AKG

RESEARCH PAPER 2020

House of the rising sum – exploring equity release opportunities

IN ASSOCIATION WITH: more2life the later life lender

CONTENTS

PROJECT BACKGROUND

OVERVIEW

AKG has an awareness of the equity release market through its core financial strength assessment work whereby some of the companies covered in the *Provider* sector participate directly in the equity release market or have some form of interaction with this market.

From a distribution perspective, AKG also carries out independent reviews of equity release market providers on a bespoke basis for some of its larger intermediary clients to support panel construction considerations, specifically around financial strength positioning.

Additionally, through market research exercises carried out to support AKG's 2015 and 2018 pension freedoms papers there has been an emerging theme around the consideration of property wealth, its potential positioning and use as an 'asset' within retirement planning exercises.

AKG is therefore delighted to have been working on a further industry research paper which takes a more in-depth look at and specific consideration of this equity release element.

The purpose of the paper is to provide the market with a practical and educational paper which encourages further discussion and debate about the evolving role of equity release in the UK retirement and later life markets.

Crucially to ascertain whether or not interest and business will spread beyond the preserve of equity release specialists into the wider planning market on a more regular basis in future.

The paper is primarily targeted at intermediaries, but equally it will have pertinent content for product providers and other stakeholders.

The paper is underpinned by two separate but complementary market research exercises – one quantitative piece carried out via an online survey with advisers and the other a qualitative piece facilitated via a series of telephone interviews.

The findings from both research exercises provide us with great insight on key matters and hence these findings feature throughout the paper.

RESEARCH ELEMENTS OF PROJECT

Quantitative adviser research approach
The target base for this research exercise was generalist mainstream advisers and brokers including wealth managers but excluding equity release specialists.

The research was carried out on AKG's behalf by Pollright via online survey during Q3 2019. There were 102 survey responses.

A list of the research questions posed in the online survey is provided in the Appendix.

Qualitative adviser research approach
Telephone interviews were conducted on AKG's behalf by Frank Fletcher, Widewater Consulting, during Q3 2019 with representatives from a range of financial planning, network and service provider firms. Interviews lasted for approximately 25–40 minutes.

Representatives from a total of 18 firms were interviewed and the research sample for this qualitative exercise was broken down as follows:

- 4 holistic financial planners/wealth managers (designated *'H'* in verbatim quotes throughout this paper)
- 4 firms primarily active in the mass affluent market (designated *'MA'* in verbatim quotes throughout this paper)
- 6 generalist financial advisers (designated *'G'* in verbatim quotes throughout this paper)
- 4 head office personnel from networks/service providers (designated *'N/SP'* in verbatim quotes throughout this paper).

COMMENT FROM THIRD PARTIES

This AKG research paper also includes input/comments from other pertinent market stakeholders, including The Society of Later Life Advisers (SOLLA), The London Institute of Banking & Finance (LIBF), The Society of Mortgage Professionals (SMP) and The Equity Release Council (ERC).

RESEARCH PAPER SPONSORSHIP

This AKG industry research paper has been sponsored by more2life – one of the UK's largest equity release lenders. **www.more2life.co.uk**

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ABOUT AKG

AKG is an independent organisation specialising in the provision of assessment, ratings, information and consultancy to the financial services industry. **www.akg.co.uk**

EQUITY RELEASE MARKET UPDATE

The Equity Release Council has recently issued its 2019 full year figures with the following highlights below:

- A total of £3.92 billion of housing equity was withdrawn by older homeowners in 2019, in line with last year's total of £3.94bn, as the market consolidated recent growth
- Market has grown almost four-fold in the last decade, with the annual value unlocked rising from £945.97 million (2009) to £3.92 billion (2019)
- Total number of customers served remained high, with 85,497 older homeowners using their property wealth in 2019

David Burrowes, Chairman of the Equity Release Council comments: *"After a period of steady growth, the market has reached a point of consolidation in 2019 with lending volumes in line with 2018. The sector enters 2020 in a strong position with updated standards and a greater number of diverse members signed up than ever before. Looking ahead, we'll continue to work with stakeholders to ensure consumers are able to access the best advice while ensuring joined up financial planning so that equity release remains a key consideration in mainstream retirement planning.*

"Previously viewed as a niche product to support people's retirement plans, the untapped potential of equity release is now being recognised. This comes as a growing number of customers are recognising the important role property wealth can play in meeting their retirement needs. This has been driven by competition, falling interest rates, increasing numbers of flexible and innovative product options and supported by rigorous standards in the market."

EQUITY RELEASE COUNCIL
SAFE EQUITY RELEASE
SINCE 1991

SUMMARY OF HEADLINE FINDINGS FROM QUANTITATIVE RESEARCH

Taken as a whole, the paper provides interesting insight into how the market is viewed by the wider adviser population, how engaged they are and how they see it evolving in the future.

Specific findings include:

- **Primary benefits of offering equity release** – Advisers see the ability to offer a wider range of services to clients, being able to help clients with issues they could not help with previously and the provision of an additional revenue stream for the adviser business as primary benefits of offering access to equity release.
- **Equity release reactions from clients** – Some advisers chose to actively discuss equity release as part of the advice process and when asked about responses the largest proportion said that their clients are receptive as to how equity release might help them with their circumstances.
- **Key drivers in client interest in equity release** – When asked what they believe will drive or is driving interest and demand for the equity release side of their business, the key factors selected by adviser respondents can be broken down into:
  - **retirement income wherewithal** (clients facing shortfalls or wanting to enhance their retirement lifestyle);
  - **financial support for family members** (provision of financial help to children/grandchildren or wanting to help children/grandchildren with house purchases) and
  - **property-based debt settlement or access to property funds** (needing to pay off mortgages or wanting to access wealth tied up in property).

- **Most valuable equity release product features for clients** – Advisers felt that no negative equity guarantees, drawdown facilities and the ability to make capital or interest payments were the most valuable/appealing equity release product features for clients.
- **Key selection criteria when selecting equity release lenders** – When advisers considered which lender to put forward, respondents rated (competitiveness of) interest rates/product pricing as the most important consideration with range of solutions/products, range of LTVs, financial strength and product innovation also coming through as key selection criteria.
- **Plans for engagement with the equity release sector in 2020** – Almost half (47%) already offered an equity release advice solution in-house and just under one-fifth already deliver advice solutions via a referral service. Of the remaining respondents, 19% had no plans to offer advice in this area and 11% said they had no immediate plans but were considering how to best approach the topic. Finally, 8% were looking at potentially referring and 5% training to offer equity release advice.
- **Predictions for equity release growth** – When asked about growth predictions, the highest proportion of adviser respondents felt that the equity release side of their business would grow modestly, i.e. +10% to 25%, over the next three years.

HISTORICAL PERCEPTION STILL EXISTS FOR SOME

When speaking to participants in the telephone interviews the most commonly mentioned issue with equity release is an historic one, but it is true that negative perceptions can be difficult to shake off. Several advisers even commented that it was unfair to tar current day products with the negative connotations that came with the old-style plans.

Advisers acknowledge that the industry has come a very long way from those days and products but, in addition to advisers having concerns, they feel their clients also have long memories when it comes to negative experiences.

And the term 'last resort' can have overly negative connotations…
The most frequently cited, but far from universal, view from the interviews is that equity release's main role is as a 'last resort' product. Indeed, one adviser sees it as a relationship- ending product on the basis that there is little, or no wealth left to advise on, and the client is passed over to an equity release specialist. However, as we will see in other areas of this paper, this view is a minority one.

> *"Not just a last resort product but a product that in many ways has an impact on intergenerational planning and requires regular review in a dynamic market – something that is often missed by less experienced or transactional advisers."*
>
> **Jane Finnerty, SOLLA**

But there needs to be an emphasis on moving the equity release discussion and debate forward…
Against the backdrop of these well-known preconceptions there is much to explore in terms of knowledge and opportunity, as indicated by some of these comments from interviews

> *"It is now a key part of overall retirement planning – it wasn't even as recently as four years ago."*
>
> **G**

> *"It is an option – a tool. Now that pensions are inheritable, property wealth can play a more important part in retirement income planning. But one of the things that needs to be looked at carefully is a potential impact on benefits entitlements."*
>
> **G**

> *"Demographics mean that we are having many more conversations about equity release now than ever before."*
>
> **MA**

And so, advisers across the industry should be encouraged to 'come back to the table' and consider their future stance on equity release. It is important to appraise how it might be utilised for client scenarios or at least to be in a more informed position to write-off its role and application.

> *"There is a level of ignorance among financial planners. Good equity release specialists are seriously undervalued."*
>
> **MA**

> *"Advisers should be looking to upskill to ensure they are able to support their clients in this area especially as housing wealth forms a large core of most people's assets."*
>
> **Jane Finnerty, SOLLA**

WHAT'S IN IT FOR ME?

HOW WOULD ADVISERS STAND TO BENEFIT FROM ENGAGING WITH EQUITY RELEASE?

But why should advisers be encouraged to give closer consideration to the role of equity release in retirement planning if they are not doing so already?

AKG's quantitative research asked about the primary benefits of offering equity release. Here is an overview of responses selected by adviser respondents.

Necessity
- 33% – The market is growing so rapidly we have to offer equity release advice
- 23% – My clients expect me to offer equity release and I am happy to oblige

Broadening and differentiation of proposition
- 67% – I can offer a wider range of services to clients
- 46% – I am able to help clients with issues I could not help them with before
- 26% – It differentiates me from the competition who don't offer as much

Revenue stream opportunity
- 42% – It provides an additional revenue stream for my business

Engagement with family members
- 35% – It enables them to engage with other family members

Perhaps bucking the concern about these products being potentially 'relationship ending', the above statistic from the quantitative research and the following comments from the telephone interviews point towards both 'next gen' and intergenerational development opportunities.

"To me one of the fundamental benefits of equity release for an adviser is being able to help those clients you might ordinarily have had to turn away. Access to good financial advice is not as common as it needs to be and for an adviser to be able to help valued clients with issues they are struggling with must be extremely gratifying."

more2life
the later life lender

Dave Harris
CEO at more2life

What do you believe are the primary benefits of offering equity release? (select all that apply)

Answer Options	Percentage
I can offer a wider range of services to clients	67%
I am able to help clients with issues I could not help them with before	46%
It provides an additional revenue stream for my business	42%
I am able to engage with other family members	35%
The market is growing so rapidly we have to offer equity release advice	33%
It differentiates me from the competition who don't offer as much	26%
My clients expect me to offer equity release and I am happy to oblige	23%
Other (please specify)	7%

Source: Quantitative market research questions

"ER offers a fantastic opportunity to sit down with the beneficiaries, potentially the next generation of clients. The sale may actually be for their immediate benefit, e.g. releasing funds to get them on the property ladder. We always prefer family members to be involved but to some extent it depends on what the proceeds are to be used for. It can be sensitive."

MA

"Some good potential benefits for the financial adviser – can be a relationship developer, gets children involved introducing potential new clients but all other objectives should be secondary to ensuring the well-being of the client."

N/SP

Clearly plenty of reasons for enthusiasm and opportunity for intermediary businesses while these findings also make positive reading for providers.

POSITIONING AND DEMAND

THE ROLE OF EQUITY RELEASE

Usefully summarised by this comment from the telephone interviews.

> *"Typical uses are home improvements, holidays; gifting is becoming more important – passing on capital with a warm hand not a cold one. It may also be used for reducing inheritance tax liability. Some clients need it to live on – looking for income so drawdown is more suitable than capital withdrawal."*
>
> **N/SP**

EQUITY RELEASE POSITIONING – THE HIERARCHY OF INCOME GENERATING TOOLS

Essentially it is seen as a tool that, like pension freedoms, gives customers access to the wealth they have accumulated in property as opposed to financial assets.

But as to where it fits in the hierarchy of income generating tools, the telephone interviews suggest a substantial divergence of views:

- There are advisers who recommend conserving pension assets for as long as possible
- There are increasing numbers who see equity release as a crucial tool in the retirement income planning process more generally
- But for many, equity release is still seen as a last resort
- For those in between, equity release might be seen as a tactical solution to a specific need or want.

EQUITY RELEASE APPETITE – CLIENT DEMAND, INBOUND ENQUIRIES

Seeking to get a sense of client demand, AKG's quantitative research asked how regularly firms are asked by clients about equity release.

Some advisers are experiencing a reasonably regular stream of enquiries, with 23% stating that they are asked about equity release at least once a month and 25% at least once a quarter, but these findings hint at more sporadic demand in terms of clients getting in touch with their adviser about equity release. That said the level of enquiry volumes seen here is likely to be representative of the more mainstream and generalist adviser research sample.

How regularly are you or your firm asked by clients about equity release?

Answer Options	Percentage
Every day	1%
More than once a week	2%
At least once a week	6%
At least once every two weeks	14%
At least once a month	23%
At least once a quarter	25%
Less often	29%

Source: Quantitative market research questions

EQUITY RELEASE APPETITE – ESTIMATING CLIENT INTEREST

Staying with the demand theme but seeking estimates from adviser respondents, AKG's quantitative research asked what proportion of clients might be interested in equity release.

While perhaps for a smaller percentage of their client base than might be seen in relation to investment and pension business, the findings suggest that advisers do feel that there might be interest and use for certain types of clients and client scenarios.

Thinking about your client base, what proportion do you think might be interested in equity release?

Answer Options	Percentage
Less than 5%	32%
6% to 10%	36%
11% to 20%	18%
21% to 30%	3%
31% to 40%	4%
41% to 50%	1%
Over 50%	3%
None	3%
Average proportion	**10.8%**

Source: Quantitative market research questions

HOW DO ADVISERS ESTIMATE THE PROPORTION OF CLIENTS THAT MIGHT BE INTERESTED IN EQUITY RELEASE?

Contributing factors

Here the quantitative research sought to find out more about how advisers go about estimating the proportion of their clients that they believe might be interested in equity release.

Equity release to support retirement income shortfall

- 57% have clients who do not have sufficient income in retirement to match their aspirations
- 40% have clients who are believed to be struggling financially in retirement
- 39% have clients who advisers believe will need to borrow money in retirement

Getting a foot on the property ladder for children

- 55% have clients who have asked about helping their children buy properties

Inheritance considerations

- 41% have clients who advisers believe will want to provide an early inheritance to their family
- 34% have clients who advisers believe will need to plan for inheritance tax

Order of accessing different retirement assets

- 44% have clients who have valuable properties which could be more effectively used for retirement planning.
- 22% have clients who advisers believe would want to keep their pension fund intact

How do you estimate the proportion of your clients that you believe might be interested in equity release? (please tick all that apply)

Answer Options	Percentage
I have clients who do not have sufficient income in retirement to match their aspirations	57%
I have clients who have asked about helping their children buy properties	55%
I have clients who have valuable properties which could be more effectively used for retirement planning	44%
I have clients who I believe will want to provide an early inheritance to their family	41%
I have clients who I believe are struggling financially in retirement	40%
I have clients who I believe will need to borrow money in retirement	39%
I have clients who I believe will need to plan for inheritance tax	34%
I have clients who I believe would want to keep their pension fund intact	22%
I considered who might ask me about equity release	22%
Other (please specify)	9%

Source: Quantitative market research questions

WHAT STEPS HAVE YOU TAKEN TO ASCERTAIN HOW INTERESTED YOUR CLIENTS ARE IN EQUITY RELEASE?

Through the quantitative adviser research, AKG was interested to see what steps are being taken to ascertain the level of client interest in equity release and furthermore to see whether this is being done on a pro-active or re-active basis.

It appeared from the telephone interviews that advisers are increasingly likely to at least seek to raise awareness of equity release with clients at an early stage in the retirement income planning process.

Routinely mentioned

- 23% now routinely mention it in appointments with clients aged 55-plus
- 21% routinely mention it as an option in all discussions with clients
- 24% discuss how property wealth can be used more generally, such as downsizing, to see what they say

Marketed as part of proposition

- 19% – I have made a specific mention of it on my website as a service we offer.

Needs-based

- 43% – If I identify a client who has an aspiration/need equity release can help with I discuss it.

Not working to ascertain interest

- 34% – I am not working to ascertain if my clients are interested in equity release.

What steps have you taken to ascertain how interested your clients are in equity release? (select all that apply)

Answer Options	Percentage
If I identify a client who has an aspiration/need, equity release can help with I discuss it	43%
I am not working to ascertain if my clients are interested in equity release	34%
I discuss how property wealth can be used more generally such as downsizing to see what they say	24%
I now routinely mention it in appointments with clients aged 55-plus	23%
I routinely mention it as an option in all discussions with clients	21%
I have made a specific mention of it on my website as a service we offer	19%
I've done some marketing (e.g. emails) around the service	5%
I've segmented my database and am actively targeting potential clients	1%
Other (please specify)	5%

Source: Quantitative market research questions

PERCEPTION, DRIVERS AND ENGAGEMENT

EQUITY RELEASE PERCEPTION – CLIENTS

When you mention equity release to your clients, what are their reactions?
Just under half of advisers (47%) said that clients are receptive as to how equity release might help them with their circumstances and around one-fifth (19%) said that clients are interested and keen to know more. This makes positive reading for those active in the equity release space, be they advisers or providers.

Almost one in five (17%) said that clients thanked them for the information about equity release but were not interested in the subject and 5% of advisers reported a range of postive and negative reactions, depending on the client.

Only 11% of those advisers surveyed reported that clients are generally negative about equity release and 8% said that some clients question why the adviser wants to offer equity release.

> *"We do encounter some client resistance sometimes so there is need for more education; clients need to understand that it can be a viable alternative to having to downsize and move home."*
>
> **MA**

When you mention equity release to your clients, what are their reactions? (select all that apply)

Answer Options	Percentage
They are receptive as to how equity release might help them with their circumstances	47%
They are interested and keen to know more	19%
They thank me for the information but are not interested	17%
They are generally negative about equity release	11%
Some clients question why I want to offer equity release	8%
A range of positive and negative reactions – depending on the client	5%
They generally do not know anything about it	4%

Source: Quantitative market research questions

DRIVERS FOR INTEREST AND DEMAND

The findings from this question in AKG's adviser survey echo some of the sentiment seen earlier in the paper and provide a really good sense of the range of reasons behind the evolution of the equity release market and its future growth prospects.

What do you believe will drive or is driving interest and demand for the equity release side of your business? (select all that apply)

Answer Options	Percentage
Clients facing shortfalls in retirement income	65%
Clients wanting to provide financial help to children/grandchildren	57%
Clients wanting to enhance their retirement lifestyle	55%
Clients wanting to help children/grandchildren with house purchases	51%
Clients needing to pay off mortgages	50%
Clients who want to access the substantial wealth they have tied up in property	49%
Clients needing funding for care at home	35%
Clients needing to clear short-term debts	25%
Clients interested in retaining pension assets	22%
Clients looking at enhancing tax efficiency	20%
Clients who will be facing divorce or the death of a spouse	15%
Other (please specify)	5%

Source: Quantitative market research questions

Taken from this, new equity release clients can potentially be targeted via their need to meet the following demands:

- Retirement income shortfall/boost
- Supporting children/grandchildren
- Financial planning with property asset usage in mind
- Mortgage repayment requirement
- Funding for care at home
- Clearing short term debts.

ISSUES WITH AND BARRIERS TO ENGAGEMENT WITH EQUITY RELEASE

Starting on a positive note, just over one-quarter (27%) of advisers responding to the survey stated that there are no barriers or concerns to them giving equity release advice. A promising statistic for equity release providers targeting further growth opportunities in the intermediary market.

Unsurprisingly, the top factor selected as a barrier to engagement was the historical perception of equity release (38%), while 19% referenced a potentially negative reaction from clients.

As frustrating as the task of altering this historical perception must be for equity release providers and other key market stakeholders it remains an obstacle. There is no doubt that people have long memories when it comes to these sorts of things.

However, time is a great healer and, supported by positive growth and development in today's equity release market, particularly around positive customer outcomes, this negative sentiment will hopefully reduce further.

The caveat here is that any notable reputational problems in the market or bad practice will hamper recent positivity around equity release.

The second most selected factor was compliance concerns (35%). The positive here, for those who wish to move forward with the development of equity release advice processes, is that improved compliance is something that can be worked on. An action point therefore for those active in the equity release market, both providers and advisers, is to clearly demonstrate the good compliance standards evident in organisations and across advice as well as referral services. For those less active but keen to engage more should seek to establish and borrow/share best compliance practice when developing equity release advice and referral services.

"At more2life, we have an extremely strong compliance department, so I entirely understand the desire to manage reputational and regulatory risk. That said, the equity release market has significantly evolved over the last few years and I would urge compliance professionals to speak to the industry as you may find we have more in common than you thought."

more2life the later life lender

Dave Harris
CEO at more2life

Around one-quarter (24%) selected concerns that professional indemnity (PI) cover costs will rise. This is an increasing problem across the intermediary market where, largely driven by challenges with Defined Benefit pension transfers, both the cost and supply of PI cover is a concern with appetite from insurers for engagement with the intermediary market apparently diminishing.

22% selected regulatory concerns, which could also be linked to compliance, PI and advice process concerns. From a regulatory perspective it will be interesting to see what work might be done by FCA in the later life planning and equity release market in 2020 and beyond, as it is vital that 'safe and sound growth' in the market continues.

17% of those surveyed said that they don't have time to focus on this area of the market, while 16% referenced qualification requirements as a barrier or concern and 14% selected a lack of in-house expertise as a barrier or concern.

While referenced as barriers/concerns there is likely to be a proportion of these advisers who might move forward with their equity release considerations in 2020 and beyond. This suggests that there are clear opportunities for the growth in strategic partnerships with specialist referral services.

What are the barriers or concerns to you giving equity release advice? (select all that apply)

Answer Options	Percentage
Historical perception of equity release	38%
Compliance concerns	35%
There are no barriers/concerns	27%
Concerns that professional indemnity cover costs will rise	24%
Regulatory concerns	22%
Potential negative reaction from clients	19%
I don't have time to focus on this area of the market currently	17%
Qualification requirements	16%
Lack of in-house expertise	14%
I am part of a network which is very cautious about equity release	6%
Head office prefers me to refer equity release clients	3%
Other (please specify)	7%

Source: Quantitative market research questions

CAPACITY CONCERNS

Succinct comments from a couple of the qualitative research participants raise an interesting question for the industry moving forward around equity release adviser capacity.

"I do wonder if there are enough financial advisers out there to advise on equity release."

G

"I feel sure the market is going to grow but I don't see it as mainstream. I think there are also issues around advice capacity, my sense is there is not enough."

MA

REFERRAL ARRANGEMENTS AND RELATIONSHIPS

For those advisers interested in exploring referral relationship opportunities further it would be worth engaging with potential partners to find out more about how these relationships are forged initially and how they work on an ongoing basis.

Three examples of equity release referral service operators in the market are Key Partnerships, HUB Referral Solutions and Age Partnership.

Referral trends

Between 2016 and 2018, Key Partnerships saw a 285% increase in the number of businesses signing up to provide their clients with access to equity release – citing client interest and the view that the market is best served by specialists. Mortgage brokers (42%), independent financial advisers (40%) and wealth managers (6%) are the three biggest introducer groups.

Analysis of a sample of over 5,000 records on Key Partnerships database suggests that introducers fall into the following categories:

- Overall, mortgage brokers (42%) are most likely to refer clients to an equity release specialist. This suggests that in a bid to help older clients, who may fall foul of affordability rules or age restrictions, brokers are encouraging them to consider equity release.
- Intermediaries (46%) – either general independent financial advisers or wealth managers – are also frequent introducers. This clearly highlights the fact that increasingly not only are people considering their entire asset portfolio at retirement but intermediaries are having the conversation with clients.
- Estate agents, legal services, insurance brokers, accountants and debt management services also regularly discuss equity release with their clients and recommend they speak to experts.

Why refer?

Organisations signed up to introduce equity release plans due to the feeling that this is a specialist market. One that they need support with (either their own or network/head office views) while others were encouraged by customer enquiries.

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.

- Looking to the future, 66% of introducers intend to continue to refer with others looking at options such as in-house capabilities.*

* All content from 'Referral trends' title is referenced from Key Partnership's Introducing the Introducers report.

EDUCATION, QUALIFICATIONS AND STANDARDS

QUALIFICATIONS

There are two main options for those advisers considering embarking on the qualification route for equity release themselves:

- The London Institute of Banking & Finance – Certificate in Regulated Equity Release (CeRER)
- The Chartered Insurance Institute – Certificate in Equity Release.

In November 2019, the London Institute of Banking & Finance revealed full details of the changes being made to enhance and evolve its Certificate in Regulated Equity Release.

Discussing these changes at the time, **Mark Heaton, Director of Corporate and Professional Learning at The London Institute of Banking & Finance** said: *"Equity release products are changing rapidly, and the market continues to go from strength to strength. As a result, we've been talking to the sector to make sure that our Certificate in Regulated Equity Release remains relevant and up to date. We've made fundamental changes to the content, study text and course materials to reflect industry priorities and consumer needs. This updated Certificate provides advisers with a solid grounding in everything they need to know about the market, products and regulations to enable them to give their customers the best advice possible – with practical examples that really help bring this to life."*

The main changes were summarised by LIBF as follows:

- The number of topics has increased from three to six, with new content including broader and more detailed coverage of lifetime mortgages. Key improvements have also been made in the text in relation to vulnerable customers, powers of attorney and complaint handling.
- A digitally enhanced course site has been developed which includes videos, quizzes and animations.
- New course content includes recorded interviews with members of the Equity Release Council and senior figures from within the equity release market.
- There are more practical examples and case studies that advisers can use in their day-to-day role.
- There will be an additional digital Specimen Paper available, and an update to the existing one, from December 2019.

ACCREDITATION

The Society of Later Life Advisers offers a Later Life Adviser Accreditation for those advisers seeking to advance a specialism in later life planning.

The Later Life Adviser Accreditation is made up of four standards – Technical Knowledge; Work within a Supportive Environment; Maintenance of Competence; Application of Knowledge and Soft Skills – and all of these standards must be achieved to become accredited.

https://societyoflaterlifeadvisers.co.uk/Accreditation

SOLLA will be launching a Later Life Lending Advice Standard for equity release advisers during 2020.

ACCREDITATION AND LICENSING

Some concerns were voiced in AKG's qualitative adviser research about accreditation and licensing being a hurdle to engagement with equity release. Advisers talked about firstly needing to be authorised to undertake equity release business and then licensed to do it. In their minds there are two stages – having the exams and then engaging in the equity release transactions themselves.

> *"For advisers there is a barrier to entry in the form of accreditation and licensing – may be challenging, laborious and expensive."*
>
> **H**

> *"The financial adviser might not have the necessary permissions or licence and specialist advisers might not be interested; this is an area that needs to be looked at."*
>
> **N/SP**

This may be an area for required focus moving forward in terms of ensuring that this misconception is cleared up and beyond exams and qualifications, advisers have a clear understanding of how to practically move forward to engaging with transactional equity release business.

AWARENESS AND EDUCATIONAL REQUIREMENTS

One of the concerns voiced by telephone interview participants is inadequate client understanding of the product, its risks and possible consequences.

> *"People don't understand the product – it is our job (and that of the press) to educate them."*
>
> **N/SP**

Typically, when it comes to such issues in the financial services industry it is the product providers who must foot the bill for such awareness and educational campaigns.

However, in this market, given the fact that equity release can only be taken out on an advised basis, advice firms have been doing some of the heavy lifting including a focus on education. While, it is anticipated that they will continue to do so in the future, further efforts from all market participants will be required in 2020 and beyond.

STANDARDS AND LEARNING

In terms of building consumer trust across the financial services industry more broadly and then specifically as a case in point with the equity release market, there is a requirement for development and maintenance of strong conduct, professionalism and standards.

EQUITY RELEASE COUNCIL

The Equity Release Council is the industry body for the UK equity release sector; representing organisations such as the providers, qualified financial advisers, solicitors and intermediaries, with key objectives as outlined here:

"Allowing people to access some of the savings built up in the value of their homes could help fill the increasing gap in retirement incomes and long-term care costs, but people must have confidence that they will be treated fairly if they consider this option, which is why the maintenance of the highest standards of consumer protection is so essential. The Equity Release Council and its Standards Board bring together the wider equity release sector in a shared objective of providing a safe mechanism for equity release to a much larger group of people."

In November 2019, the Equity Release Council launched its updated industry standards, stating that the update introduces an approach based on principles and consumer outcomes, which reflects the latest thinking in financial services regulation and complements the existing rules, safeguards and protections. It sets the benchmark for best practice by providing a higher level of consumer protection than any other form of property-based loan. Its purpose is to ensure that equity release products and services continue to deliver good outcomes for customers, who face increasingly complex decisions in an evolving later life market and regulatory landscape.

An extensive consultation took place during 2019 among the Council's membership. It also drew on external input from the Financial Conduct Authority (FCA), HM Treasury and the Money and Pensions Service (MaPS). The process was overseen by the Council's Standards Board, made up of industry professionals and independent regulatory experts. The resulting update was effective from 1st January 2020.

As well as refreshing and simplifying many rules, the latest standards' update reinforces the existing focus on providing appropriate support to customers who may be exposed to physical, mental and financial vulnerability at any point of contact. Customers of Council member firms receive three levels of protection, encompassing a structured financial advice process; clear product safeguards; and independent face-to-face legal advice. The latter is particularly important in keeping with the Mental Capacity Act, which identifies solicitors among those professionals who can assess whether someone has the capacity to enter into a contract and is not under duress from any third party.

Chris Pond, Chair of the Equity Release Council's Standards Board, commented: *"The standards are fundamental to the Council's work to lead a customer-focused market, and today's launch is an important milestone in nearly thirty years of protecting consumers' interests. The aim of the review was to ensure that the standards reflect emerging trends in regulation and are future proofed for a world where retirements needs are constantly changing.*

"The renewed focus on principles and outcomes alongside existing rules and guidance will help to ensure that equity release products and services continue to meet customer needs. The standards which Council members commit to, above and beyond their regulatory duties, provide the ultimate reassurance to consumers that equity release products are safe and reliable."

David Burrowes, Chairman of the Equity Release Council concluded: *"The UK population is ageing rapidly, and people are having to make increasingly complex decisions over longer lives in retirement. Elderly consumers face a wide range of products and services to meet different and often competing needs – from providing additional retirement income and meeting the costs of care to providing early inheritance to family and friends.*

"Today's landscape demands a joined-up approach to later life financial planning that considers all wealth and assets. Longstanding provisions for equity release customers, such as the guarantee of independent legal counsel, have set a high benchmark for delivering advice in the later life arena. Our updated standards build on these guarantees to ensure they are fit for modern day purposes. They recognise that the best outcomes can often be achieved in different ways, by combining clear rules with overarching principles which all members sign up to. These will continue to evolve in future to meet the ever-more complex challenges facing consumers."

SOCIETY OF MORTGAGE PROFESSIONALS

In response to the ways in which the mortgage market is evolving the Chartered Insurance Institute recently relaunched its Society of Mortgage Professionals (SMP), a dedicated professional community for advisers. With the rise of equity release, and later life products more generally, the relaunch recognised that new skills and knowledge would be required by advisers in order to maintain the highest professional standards.

David Thomas, Chair of the Advisory Board for the SMP, said: *"The later life market is hugely dynamic – we are now seeing a merger of both true Equity Release and Retirement Interest Only, enabling consumers to design their borrowing needs around changing income patterns into retirement. The need for robust advice in this market is critical. The Society of Mortgage Professionals is committed to equipping its members with the knowledge and skills to understand ever changing products and services and securing the best outcomes for consumers."*

LONDON INSTITUTE OF BANKING AND FINANCE

John Somerville, Relationship Director of Corporate & Professional Learning at The London Institute of Banking & Finance, said: *"Our Equity Release Qualification (The Certificate in Regulated Equity Release – CeRER) has evolved with the changing world of later life lending. We believe that this evolution is an important step to ensure advisers and firms are suitably equipped for dealing with customers' ever-changing needs, economic challenges and the reality of an ever-aging population.*

"Ongoing CPD is a must for all involved in later life lending, whether that is to keep up to date with the latest products and innovations, changes in benefits and tax laws and ensuring that vulnerability is at the forefront of ongoing learning.

"It is also important to know when to provide a professional hand-off to a suitably qualified adviser, such as when there is an identified Inheritance Tax liability that needs to be dealt with or where a customer would benefit from specialised lending in retirement. Equally, a financial adviser will often come across a client with a later life lending need which is when an equity release specialist should be called upon for their knowledge and experience.

"Our UK advice model leads itself more and more to specialisms and these referrals are becoming increasingly vital to serve the needs of all clients. Understanding when this is appropriate through ongoing learning is vital."

VULNERABILITY AND DURESS

In AKG's discussion with Jane Finnerty at SOLLA, this was identified as an area where SOLLA has major concerns and feels that current practices do not always serve to mitigate the problems.

Apart from obvious examples of vulnerability, there are some subtle circumstances where duress could occur alongside parents' desire to help offspring:

- Parents helping children through divorce
- Parents/grandparents wanting to help later generations onto the property ladder
- Children in distressed circumstances needing help
- School fees demands.

In these and similar circumstances, it is not unheard of for children to put undue pressure on parents to help. A case of 'well it's going to be mine at some point anyway' could be their positioning here.

Vulnerability might most commonly be considered in the case of clients with limited resources and high demands, but duress is something that is more likely to be experienced by mid/higher net worth clients - an issue that many specialist firms are acutely aware of and working hard to mitigate.

SOLLA has developed in collaboration with Just a vulnerability training tool to provide a training and development module for financial advisers specifically focussed on identifying and working with vulnerable clients and their families.

"In the equity release industry, we are acutely aware that we are servicing a demographic who may be more prone to vulnerability or find themselves under duress, so this has prompted much discussion. Fundamentally, we need to ensure people at every step of the chain are educated, able to support clients and committed to helping people find the right outcome for their situation."

more2life
the later life lender

Dave Harris
CEO at more2life

THE ADVICE PROCESS

FINDINGS FROM AKG'S QUALITATIVE ADVISER RESEARCH

The four networks/service providers in the qualitative research sample each have clear advice processes laid down, though obviously for service providers these are for adviser guidance; networks can enforce them more rigorously and would usually require pre-approval before authorising equity release business.

Among directly authorised advisers in the qualitative research sample, practices and processes appeared to vary significantly:

- At one level there are processes that see a wealth manager with ongoing advice responsibilities working hand in glove with an in-house equity release specialist. The two parties advise and challenge and ultimately transact business that ensures the client need is best served. The wealth adviser retains control of the advice process while the equity release specialist ensures firstly that the product is appropriate and secondly that the transaction is executed on the best basis.
- In between, there are many different shades of management, supervision and control from a single adviser providing advice and implementing the process, through delegation to a specialist with tight supervision, through delegation to a specialist with monitoring, to complete delegation of the transaction (and possibly even client).

Across the market as a whole, advisers do recommend that relevant family members and potential beneficiaries should be involved but again practice varies from insistence that they are involved (in the most tightly managed processes) to complete acceptance of client preference if they do not wish to involve others.

This latter course has the most potential for issues down the line and is one of the main areas of concern for advisers. Many argue that the client is their main priority and if they have done and documented their job correctly issues should not arise.

Some advisers expressed concerns about vulnerable clients and ensuring their processes are adequate for these circumstances. This underlines what a delicate balancing act is in play for advisers around meeting both best practice and client requirements.

Interestingly, however, there was much less mention in this research of the dangers on ensuring that clients under duress are also protected; pressures in this latter area may be much more subtle and there may be opportunities to ensure that advisers can spot the risks.

"As part of the advice process, advisers strongly encourage customers to involve their families, but this is when insistent customers can pose a challenge. If a customer is adamant - for often understandable reasons – that they do not want to involve their families, we need to carefully consider how to support them rather than adopt a 'computer says no' attitude."

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Dave Harris
CEO at more2life

In their words – comments from qualitative research participants

"As a network we use pre-verification. We recommend that families are involved in the transaction. The market should also be age defined – typically for those aged 69-73 in our view."

N/SP

"As a firm we understand both the product and client complexities and the unique nature of each interaction. Our approach is to require the client's wealth manager to work alongside one of our equity release specialists. This means there are good checks and balances in the process. We also insist that relevant other third parties, especially family members, are engaged in the process."

MA

"I would insist that family members be involved as much from a risk management perspective as for the client's sake, but I would not want to work with a client going into this blindly. It is the same sort of argument as surrounds DB transfer advice."

G

"See the client, discuss, confirm the need and then hand over to specialist for a one-off transaction."

MA

"I have the qualifications but not the licence; we outsource to a specialist."

MA

"It can be a difficult area when looking at middle to lower market clients. What I would like to see is a decision tree that would help with understanding impact on benefits."

G

"The network has a really tight approach to equity release; we have to involve the family and applications have to be pre-approved by the network, but this is good discipline anyway. And we have strong vulnerable client rules."

G

RISK MANAGEMENT CONCERNS

Risk management concerns were flagged by some participants in the telephone interviews. Issues including the requirement for correct and properly documented processes, proof against subsequent accusations of mis-selling meant that for some advisers these risks are simply too great.

In AKG's discussion with Jane Finnerty at SOLLA, Jane alluded to the following: *"A key question for firms is the way they approach things – is the firm protecting the client or protecting the firm? – and that too often equity release decisions (to be involved or in terms of approach) are about risk management for the firm rather than client protection and client outcomes. A feeling perhaps that more advisers should be doing more equity release business than actually happens."*

Further development of advice processes and frameworks is evidently necessary to provide additional comfort for those who do wish to transact.

INTERACTION WITH THIRD PARTY SPECIALISTS

As part of their Standards the ERC states that customers must seek independent legal advice to support their equity release transaction. If they have an existing relationship in place the customer may choose their own solicitor to carry out the legal work or can be referred to one of the firms that specialise in equity release.

Before the transaction is completed, the solicitor will be provided with full details of the equity release plan, including the rights and obligations of both parties (the customer and the product provider) under the contract, should the customer choose to go ahead. Both the customer and solicitor will be required to sign a certificate confirming that these rights and obligations have been explained to the customer and that the customer wishes to enter into the equity release plan.

It is therefore worth considering the involvement of third parties separately from the advice process in general for a variety of reasons:

While some clients may have retained accountants and/or solicitors, many advisers appear to have concerns about their knowledge, understanding and engagement with equity release and have serious concerns that they do or can add value to the advice process. Understanding from this research is that in many cases the legal support comes from law firms that specialise in this arena and have been referred to the client by the adviser. Perhaps this is another area where further development of professional relationships would likely prove fruitful.

In AKG's discussion with Jane Finnerty at SOLLA, Jane mentioned the recent changes in disclosure regarding referral practices for solicitors meaning that they will be looking for advisers who have not only the right qualifications but also have a recognised external measure of their professionalism such as accreditation. Advisers and solicitors will need to be aware of this new Law Society guidance on referrals and ensure that they are explaining to clients what is happening and why.

INTERACTION WITH FAMILY MEMBERS

As far as family members and other potential beneficiaries of the estate are concerned, the default position is that they should be involved in or at least aware of the process. However, practice varies from insistence on involvement to listening to client preferences not to involve them. The big issue here, of course, is risk management but many advisers have the view that if they have recommended involvement of family members and this has not been accepted by the client and the exchange is documented, the risk has been managed.

Nevertheless, the nature of the transaction and the potential outcomes for the estate and potential beneficiaries mean that many advisers have lingering concerns about potential mis-selling claims further down the line if the family is not involved.

In their words – comments from qualitative research participants

"If there are possible difficulties, then legal advisers should be involved. It is also important to explore potential impacts on state benefits entitlement."

N/SP

"We insist on the involvement of interested family members."

N/SP

"We encourage engagement with relevant third parties – family members, legal advisers and so on."

MA

"Legal advisers are usually involved in the transaction – more for the guidance of the adviser than the client sometimes."

MA

"Equity release offers a fantastic opportunity to sit down with the beneficiaries, potentially the next generation of clients. The sale may actually be for their immediate benefit, e.g. releasing funds to get them on the property ladder. We always prefer family members to be involved but to some extent it depends on what the proceeds are to be used for. It can be sensitive."

MA

"Strong recommendation that protection of client interests is paramount. Insisting on clients having family members in particular can be harmful where duress is involved. Best practice is to ensure that the client is comfortable and that any third parties have the requisite permissions such as LPAs if they are acting on the client's behalf."

Jane Finnerty, SOLLA

MARKET LANDSCAPE AND REQUIREMENTS

PRODUCTS AND PROVIDERS

Sentiment from AKG's qualitative adviser research

There is almost universal praise for the way in which the industry has responded to consumer and adviser demand by developing a wider range of products and features. There has been a great deal of innovation and advisers feel that providers are facilitating greater flexibility, choice and competitiveness.

The advent of the Retirement Interest Only mortgage (RIO) is one such example and the feeling is that this should complement rather than compete with standard equity release products.

Advisers have acknowledged that providers have done much to address concerns around redemption penalties and other costs and charges. They are also more likely to believe that equity release fees are now reasonable, reflect the work that needs to be undertaken and there is no longer bias relative to other possible solutions for clients.

Much of this is down to the increase in choice in the market with more providers active than in recent years and over 300 products to choose from.

Times have certainly changed but there are still advisers who remember the bad old days and remain concerned about the risk management issues involved in recommending equity release.

In their words – comments from qualitative research participants

"Products are becoming much more sophisticated and this will help grow the market. Fixed rate products and ability to use them for drawdown are examples. Equity release needs to become more mainstream."

H

"RIOs are like a steppingstone into the later life market. It is income dependent, but many equity release users might find it more efficient to use RIOs initially then switch to equity release when income becomes more of an issue."

N/SP

"Product design is moving on nicely; we are especially interested in the interface between RIOs and equity release especially for clients with interest-only mortgage deals coming to an end but who still have income at present. We see a real role for RIOs with equity release coming in, if necessary, later in retirement."

MA

"Equity release has a bad name, but the bad products have all gone. Now there is much more flexibility and at least as important, the products are cheaper."

MA

"This report is extremely valuable in highlighting not only where the market needs to innovate and develop but where we need to clearly communicate our offerings and the support that we already provide for the adviser community. In order to grow the market, we clearly need to bridge this 'education gap'!"

more2life
the later life lender

Dave Harris
CEO at more2life

MUST-HAVE PRODUCT FEATURES

AKG's adviser survey sought to find out what product features in the equity release market are believed to be most valuable or appealing for clients. The key features selected here by advisers can act as a blueprint for product offerings.

What product features in the equity release market do you believe are valuable/ appealing for clients? (select all that apply)

Answer Options	Percentage
No negative equity guarantee	72%
Drawdown facility	68%
Ability to make capital repayments	63%
Ability to make interest payments	58%
Ability to pay an income	46%
Downsizing protection	46%
Fixed early repayment charges	37%
Protected inheritance options	35%
Security of a well-known brand	25%
Lending on sheltered or age-restricted properties	15%
Online servicing/applications	8%
Other (please specify)	5%

Source: Quantitative market research questions

Products which fully meet the ERC's Product Standards are required to feature a 'no negative equity guarantee'.

Other notable mentions here for fixed early repayment charges (37%), protected inheritance options (35%) and lending on sheltered or age-restricted properties (15%).

Where providers already offer associated features or terms within their equity release product range, they need to ensure that these are drawn out in adviser/customer facing marketing material.

Where providers do not currently offer associated features or terms within their equity release product range, they should explore development opportunities to introduce them in future.

From a provider perspective, 25% referenced that the security of a well-known brand is valuable or appealing to clients.

EQUITY RELEASE COUNCIL MEMBERS

The provider member list as at 05/02/2020 is as follows:

SCOTTISH WIDOWS
LV= LIVERPOOL VICTORIA
AVIVA
Canada Life
HODGE LIFETIME
JUST. RETHINK RETIREMENT
Legal & General
more2life the later life lender
Nationwide
onefamily modern family finance
Pure Retirement
RESPONSIBLE LENDING
retirementbridge
retirementplus Unlock Home Equity Fairly

More broadly, the ERC reports that membership of the Council has increased by 97% in the last two years, with the total number of firms increasing from 219 to 431. It says that the trend comes as property wealth takes on a mainstream role in later life financial planning and more firms sign up to the organisation's best practice standards. Last year alone saw a 35% annual increase in Council membership among adviser firms from 246 to 332, while the number of solicitor firms rose by 46% from 41 to 60. More than 100 companies have now become Council members in each of the last two years. 2019 brought a record 146 new joiners, including Knight Frank Finance, Openwork and StepChange Financial Solutions – reflecting the increasing diversity of firms whose customers are seeking support in this area. The Council also has seen a 77% rise in individual member registrations from 673 in December 2017 to 1,193 today.

"If you set aside the no negative equity guarantee – a fundamental feature that many of us in this sector see as a basic hygiene factor – the value placed on drawdown, capital as well as interest repayments and downsizing protection makes interesting reading. It suggests that the industry's drive to introduce added flexibility and modern lending features has hit the radars of the wider advice community – and is valued by their customers."

more2life the later life lender

Dave Harris
CEO at more2life

MOST IMPORTANT CONSIDERATIONS WHEN SELECTING EQUITY RELEASE PROVIDERS

AKG's survey asked advisers: 'What are the most important considerations for you as an adviser when selecting equity release lenders?'

Product specific requirements
By some way, the most important consideration selected by adviser survey respondents was interest rates/product pricing (71%). Whilst over half of advisers surveyed (54%) selected range of solutions/products available and 38% selected range of LTVs.

Just under one-third of those surveyed (32%) selected product innovation.

Provider specific requirements
Over one-third of advisers surveyed (38%) selected financial strength while technical expertise (27%) and security of a well-known brand (27%) were neck and neck.

35% of advisers surveyed selected service delivery – split down as 18% for offline service and 17% for online service. 14% selected business development support.

What are the most important considerations for you as an adviser when selecting equity release lenders? (select all that apply)

Answer Options	Percentage
Interest rates/product pricing	71%
Range of solutions/products	54%
Range of LTVs	38%
Financial strength	38%
Product innovation	32%
Technical expertise	27%
Security of a well-known brand	27%
Service delivery (offline)	18%
Service delivery (online)	17%
Business development support	14%
Other (please specify)	18%

Source: Quantitative market research questions

AKG's survey also asked: 'What are the most important considerations for you as an adviser when recommending equity release lenders to clients?'

A similar question posed from a slightly different perspective to bring potential client requirements into play.

Product specific requirements
Again, the most important consideration selected by adviser survey respondents was interest rates/product pricing. 52% selected range of solutions/products and 41% selected range of LTVs. 46% selected products which allow repayments suggesting this is an important consideration for both advisers and their clients.

Provider specific requirements
41% selected financial strength, 33% selected technical expertise and 23% selected security of a well-known brand. From a servicing perspective, 25% selected online service delivery.

What are the most important considerations for you as an adviser when recommending equity release lenders to clients? (select all that apply)

Answer Options	Percentage
Interest rates/product pricing	75%
Range of solutions/products	52%
Products which allow repayments	46%
Range of LTVs	41%
Financial strength	41%
Technical expertise	33%
Service delivery (online)	25%
Security of a well-known brand	23%
Service delivery (offline)	21%
Business development support	11%
Other (please specify)	13%

Source: Quantitative market research questions

FUTURE PROSPECTS FOR EQUITY RELEASE

WHAT ARE YOUR PLANS FOR EQUITY RELEASE ADVICE DURING 2020?

Whilst one-fifth of those advisers surveyed (19%) stated that they do not plan to give any advice in this area during 2020, the sentiment from the research is generally positive in terms of adviser engagement with the equity release market.

Just under half of those advisers surveyed (47%) confirmed that they already deliver equity release advice solutions in-house while 17% already deliver advice solution via referral service. And so, two-thirds of the adviser respondents are already engaged with equity release advice to some degree. 13% stated that they are considering the development of an equity release advice solution; broken down as 5% of these considering recruiting or getting training in order to offer equity release in-house and 8% considering outsourcing via referral service.

Finally, 11% of those surveyed said that they have no immediate plans but are considering how best to approach the subject which may well mean they engage in future with equity release.

What are your plans for equity release advice during 2019/20?

Answer Options	Percentage
We do not plan to give any advice in this area	19%
We already deliver advice solution via referral service	17%
We already deliver advice solution in-house	47%
We are considering recruiting or getting training in order to offer equity release	5%
We are considering outsourcing to a referral service	8%
We have no immediate plans but are considering how best to approach the subject	11%
Other (please specify)	4%

Source: Quantitative market research questions

WHAT ARE YOUR PREDICTIONS FOR THE EQUITY RELEASE SIDE OF YOUR BUSINESS?

Looking further ahead at growth prospects, the largest proportion of those advisers surveyed (43%) predicted that the equity release side of their business will grow, but modestly (+10-25%), over the next three years, while just under one-third (31%) predicted it will grow at broadly similar levels to now (<+10%).

Just over one in ten predicted that it will grow substantially from current levels (> +30%).

Allied to the fact that hardly any predicted a decline in the equity release side of their business these statistics will make good reading for equity release providers and add further fuel to the equity release market growth story.

Over the next three years, what are your predictions for the equity release side of your business?

Answer Options	Percentage
It will grow substantially from current levels (more than +30%)	12%
It will grow but modestly (+10-25%)	43%
It will be broadly similar levels to now (<+10%)	31%
It will be slightly lower than now (<-10%)	1%
It will be much lower than now (>-10%)	1%
Don't know	13%
All grow	**54%**
All shrink	**2%**

Source: Quantitative market research questions

THE FUTURE – SENTIMENT FROM THE QUALITATIVE ADVISER RESEARCH

Growth is certain

None of the advisers interviewed by AKG disagreed that the equity release market has huge potential and is only just coming into its own. There are many factors contributing to this picture but the most important are:

- Demographic factors are certain to have a positive impact on demand
- The demise of defined benefit (DB) pension benefits and growing self-reliance
- The widening gap between expected retirement dates and state pension age
- The arrival at retirement of increasing numbers of consumers who have interest-only mortgages
- The fact that more people will be approaching retirement with lower pension assets than they will need to support a comfortable old age
- The difficulties and challenges younger generations are having getting onto the property ladder
- Inheritance tax considerations
- The need for later life planning and financing.

PROVIDER RESPONSES VIEWED POSITIVELY

Advisers interviewed by AKG recognise that product providers have been making great strides in developing innovative approaches allowing greater flexibility, choice and competitiveness. The lowest fixed rate products and the development of retirement interest only mortgages (not seen strictly as equity release but nevertheless addressing similar needs) are commonly mentioned and very much welcomed. Almost de facto, advisers see RIOs as an extension of the equity release market.

BUT MORE NEEDS TO BE DONE FOR MARKET TO REACH TRUE POTENTIAL

Advisers interviewed by AKG feel there are several areas in which providers and industry bodies could do more to ensure the market remains orderly and grows well rather than haphazardly:

The endeavours of the ERC in promoting good quality products and the work of the SMP, SOLLA, LIBF and others in driving up professional standards is understood and welcomed, but legacy issues remain a stubborn obstacle and there are concerns that the market remains open to further abuse and potential mis-selling in certain scenarios.

Sales practices need to be closely monitored but at present there is no single uniform advice process. The networks police sales closely, the service providers generate high quality advice and guidance for their client firms, but they are not obliged to follow them. Among directly authorised firms, practices and processes can vary significantly from one adviser doing everything to complete hand-off of the client permanently or least for the transaction itself. When a specialist adviser is involved, incumbent advisers follow routes from close supervision of the process, through monitoring to complete disengagement.

Some suggestions from advisers interviewed

Advisers feel positive about the market and as it evolves, they feel there are some areas where stronger support and product developments would be beneficial:

- **Continuation of educational efforts** – More information and guidance from providers and industry bodies about product usage and potential
- **Establishing best practice** – Guidance on the most compliant and positive sales processes; networks and service providers already help in this area, but non-member/client advisers are more likely to have widely varying approaches. There are some strong models in the market – as exemplified by some advisers in this research – and these could be studied for their effectiveness and robustness
- **Clarification around inheritance tax planning interaction** – There are varying views on the effectiveness of using equity release to create debts on an estate to mitigate potential inheritance tax liabilities; many advisers would benefit from greater clarity about how and when this approach might be effective
- **Clarification around benefit entitlement interaction** – There are concerns among some advisers about how use of equity release might impact on benefits entitlement – again well promoted help and guidance would be welcomed
- **Drawdown vs lump sum guidance** – Guidance on when to recommend drawdown as opposed to lump sum realisation is felt by some advisers to be an area where closer attention might be helpful
- **Establishing optimum age(s) for ER strategies** – The impact of longevity and the risks of recommending equity release too early (or too late in the case of gifting) is another area where advisers feel need for guidance or better understanding.
- **Further consideration of duress and vulnerability** – The underlying concern behind all these suggestions is essentially risk management and fear of accidental/inadvertent mis-selling. Issues around vulnerable clients appear to be more front of mind for advisers than those relating to clients under some form of duress and this is perhaps an area where industry can provide more guidance.

- **Potential product development areas** – Product development has already facilitated market development in addressing varying and evolving needs:
  - The development of retirement interest-only mortgages is one example
  - Advisers would like to see developments of this type taken further and see RIOs that could metamorphose into equity release at some later stage in retirement if needed
  - While 'bundling' products is out of favour these days, there are some advisers who see potential in a bundled equity release/Whole of Life insurance policy generating proceeds at death that might help to meet any outstanding liabilities of the estate (for example, funeral costs and potential maintenance costs while the property is sold)
  - Overall, products are seen to be much more flexible these days and ensuring that advisers (other than the specialist equity release brokers) understand the scope and potential of equity release would be a benefit to all
  - Advisers are also keen to explore the potential role for equity release for clients with buy-to-let portfolios on tax mitigation and planning.

In their words – comments from qualitative research participants

"The market is changing and growing. With an ageing population less able to rely on pension savings in retirement, it would be remiss of advisers not to seek to become more engaged in this market, but it will take time."

H

"I think there is more potential in developments like Retirement Interest Only mortgages than in equity release – unless you are a later life borrower."

N/SP

"The market will grow a lot over the coming years – my generation are in trouble as far as retirement income is concerned. Most people also have massive mortgages; they haven't paid enough into pensions."

N/SP

"As the market grows it will also develop. My dream would be a sort of equity release offset product. Penalties are coming down, e.g. early redemption charges. Fees are not huge. RIOs are a good transitional product. It may also be worth considering the potential to attach small WoL contracts, e.g. to pay funeral costs – a proper later life proposition rather than a mishmash of products."

N/SP

"Wider financial planning industry knowledge is poor and this is holding the market back – poor understanding or just sheer ignorance. Advisers are not serving their clients well if they do not understand the applications of ER as an income planning tool."

MA

"It is one of our fastest growing areas and we expect this to continue. Products will continue to improve and become increasingly competitive and flexible. I would expect the product range to evolve to include things like buy-to-let portfolios. Future developments may also relate to ability to pay the debt off, the possibility of assigning it and the development of family mortgages across the generations as has happened in Japan."

MA

"I feel sure the market is going to grow but I don't see it as mainstream. I think there are also issues around advice capacity, my sense is there is not enough."

MA

"I do wonder if there are enough financial advisers out there to advise on equity release."

G

"Interested in use relating to buy-to-let properties through Business Property Relief. The taxes on BTL portfolios can be eye-watering so there is a role for equity release to create debts. But tax mitigation is not a big market, highly specialised."

H

"The market is not quite there yet but there has been a lot of progress and development in the last 2-3 years. It needs higher profile and greater education and awareness, not just to get over the old reputation but to develop understanding of its flexibility and usability in retirement income planning."

G

APPENDIX

QUESTIONS INCLUDED IN ONLINE SURVEY

Questions

Q1. How regularly are you or your firm asked by clients about equity release?
Q2. Thinking about your client base, what proportion do you think might be interested in equity release?
Q3. How do you estimate the proportion of your clients that you believe might be interested in equity release?
Q4. Over the next three years, what are your predictions for the equity release side of your business?
Q5. What do you believe will drive or is driving interest and demand for the equity release side of your business?
Q6. What steps have you taken to ascertain how interested your clients are in equity release?
Q7. When you mention equity release to your clients, how do they typically react?
Q8. What are your plans for equity release advice during 2019/20?
Q9. What are the barriers or concerns to you giving equity release advice?
Q10. What are the most important considerations for you as an adviser when selecting equity release lenders?
Q11. What are the most important considerations for you as an adviser when recommending equity release lenders to clients?
Q12. What product features in the equity release market do you believe are valuable/appealing for clients?
Q13. What do you believe are the primary benefits of offering equity release?

NOTES

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AKG Financial Analytics Ltd
Anderton House, 92 South Street
Dorking, Surrey RH4 2EW

+44 (0)1306 876439
akg@akg.co.uk
www.akg.co.uk

AKG is an independent organisation specialising in the provision of assessment, rating, information and consultancy to the financial services industry

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