Who are you calling vulnerable?

A look at how the equity release market supports its customers

2020

more2life
the later life lender

A view from more2life

Dave Harris
Chief Executive Officer
at more2life

> **Three quarters of people[1] aged over 65 would be eligible for enhanced terms if they qualified for an equity release plan**

Anyone can be vulnerable at any stage of their life for a variety of reasons and in today's Covid-19 world, vulnerability has taken on a new and sinister guise for many – especially the over-55s. But what is vulnerability? The Financial Conduct Authority (FCA) defines it as *'someone who, due to their personal circumstances is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care'.* This is fairly wide ranging definition and goes beyond just poor mental health, ill health and physical disability.

Indeed, people can be vulnerable due to life events, a sudden change in personal circumstances that is completely out of their control. Covid-19 has resulted in thousands of job losses and more than 41,000 people in the UK have lost their lives because of this deadly pandemic. The impact this has had on people's lives and livelihoods has been devastating.

And if you set aside Covid-19 for a moment, there are the challenges that people would have had to manage even if we were not facing a pandemic. Three quarters of people[1] aged over 65 would be eligible for enhanced terms if they qualified for an equity release plan which suggests that they have at least some health or lifestyle issues.

Then there are those who are debating how to deal with an interest-only mortgage coming to maturity without a repayment vehicle or how to manage increasing levels of debt on a limited retirement income. Others may have learning difficulties, low financial literacy or limited language skills.

All of these impact on how people approach life and their finances in particular. So it is vital that if they decide to consider any financial products including equity release that their vulnerabilities are recognised by advisers who can help them make sustainable long and short term choices.

Something that is made more complex by the fact that while people may realise that they are not feeling themselves, only 30% of over-55s say they have felt vulnerable when making a financial decision. This inspired the title of this report – *"Who are you calling vulnerable"* as not only do advisers need to spot the signs of vulnerability but they may also need to deal with a client who is entirely unaware that this applies to them.

As lenders we want to ensure our customers are making the right decisions for the right reasons so more2life sees it as part of our responsibility to support advisers as they help those who need more support and have these conversations. This is why we have carried out this research into vulnerability and it is good to see that more advisers are not only recognising clients are vulnerable but looking for ways in which they can help them.

However, more needs to be done and the FCA is currently consulting on guidance for firms on the fair treatment of vulnerable customers and is proposing to introduce a *'duty of care'* for financial advisers. more2life is fully supportive of this and we are pleased to see that most of those in our survey agreed saying advisers should already be doing this but it is good to formalise it.

Anyone can be vulnerable at any point in their lives but as an industry, we must make sure that we look to actively support those who need us most rather than avoiding this important discussion.

[1] more2life's own data analysis – 2016/17

Introduction

As a leading equity release lender, more2life has a deep interest in not only supporting advisers but helping them to better serve their customers. As part of this, the lender has undertaken regular research into vulnerability since 2018 – and spoken to over 600 advisers – with the most recent research being undertaken in February 2020.

They were asked how they recognise vulnerability, why are their clients vulnerable and how do they ensure vulnerable customers understand the equity release process? Advisers were also asked about the involvement of their clients' families.

Treating Customer Fairly has been a business principle of the Financial Conduct Authority (FCA) since 2007 when it set out its six key outcomes for firms who must be able to demonstrate and measure how they do this.

The regulator is now consulting with the industry on how firms are treating *'vulnerable'* customers fairly and its final guidance paper is due to be issued in Q4 2020.

According to FCA research[2] undertaken in 2020, there are 24.1 million adults in the UK who have at some time or other shown at least one characteristic of vulnerability. This represents almost half of the UK adult population.

ONS statistics[3] estimate there were 20.5 million people aged over 55 in the UK in 2019, representing around 40% of the total of 51.2 million adults aged 20 plus.

But what is vulnerability?

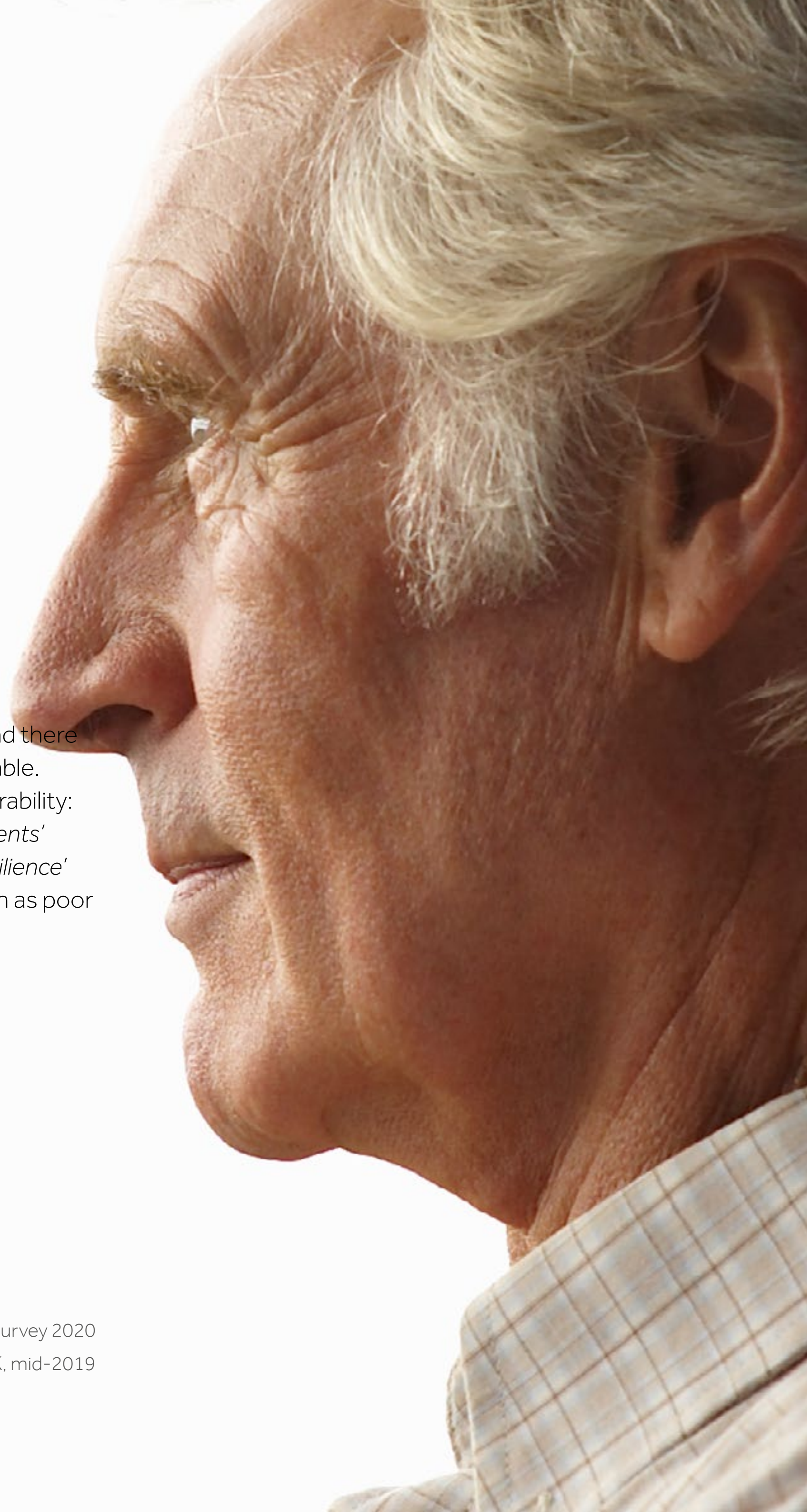
The FCA's definition is:

"Someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."

Vulnerability can be permanent or temporary and there are many reasons why someone may be vulnerable. The FCA has identified four key drivers for vulnerability: *'health'* issues – either mental or physical; *'life events'* such as bereavement, divorce or loss of job; *'resilience'* including over indebtedness; and *'capability'* such as poor financial literacy.

[2]FCA Financial Lives Survey 2020

[3]ONS: MYE1: Population estimates: Summary for the UK, mid-2019



Drivers of vulnerability

Health

- Physical disability
- Severe or long-term illness
- Hearing or visual impairments
- Poor mental health
- Addiction
- Low mental capacity or cognitive disabilities

Life events

- Caring responsibilities
- Bereavement
- Income shock
- Relationship breakdown
- Domestic Abuse
- People with non-standard requirements such as people with convictions, care leavers, refugees
- Retirement

Resilience

- Low or erratic income
- Over indebtedness
- Low savings
- Low emotional resilience

Capability

- Low knowledge or confidence in managing finances
- Poor literacy or numeracy skills
- Low English language skills
- Learning impairments
- No or low access to help or support

The FCA insists that firms must have systems in place to recognise vulnerability and help those customers. The current world economic situation including Covid-19 is likely to result in more vulnerable people, including those who have not been considered vulnerable before.

Source: FCA Guidance consultation and feedback statement 2020

Key findings

More advisers are identifying vulnerabilities amongst their customers

39%

saying they had **seen an increase in the past 12 months**

▲ up from **30% in 2019**

40% 2020

of advisers believe that between **1% and 10%** of their **customers show signs of vulnerability**

Same as 2019

81% 2020

of advisers believe there is a **need for greater education and more resources** in the equity release market **to help them identify vulnerability**

▲ Up from **76% in 2019**

73% 2020

of advisers believe the **industry could do more** to make equity release **literature clearer and easier to understand,** particularly for potentially vulnerable clients

▲ Up from **59% in 2019**

Getting the family involved

90% 2020

of advisers believe that by **involving families** in the equity release process there will be **fewer complaints**

▲ Up from **80% in 2019** and **71% in 2018**

82% 2020

of advisers said that **family members should be involved** in the equity release process

▲ Up from **78% in 2019** and **80% in 2018**

64% 2020

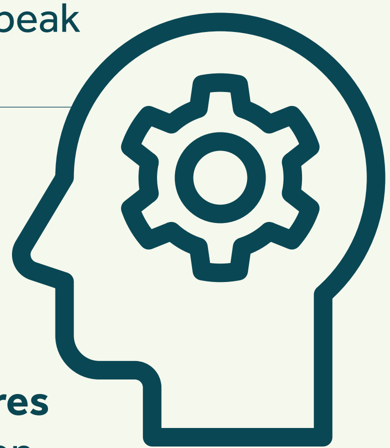
of advisers reported their **clients were keen to have family members with them** in the advice process

▲ Up from **48% in 2019** and **36% in 2018**

33% 2020

of advisers said **customers understand the features and benefits** of equity release when they first speak to an adviser

▲ Up from **20% two years ago**



31% 2020

of advisers said the **families of customers understand the features and benefits** of equity release when they first speak to an adviser

▲ Up from **20% two years ago**

65% 2020

of advisers said their **clients have done some research into equity release** but still need a lot of help

Detailed findings

All advisers recognised how important it is to be aware and have an understanding of issues surrounding vulnerability when dealing with clients. However, 88% of advisers said it is not necessarily easy to spot a vulnerable client. How can you tell if someone has depression if they say they are fine? Research from Age UK in 2017[4] suggested that half of over-55s say they have suffered depression/anxiety, so this is relatively common.

How do you know if someone has an underlying health issue if they don't declare it? In the UK, 75% of over-65s have a health condition[1] that could qualify them for enhanced terms on an equity release product. These include suffering from cancer, heart problems or diabetes.

How do you ensure clients understand the details of the equity release product they are considering if they have learning impairments? More advisers than ever before are identifying those who need support with 39% saying they have provided help to a vulnerable customer in the last 12-months – up from 30% in 2019.

Four out of 10 advisers (40%) said that between 1% and 10% of clients they had seen over the previous 12 months were vulnerable. Around one in seven (14%) of advisers said 11%–21% of clients were vulnerable. One in 20 advisers (5%) said everyone was potentially vulnerable, while 16% had seen no vulnerable clients.

Reasons for being vulnerable

The research found that just over half of advisers (52%) reported that the largest proportion of clients that they had seen in the last twelve months and considered to be vulnerable were of an advanced age – up from 47% in 2019.

This was followed by clients having significant financial worries such as the maturity of an interest-only mortgage or challenges with debt (42% in 2020, up from 35% in 2019). See case study on page 14 to see what this might mean in practice.

The third most common reason for vulnerability among clients – they had seen in the last year – were those who had experienced or are experiencing life-changing events, for example, divorce or bereavement. This was reported by 37% of advisers, down slightly from 40% last year.

The following page outlines other reasons for client vulnerability but in the verbatims, advisers also suggested clients might be considered vulnerable if they were mortgage prisoners, had a controlling partner or if they lived alone.

[1]more2life's own data analysis – 2016/17

[4]YouGov research for the charity Age UK

While vulnerability is undoubtable a topic of discussion amongst financial services professionals, what do consumers think?

Research among homeowners over the age of 55 has found that three out of 10 (30%) have felt vulnerable when making a financial decision. There was a slight gender variation with 32% of women and 28% of men saying they had felt vulnerable.

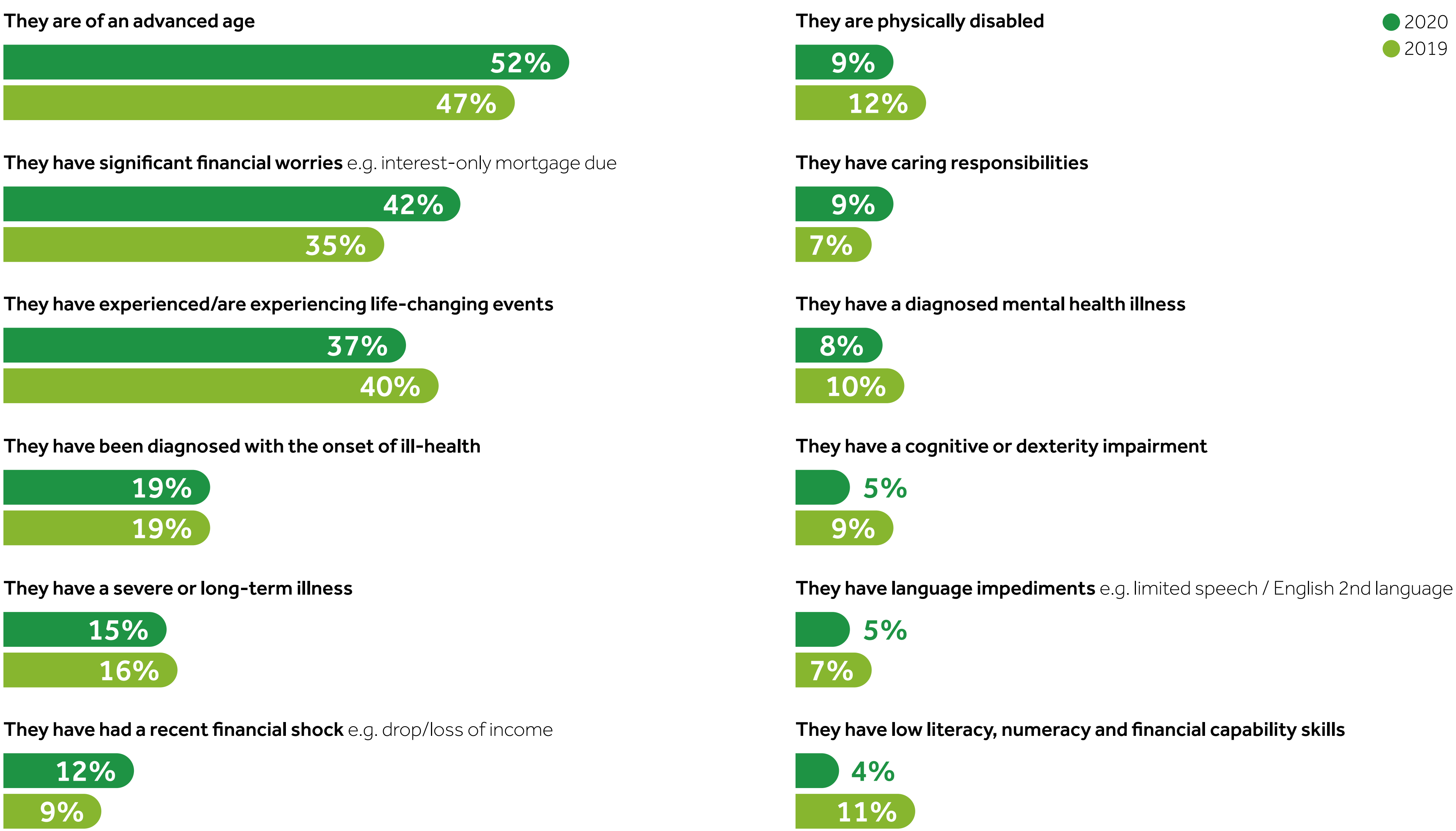
Four out of ten respondents (40%) agreed that as people get older, they are more likely to be vulnerable and another 40% said they were not convinced that all companies take vulnerability into account.

If a financial adviser offered additional support because they felt their client was vulnerable, three quarters (74%) of respondents said they would welcome this. However, within that number, 19% said they didn't think they needed support and 21% said as long as it didn't hold up the process.

Meanwhile, 37% would question why the adviser thinks they or their family member are vulnerable and 8% would be 'upset' at being regarded as vulnerable when they are not.

Reasons why clients are vulnerable

In the previous past 12 months equity release advisers have recognised vulnerable clients due to the following reasons;



How can advisers recognise whether clients are vulnerable?

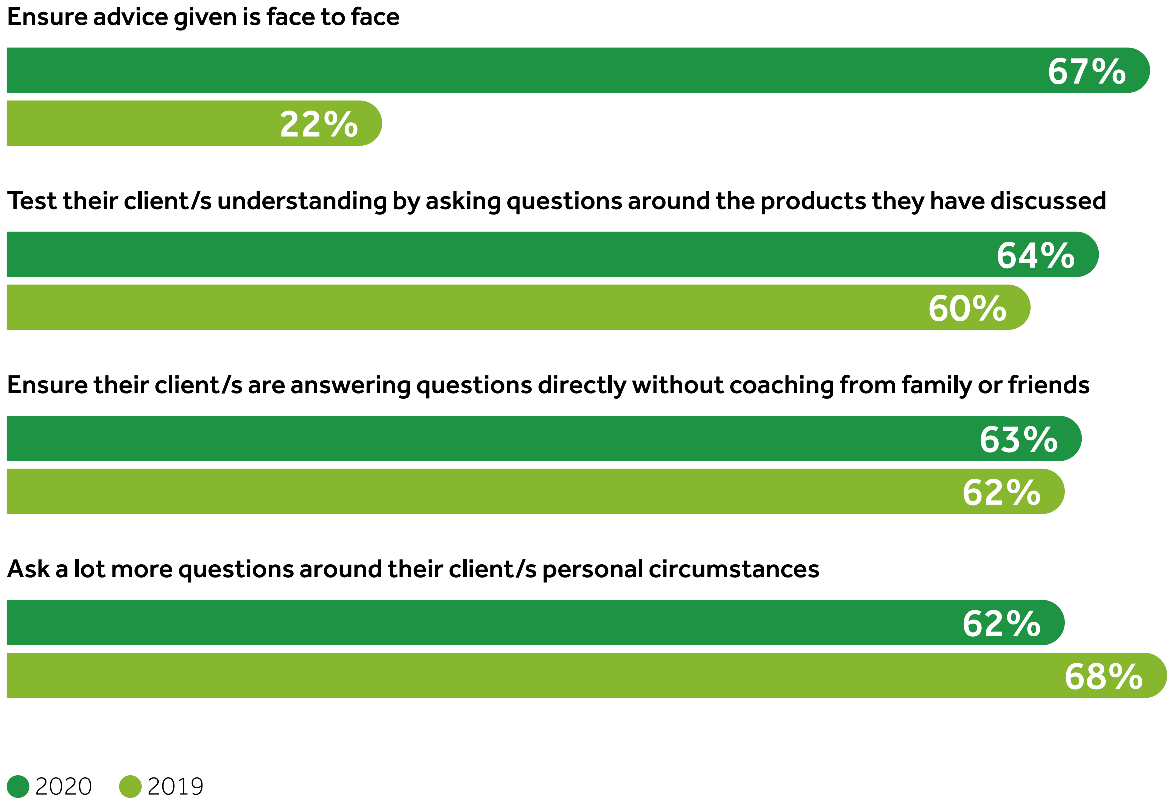
Sometimes it is not obvious that someone might be vulnerable but most equity release consultations take place in a face to face environment, which makes it easier to ascertain possible vulnerability. The research found that 67% of advisers work hard to ensure that all the advice given is face to face as this allows them to properly gauge the client's understanding.

The onset of Covid-19 and lockdown put a stop on face to face interviews for a while and many consultations in recent months have taken place via video call or telephone. This has opened up a new avenue that advisers are still adapting to but some of the benefits are the enhanced ability to involve family as geography becomes less of an issue. And if it is being recorded, it also provides more opportunity to capture precise client wording as part of the advice process.

When asked how they ascertain whether a client is vulnerable or not, around two thirds of advisers cited the following mechanisms:

- 64% of advisers test their client/s' understanding by asking them questions around the products they have discussed (2019: 60%)
- 63% of advisers ensure their client/s' are answering questions directly without coaching from family or friends (2019: 62%)
- 62% of advisers ask a lot more questions around the personal circumstances of their client/s (2019: 68%)

How do advisers ascertain if clients may be vulnerable?



Other methods that advisers use to check for vulnerability include asking the client to explain what has been discussed (2020: 46%; 2019: 45%); looking at any family and friends in the room to see how they are reacting/interacting (2020: 37%; 2019: 37%); and speaking to another member of the adviser's firm to 'sense-check' conclusions (2020: 31%; 2019: 34%).

While none of these methods are entirely fool proof, the time and resource that advice firms are devoting to identifying and supporting vulnerable customers is a good step forward.

Priorities when dealing with vulnerable clients

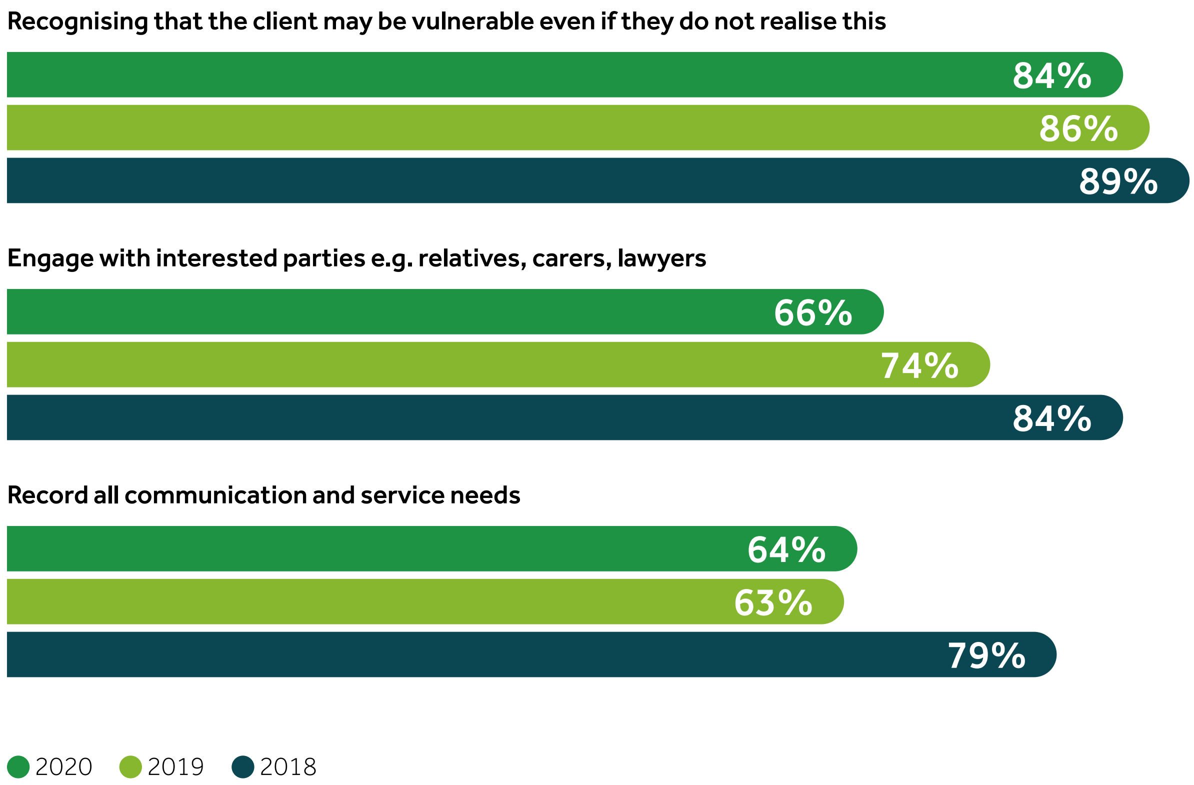
Advisers were asked what the three biggest priorities were when dealing with a potentially vulnerable client. At the top of the list, cited by 84% of advisers, was recognising that the client may be vulnerable even if they do not realise this already.

Two thirds (66%) of advisers said they would engage with interested parties such as relatives, carers and lawyers, while 64% ensure they record all communication and service needs.

Interestingly having listened to advisers, we added a new option in the 2020 research "Flag the vulnerability to other companies in the chain". A third (33%) of advisers said this was a priority which explains the reduction in some other areas.

Most advisers felt confident in their own abilities with just 14% saying they would speak to another member of their team to understand more about how to support their client/s and 13% seeking guidance from other professionals such as a medical practitioner, social worker, psychologist or solicitor. Just 4% of advisers said they would refer clients to a sector specialist adviser as they felt unable to provide the required support.

The 3 biggest priorities for advisers when dealing with a potentially vulnerable client



Greater education and support needed

That said, 81% believe there is a need for greater education and more resources in the equity release market. It would be beneficial to them to be provided with practical guidance on how to spot the signs and deal with vulnerable clients. This compares to 76% in 2019 and 88% in 2018.

As part of the FCA's wider ambitions to support vulnerable customers, they are proposing to introduce a 'duty of care' for financial advisers, i.e. a legal obligation for advisers to act in the best interest of their clients and exercise reasonable care and skill when providing a product or service.

Advisers were asked if this is needed to help protect vulnerable customers and was widely welcomed. The vast majority (82%) said it is something advisers should already be doing but it is good to formalise it. This opinion has increased from 65% of advisers in 2019.

Equity release literature could be clearer

Taking out an equity release product can be a big decision but how much do people actually understand about it before they speak to an adviser? Advisers believe the industry, especially lenders, could do more to make the literature clearer and easier to understand, particularly for potentially vulnerable clients? In the 2020 survey, 73% of advisers agreed with this, up from 59% in 2019.

Around one third of clients (33%) and their families (31%) understand the features and benefits of equity release when they first speak to an adviser. This had improved in the space of two years when just 20% of clients and families had an understanding.

Many equity release customers have undertaken some research before they speak to an adviser. Around two thirds (65%) of advisers said their clients have done some internet searches and reading but still need a lot of help. Almost half (49%) said customers have done some research but this just made it more confusing or overwhelming for them.

Three out of 10 advisers (30%) said customers have done quite a bit of research and have fairly specific questions, while one in 10 (9%) said clients have carried out a lot of research and feel they fully understand what they need. Almost one third (32%) of advisers said clients had done very little research.

What can organisations do to support vulnerable people?

The majority of consumer respondents (68%) expect financial services organisations to provide simple, clear and easy to understand literature. This supports advisers views that equity release literature needs to be made clearer.

A further 55% said they would like the ability to stop or start the process at any time to give them time to think while 45% believe there should be access to staff who specialise in supporting vulnerable customers.

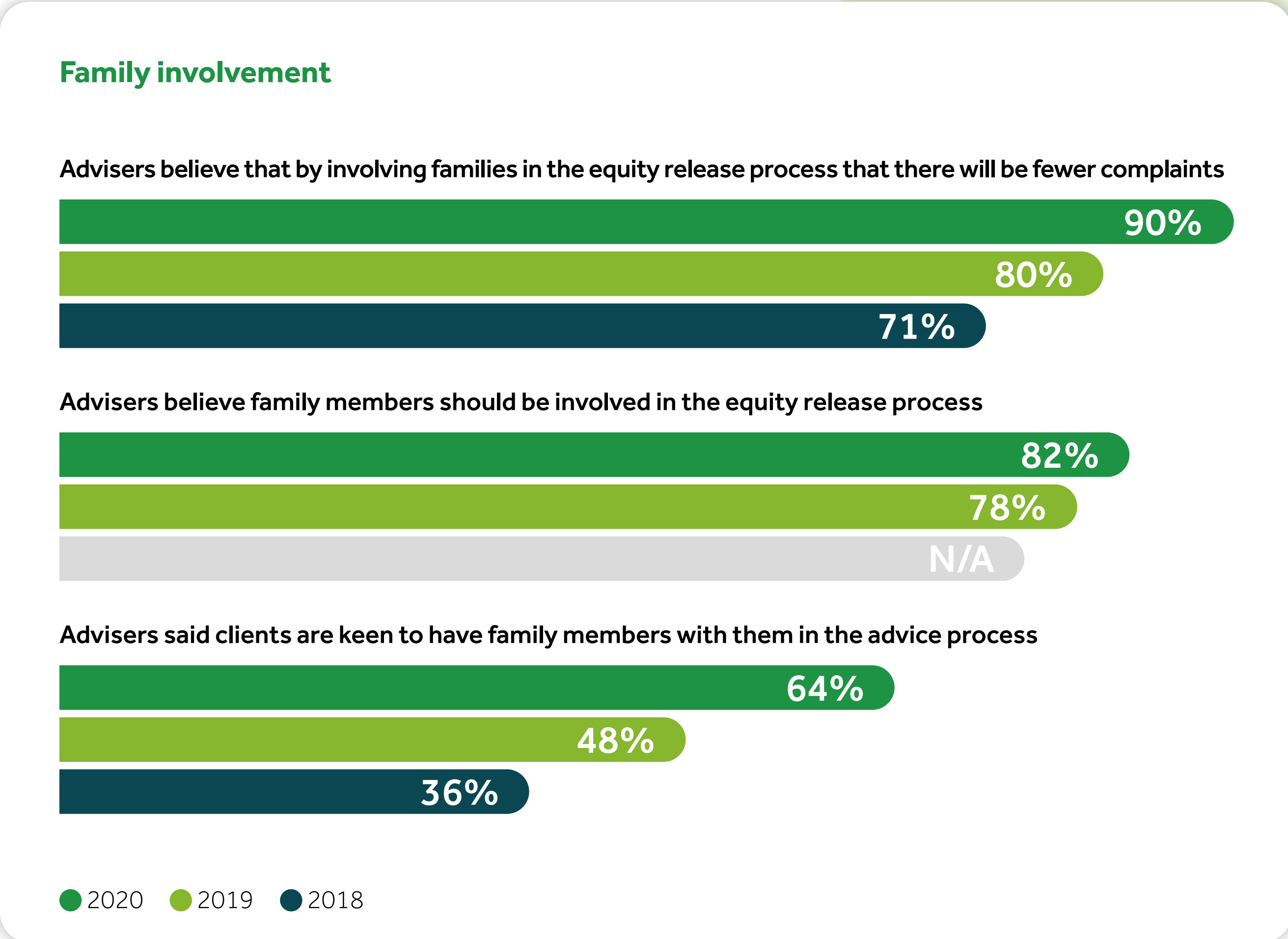
Family involvement is encouraged

Family support when making long-term financial decisions can often be appreciated – especially if the client is vulnerable – and the Equity Release Council encourages advisers to ask if they want to involve family or friends.

There are a variety of both long- and short-term reasons for involving the family. In the short term, the family may benefit from the equity released from the home via gifting or notice that their parents seem to be more financially secure than before. In the longer term, there is a potential impact on inheritance which could come as a nasty shock if the policy is redeemed once the customer has died and the family only finds out about this decision at that point. It can also be useful or comforting to have someone else there as a support.

Most advisers (90%) believe that by involving families in the equity release process that there will be fewer complaints and this view has increased from 80% in 2019 and 71% in 2018. More than eight out of 10 advisers (82%) believe family members should be involved in the equity release process. This is up from 78% in 2019.

And it appears that equity release customers are increasingly wanting to involve their family as 64% of advisers reported their clients were keen to have family members with them in the advice process. This has risen from 48% in 2019 and 36% in 2018.



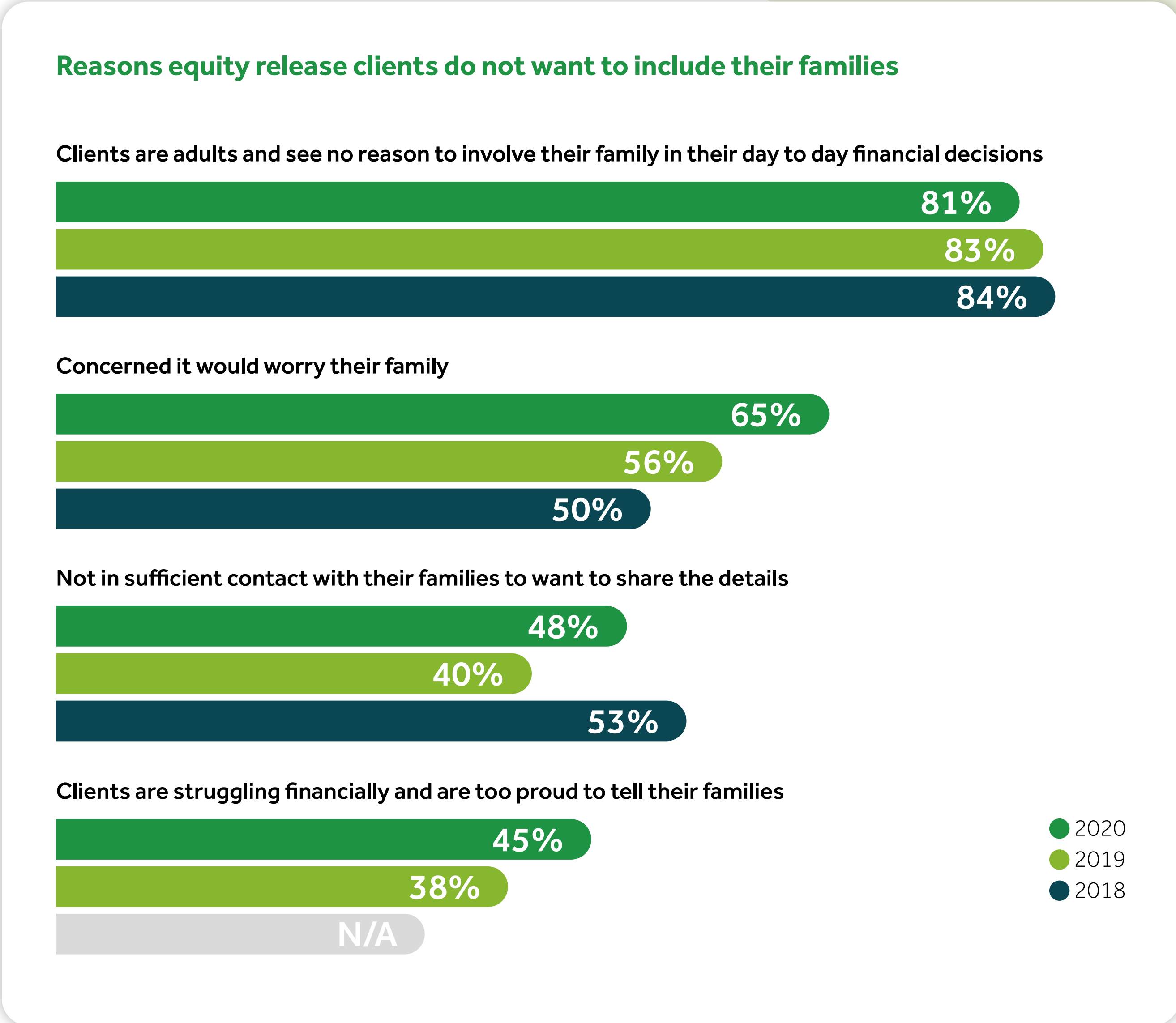
But family involvement is not right for everyone

But not all equity release clients want to include their families and the main reason for this, given by 81% of advisers, is that their clients are adults and see no reason to involve their family in their day to day financial decisions. This compares to 83% in 2019 and 84% in 2018.

Meanwhile, 65% of advisers said some clients do not want to involve their families as they are concerned it would worry them. This is up from 56% in 2019 and 50% in 2018.

Almost half (48%) of advisers said some of their clients are not in sufficient contact with their families to want to share the details, which has risen from 40% in 2019 but down from 53% in 2018.

The other main reason, given by 45% of advisers, is that their clients are struggling financially and are too proud to tell their families. This is an increase from 38% in 2019.



Although the reaction is generally positive

When clients do involve their loved ones, the family is generally positive about the equity release decision. In fact, 79% of advisers acknowledged that family members were pleased their parents are improving their lifestyle, up from 73% in 2019.

Three quarters of advisers (74%) said the family members are engaged and ask lots of questions to understand the process, while 60% said the family was interested in how equity release might help their parents. Only 3% of advisers said family members were unhappy that their parents had decided to choose equity release, down from 4% in 2019 and 9% in 2018.

One in five (20%) said families were concerned that their parents have to use equity release, this is down from 27% in 2019. Just 15% said family members were worried about what it will mean for their inheritance and another 15% said families were disinterested as their parents must do what they need to do.

Gifting

With gifting money to younger family members becoming more commonplace, advisers were asked about the wider family reactions and expectations. Increasingly, advisers are seeing that when families attend appointments, they are sometimes surprised that their parents want to help them financially. In fact, this had doubled in two years as this reaction was noted by 45% of advisers in 2020, up from 26% in 2019 and 23% in 2018.

Case Study

Vulnerability can take a variety of forms and occur at a specific moment in a person's life or be an ongoing challenge. An example of this is Mrs Claire Homes who is 85 and living alone in her home in Manchester following the death of her husband.

Claire married David over sixty years ago so it was a horrible shock when he died eight weeks ago after a short illness. He had looked after most of the finances and Claire has found that they owed over £15,000 on credit cards as their pension had simply not been keeping up with inflation and he had been using credit to maintain their lifestyle.

With no savings, Claire was forced to rely on this type of borrowing to pay for his funeral and she is extremely worried as she can't even meet the minimum repayments on the cards which include one with an interest rate of over 20%. Claire explains:

"I have lived in Manchester all of my life and have a lovely home, but I know I needed to look at my options to clear my credit card debt as it really worries me. One option I looked at was downsizing, but being close to friends and family as well as happy memories is so important and I didn't want to relocate or move. I spoke with my neighbour who recommended looking into equity release."

"My specialist adviser was extremely helpful and explained that due to the recent death of my husband and my financial situation I would be classed as vulnerable. I was relieved to find that they understood my situation and encouraged me to take things at my own pace. Using zoom, I had a long discussion with my adviser and one of his colleagues who specialises in supporting vulnerable people as well as my two children. We were able to discuss my circumstances and the best options for me."

"I eventually chose to take out a £50,000 drawdown policy as it allowed me to repay my debts, help my grandchild and have a little extra to top up my pension income. The whole process with Key was very easy, with no pressure at all. The funds have made a huge difference to my life and I am a lot less worried so can really enjoy spending time with my children and grandchildren."

Conclusion

With the FCA suggesting that at least 50% of UK adults show one or more characteristics of potential vulnerability[5], as an industry we need to step up to ensure we can support these customers.

Spotting whether a customer is vulnerable can be challenging – especially when you need to look beyond the physical to a person's mental health and personal circumstances. Add to this the fact that the customer themselves may not consider themselves vulnerable and you have almost a perfect storm.

To shed light on this issue, more2life has tracked the views of equity release advisers since 2018 and these are outlined above. It clearly shows that while we have seen improved levels of knowledge and engagement, more needs to be done to ensure that we are providing the right support for all our customers.

And advisers want support from lenders to do this, whether it is clearer literature, more opportunities to educate themselves or simply more diverse resources. With the population aging and the pandemic likely to see more customers facing difficult personal and financial circumstances, now more than ever it is important to get this right.

We welcome the FCA's consultation into *'Guidance for firms on the fair treatment of vulnerable customers'* and look forward to not only providing input but seeing how we can use their recommendations as an industry to better serve our customers.

An experts view

Tim Farmer
Founder of TSF Consultants, a leading organisation which specialises in mental capacity and financial vulnerability assessments, had this to say;

"This report shows there is much to be celebrated in the increased awareness of financial vulnerability amongst advisers and it is encouraging to see firms such as more2life leading the way in terms of education and good practice. However, it also highlights that there still remains much to be done. I strongly believe that technology and innovation will be key to further advancing our understanding of the issues faced by the financially vulnerable and the creation of consumer-centred solutions".

tsf CONSULTANTS MENTAL CAPACITY ASSESSORS

Help for advisers

As a responsible lender, more2life is acutely aware of not only its own responsibilities but those of the advisers it works with.

Internally, it has a structured vulnerable client's policy which is regularly reviewed and updated to reflect the newest thinking across the market. This policy plays a role in how processes are developed and it also deploys *'Vulnerability Champions'* across the business who are trained to support the wider team when they deal with potentially vulnerable clients. They also provide training and updates to the team as a whole to ensure that as much support is available as possible.

As part of its support for advisers, more2life also provides training/education on this issue through CII-accredited webinars and has worked with specialists in this field (e.g. Tim Farmer/TSF) to deliver regular insights and updates on the issue of vulnerability at keynote industry events. Research and insights are on this topic are regularly made available online including via more2life's Learning Lab.

[5] FCA Financial Lives of consumers across the UK, June 2018

Research methodology

This report is based on three tranches of research on almost 600 equity release advisers which took place in October 2018, July 2019 and March 2020. This is supplemented by consumer research on 1,400 over-55s homeowners carried out by Opinionmatters in August/September 2020.

References for additional research sited in this report:

1. **more2life's own data analysis – 2016/17**
2. **FCA Financial Lives Survey 2020**
   https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults
3. **ONS: MYE1: Population estimates: Summary for the UK, mid-2019**
   https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/populationestimatesforukenglandandwalesscotlandandnorthernireland
4. **YouGov research for the charity Age UK**
   https://www.england.nhs.uk/2017/10/half-of-adults-aged-55-and-over-have-experienced-common-mental-health-problems-say-age-uk/
5. **FCA Financial Lives of consumers across the UK, June 2018**
   https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf#page=12

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