Stepping up to the challenge of navigating client vulnerability

A look at how the later life lending market supports its customers

2023

more2life
the later life lender

Contents

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Foreward

30% of equity release clients encountered by advisers in the last 12 months were **considered vulnerable**

Ben Waugh, Managing Director

Vulnerability can strike at any age and comes in various guises. In many cases, it can come out of the blue and be the result of circumstances beyond a person's control.

Most recently, the Covid pandemic and subsequent soaring inflation brought on by numerous geo-political events around the world, has increased the vulnerability of many people either through job loss, financial stress, displacement or loss of life.

In the UK specifically, the cost-of-living crisis has seen the price of everyday essentials such as fuel, groceries and household utilities reach eyewatering levels, while stagnant and low wage growth coupled with a squeeze on disposable household incomes, has led to a significant drop in living standards. All these factors have had an impact on how people approach life and more specifically, their finances.

The Financial Conduct Authority (FCA) defines a vulnerable customer as "someone who, due to their personal circumstances is especially susceptible to harm – particularly when a firm is not acting with appropriate levels of care."

This broad-ranging spectrum of risk means that everyone is potentially at risk of becoming vulnerable at some stage of their life, but having certain characteristics of vulnerability heightens this risk.

These can be anything from poor health or cognitive impairment to experiencing major life events such as new caring responsibilities or being unable to cope with financial or emotional shocks. Poor literacy and numeracy skills also play a massive role in increasing an individual's risk of becoming vulnerable.

While over-55s who are the demographic that the later life lending industry supports are not automatically more vulnerable, they are more likely to be vulnerable due to health or cognitive challenges than some other age groups.

In a bid to better understand how the later life lending advice community is supporting their customers as they navigate financial decisions, more2life conducted research in February 2023, with 300 advisers operating in the later life lending market. This longitudinal study builds on data collected on vulnerability since 2018.

Advisers were asked how they recognise vulnerability in clients, the reasons why they are vulnerable and how they ensure vulnerable customers understand the equity release process. Given the important role that families play in the advice process, they were also asked how this impacts customer choices.

The results have been published in The Vulnerability Report 2023 – the fifth of its kind – which was last undertaken in 2021 at the height of the Covid pandemic. It shows that since 2021, that the percentage of clients that advisers consider as vulnerable has doubled from 15% to 30%.

These figures highlight not only the impact of the last few extraordinary years on over-55s but also a growing understanding amongst advisers of the impact and potential indicators of vulnerability. The main reasons cited for this heightened level of vulnerability were significant financial worries such as a large interest-only mortgage (43%) and being of an advanced age (42%).

Against this backdrop, the biggest challenges advisers felt they faced when working with vulnerable clients were documenting the support they provided (22%) and understanding their needs (21%).

As lenders in this space, we have a duty to ensure our customers fully understand the decisions they are making when taking out products. We also have a responsibility to educate and help advisers access the guidance they need to identify and help vulnerable clients.

As an industry, we must work harder to ensure we achieve these goals and protect the interests of both our customers and the advisers that serve them, particularly during this time of increased economic volatility.

Ben Waugh, Managing Director of more2life

Introduction

As a provider of later life lending products, more2life has a deep interest in not only supporting advisers in ensuring they help their clients make sustainable long- and short-term decisions, but also in educating them on how to spot the signs of vulnerability, as well as how to handle those clients who may be entirely unaware that they are vulnerable.

Everybody is susceptible to vulnerability at some stage in life and being able to identify the signs is crucial. As an industry, we have a duty to our customers to ensure they are making the right decisions for the right reasons, and a duty to provide the support and education our advisers may need when dealing with these clients.

With this rationale in mind, we recently carried out research to better understand how the later life lending advice community is supporting their customers as they navigate these financial decisions.

The results, published in The Vulnerability Report 2023, shows that advisers are highly attuned to this issue with financial concerns such as the cost-of-living crisis (31%) and other significant financial worries such as a large interest-only mortgage (43%) highlighted as key areas of vulnerability among clients.

Reassuringly, the research found that 100% of advisers felt it was "important" to be aware of issues around vulnerability, with the most common way to determine vulnerability being to ask a lot of questions around personal circumstances (61%).

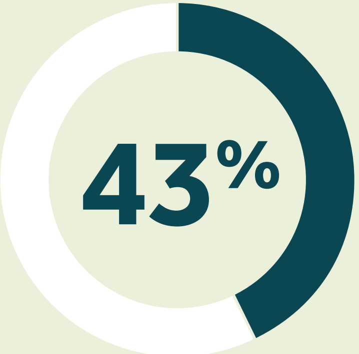
However, only one in eight advisers said it is easy to spot a vulnerable client and 22% cited documenting internal processes to show client support as the biggest single challenge facing firms in 2023 with fully understanding the needs of vulnerable customers (21%) a close second.

Given the forthcoming deadline for the FCA's Consumer Duty guidance, addressing these concerns is crucial and we must do more to educate and support advisers in helping them to better serve their customers.

Key findings

Only 1 in 8

advisers said it is **easy to spot a vulnerable client**



of advisers cited **significant financial worries** such as a large interest-only mortgage as the **main reason for client vulnerability**

Getting to know your client

61%

of advisers say the most common way to determine vulnerability is by asking a **lot of questions around personal circumstances**

Internal processes

22%

of advisers cited **documenting internal processes to show client support** was the biggest single challenge facing firms in 2023

Cost-of-living crisis

24%

of advisers believe the **cost-of-living crisis** has **increased the financial stress** faced by their clients

Getting the family involved

84%

of advisers agreed that **involving families** in the equity release advice process **allowed them to air any concerns**

36%

of clients are vulnerable because of a **life-changing event** such as a **divorce or bereavement**

23%

of advisers predicted that **higher rates would mean customers wait longer or put off taking out products this year**

Consumer Duty

46%

of advisers think the **Consumer Duty** guidance will **drive change in the equity release industry**

Education and training

53%

of advisers noted that **education and training on how to support vulnerable customers had significantly improved** in the past year, more than double the 22% that reported the same in 2021

Lending products

26%

of advisers would most like to see **greater product innovation and choice** from lenders in 2023

Reasons why equity release clients are vulnerable

Given the increased challenges facing consumers over the last few years, advisers were asked what percentage of clients seen in the last 12 months they would classify as being vulnerable.

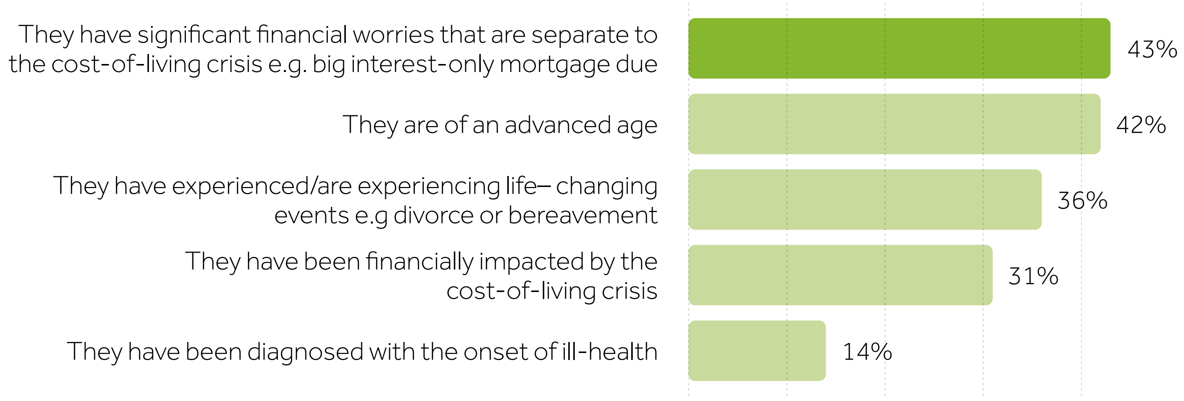
Only 12% of advisers said they had encountered no vulnerable clients at all over the last year, a figure that has dropped year-on-year and is now at its lowest level since 2018, when it sat at 8%. In total, 30% of advisers said less than 10% of their clients were deemed vulnerable, down from 38% in 2021 and 40% in 2019.

Overall, the median figure in 2023 (30%) is double that of 2021 (15%), which clearly demonstrates that advisers are increasingly aware of not only the potential for clients to be vulnerable but what constitutes vulnerability.

The research also found that while a third of adviser clients were vulnerable due to the cost-of-living crisis, the most common root causes were more long-term. Pressure due to a large interest-only mortgage (43%) or the impact of advance age (42%) were the most identifiable trigger points.

When it came to determining how vulnerable a client is, soft skills were essential with advisers asking lots of questions around personal circumstances (61%) as well as ensuring the client was able to answer questions directly without coaching from family and friends (50%). Just one in eight said it was "easy to spot a vulnerable client, so they didn't need to probe too much" – which is good news for the sector as it highlights how seriously this issue is taken.

Top five common types of vulnerabilities advisers have encountered over the past 12 months



Speaking to another member of the team to "sense-check" conclusions around vulnerability has fallen to its lowest level however, with 15% of advisers doing this compared to 34% in 2019. This is possibly due to the shift towards hybrid working following the Covid pandemic, and a reduction in the time spent with colleagues in an office environment as well as more people being engaged with this challenge.

Regardless, 97% of advisers feel it is "very important" to be aware and have an understanding of issues around vulnerability, which is excellent to see, while 100% felt it was "important" (very or otherwise).

97%

of advisers feel that it is **very important** to be aware and have understanding of issues surrounding vulnerability when dealing with equity release clients

Dealing with vulnerable customers

When asked what advisers considered to be among the top three priorities when dealing with a potentially vulnerable client, 82% said being able to recognise that their client may be vulnerable even if they themselves did not, was top of the list.

With the deadline for Consumer Duty fast approaching, it is little wonder that being able to record all services and communication needed in dealing with vulnerable clients was also highly rated, with 61% of respondents naming this as a top priority.

This was followed by spending more time with clients to support them through the process (49%) and engaging with interested parties such as relatives, carers and lawyers (45%).

When asked what the biggest challenges were, 22% said the biggest single test was documenting internal processes to show the support provided and 21% felt that understanding the needs of customers was also tough. Given the imminent advent of Consumer Duty and the focus on providing good customer outcomes, these feelings are understandable but given the plethora of resources provided by platforms, lenders and networks, they are entirely possible to manage.

Potentially reflecting the current significant level of engagement and education, fewer advisers felt that understanding the needs of vulnerable customers was a key challenge compared to the 2021 study (21% vs 34%).

Biggest challenges for advisers/firms when it comes to supporting potentially vulnerable clients

82%

of advisers said being able to **recognise that their client may be vulnerable,** even if they themselves did not, was top of the list

The impact of the cost-of-living crisis

Given the widespread impact of increased living costs on UK households, it is unsurprising that almost a quarter of advisers felt that the cost-of-living crisis had increased the financial stress faced by their clients (24%).

When coupled with higher interest rates, this has resulted in them seeing fewer aspirational clients and more with clear and identified needs (23%). The role of housing equity and specialist advice in delivering good outcomes that work for a client now and in the longer-term should not be underestimated.

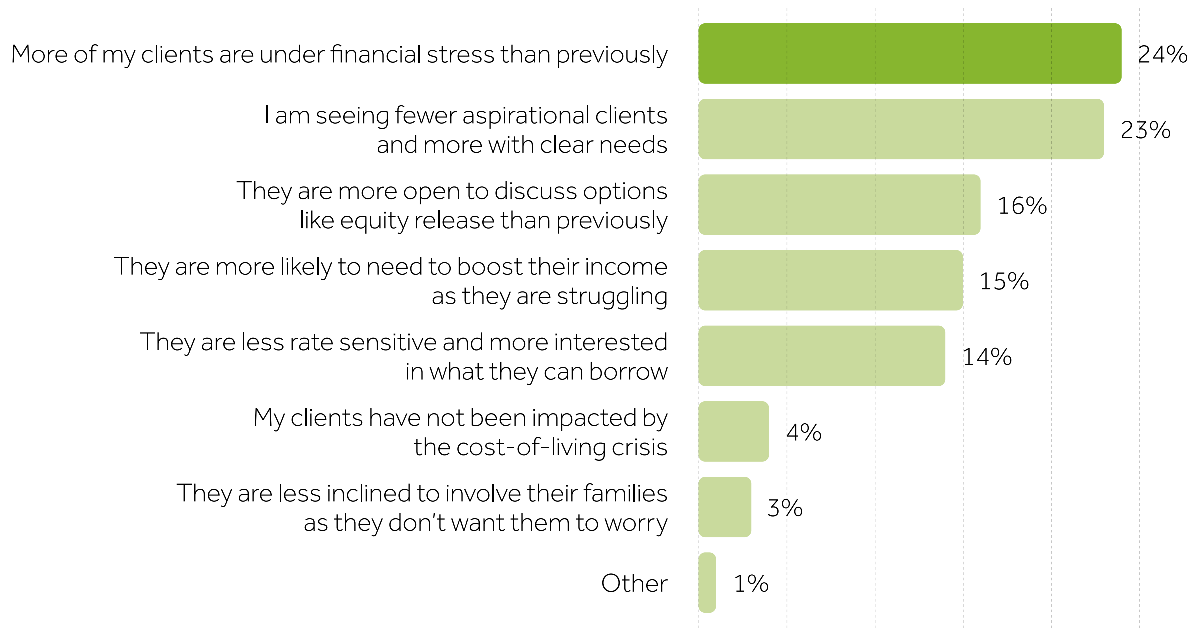
With over-55s spending more of their disposable income on costs such as food and utilities which have been particularly hard hit by inflation, it is perhaps unsurprising that less than one in 20 (4%) advisers reported that their clients have not been impacted by the cost-of-living crisis.

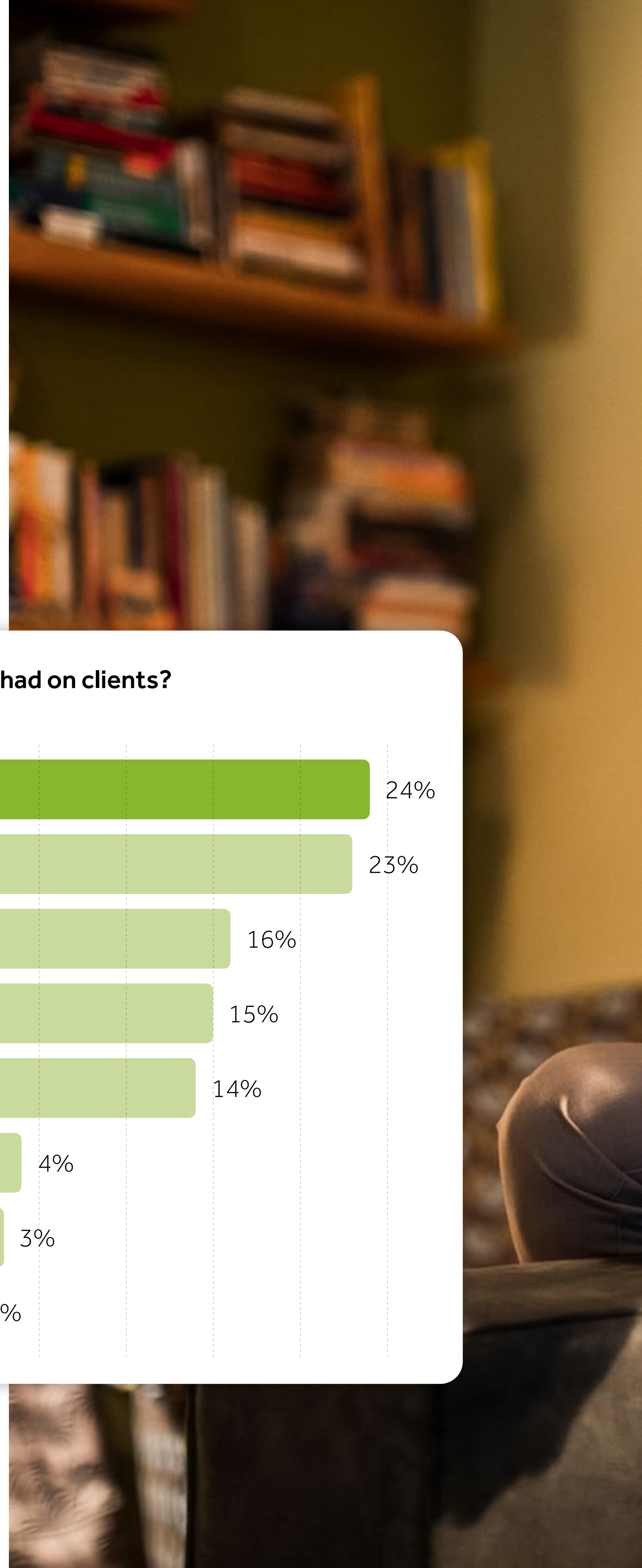
While it is encouraging that 16% of advisers say their clients are more open to discussing options like equity release in order to help alleviate some of these financial challenges, it is important that this is matched with a clear discussion and understanding of the costs associated with these products, particularly as 14% of advisers say clients are less rate sensitive and more interested in the amount they can borrow.

Interestingly, only 3% of advisers said the cost-of-living crisis has made their clients less inclined to involve their families as they didn't want them to worry, which correlates with the fact that over two-thirds of advisers (68%) felt it was extremely important for family members to be involved in the equity release process. Only 1% felt it was not important.

This is further supported by the fact that 30% of advisers said they judge the reactions of other family members on a call/in a meeting to ascertain client vulnerability, which shows that family involvement is both essential and welcomed by most advisers.

What impact has the cost-of-living crisis had on clients?





Should family members be involved in the equity release process, considering the impact of the cost-of-living crisis?

Yes, I think it's extremely important for family members to be involved	68%
Yes, I think it's somewhat important for family members to be involved	22%
Yes, but I think the need for family members to be involved depends on the complexity of the case	8%
No, I don't think it's important for family members to be involved	1%
I don't know	1%

The role of family in the equity release process

With family involvement in the equity release process broadly welcomed by advisers, it is perhaps of little surprise that 84% of advisers agreed that involving families in the equity release advice process allowed them to air any concerns while 77% said involving families would also result in less complaints.

While only 43% of advisers said their clients were keen to involve their families in the equity release process, this is in fact a significant improvement on 2021 when only 19% of advisers said the same.

One of the main reasons (74%) cited as to why clients do not want to involve their families is because as adults, they see no reason to involve their families in their day-to-day financial decisions. However, this has fallen from 83% in 2021, which shows that families are becoming more involved in each other's finances, possibly due to the cost-of-living crisis.

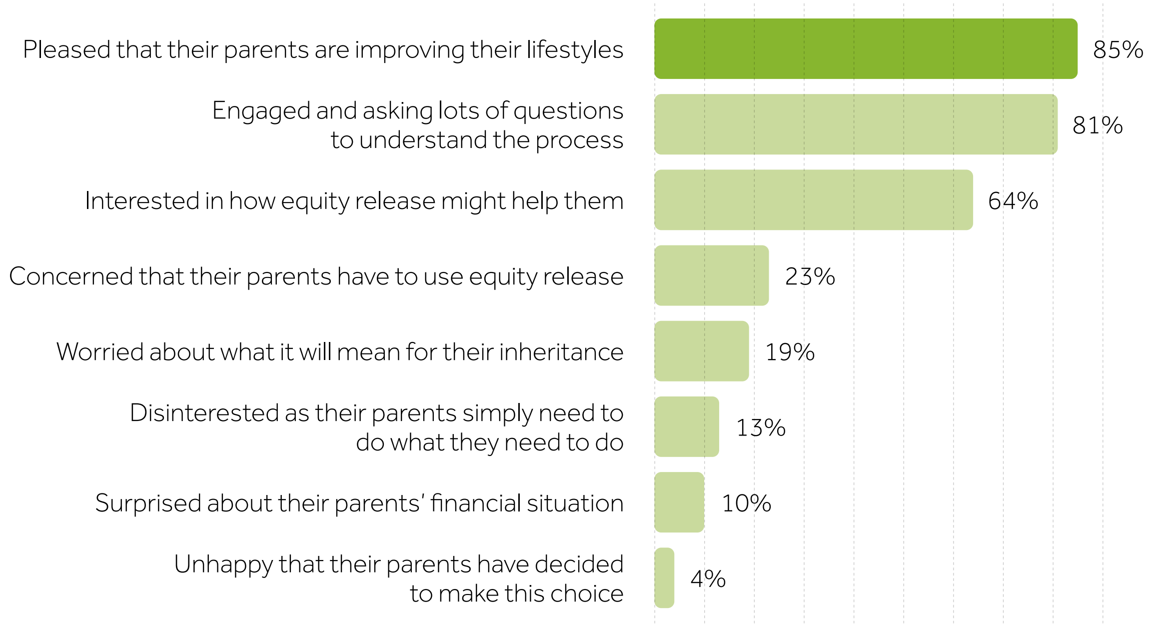
A third (33%) of advisers reported that clients who opted not to involve their families said this is sometimes because they were not in sufficient contact with their families to share details, while 31% reported that clients who do not want to tell their families do so because they are too proud to admit they are struggling.

With the older generation often concerned about being a burden, it is perhaps unsurprising that 50% of advises agree that clients can be reluctant to discuss their plans with their family as they don't want to worry anyone. While the client makes the ultimate choice, advisers often need to work hard to reassure their customers and encourage family involvement, particularly if the client is potentially vulnerable.

In terms of gauging the feelings of families during the equity release process, 85% said families were generally pleased that there parents were improving their lifestyles. Only 10% of advisers reported that families were surprised about their parents' financial situation, while 13% were simply disinterested.

Almost two-thirds (64%) of advisers said families were actually interested in how equity release might help them personally, up from 60% in 2020 and 59% in 2018.

How did the adviser describe the general feelings of the clients' family during the equity release advice process?



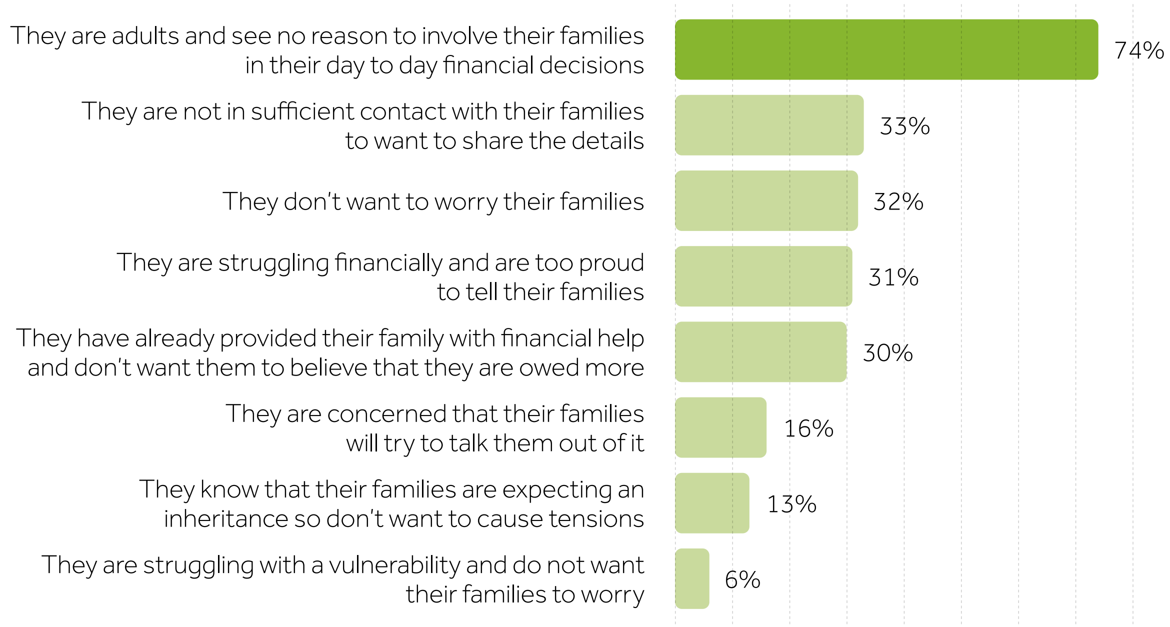
49%

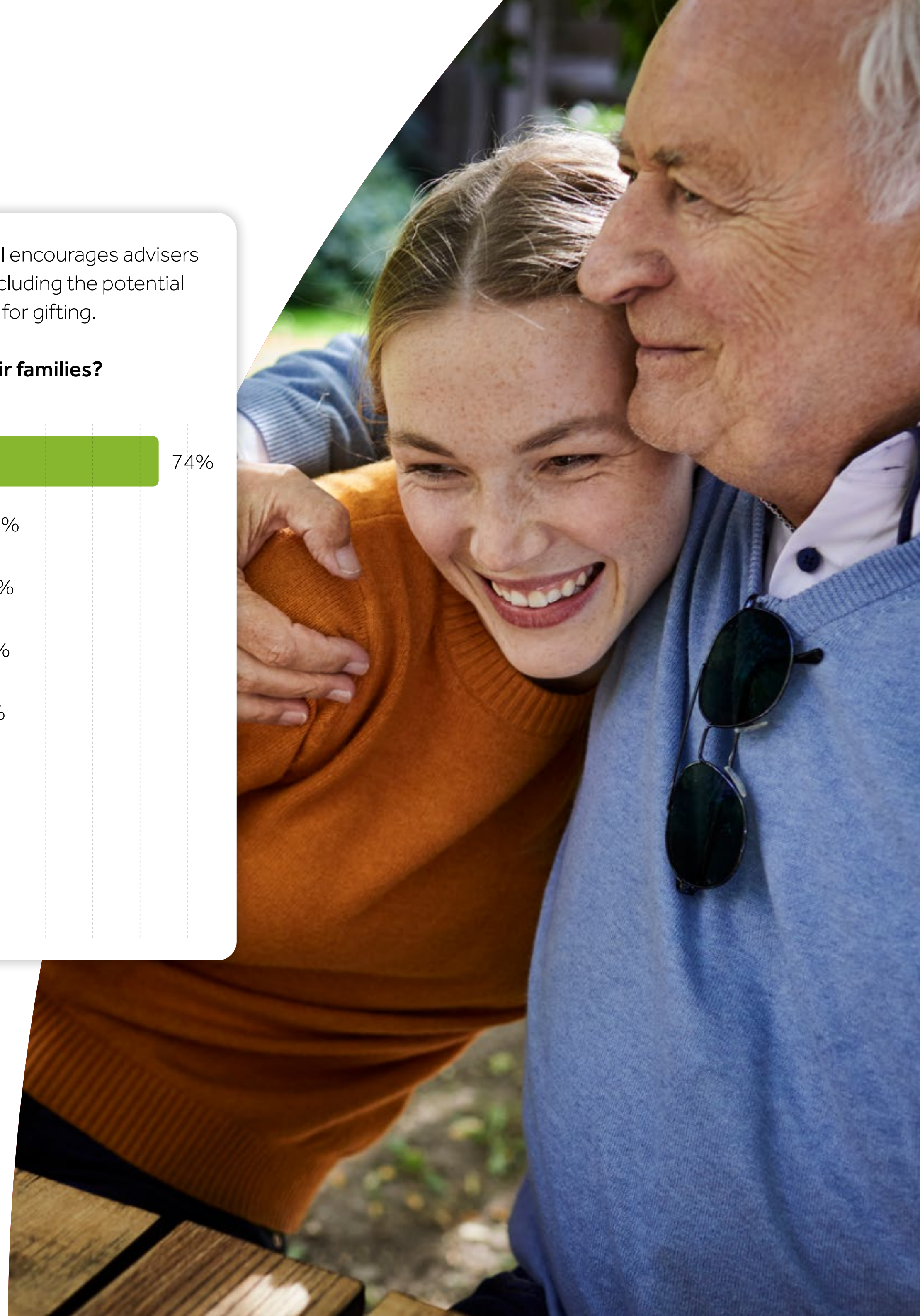
of advisers **strongly agree** that involing families allows them to air their concerns which can be addressed as part of the advice process

To what extent did advisers agree or disagree with the following statements	Strongly agree	Slightly agree	Neither agree or disagree	Slightly disagree	Strongly disagree
My clients understand the features and benefits of equity release when they first speak to me	14%	**32%**	20%	22%	12%
The families of my clients understand the features and benefits of equity release when I first speak to them	11%	24%	20%	**29%**	15%
When families attend appointments they are sometimes surprised by the fact their parents want to help them financially	6%	28%	**47%**	16%	3%
Some clients do not want to involve their families as they are concerned it would worry them	9%	**41%**	25%	20%	5%
My clients are keen to involve their families in the advice process	8%	35%	**38%**	15%	3%
Involving families allows them to air their concerns which can be addressed as part of the advice process	**49%**	35%	10%	3%	4%
Involving families in the equity release process means that there will be fewer complaints	**46%**	31%	16%	1%	5%

When older people make choices around equity release, the Equity Release Council encourages advisers to ask them if they want to involve their families. This is for a variety of reasons, including the potential impact on any inheritance and the fact that equity release is often used for gifting.

What are the main reasons behind clients deciding not to involve their families?





FCA guidance and Consumer Duty

In February 2021, the FCA published FG21/1 which was guidance for firms on the "Fair Treatment of Vulnerable Customers" and while the imminent Consumer Duty deadline is now at the forefront of peoples thinking, it pays to understand how the guidance has fared.

Almost half (47%) of advisers questioned in 2021 thought that as the guidance was introduced it would prompt change in the equity release industry, with 24% regarding the change as "slight" and 22% as "significant". Arguably this report highlights these changes with more advisers than ever before clearly identifying customers as vulnerable and seeking to provide them with additional support.

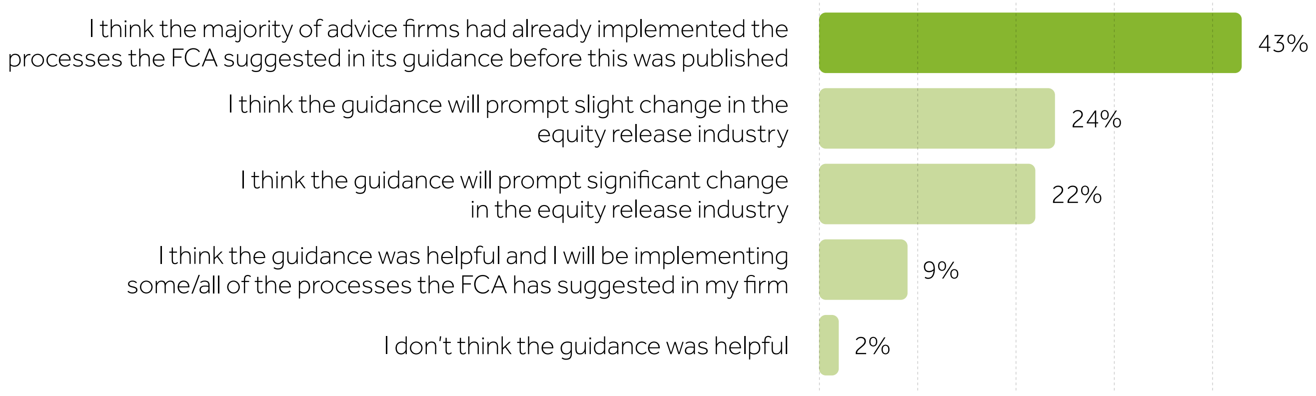
That said, 42% felt that most firms had already implemented the processes before the guidance was published so it may have been less of a learning curve for some than others. Consumer Duty is the next piece of legislation which will strengthen the protections for vulnerable customers.

The most commonly predicted impacts on how advisers manage vulnerable customers were more scrutiny around good outcomes (28%), clearer documentation of the process (26%) and an expectation around more regular post-sales contact from both the adviser and the lender (13%).

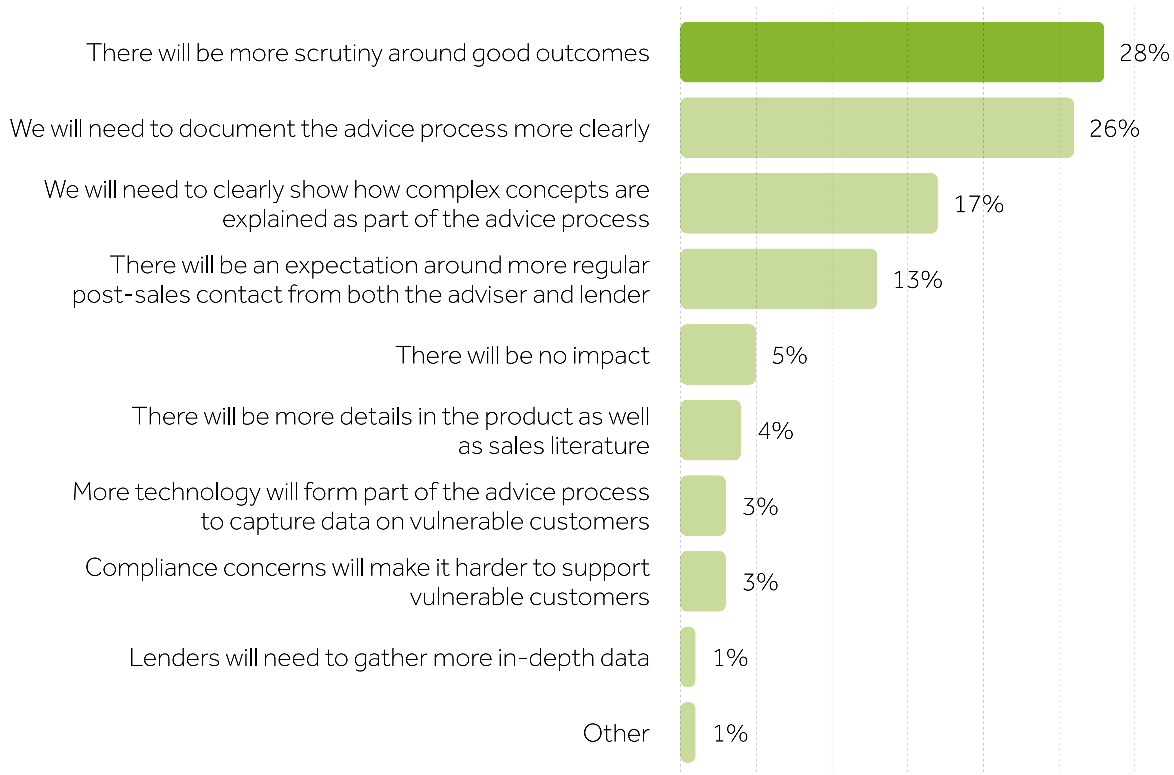
Only 3% of advisers felt that compliance concerns would make it harder to support vulnerable customers, showing that the FCA guidance is predicted to act as intended.

43%
of advisers think the majority of advice firms had **already implemented FCA's suggestions**

On the FCA's guidance for firms on the fair treatment of vulnerable customers, advisers were asked – which of the following statements do you most agree with?



What impact will Consumer Duty have on how you manage vulnerable customers?



28%

of advisers believe the Consumer Duty will **increase scrutiny around good outcomes** for vulnerable customers

Adviser vulnerability training

In terms of adviser knowledge regarding client vulnerability, 53% of advisers noted that education and training on how to support vulnerable customers had significantly improved in the past year, more than double the 22% that reported the same in 2021.

When asked what they would most like to see from lenders in the equity release market to support vulnerable customers, greater product innovation and choice were rated highly (26%), followed by greater training and educational resources (19%).

More collaboration between advisers and lenders was also cited as a key preference for 16% of those surveyed and ranked higher than improved internal processes (6%) and more tech-based processes (5%).

When asked on the product features considered most important by their clients, advisers noted that competitive interest rates were most important, with 75% of advisers noting this as their number one concern.

In total, 57% of advisers said the ability to make ongoing interest payments was important or very important, while a similar number (53%) said the same for fixed early repayment charges.

In terms of other product features, inheritance protection was considered less important than downsizing protection by over half of advisers, with 51% noting that inheritance protection was the least important of the aspects listed for clients. Lenders are already responding to these opinions and adapting products to suit, with the proportion of flexible options within product ranges at an all-time high.

In terms of the level of vulnerability training in the sector, 39% thought that more in-depth vulnerability training would be good for the industry. A similar proportion (37%) felt that regular vulnerability training "is a must".

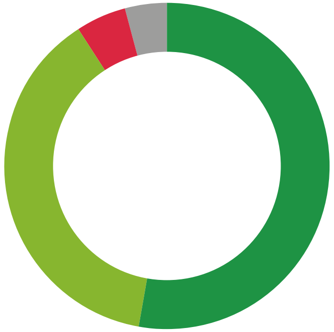
Again, it is worth acknowledging the fact that lenders and networks are proactive in providing training and information, but it is vital to ensure they keep up the pace to meet adviser demand.

Educational resources such as learning modules on client vulnerability offered by the Air Academy are widely available and well-received. They are also fully accredited by the London Institute of Banking and Finance and aligned to the Equity Release Council's Competency Framework, offering advisers peace of mind when it comes to securing credentials.

53%
of advisers thought **education and training** on how to support vulnerable clients had **significantly improved** over the past 12 months

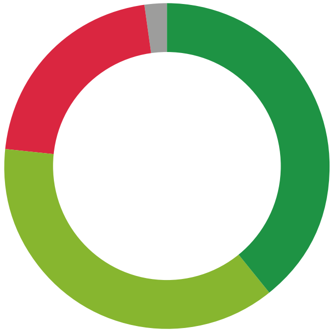
39%
of advisers thought a **more in depth vulnerability training** would be good for the industry

Advisers were asked if they thought education and training on how to support vulnerable clients had improved for them over the past 12 months



Yes, I think it has significantly improved	53%
Yes, I think it has slightly improved	38%
No, I don't think it has improved at all	5%
I don't know	4%

Advisers were asked if there should be more vulnerability training available to them



Yes, I think more in depth vulnerability training would be good for the industry	39%
Yes, I believe regular vulnerability training is a must	37%
No, I think the current levels of vulnerability training in the sector is sufficient	21%
There needs to be more standardisation of the vulnerability training provided to advisers	2%

Looking to the future

Considering the atypical years between 2020-2022, advisers were asked what 2023 is likely to have in store for clients.

Almost a quarter (23%) of advisers predicted that higher rates would mean customers wait longer or are put off taking out products, while 21% felt that lower loan-to-values (LTVs) means they may be unable to help some clients they might have done in previous years. However, only 13% believed that customers will remain cautious and that the market would be static, less than the 16% who reported the same in 2021.

Interestingly, almost half (48%) of advisers would request lower rates if they could ask lenders to do one thing with products in 2023, over twice that of the next most popular option – extended offer periods (22%). However, rate-setting is often out of lenders' hands and given market conditions, this a tough ask.

For considerations more in lenders' control, 9% of advisers would request more flexibility on offer periods and 7% wanted improved underwriting criteria as a priority, showing that efforts to increase flexibility and processes in the application have borne fruit.

When asked specifically what they would be most keen to see in 2023 when it came to servicing, 35% of advisers said they would want lenders to force solicitors and surveyors to improve their standards and 29% requested better access to those individuals at lender organisations that can provide answers on cases.

2020, 2021 and 2022 have been atypical years, what do you believe will happen in 2023?

Only 10% desired earlier communication in the event of a problem and only 8% wanted more context around deadlines and more communication throughout the completion process (respectively).

This shows that there are still key servicing areas where lenders can improve access and work to inspire better industry standards, but the sector is responding promptly to improve communication on applications both at the start of the process and throughout the completion progress. There is always more that can be done, but this is a strong sign of positive movement.

53%

of advisers want **improved standards of service** from solicitors and surveyors

If adviser were able to ask lenders to do one thing with products in 2023

Lower rates	48%
Extend offer periods	22%
Better service levels	10%
More flexibility on offer periods	9%
Improve underwriting criteria	7%
Lower ERC's	5%

If adviser were able to ask lenders to do one thing with servicing in 2023

Force solicitors and surveyors to improve standards	53%
Better access to people who can provide answers on cases	29%
Communicate earlier if there is a problem	10%
Provide more context around declines	8%
More communication throughout the completion process	8%
Improve online capabilities	6%
Other	5%

Conclusion

Vulnerability was always going to be a key topic for 2023 with the Consumer Duty deadline on 31st July, but the data here shows that advisers are largely confident in both the FCA's recommendations and the implement ation of the requirements across the sector.

The cost-of-living crisis remains a key pressure on clients and the data on family involvement shows that there is a clear route forward to addressing the vulnerability that this pressure may have caused.

Looking ahead, there are areas of communication where lenders and advisers can better collaborate and this study provides clear feedback from the adviser community on where the sector needs to focus its efforts.

While it is important to note that vulnerability is not an issue to "fix", it is clear to see that efforts to better identify and support vulnerable customers are gaining momentum, a movement that must continue in 2023.

Research methodology

Since 2018, more2life has undertaken research on almost 1,200 advisers operating in the equity release market to ascertain their views on how the important topic of vulnerability is managed and clients as well as their families supported. In February 2023, over 300 equity release advisers shared their thoughts on this topic.

References

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