gets older and people are living longer, the demand for these products can only go up. But equity release is a specialist area that requires qualified advisers who know the market inside out, understand the differing needs of borrowers and can consider a range of later life options.

Most referral business comes from mortgage brokers (55%), wealth managers (14%) and IFAs (13%) but also other areas of financial services such as law firms and even debt management firms. The potential for this market is clear and the majority of introducers (58%) believe that the equity release referral part of their business will grow over the next three to five years.

While 6% of referral business came from brokers with the Certificate in Regulated Equity Release (CeRER), most introducers are not qualified or inclined to advise on these products. However, they recognise that equity release could be a good option for some clients and a valuable addition to their later life lending offering.

Instead of turning the business away and being unable to help those clients, the obvious solution is to use a referral partner who can boost the range of services they provide. Good customer outcomes are at the heart of these agreements with the most important attributes a referral partner can offer being; good customer service and market expertise.

With more over-55s people struggling financially due to Covid-19 lockdown, furlough or redundancy, releasing equity from their home is being increasingly seen as a potential solution. However, this needs to work for both their long and short term finances so it is vital that they receive specialist advice and support as part of the process – making finding the right referral partner more important than ever.

Jason Ruse | Business Development Director, Key Partnerships

Key findings

Despite the pandemic, we only saw a 1% fall in the number of introducers entering the market on a monthly basis in 2020 compared to 2019. This suggests that while people were focusing on their core business offering, they were also speaking to specialists to offer their clients better access to the later life lending market as they see the potential in this sector.

1% decrease

The average amount released by introduced clients in the first three quarters of 2020 was £85,099 **up from £75,631 in 2019.**

Introducers' clients are typically wealthier than other equity release clients and released over £2,000 more than the market average in 2020 of £83,074.

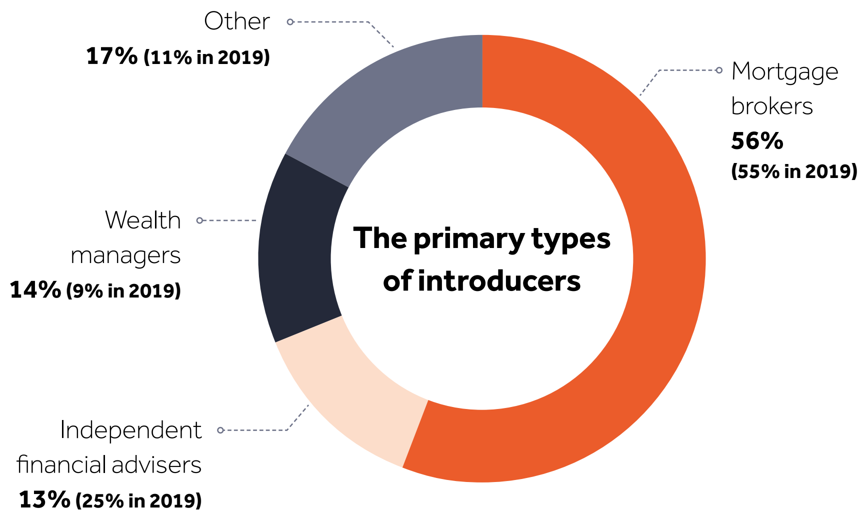
Broken down into introducer types in 2020:

Clients of wealth managers released	**£154,096** up from £139,966 in 2019
Clients of independent financial advisers released	**£106,340** up from £89,677 in 2019
Clients of mortgage brokers released	**£111,780** up from £77,585 in 2019

Why refer?

Introducers say that offering equity release allows them to help clients they previously would have had to turn away and allows them to provide a wider range of services.

There are three main reasons why organisations sign up to introduce equity release to a specialist intermediary. The first reason is that advisers understand that equity release is a specialist market and feel more comfortable referring their client to an expert. Secondly, because the introducer's head office or network prefers this type of business to be referred. And, thirdly due to customer enquiries.

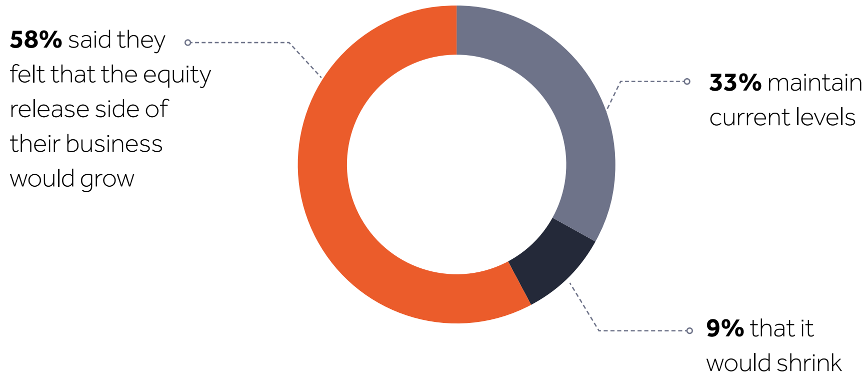


Key findings

According to 49% of introducers, there was a mixed reaction of positive and negative comments when they broached the subject of equity release with their clients. But 42% reported positive comments, broken down into 28% of clients who were receptive to how equity release might help them and 14% were keen to know more. Only 1% of introducers said clients had reacted negatively.

For those who broached the subject:

Looking to the future...



70%

of introducers intend to continue to refer

16%

of introducers would mainly provide advice but occasionally refer

11%

of introducers would mainly refer but occasionally provide advice

3%

of introducers said they will provide advice for all clients who needed equity release

Funding the UK's retirement aspirations – the challenge

Currently, there are more than 20.5 million people aged 55 and over in the UK[3] and this is estimated to be on track to rise to just over 24 million by 2030. While the end of the default retirement age[4] has meant that people are working longer, they are also enjoying longer retirements, with a man[5] who decides to retire at 65 years old living on average for 18.6 years and a women for 20.9 years.

However, people's savings habits have not kept up with the increase in longevity and while the State Pension (£175 per week[6]) will provide a basic income, it is generally agreed most people will see some shortfall. This has only been exacerbated by the recent pandemic and its impact on the economy with 35% of women and 32% of men worried that they will run out of money in retirement[7]. One potential option to making up this shortfall is to make use of the considerable value tied up in the older generations' homes via a later life borrowing product.

Proportion of assets that are in residential property

Analysis suggests that 31p of every pound of a 55-64 year olds assets are in residential property – rising to 53p for over-85s[8]. With UK housing stock estimated to be worth £7.14 trillion[8] and over-55s holding 65% of property wealth in the UK[8], this is a significant amount that this generation has at its disposal.

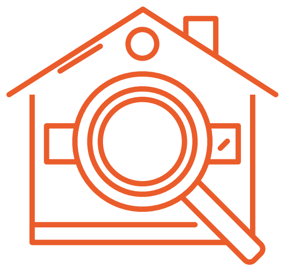
While traditionally, people have seen the family home as an inheritance or a nest egg, this is changing as they consider the need to fund a longer retirement and the desire to help the younger generation sooner rather than later. Over half (51%) of over-45s say that their property forms part of their plans for later life[8].

Funding the UK's retirement aspirations – meeting the need

While every over-55 is not a homeowner nor in need of the value tied up in bricks and mortar, if even 10% wish to use this asset, this equates to more than two million people. Typically, those who have looked to access the value tied up in their property have looked at equity release, downsizing or other types of later life lending products such as retirement interest-only mortgages (RIOs).

Downsizing is often seen as the most sensible option for people who wish to release some of the value of their property, however,

79% of over-65s say they want to live in their current home for as long as they can[6]



and 77% of estate agents[8] admit that there is already a lack of properties suitable for retired people

...so this may not be possible for everyone.

This suggests that we may see more people looking to equity release and other later life lending options to meet their needs in retirement which raises an interesting question – how will they access this market? For people with existing relationships with mortgage brokers, independent financial advisers and wealth managers, it is not unreasonable to assume they might start by asking them for help.

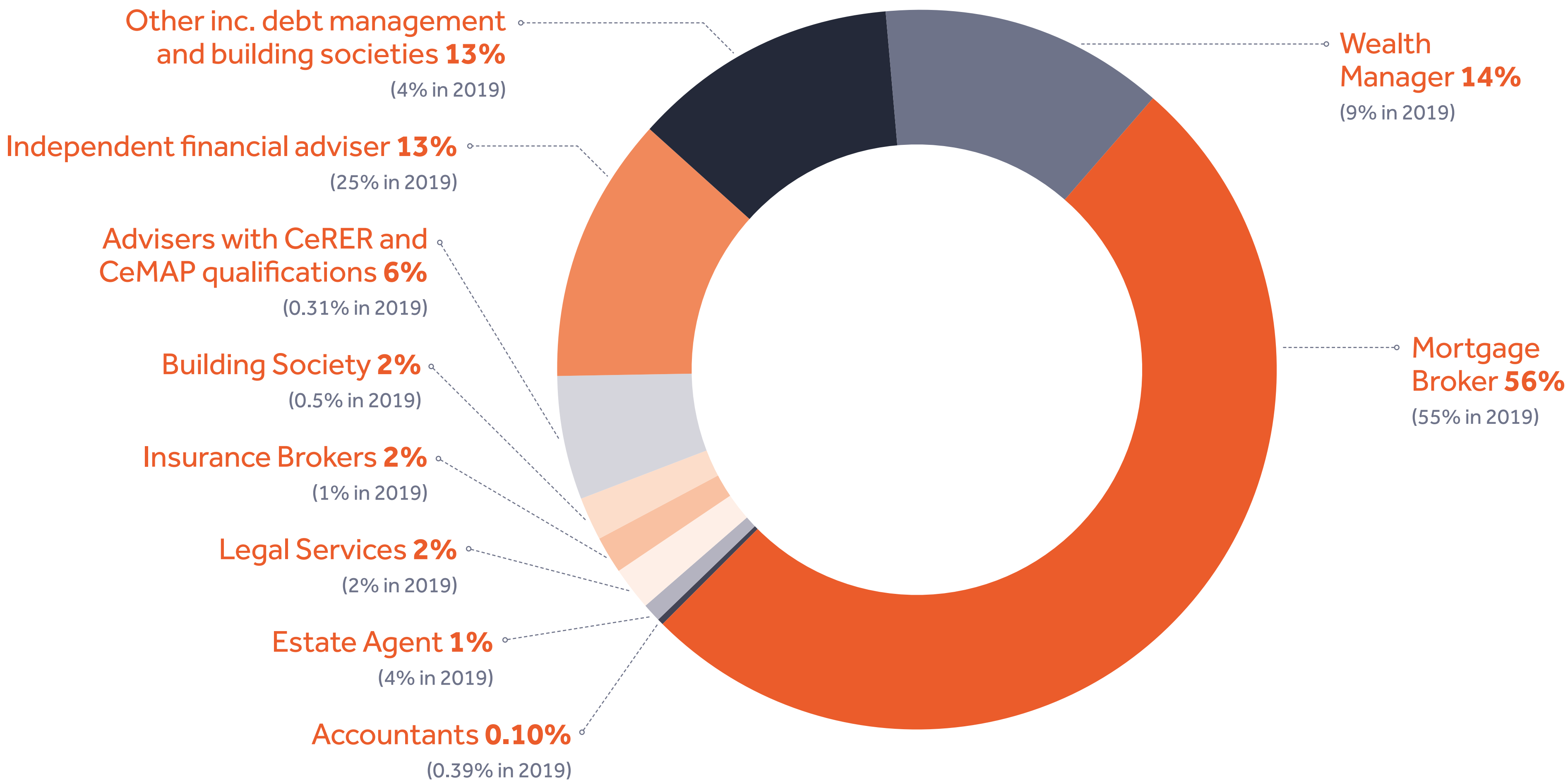
However, later life lending products are regulated and – if for example – an adviser wanted to transact equity release business, they would need to hold the Certificate in Mortgage Advice and Practice (CeMAP) and a Certificate in Regulated Equity Release (CeRER)[9]. While these exams are certainly attainable and hundreds pass them each year, they require an ongoing investment of time to maintain and build on this knowledge.

Another option – which has proven successful for a wide range of businesses is to look at setting up a referral relationship with a specialist like Key Partnerships. Key Partnerships has been operating since 2014 and is the referral arm of the UK's largest equity release advice firm – Key.

To build understanding of this growing market, Key Partnerships commissioned this research which looks at how the equity release referral market is developing.

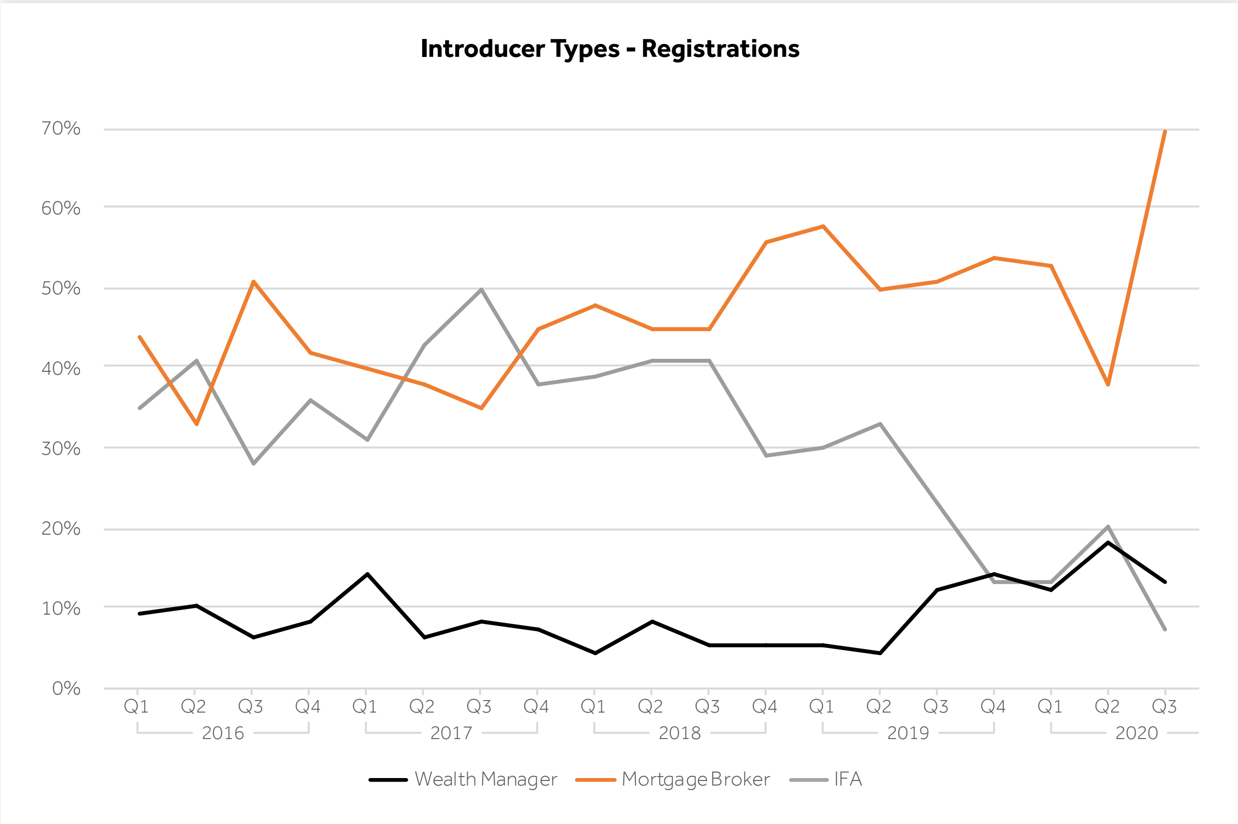
Who refers to whom?

Analysis of a sample of over 7,000 records on Key Partnerships database suggests that introducers fall into the following categories:



Changes to the introducer landscape

The three most common types of introducers are mortgage brokers (56%), independent financial advisers (13%) and wealth managers (14%) – a trend which has been fairly consistent since Key Partnerships was founded.



Mortgage brokers remain the most common referral partner (+1% to 56% in 2020) as they increasingly realised the potential in the later life market and sought to expand their offering beyond retirement interest-only mortgages and later life mortgages.

Interestingly, 2020 saw the proportion of new IFA's seeking to refer drop by 12 percentage points to 13% and the number of wealth managers' rise by 5 percentage points to 14%. The number of new IFA's who are looking to refer has been dropping steadily since 2015 (43%) but with the line being blurred between more general IFAs and wealth managers, it is perhaps better to look at the combined total. In 2015, intermediaries who provided advice on a range of investment and pension topics accounted for 50% of those signing up to refer but by 2020, this had fallen to 27%.

While the impact of the pandemic could be seen as a short-term driver, the answer perhaps lies in the fact that we've seen an increase of over 5 percentage points in the proportion of equity release qualified advisers referring. Are more people approaching specialists rather than their own IFA's who find that they are unable to cope with the sharply increased business volumes so are choosing to refer? This remains to be seen.

Different client profile

The future of referral

As equity release is a specialist area, and individual circumstances can be complex, it is vital that customers get advice from an adviser who is on top of developments in this fast moving environment.

The Financial Conduct Authority (FCA) has reviewed later life lending and lifetime mortgage advice and its findings were mixed but it identified some areas of concern[10]. This included not tailoring advice to the personal circumstances of clients, insufficient challenging of customer assumptions and lack of evidence to support the suitability of advice.

The FCA continues to look at this sector and reading between the lines, this work would seem to suggest that in order to ensure they are treating customers fairly, organisations will need to clearly evidence that a range of later life lending options have been considered. A move that certainly lends itself to choosing referral for many firms.

In 2020, the average amount released by all equity release customers was £83,074. With 82% of companies that signed up to refer business in 2020 being professional financial intermediaries, it is not surprising that the typical amount released by referral clients (£85,100) is 2% higher than the average equity release customer (£83,074).

What is interesting to note is that while we saw a jump in the amount released between 2019 and 2020 across most categories, amongst the biggest increases were seen for clients of mortgage brokers (+44%). This appears to be driven by the fact that during the pandemic, the use of equity release has been focused on meeting specific needs and over one in four people (27%) who took out a plan in Q3 2020 used it to clear their outstanding mortgage[8].

Thus far in 2020, we saw a 33% drop in the amount of equity released by estate agents' clients as the market stalled under lockdown. While the Stamp Duty holiday is likely to reinvigorate parts of the market, we are arguably going to see more gifting than moving amongst the older demographic.

Wealth Managers clients continue to release (£154,096) and reserve (£201,191) most significant amounts – often to boost retirement income and manage inheritance tax by gifting.

	2019		2020 Year to Date	
	Released	Reserved	Released	Reserved
Average ER Customer	£75,032	£86,879	£83,074	£85,519
Introducers	£75,631	£118,339	£85,100	£136,193
Estate Agents	£76,102	£126,225	£51,406	£56,795
Mortgage brokers	£77,585	£115,116	£111,781	£142,730
General Intermediaries	£89,677	£116,030	£106,341	£136,918
Wealth Managers	£139,966	£186,068	£154,096	£201,191

Impetus to engage

When asked why they had decided to start referring equity release, 26% of introducers again said their network or head office prefers them to refer these cases to a specialist (26% – 2019). In addition, 24% (21% – 2019) said that they referred clients as they felt that equity release was a specialist area so they more comfortable referring.

While we saw the number of introducers who referred clients due to the potential they saw in the market drop from 17% (2019) to 9% (2020), An even more important driving factor emerged. More than one in four (26%) said that it was the client themselves who encouraged them to refer as they asked about these products, up from 19% in 2019.

Double the amount of IFAs (27%) said their clients interest was the driving force behind engaging with this market (12% – 2019). Finally, just 3% said they chose to refer as they were too busy to transact the business themselves, down from 5% in 2019.

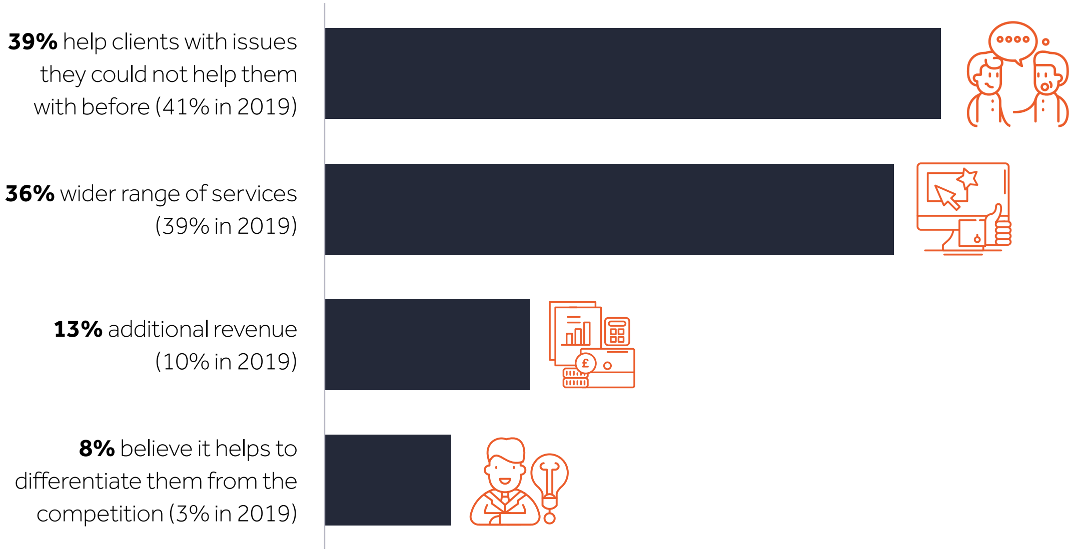
Long term benefits of refering

Now that they are involved in the market and have a referral relationship in place, introducers are seeing the benefits. Around four out of ten (39%) said they believe the main benefit is being able to help clients with issues they could not help them with before, down slightly from 41% last year.

A further 36% like the fact that it allows them to provide a wider range of services to clients, also down marginally on the previous year at 39%. That said, more introducers said that offering access to equity release differentiates them from the competition (up to 8% from 3% in 2019).

Meanwhile, 13% of introducers admit that it provides a useful additional revenue stream, up from 10% last year; and 4% say their clients expect them to provide access to these products, down from 6% in 2019.

Long-term benefits of referral relationships



Choosing an equity release referral partner

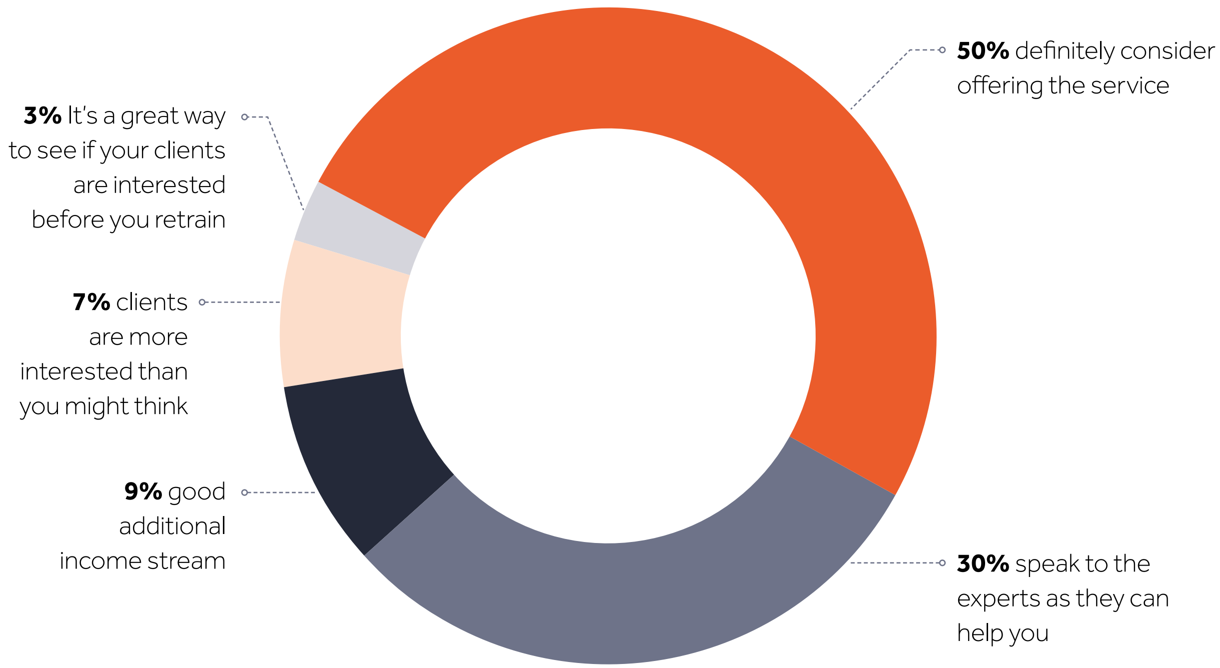
The most important attributes for introducers when choosing an equity release referral partner is really good customer service and evident expertise in the market. But reasons varied depending on the type of introducer.

- For mortgage brokers, the most important attribute was offering good customer service (36%) followed by expertise in the market (30%) and providing support to help businesses speak to their clients (17%);
- It was the other way round for IFAs as 55% chose expertise in the market first then good customer service (52%) followed by a well-recognised brand (24%);
- For wealth managers, customer service (30%) followed by market expertise (23%) were priorities as was the use of technology to make it easier to do business (17%);

If a colleague or peer asked an introducer about referring equity release, 50% said they should definitely consider offering the service and 30% said speak to the experts as they can help you.

A further 9% said it is a good additional income stream and 7% noted that clients are more interested than you might think. Finally, 3% said it is a great way to see if your clients are interested before you retrain.

What do introducers think about offering equity release?



How much equity release business do introducers see?

Businesses that refer equity release cases to specialists typically believe that 8.1% of clients will be interested in these products (down from 8.6% in 2019). This is likely to be driven by the views of mortgage brokers who felt that marginally fewer clients would be interested (6.3% from 6.6% in 2019).

However, IFA's were more positive and bucked this trend believing that 11.6% (8.0% in 2019) of clients would keen to use these products. With property making up a significant proportion of most over-55s assets, the fact that introducers thought such low levels of customers might be interested could also indicate that more education is needed as to the potential uses of these and other Later Life Lending products.

For example, one area that is not always appreciated is the fact that equity release can help with people who are looking to 'up size' or indeed, move to a more conveniently located property – potentially close to family and friends or amenities. Since January 2017, over 900 people have used equity release to take this step.

Speaking to clients about equity release

While introducers believe that around 8% of clients will be interested in equity release, the majority of introducers are not afraid to speak about these products if it might be an option for them.

Almost two out of five introducers (39%) said they routinely mention equity release in appointments with appropriate clients, up from 32% last year. A further 37% said if they identify a client who has an aspiration or a need where equity release can help, they will discuss it with them, this is down from 42% the year before. While a slight drop and one that may be due to the changing advice patterns around the pandemic, it is nonetheless concerning and suggests that more needs to be done to educate the wider market around the potential benefits of these products.

Only 2% of introducers both this year and last, said they have segmented their database and are actively targeting potential clients. While introducers naturally know their client banks, it is hard not to wonder whether more clients might be interested if more holistic financial planning conversations were had.

In addition, 15% were not looking to ascertain whether their clients might be interested in equity release, nudging up from 14% last year. When asked why they were not speaking to clients about these products, 56% said they had other priorities or services they wanted to cover (48% – 2019) and 19% admitted they did not know how to correctly identify clients who might need equity release. While this has fallen from 21% in 2019, this last point is particularly telling and raises the question whether some of those who are waiting to identify a client with an aspiration or need for equity release before they mention the products may also fall into this camp as well.

While only 15% said they were not speaking to their clients about these products as they were cautious due to historic issues, this is a jump from 9% in 2019 which may have been exacerbated by the concerns outlined in the FCA Review unveiled in June 2020.

Since January 2017, over 900 people have used equity release 'up size' or move to a more conveniently located property

How do clients react when equity release is mentioned?

Almost half of the introducers surveyed (49%) said their clients had a mixture of positive and negative reactions. This is similar to 2019 when the proportion was 51%.

But more than two out of five clients (42%) react positively. This breaks down into 28% of clients who were receptive as to how equity release might help them with their circumstances, up from 25% last year. And 14% were interested and keen to know more, down from 18% in 2019.

A further 8% of introducers said the client thank them for the information and left it at that, up from 3% the previous year. Just 1% of introducers over the past two years said some clients questioned why they are offering equity release.

When asked how many clients were open to discussions around equity release verses what they expected, 56% said the level of interest was pretty much what they expected, up from 50% last year.

There was a slight decrease in the proportion of advisers who said they were surprised about the high level of interest – 15% this year compared to 16% in 2019. IFAs (24%) were most likely to say they had seen more interest than anticipated.

Meanwhile, 12% over the past two years were surprised they had less interest than they thought they would get. Fewer introducers this year than last (14%) acknowledged that now they were offering this service, clients were more likely to ask them for information, down from 20% in 2019.

Popular uses of equity release (value)

30%
Clear outstanding mortgage

25%
Gifting to family or friends

17%
Pay debts (e.g. loans, credit cards)

11%
Home and/or garden improvements

3%
Go on holiday

Source - Key Market Monitor[11] – Q3 2020

What next for the equity release referral market?

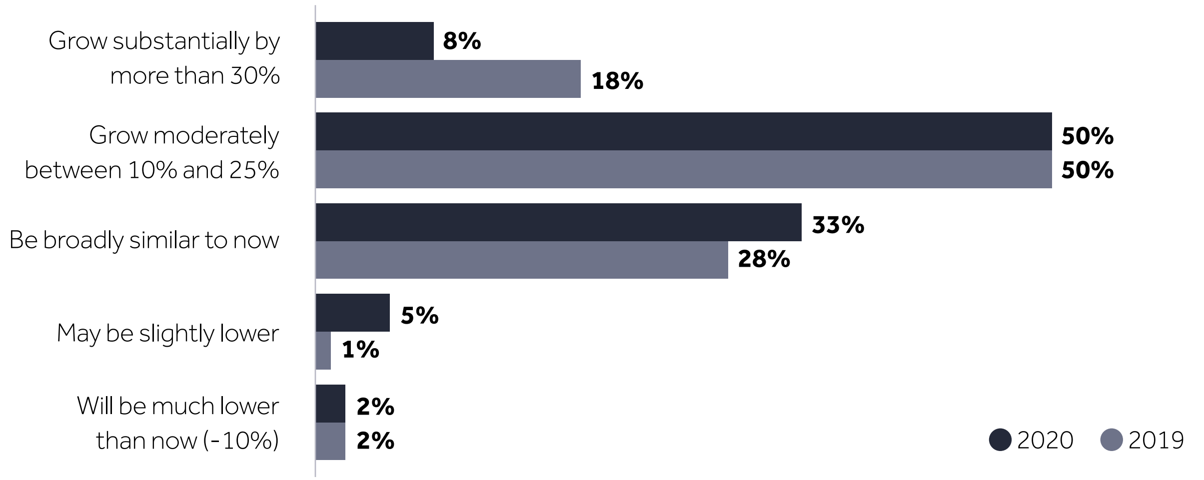
Being able to offer a wider range of services is one of the benefits people have seen when setting up a referral relationship but what do they think about the future?

Almost three out of five introducers (58%) believe the equity release referral side of their business will grow over the next three to five years but this is down from 68% last year.

Within that percentage, 8% think it will grow substantially, i.e. over 30%, but this is also down on last year's 18%. Moderate growth of between 10% and 25% is expected by half of introducers – the same as last year. With the equity release market recording more modest volumes in 2020 due to the current global situation, it is clear that introducers envisage that this will apply to their businesses as well.

However, IFAs are the most upbeat about growing their equity release referral business – 9% cited substantial growth and 61% moderate growth.

Changes to equity release referral business volumes by introducers over the next three to five years



One third of introducers (33%) felt their current level of referral business would be broadly similar to now, up from 28% last year and 9% thought it would be lower than current levels, this is up from just 3% on 2019.

With introducers predicting big things for the equity release market, the next question is how they intend to engage? While introducers are confident about the future of the market, they are also comfortable with their existing arrangements and 70% say they intend to continue to refer in future, up from 66% last year.

At the other end of the scale, 3% either felt that the opportunity presented by the market was too great to miss or had used a referral relationship to test the waters and intend to provide advice themselves. This was down on 7% last year and potentially a result of the current market conditions which is encouraging introducers to focus on delivering their core business lines.

Wealth managers (7%) were most likely to say that they intended to investigate providing equity release advice themselves. The remaining introducers who had the relevant qualifications said they would either mainly refer but occasionally provide advice (11% this year and 12% last year) or mainly provide the advice but occasionally refer (16% this year, 14% last year).

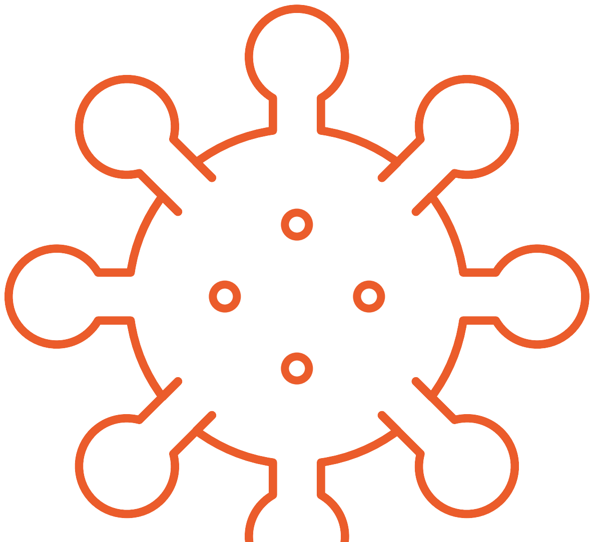
Impact of Covid-19

The Covid-19 pandemic has impacted on all areas of life with many advisers finding it tough. But on a positive note, 44% of introducers said they have coped and expect business to pick up as we head towards the end of the year. The most confident type of introducer was wealth managers (70%) followed by IFAs (55%).

Almost a quarter (23%) of introducers said they have weathered the pandemic thus far but they know it will get tougher with more mortgage brokers (30%) feeling like this. Nearly one in 10 (9%) admitted it has been really hard and anticipate it will get harder.

While only accounting for 2% of the introducer universe, legal services firms are active in the market and a quarter of these say it has been really hard and anticipate that it will get harder – potentially due to their increased reliance on paper-based systems and face to face engagement.

Another 9% of introducers realise they need to diversity income streams to survive so are open to new options and a further 6% said their clients are struggling so are looking at new options to help them. Just 5% said they are focusing on their core offering and unlikely to look at expanding their services and 2% of mortgage brokers are looking to retire or sell up in the next 18 months.



How bright is the future?

With the demographic and economic challenges facing the UK, we know that the later life lending market – including equity release – is set to grow over the coming years as older clients look for support to manage borrowing and make up financial shortfalls. To achieve this, they turn to those organisations who have helped in the past – the mortgage brokers, estate agents, wealth managers and IFAs, they trust.

While it is fairly safe to suggest that this growth will happen, what we do not know is how the industry will react but today's report helps us to better understand this. It is clear that each of these referral groups are considering how they best serve the growing need for later life borrowing – whether it is providing the support in-house, providing some support but outsourcing specialist aspects or simply referring all enquiries to a trusted third-party.

The FCA Review of Later Life Lending and Lifetime Mortgage Advice[10] that they unveiled in the summer raised some interesting points and identified some areas for concern. It also clearly highlighted how important it is for organisations to make the right choice around what advice they wish to provide and what advice they feel might be better provided by a firm that specialises in this market.

Looking to the future, it is hard not to believe that a more holistic approach to later life borrowing will become the norm with more organisations offering their clients a range of products which suit their individual needs. Indeed, 58% of introducers believe they will see growth in the equity release market in the future with some of this optimism surely driven by this wider view.

That said, 70% of introducers say they will keep offering their clients access to these products via a referral relationship rather than gaining the qualifications themselves so the importance of specialist advice cannot be overlooked – no matter how common borrowing in later life becomes.

At the heart of this debate is organisations desire to serve their customers and ensure that if they are speaking to a client who needs support and advice, they are able to provide this.

Methodology

The report is based on feedback from over 500 introducers with research undertaken in May/June 2019 and October 2020. In addition, over 7,000 records were reviewed to identify introducer subsets. Other data sources include:

1 Equity Release Council FY 2019 Figures (released – January 2020)
https://www.equityreleasecouncil.com/news/3-92bn-worth-of-equity-released-in-2019/
2 more2life – Later Life Lending Report (released – June 2020)
https://www.more2life.co.uk/learning-lab/Market-insight/later-life-lending-report-2020
3 ONS - 2016-based National Population Projections (released – October 2017)
https://www.ons.gov.uk/releases/nationalpopulationprojections2016basedstatisticalbulletin
4 Department for Business, Skills and Innovation – 2011
https://www.gov.uk/government/news/default-retirement-age-to-end-this-year
5 Office of National Statistics – National Life Tables – September 2018
https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017
6 Department of Work & Pensions - Average Full State Pension – November 2020
https://www.gov.uk/new-state-pension/what-youll-get
7 Equity Release Council –Pensions Paradox Revisited – November 2020
https://www.equityreleasecouncil.com/wp-content/uploads/2020/11/Equity-Release-Council-Key-Pensions-Property-Report-Part-2-Final.pdf
8 Equity Release Council – Beyond Bricks and Mortar Report – June 2019
9 London Institute of Banking & Finance – November 2020
https://www.libf.ac.uk/study/professional-qualifications/mortgage-advice/certificate-in-regulated-equity-release-(cerer)
10 Financial Conduct Authority – June 2020
https://www.fca.org.uk/publications/multi-firm-reviews/equity-release-sales-and-advice-process-key-findings
11 Key – Market Monitor – Q3 2020 – November 2020
https://media.kg-cdn.co.uk/mediacontainer/medialibraries/keyretirement/marketmonitor/2020-q3-market-monitor_1.pdf?ext=.pdf

For additional information, please don't hesitate to contact:

Lee Blackwell
Director of Public Relations and Public Affairs
Key Group
07384511140
lee.blackwell@krgroup.co.uk

Rachel Mann
PR Manager
Key Group
01772 508322
Rachel.mann@krgroup.co.uk

Key Partnerships -
the equity release referral service

Start referring today

It only takes a few minutes to register and make an equity release referral, just visit **www.keypartnerships.co.uk.**
Or contact us:

refer@keypartnerships.co.uk

0800 138 1663