AKG

RESEARCH PAPER 2022

Future of Later Life Lending - Targeting Responsible Market Growth

IN ASSOCIATION WITH: keygroup

CONTENTS

1. BACKGROUND/PURPOSE

The overarching purpose of this AKG paper is to shine a light on the past, present and future of the Later Life Lending (LLL) market in the UK.

The paper is designed to contain educational, practical and research-driven material, also forming a platform for discussion of the evolution of the market amongst key industry participants.

The paper seeks to improve understanding and awareness of the LLL market amongst a wider audience and to establish the key challenges and opportunities for those wishing to operate in this space.

1.1. LLL MARKET DEFINITION

While LLL has increasingly become a feature of over-55s financial planning, it had until recently not been clearly defined which has arguably hampered market growth and consumer understanding.

From a regulatory perspective MCOB covers the entirety of the regulated mortgage market while sections 8 and 9 are designed specifically to cater for Lifetime Mortgages. On-top of that the Mortgage Credit Directive defined that all standard mortgages were within its scope, Lifetime Mortgages were exempt and products that combined elements of both products would be defined as Mortgage Credit Directive Lifetime Mortgages. In summary LLL products could include some or all of those regulatory features.

In October 2021, UK Finance – working with Equity Release Council, Association of Mortgage Intermediaries, The Investing and Savings Alliance and The Building Societies Association - published a brochure to help customers understand their LLL options. This initiative was a significant step forward as the collaboration undertaken to create this document helped to establish a common workable definition for the first time.

The document - (*https://www.ukfinance.org.uk/system/files/Later-Life-Lending-Leaflet-October-2021-FINAL.pdf*) - was designed to help customers “understand your options when considering a mortgage that extends into, or starts during, your retirement”.

In creating the leaflet the trade bodies established that the LLL market is comprised of four property-backed product based constituents:

- Standard mortgages (repayment or interest only) that extend into retirement
- Retirement Interest-Only (RIO) - introduced by the Financial Conduct Authority in 2018
- Equity Release (ER) - Lifetime Mortgages
- Equity Release (ER) - Home Reversion Plans

While these constituent components of the market have been identified, a clear picture of the likely size of the LLL market has yet to materialise.

Although pockets of consistent reporting exist for some of the component parts, for example on ER via the ERC, there is no accurate market data available at aggregated level. The reporting is also solely focused on new business transactions and so within the standard mortgage and RIO markets excludes internal product transfers.

It should be noted that buy-to-let is not included in the definition. There is logic to this, but worthy of additional consideration is that for a consumer approaching retirement, and in the context of understanding all applicable property wealth options, buy-to-let might be an additional option which comes into play, as indeed might moving home.

If we use the content of the trade body leaflet, we can hence define LLL as: “A standard, retirement interest only or equity release mortgage that extends into, or starts during, your retirement”.

1.2. FRESH MARKET RESEARCH EXERCISES

Always keen to ensure that our industry research papers are underpinned with fresh findings, AKG carried out three separate but complementary market research exercises with advisers and consumers to inform this paper.

Online survey with advisers – AKG posed a range of questions to 103 advisers (vast majority defined as ‘financial advisers’) via an online survey. This element of the research trilogy took place during November and December 2021 and was carried out on AKG’s behalf by PollRight (the in-house research division of Citigate Dewe Rogerson).

Telephone interviews with intermediary firms – AKG facilitated a series of qualitative telephone interviews with participants from a wide range of intermediary firms. 18 of these interviews took place and a balance of perspectives (including a proportion with ER knowledge, experience and specialist engagement in the market) was gathered from senior leaders, operating in a variety of roles, within a range of intermediary firms, including:

- Holistic financial planning firms using a range of tools to advise on later life and intergenerational planning
- More mainstream financial advice firms targeting the mass affluent market
- Specialist mortgage broker firms
- Generalist adviser firms with little current or previous engagement with the ER and LLL market
- Nationals, networks/service providers.

This element of the research trilogy was carried out on AKG's behalf by market research specialist Frank Fletcher of Widewater Consulting, with the interviews taking place during October and November 2021.

Interviews were conducted on a confidential basis, typically running for 30 minutes and each followed a structured discussion guide for consistency.

Online survey with consumers – AKG posed a range of questions to 2,000 UK adults, sample weighted to be nationally representative, via an online survey.

- Age ranges: 18-30; 31-40; 41-45; 46-50; 51-55; 56-60; 61-65; 66-70; 71-75; 76+

This element of the research trilogy took place between 7-11 January 2022 and was carried out on AKG's behalf by Opinium.

Associated findings and themes emerging from this body of market research activity are therefore referenced throughout the paper.

1.3. DESK-BASED RESEARCH ON INDUSTRY SOURCE DATA/DOCUMENTS

For background and context to this project a number of industry data sources and reports were reviewed.

1.4. SPONSOR

This AKG industry research paper was sponsored by and has been produced in collaboration with Key Group (*https://www.wearekeygroup.co.uk/*) for which we would like to thank them.

Will Hale, CEO of Key Later Life Finance – Key Group's advice proposition, commented:
"At a time when more people than ever before are looking to housing equity for support, we are proud to be in a position to help shape the debate around this developing market. Equity release, retirement interest-only mortgages and standard mortgages taken out by older borrowers all have a role to play in helping people to achieve what they need and want in older age. As an industry, we need to step up to this challenge and help to develop a robust clearly definable market that serves these customers."

We would also like to thank independent consultant Tony Crane for his contribution throughout the project.

1.5. COMMENT FROM INDUSTRY REPRESENTATIVES

AKG has also sought to include some contextual comment from key representatives in the LLL market within this paper, including:

- UK Finance (UKF)
- Equity Release Council (ERC)
- Association of Mortgage Intermediaries (AMI)
- The Investment Savings Association (TISA)
- Society of Later Life Advisers (SOLLA)
- London Institute of Banking and Finance (LiBF)
- SimplyBiz

"We are particularly pleased to see Key Group and AKG taking the lead on much needed research of this nature in the area of Later Life, as we have been keen to champion the role of the adviser in this sector over a number of years and feel that there is significant opportunity available to support clients and ensure stronger outcomes for the consumer. There is regulatory change to come which will further impact this area and therefore education for both the advising community, as well as a stronger understanding by the consumer, are both key to a healthy understanding and indeed the sector's future and continued success.

This report offers an excellent overview and introspection on areas of interest both now and in the future. We would encourage anyone interested in Later Life Lending to ensure they read it."

Richard Merrett, Head of Strategic Development, SimplyBiz Mortgages

2. EXECUTIVE SUMMARY FUTURE DIRECTION OF MARKET

2.1. BIG PICTURE – TOWARDS 2030, UNDERSTANDING FUTURE DYNAMICS OF WIDER PROPERTY/MORTGAGE MARKET

- Affordability and access to the property market for first time buyers will continue to be a challenge, with an expectancy that parents (via gifting and inheritance) will increasingly be needed to help first time buyers onto the ladder.
- Further focus on both the building/supply of new homes and making these new homes and existing homes 'greener' is expected.
- With people typically living longer lives, there is expected to be an increase in demand for properties to be adapted and to be better suited to older owners.
- Older homeowners are expected to explore down-sizing opportunities, but it is also anticipated that multi-generational living will become more of a popular option.
- More people will still be interacting with and paying off mortgages into their retirement years which will lead to the availability of more LLL borrowing providers and options in the market. It will also spur the debate around the provision of more holistic advice.
- Ongoing discussion and debate around care cost funding in later life and associated policy/ proposition development. Clearly a pertinent issue for many, including consumers/families, advisers, borrowers/providers and government, and with potentially conflicting agendas in some areas.

2.2. FUTURE MARKET GROWTH / ENGAGEMENT EXPECTATIONS

As per section 1.1, defining LLL more broadly as: "A standard, retirement interest only or equity release mortgage that extends into, or starts during, your retirement".

- **LLL market growth prospects** – There is little doubt from those interviewed that there is an inevitability about the likely growth of the LLL market over the next 5 to 10 years. Whether supporters or not of ER products themselves, advisers see a period of demand-led progress.
- **LLL enquiry levels** – Many of those advisers surveyed reported (slight or substantial) increases in the level of LLL themed enquiries received from clients aged 55+ over the past 12 months. And looking forward to the next 12 months, the next two to five years and the next six to ten years, the theme of (slight or substantial) increase in enquires was anticipated to remain consistent and indeed set to grow over the longer-term.

2.3. FUTURE MARKET GROWTH DRIVERS

- Many of the general demographic and economic changes and challenges being experienced in the UK now and those anticipated in future years are viewed as being supportive of more consumers needing to consider holistic property wealth strategies and hence explore how their property wealth is best used within their wider retirement planning.
- Advisers expect LLL themed enquiries will most likely come from those clients with interest-only mortgages but also anticipate that more mortgages will run into what was traditionally considered a person's retirement years.
- Furthermore, interest is also likely to be driven by those clients who want to maintain lifestyle in retirement, those with retirement income (shortfall) concerns, and those with an awareness of increased longevity.

- From an inheritance planning perspective, advisers expect that clients wanting to gift money to family members will also be a factor in driving growth in LLL themed enquiries.
- It was also felt that there is a growing acceptance among some clients that they will need to borrow in later life, with increased ER product flexibility and the availability of mortgages with longer terms also contributing to enquiry levels.

2.4. BARRIERS TO ENGAGEMENT / CHALLENGES TO GROWTH

- A requirement to kick start the ER market post-COVID-19 from what some advisers interviewed felt had been a lull.
- As frustrating as this may be for existing and future providers, it comes through in the research that 'historical baggage' still impacts on the perception of the ER market for some consumers and advisers.
- But it is also acknowledged by some that positive strides have been made in more recent years and this hard work must continue in order to support steady and responsible future growth in that particular part of the LLL market.
- Whilst emerging regulatory initiatives and requirements will inevitably bring challenge and additional work, the associated good practice and responsible growth that is likely to be governed/supported by the FCA's Vulnerable Customer and Consumer Duty guidelines should be viewed as a positive for the LLL market.
- From the interviews, compliance concerns evidently continue to be an issue within some intermediary firms when it comes to dealing with LLL cases, including vulnerable customers. A growing requirement therefore for access to further training and development faculties in intermediary firms and an underpinning need for awareness and understanding of Vulnerable Customer and Consumer Duty guidelines.
- ER product range acknowledged by those interviewed as wide but also referenced that the proliferation of product variants can be confusing for advisers/consumers.
- Client affordability and client age given as some areas where advisers have experienced mortgage sourcing issues.
- Concerns raised by some of those interviewed about the potential for distressed ER product sales to interest-only mortgage holders.

2.5. DEVELOPMENTS/IMPROVEMENTS REQUIRED TO AID GROWTH

- While some consumers see financial advisers as an option for LLL support, the 'advice gap' between the number of people potentially interested and the number of qualified advisers is a challenge that needs to be met.
- Further expansion of the financial adviser/intermediary distribution channel will be vital to support future growth in the LLL market and consideration needs to be given to qualification and ongoing training.
- Linked to this, property wealth needs to continue to become a more integrated/considered element in wider retirement/decumulation planning discussions rather than being excluded or parked for later discussion.
- To support this, the number of specialist LLL advisers will need to grow and consideration will need to be given to whether regulation, qualifications and sourcing systems need to evolve to allow this.
- Consumers also see Citizens Advice and the Money and Pensions Service as options they can go to for help and so these public resources will need to develop their holistic LLL - and wider property related retirement planning - support accordingly.
- Whilst progress is being made, the benefits of LLL will need to continue to be understood and espoused in educational and marketing material.
- The current ER provider market is viewed as buoyant and competitive, but this will need to continue to be the case to support ongoing growth. Additionally, new brands and household brands in the provider market can add further growth impetus.
- Further development of professional connections/strategic partnerships between advisers/brokers, specialist ER, standard mortgage advisers, holistic LLL advisers, solicitors and accountants will be beneficial for growth.
- Ensuring customers are aware of all options and likely outcomes from different courses of action would appear central to ensuring new FCA Consumer Duty obligations are met
- Product innovation, but not just new variants for variants sake. Specifically targeted solution development based on research and customer data/knowledge. Again, the increased expectations within the proposed FCA Consumer Duty will have an impact here.

- Better use of digital/technology can help to create cost efficiencies in advice processes and administrative tasks. It may also support better self-serve elements and potentially financial guidance where this can be done while improving client engagement and processing.

- Technology can also help to support customers being better informed in this market. Development of apps which can be used by both advisers and consumers would be seen as a positive step forward.

- Education, education, education. All market stakeholders to consider how awareness of key property, retirement and later life planning issues can be improved. Aiding understanding and dispelling myths. What does 'my property is my pension' really mean? How do I best use the equity in my home? Could our family live in a multigenerational property? How does my borrowing impact on other decisions I may want to make in later life?

"This research paper comprehensively sets out the challenge we face in coming years as an ageing population increasingly seeks to use all financial resources available to support them in later life. It highlights the significant growth opportunities that lending to older borrowers presents and how equity in their property could be used.

Key to ensuring this happens successfully will be collaboration across the industry. Consumers must receive clear information and advice about the various options available so they can make the right decisions for their circumstances. New requirements such as the Consumer Duty will only increase the focus placed on this in the future.

We have been pleased to work with key stakeholders across the later life lending sector on initiatives such as the Later Life Lending Leaflet which show a real desire from all to help ensure borrowers receive consistent messaging from all sectors of the lending industry. We look forward to further such cooperation to help us meet the challenges outlined in this report."

Charles Roe, Director, Mortgages UK Finance

3. MARKET SCENE SETTING AND SCOPING

3.1. REPORTING ON INDIVIDUAL COMPONENTS OF (PROPERTY BACKED) LLL MARKET

3.1.1. Standard mortgages that extend into retirement

Data and reporting for the wider mortgage market in the UK is obviously prevalent, but when considering the LLL market, and the emerging definition outlined earlier, it is the availability of reporting on those customers taking out new standard mortgage products at or beyond age-55 that is of most interest (acknowledging that mortgage switching activity for customers aged 55 also occurs).

UK Finance provides quarterly insight into mortgage lending to borrowers over age 55, including the trends in lending and demographics of borrowers accessing the market, and its Q4 2021 and 2021 year end data was published on 21 Feb 2022. Some key data highlights include:

- *"There were 187,120 new mortgages including buy-to-let* to borrowers over 55 years of age completed in 2021, with total lending in the year of £28.1 billion. Compared with 2020, this represents an 11 per cent increase in mortgage volumes and a 22 per cent increase in the value of lending (slightly lower than the 27 per cent increase in the value of lending for the whole mortgage market in 2021). This is the highest annual volume and value of mortgages to borrowers over age 55 since 2014 when these data began to be collected."*
- *"This increase in mortgage lending to older borrowers was driven in large part by the stamp duty holiday, which encouraged homeowners of all ages to move homes or expand their property portfolios."*
- *"This activity slowed towards the end of the year. There were 44,590 new mortgages to borrowers over age 55 in Q4 2021, with total lending in the quarter of £6.8 billion. This represents a decline in volume of mortgages of 2.6 per cent compared with the previous quarter, and a decline of 3.6 per cent compared with the same quarter in the previous year."*
- *"This decline in quarterly volumes is driven largely by the end of the stamp duty holiday in September 2021. Many borrowers had completed purchases earlier in the year to take advantage of the savings available through this government scheme, leading to a modest decline in demand in house purchase towards the end of 2021."*

Source: *https://www.ukfinance.org.uk/data-and-research/data/mortgages/later-life-lending*

*A reminder that buy-to-let was not included in earlier LLL market definition

3.1.2. Equity release (Lifetime Mortgages and Home Reversion Plans)

Regular progress updates, from a data perspective, are reported on the ER market by the likes of the ERC and UK Finance. As you would anticipate individual providers also collate information on their own customer base and sales figures.

For example, year-end 2021 data from the ERC reports:

- For the year as a whole, 76,154 customers took out new equity release plans, made use of drawdown reserves or agreed extensions to existing plans. This was a 4% increase year-on-year from 72,988, although it remains below the peak of 85,497 seen in 2019.
- Total lending of £4.8bn for 2021, including £4.3bn via new plans and £500m to returning customers. This represents a 24% rise from £3.86bn in 2020 at a time when wider lending across the mortgage market grew 31%.
- Annual equity release lending surpassed the previous record set in 2018 (£3.94bn), influenced by factors including growing choice and competition in the market, customers seeking additional sources of funds for later life, and the strong performance of the UK housing market with the average house price increasing by £25,000 in the year to November 2021.

Source: *https://www.equityreleasecouncil.com/wp-content/uploads/2022/01/210124-Equity-Release-Council-Q4-and-FY-2021-market-statistics-media-alert-FINAL.pdf*

While the UK Finance component categorisation within the LLL market definition includes reference to both Lifetime Mortgages and Home Reversion Plans, investigation of the data suggests that while there were 41,400 lifetime mortgage sales in 2021 (compared to 76,154 reported by ERC) Home reversions made up less than 1% of the total lifetime market.

The data provided by UK Finance also includes ER figures that are also reported on by the ERC. Due to different data sources being used these figures are unlikely to ever be consistent with UK Finance stating: *"New lifetime mortgage lending totals differ slightly from those published by the Council due to a difference in definitions of data collected. While these figures may differ, trends seen within these two sets of figures are largely the same."*

Source: *https://www.ukfinance.org.uk/sites/default/files/uploads/Later-Life-Mortgage-Lending-Q4-2021.pdf*

3.1.3. Retirement Interest Only Mortgages (RIOs)

Introduced to the market in 2018, RIOs have only been in existence for a few years now. Reporting so far is perceived to be limited but Responsible Life did complete a freedom of information act request and subsequently reported in Financial Reporter in Jan 2022 that, "… only 3,213 had been sold by the end of 2020, rising to 5,029 by the end of September 2021".

Source: *https://www.financialreporter.co.uk/retirement-interest-only-mortgage-sales-double-but-progress-still-poor.html*

UK Finance LLL data has covered RIO sales to borrowers over the age of 65 since Q4 2019, and in their latest LLL market report they indicated that the total sales to that group by the end of December 2021 had reached 3,203. Interestingly the FOIA request was for all RIO sales whereas UK Finance LLL data only reports on RIO sales to those borrowers over the age of 65.

3.2. ESTIMATING THE SIZE OF THE LATER LIFE LENDING MARKET IN THE UK

The road to a potentially happy, healthy and rewarding retirement used to be fairly straight-forward (learn, work, retire). Your home and your retirement were linked to two completely different assets requiring different decisions and considerations.

But at some point recently things started to change. Exactly when that happened is difficult to tell but the idea that your home and your retirement can now be managed completely independently of one another is – for most of us - probably over.

However, at the moment, the lack of awareness and education around the use of both assets in retirement means consumers less likely to seriously consider this approach, and if they are they can be batted away due to the restricted nature of the services being provided.

Indeed – as many in the industry have told us as part of this exercise- the existing regulatory parameters probably need reviewing as consumers are faced with a whole series of considerations and conundrums that previous generations simply didn't have to face.

Arguably, the first step towards this is accurately defining, sizing and reporting on the e merging LLL market. Work has already started on this and in October 2021, influential UK trade bodies came together to launch a LLL leaflet but it remains to be seen if there is appetite to start assembling more specific data and reporting which seeks to aggregate information across the four product constituents they have identified.

It is therefore extremely challenging for interested parties to coherently build a picture of and make forecasts on the likely future size and scope of the LLL market. Additionally, one might wonder if the LLL market as a whole can effectively define and monitor consumer outcomes if it hasn't got an accurate view of the aggregated market make-up.

3.2.1 Definition governs approach to estimating size

How you choose to define the market unsurprisingly impacts how you subsequently size the market, and this is evident when assessing previous attempts that projected future values.

To reiterate, for the purposes of this exercise we will use the definition as supplied in the trade body leaflet for the LLL market:

"Later life lending is a standard, retirement interest only or equity release mortgage that extends into, or starts during, your retirement".

The standard LLL definition exclude BTL mortgages, mortgages that are scheduled to repaid at or before retirement and mortgages held by those under the age of 55. Those seem a reasonable set of criteria to exclude. However, the age related cut-off – whilst aligning with pension freedoms and the current ERC and UK Finance LLL reporting – if applied on that basis would mean that some RIO products (those available from age 50) and standard mortgages held by those under 55 but with terms already extending into retirement, are also excluded. Therefore, a better definition of LLL that will be used within this paper is: *"Standard, retirement interest only or equity release mortgages for borrowers over the age of 55 with terms that extend into, or start during, retirement"*

3.2.2 Challenges in estimating aggregated size

As previously referenced, multiple pockets of data/reporting from different sources are available for constituent parts of the market, i.e., standard mortgages and ER. But there can be cross-over, and also some differences, between figures quoted by different parties, leading to a lack of consistency.

Forward projections have even been greater, either prior forecasting of where the market might have got to now, or at future points. With such projections increasing a range to anything up to £300bn at the end of this decade potentially lacking consistency, or clear methodology, and hence ultimately providing little insight to the advisers and their clients.

There is currently no single body with responsibility for measuring and reporting on all constituent parts of the LLL market which makes the task more difficult than it should be.

3.2.3 What do we know? – key data points

Key Later Life Finance has analysed its own book of data, and also credit reference information available from the entire over-55 lending market, and has concluded that:

- There is around c£100bn of open mortgages held by the over 55's in the UK (Source: Experian) – excluding ER mortgages
- The value of new lending within the over 55's market in 2021 stood at c.£19bn
  Source: *https://www.ukfinance.org.uk/data-and-research/data/mortgages/later-life-lending*
- The size of the ER back-book is estimated to be £29bn* (Source: ERC data analysis by Key)
  *this doesn't include any effect of compounding interest on the original amount borrowed
- The amount of total product switching completed by the over 55's in 2021 was forecast to be around £40bn (SBG report on product transfers combined with FCA research on product switching) Sources: *https://www.mortgagesolutions.co.uk/news/2020/11/02/product-transfer-business-soars-post-lockdown-as-sbg-reports-busiest-months-on-record/* and *https://www.fca.org.uk/publication/research/mortgage-switching-research.pdf*

However, that still includes mortgages that do not meet the agreed trade body leaflet definition. Importantly the trade body definition only includes mortgages that have a term that extends beyond retirement date and excludes all 'buy-to-let' mortgages.

3.2.4 Can this market sizing be refined further?

Clearly, it is impossible to predict when every borrower will retire but the data is able to be refined further. Using the LLL definition outlined above, the amended figures are as follows:

Category	Source	Period	Amount
Open Mortgage stock	Key/Experian	Back book	£70bn
Equity Release stock	Analysis of ERC data	Back book	£29bn
		Back book total	**£99bn**
New lending- Equity Release	ERC/UK Finance	2021	£4.8bn-£4.9bn
New lending- All Other	UK Finance	2021	£10bn
		New lending- Total	**£14.8bn-£14.9bn**
Product switching	SBG & FCA data	2021	£20.8bn
Product switching (internal)	SBG & FCA data	2021	£19.2bn
		2021 total	**£54.8bn - £54.9bn**

*Mortgages taken on a new property or mortgages remortgaged from one lender to another

**Mortgages that are switched from one product to another but remain with the same lender

That would equate to a 2021 transactional market size of between £54.8bn and £54.9bn, with an end of year stock balance of £99bn and a total LLL size of between £153.8bn and £153.9bn at the end of 2021.

The methodology behind these calculations is partly based on mortgage credit data, and is therefore as accurate a data source as we have available. Where multiple sources exist for the same data, such as with ER, both figures are presented for a range. Other calculations have been made using triangulation of multiple data sources to achieve more realistic data points and narrow the data down to fit within the trade body leaflet definition.

Although there may be possibility of double counting between back books and new lending in 2021, this should be minimal, and does not impact on the total market size.

3.2.5 Summary and next steps

From an established position within the market, we've found it challenging to coherently explain how the different component parts of the LLL market co-exist, and we've also struggled to find a consistent definition – from a data perspective – for LLL.

And yet the LLL market expects consumers to be able to navigate all of this by themselves which feels an unrealistic expectation and one that could negatively impact on confidence in the market.

The lack of consistency around LLL definition, recent progress aside, suggests the industry needs to continue to help consumers understand what housing/borrowing options they have available to them as they approach retirement.

The range of market size indicates the need for the focus now to fall on tightening this understanding, through better coordination of the data and participant agreement on the markets component parts. Such an ongoing revisionist exercise being of benefit to advisers and their clients in what is a large, important and evolving market, which will be at the heart of delivering positive customer outcomes in retirement and later life.

Having one LLL reporting initiative, underpinned by collaborative trade body/provider efforts, with the remit and responsibility for calculating the size of the market, based on an agreed definition, would also be desirable to assess trends and better project what the future of the market may look like.

"The Later Life Lending industry has a crucial role to play to help consumers make the most of their housing wealth, particularly for the growing number of consumers with underfunded pensions and no other means for funding their future social care needs. Arguably, the industry is not currently delivering to these needs to the degree that will be required. The Financial Services Consumer Panel's recent Position Paper on the industry has shone a light on how difficult it is still for consumers, particularly vulnerable consumers, to make informed decisions on what to use their housing wealth for and what product to use. The siloed nature of the industry leads to consumers being influenced by the type of adviser consulted (as opposed to their needs), which increases the risk of poor outcomes with consumers less able to properly consider all long-term implications of products. Unless the Later Life Lending industry improves its standards then regulatory intervention in the future is inevitable in our view, especially considering how damaging the consequences can be to a consumer and their beneficiaries when using equity release inappropriately."

Prakash Chandramohan, Strategy Director, TISA

4. HOW DID WE GET TO TODAY?

4.1. MARKET: FROM ROUGH-HEWN PRODUCT TO LIFE PLANNING CORNERSTONE – TRANSITIONING FROM THE PAST

The genesis of the LLL market in the UK can be traced back to the first ER plan which was introduced in 1965 to help older customers supplement retirement income. Although it addressed a consumer need, it was a relatively expensive solution for the client; the providers were remunerated for their risks and brokers were also well remunerated for their efforts. So much so, in fact, that the early years of the market were unfortunately characterised by some poor practices and outcomes.

Through the 1970s and the first half of the 1980s, these issues proliferated and gave ER a bad name. The approach of formal and structured financial services regulation in 1987 prompted the ER industry to reflect on the consumer protections it offered and Safe Home Income Plans (SHIP), the first trade body to represent this sector was formed.

While it has been a long road to overcome the challenges caused by poor perceptions of the industry and there is still a way to go, more advances are being made by the day, for example:

- Growing customer-focused innovation and choice
- Specific standards providing additional protections for consumers beyond regulation
- Big name lenders and providers becoming involved
- Greater engagement from the wider advice community
- Wider range of customer needs catered for and being addressed
- Significant investment by firms in communication and content which focuses on putting myths to rest and educating consumers

And the development of the economic and demographic environment suggests that there is much more to come.

4.2. CUSTOMER: FROM PREDICTABILITY TO UNCERTAINTY – EVOLVING DYNAMICS

Time was – and not that long ago – when the typical lifecycle for many customers had a reasonable comfort and predictability to it.

- You completed education
- You went to work
- You were often enrolled in a (sometimes generous final salary) occupational pension scheme
- You saved a deposit and bought a home
- You had and raised children
- They left home around the same time as you paid off your mortgage
- You became an empty-nester and bolstered your savings
- You retired, living off your pension or an annuity and your savings
- In later life, your children were around for care and support if required
- Only in dire circumstances was further support and finance necessary
- Savings and investments were a separate world from property wealth which was often the foundation of any estate on death.

But in two decades, this landscape has fundamentally and arguably permanently changed with those approaching retirement feeling the biggest shift but older age groups also seeing the impact.

- Fundamental changes to the pensions system including the decline of defined benefit pensions and the increase of defined contribution schemes;

- The abolition of the default retirement age in 2021 as well as the gradual increase to the age at which a person might claim the state pension;

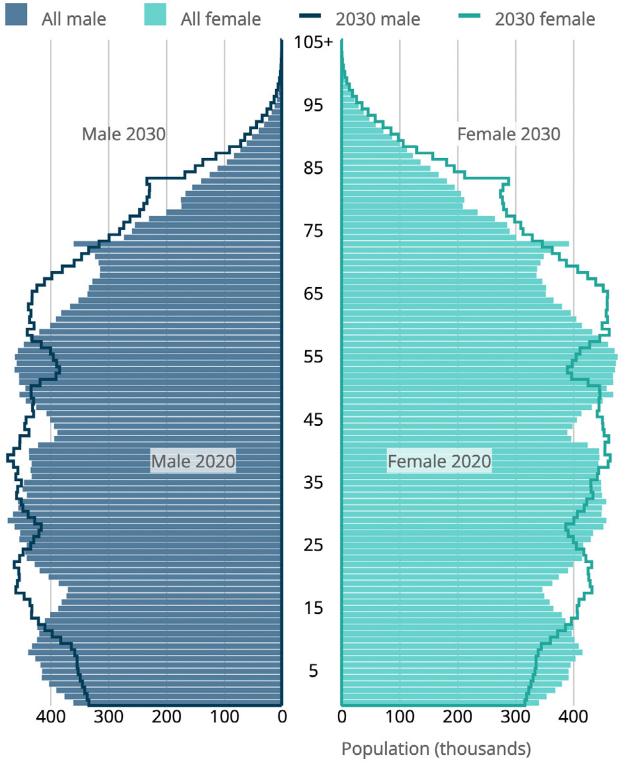
- Children and grandchildren emerging from further education saddled with debt and in need of parental support to either manage this borrowing or take those first steps onto the property ladder;
- Greater societal and financial pressures which see family life starting later, less opportunity for

saving and more people entering retirement with outstanding mortgage and unsecured debts – spurred on by aggressive interest-only lending as well as endowment miss-selling and the proliferation of older first time buyers;

- Introduction of pension freedoms in 2015 which saw the requirement to take out an annuity abolished, early access to pensions allowed and more personal responsibility around income management needed;
- Longevity (as illustrated by the graphic below) as well as the amount of time that people spend in retirement increasing but societal changes and lack of coherent Government policy on care seeing more people worrying about the support they will need to fund in late old age.

There is a growing number of older people in the UK

Age structure of the UK population, mid-2020 and mid 2030



Source: Office for National Statistics - National population projections

Challenges that are only going to get worse for the next generation whose financial lifecycle was potentially even more parlous than their own and sometimes also looking up at their own parents who through frailty and infirmity might also be needing support.

It was therefore inevitable (as well as correct from a holistic view perspective) that housing equity should come to be viewed as part of a customer's overall financial wealth.

But this in itself has created some new challenges. Savings and investments on the one hand and borrowing/housing finance are subject to totally different and unconnected regulatory and legal regimes (as well as different advice/distribution approaches and channels).

It was clear the something had to give, especially in the area of accessing housing wealth.

4.3. FROM DISORDERLY TO ORDERLY – CHARTING THE TRANSITION IN STRUCTURE AND OPERATION OF THE EQUITY RELEASE MARKET

As referenced, before 1987, the ER market was relatively young, undeveloped and in need of an approach to regulation which stamped out poor practice. A series of steps helped to achieve this including:

- The Financial Services Act of 1986 gave regulatory powers to the Securities and Investments Board which was the precursor of the Financial Services Authority (FSA) which was the regulator until 2010 when it was abolished and its regulatory span divided between the newly created Financial Conduct Authority (FCA) and the Prudential Regulatory Authority (PRA). Aspects of LLL fall under the remit of one or both of these current bodies.
- The modern era for LLL really began with the formal launch in 1991 of Safe Home Income Plans (SHIP) with its newly created logo. Founding members included Hodge Equity Release and Home & Capital Trust. Over the next ten years more providers joined including household names like Norwich Union (now Aviva), as well as specialists such as Bridgewater (now part of Retirement Bridge).
- A key component of the SHIP Standards has been the pricing into relevant products of a no negative equity guarantee - an important consumer protection factor (although the pricing of the guarantee is still sometimes a contentious issue and questions are asked whether this impacts how competitive the products are).
- In October 2004, lifetime mortgages were first regulated by the FSA with reversion plans falling under the regulatory regime in April 2007.

- With 20 members and a desire to support the market as well as the developing legislation, SHIP announced that from the end of August 2006 its members would no longer accept business from advisers who do not hold a suitable qualification in ER.

- 2008 saw further moves to professionalise the market with a requirement for solicitors to confirm their independence from lenders and financial advisers. SHIP members also confirmed they would no longer accept business from advisers with no home reversion qualifications.

- In May 2012, following a consultation period SHIP become the ERC and, for the first time, all stakeholders in the industry were given a collective voice - providers, lenders, brokers and advisers. Importantly, this expedited the possibility of use of housing wealth being properly integrated as an element of later life planning.

- Membership is voluntary but equity release providers who are members agree to follow Code of Conduct rules with the latest updated version is available at: *https://www.equityreleasecouncil.com/about/standards/rules-and-guidance/*

- In January 2022, the ERC introduced a fifth product standard to mark its 30th anniversary. From 28 March 2022, all customers taking out lifetime mortgages that meet Council standards are guaranteed the right to make penalty free partial repayments of their loans. It means new customers can not only reduce their borrowing, but offset the interest, without making any ongoing commitment to further repayments.

4.4. FROM DISHARMONY TO A DEGREE OF CONSISTENCY – REGULATORY TRANSITION FOR MORTGAGE MARKET

In October 2004, the wider mortgage market was fully regulated and anyone who wants to sell mortgages, from estate agents to mortgage brokers, must be authorised by the FCA or be part of an FCA-authorised network.

As a result, they must adhere to rules governing sales, servicing and most importantly customer outcomes. As with other conduct of business rules, however, these have changed over time as have the rules covering the mortgage products themselves and the prudential regulatory requirements.

The new regime was quickly tested by the global financial crisis in 2007 and beyond. This prompted a review of the market practices exposed by the crisis, specifically the impact of high income multiple lending on the part of lenders and the resulting effect of over-borrowing on the part of consumer.

The review reported in 2009 with consultation in 2010. While a regime of historically low interest rates sought to mitigate some of the more dire potential consequences of the crash, the FCA which had taken over the reins from the FSA was concerned that the wrong people may be buying the wrong products and hence argued structural changes to the way mortgages were assessed and sold were necessary.

The main aims of the review, in light of 5 years on the new regime overlaid with the effects of the financial crisis (including the collapse of Northern Rock), were to create a market that was sustainable for all parties and to have a flexible market that worked better for consumers. The main provisions involved:

- Affordability assessment
- Product regulation including loan to value requirements
- Arrears charges
- Responsible borrowing, better informed purchasing (an onus on clients/advisers to sense check what they are embarking on, i.e. why are you borrowing? can you afford it?

Mortgage loans including ER are the core financial products underlying the LLL market and there are now two elements to mortgage market regulation:

FCA FINANCIAL CONDUCT AUTHORITY	The FCA now regulates the provision of all financial services (thus bringing mortgages under the same regime as savings and investments).
BANK OF ENGLAND PRUDENTIAL REGULATION AUTHORITY	The Prudential Regulatory Authority basically determines the amount of money that lenders need to hold to create adequate capital for their lending activities and have risk controls in place should the borrower not repay their funds.

In April 2013, the FSA was superseded as mortgage market regulator by the Financial Conduct Authority (FCA).

2014 saw two significant policy events. Firstly the next phase of the Mortgage Market Review (MMR) landed in April 2014. The original review had effectively begun back in 2005 as a study on the effectiveness of the mortgage conduct regime but evolved to include the activities around the market crash in 2007 and all of the change that we've previously referenced. Some of the key LLL changes under the 2014 MMR were:

- Stress testing was introduced into affordability assessments
- Interest only borrowers needed to evidence a repayment vehicle – this effectively curtailed most of the interest only mortgage lending
- Lenders were asked to take a prudent and proportionate approach to assessing income if the term extended beyond their intended retirement date – the closer the borrower was to retirement the more robust the evidence of post retirement income needed to be.

Secondly the EU sought to create a single and more efficient market for mortgage credit by introducing the EU Mortgage Credit Directive. The directive came into force in March 2014 with implementation by member states set as no later than March 2016. As outlined earlier, from a LLL perspective the MCD created 3 component parts of the markets:

1. ER was deemed exempt from the new MCD rules
2. Standard mortgages were captured by all of the rules
3. Mortgages that required a degree of capital repayment but extended until end of life were defined as MCD Lifetime mortgages.

The third element of the MCD was created to allow standard lenders to build solutions to the growing interest only back-book issue without having to comply fully with the MCOB ER requirements, whilst a MCD LTM product has failed to materialise the principles did create a useful framework upon which the RIO developments in 2018 could be built.

4.5. FROM VARIABLE OUTCOMES TO RIGOROUS ADVICE PROCESS – TRANSITION IN ADVICE REQUIREMENTS

As the market became increasingly regulated and professionalised, qualifications have also evolved. CeMAP (The Certificate in Mortgage Advice and Practice) is equivalent to an A level or college qualification and is the foundation requirement before an adviser can begin to study for a Certificate in Equity Release (CeRER) which is necessary to be fully qualified to offer equity release advice.

CeMAP as well as CeRER are provided by the London Institute of Banking and Finance (LIBF) while Chartered Insurance Institute offers an equivalent Certificate in Equity Release which covers the same ground as CeMAP and CeRER.

As the market grows and evolves, the ER advice process is subject to close and continual monitoring by the FCA. Its most recent analysis of the advice market was published in June 2020.

The FCA's findings were mixed. It saw cases where lifetime mortgages were working well, unlocking equity for consumers who would not have been able to afford traditional mortgages or other sources of borrowing. However, it also saw cases where it was not clear that the advice was in the best interests of the consumer.

It found 3 significant areas of concern about the suitability of advice provided, which were considered to increase the risk of harm to consumers in this market:

- Insufficient personalisation of advice
- Insufficient challenging of customer assumptions
- Lack of evidence to support the suitability of advice.

While clearly providing the support many customers need, it appears that some advisers do need to review processes and approaches to reach the appropriate standards.

4.6. FROM HOME REVERSION TO A RANGE OF LATER LIFE LENDING PRODUCTS - EXPANDING PRODUCT TOOLKIT

Currently, there are four main categories of LLL options available to clients:

- **Standard mortgages (repayment or interest-only) that extend into retirement**
  Borrowing against the value of your home with the expectation that you will pay the interest and capital into retirement and may need to re-finance at intervals. Sometimes refer to as Later Life Mortgages or Retirement Mortgages.

- **Retirement Interest-Only (RIO)**
  Retirement interest only mortgages were reclassified as standard mortgages in 2018 to allow a wider range of lenders to offer them. They allow over-55's to borrow on an interest-only basis into retirement with the borrowing repaid when the property is sold.

- **Equity Release - Lifetime Mortgages**
  ER mortgages allow over-55s to borrow against the value of their home – either repaying interest and/or capital or simply allowing the interest to roll up. They are typically repaid when the borrower dies or goes into care.

- **Equity Release - Home Reversion Plans**
  Currently reversion plans account for less than 1% of annual sales (ERC data). However, historically this was higher so they have been included for completeness. With one of these plans, the borrower sells a proportion (e.g. 25%) to the lender in return for an agreed lump sum. While interest is not charged, the lender benefits from house price growth and is typically repaid when the borrower dies or goes into care.

Other forms of mortgage are being developed, including products that allow older people to partner with their children/grandchildren to help provide deposits for the next generation's house purchases.

4.7. FROM SALESMAN TO RELATIONSHIP BUSINESS

The earliest days of the ER market saw the use of the product predominantly by cash poor property owners as a way of boosting funds/income in retirement. It was easy to sell the benefit without necessarily explaining all the downsides.

While the regulation of the sales process lagged behind that of savings and investments, this has changed significantly and increasingly ER is being seen for what it truly is – one manifestation of the subject of later life financial planning. Property wealth is finally taking its place as a real (often the most substantial) component of household wealth.

Although more work needs to be done to fully align LLL advice with that of the financial wealth distribution infrastructure and where necessary build more elaborate and complex mechanisms progress has been made.

- The market now has access to unbiased information sources from the ERC and through a significant number of major providers, lenders and advisers in the market.
- As with the investment sector, the ER market now has a range of different adviser and provider types from firms that are specialist in certain areas of the market or functions through to major vertically integrated providers that are almost 'one stop shops'.
- While only a specialist broker with relevant ER as well as mortgage qualifications can advise across the entire suite of LLL products, we are seeing these advisers increasingly operating as part of wider practices or building strong referral relationships with advisers operating in other disciplines.
- Indeed within the wealth management arena, the two regimes are converging in the world of holistic financial planning and intergenerational advice where a qualified adviser sits at the coal face of the client relationship, explores clients' life plans and needs taking into account the whole client balance sheet of assets and liabilities to help these clients achieve their goals. This role requires collegiate working with other specialist professionals as needed whether they are portfolio managers, wealth managers, mortgage brokers, ER specialist advisers, legal and accounting advisers.

This is a major area of evolution for all personal financial/property advice. And it is an evolutionary trend that has huge potential implications for the LLL market.

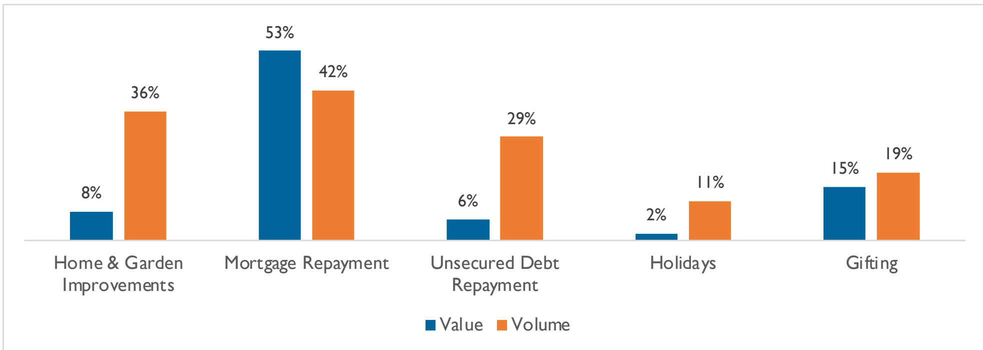
4.8. FROM DISTRESS PURCHASE TO KEY PLANNING TOOL

The earliest uses of ER mainly revolved around supplementing income to maintain lifestyle in retirement. Distribution was unregulated and taking out housing equity to invest was still permitted.

Poor product quality and the concept of speculative use of funds combined to the detriment of some early clients and provides the foundation for the negative perceptions of ER that still sometimes exist today. However, things have moved a long way this century and, aided by the distribution infrastructure described in the previous section, the use of ER has moved from being a distress purchase to a key planning tool.

4.8.1. Illustrative data from Key

Information shared here by Key shows how funds raised by ER customers are currently being deployed.



Source: Key – FY 2021

From this data, more than half of ER transactions by value make use of funds locked into homes to pay off debts. Gifting accounts for over 20% of the value raised. The remainder of the market at present is accounted for by people choosing to age proof their homes with home or garden improvements or going on holiday.

Findings from Air Group's Later Life Lending Census 2021, produced in collaboration with NMG Consulting, indicated that most advisers still approach advice for LLL as a single product event; with less viewing the advice as part of a wider retirement strategy.

But as noted earlier, this is a sector in flux and as the distribution infrastructure develops, the application of ER can also be expected to evolve.

One clue lies in the proportion of ER business that is related to gifting – releasing funds for family and friends to help them now rather than at some indeterminate point in the future. The graph on the previous page illustrates this from a Key Group customer perspective.

And further research undertaken by NMG Consulting for Air Group's Later Life Lending Census 2021, indicates that advisers anticipate that their customers will use LLL funds for:

- Paying off existing mortgages
- Helping family with essential financial needs
- Essential spending
- Meeting basic retirement income needs
- Boosting general quality of living
- Paying off other debts
- Inheritance planning and gifting
- Discretionary spending
- Funding healthcare needs
- Helping family with nice to have financial needs

Despite the amount of information now available on the market and products there is still a strong desire among advisers, whether specialist or generalist, for much more education and understanding both at the adviser and at the consumer level. It needs to be talked about much more than it currently is and in a positive way.

4.9. FROM CAVALIER TO CAUTIOUS – REQUIREMENT FOR FURTHER, STRUCTURED GROWTH AND DEVELOPMENT

It is worth concluding this review of where the market has come from and where it is today by emphasising that whilst good progress is being made some of the past concerns, misconceptions and reservations about the LLL markets foundations have not completely gone away.

From time to time legacy cases involving poor products and/or poor advice are featured in the personal finance pages and elsewhere; these do nothing to inspire confidence among sceptics.

Despite the evident need for a strong LLL sector and the expanding potential of LLL, it clearly remains a market in transition despite the presence of some formidable players and stakeholders.

And the key to unlocking its future growth is what happens next in terms of:

- Product design
- Product application
- Product integration into the wider financial planning industry
- The economic and demographic environment
- Legislation, tax and regulation including the provision of later life care and
- Education as well as understanding

"This report not only outlines the challenges for the Later Life Lending market, but also the opportunities on the horizon and the significant role that equity release is set to play in tackling many of these issues. The sector is well placed to adapt to further future dynamic shifts such as the need to make older properties greener and the ongoing importance of intergenerational gifting. With equity release becoming ever more useful to a wider audience, the standards and safeguards we have established and continue to evolve will ensure that future generations of consumers can access products and advice of the highest possible calibre."

Jim Boyd, CEO of the Equity Release Council

5. THE FUTURE OF THE MARKET

5.1. REGULATORY/LEGISLATIVE CHANGE AND CHALLENGE

There are three big ticket regulatory and legislative items high up the agenda for providers and intermediary firms operating across the industry over the next couple of years, and these will have great relevance to the future of the LLL market as well.

Consumer Duty – Via CP21/36: A new Consumer Duty, the FCA wants to see a higher level of consumer protection in retail financial markets, where firms compete vigorously in the interests of consumers. FCA also wants to drive a healthy and successful financial services system in which firms can thrive and consumers can make informed choices about financial products and services. As with other markets, this will have ramifications for providers in the ER/LLL market and for those adviser/broker firms advising clients in this area. All parties will need to keep a close eye on their adherence to the emerging Consumer Duty expectations and requirements of the FCA.

Vulnerable Customers – In February 2021, the FCA issued its guidance for firms on the fair treatment of vulnerable customers. Protecting vulnerable consumers is a key focus for the FCA and it is more important than ever due to the impact of the coronavirus. The guidance aims to help firms ensure that they are treating vulnerable customers fairly, and includes examples of how to put this guidance into practice. The FCA has specified that its assessment of the treatment of vulnerable customers will be integrated into its supervisory approach – it will not be a one-off exercise. It confirmed it will formally evaluate firms' progress and the effectiveness of the finalised guidance and actions in 2023/24. Acknowledged as an area of concern among advisers interviewed by AKG and clearly a big area of focus for providers in the ER and emerging broader LLL market and for those adviser/broker firms advising clients in this area.

State Pension Age Review - The latest review of State Pension age was launched by the government in December 2021. The review will consider whether the rules around pensionable age are appropriate, based on the latest life expectancy data and other evidence. This may have ramifications, i.e. any further changes to when different cohorts can access their State Pension, for those who will be heavily dependent on the State Pension to support their lifestyle and income requirements in retirement.

5.2. DRIVING FACTORS FOR FURTHER CHANGE AND GROWTH

Alongside some fundamental ongoing customer needs the environment in which the LLL market will operate is changing – and, according to views shared by the majority of AKG's telephone interview participants, many of the changes are deemed positive for the market when it comes to the role of property wealth.

Above all, appreciation of the role of bricks and mortar in the household investment portfolio is growing rapidly and is being driven by some of the vital economic and demographic trends as outlined in section 4.2. Overlaid on these are other developing drivers which include:

- The rise of the 'sandwich generation' which sees people supporting older parents in ill-health while also trying to help children/grandchildren. Cutting back working hours, less opportunity to build retirement assets and less choice around how these assets are deployed are often a result of this issue.
- Emerging inflation post-COVID and the associated cost of living impact on much of the population, including those at and in retirement (particularly rising energy costs).
- Increased expectations around what retirement could and indeed should involve with the rise of older people travelling, studying and taking up interests or hobbies far beyond what their parents might have enjoyed.
- The growing number of single people – either due to divorce/break-up or personal choice - who are expected to support themselves in retirement.
- The current low interest rate environment that has diminished the value of liquid savings in real terms and destroyed the returns from them.

- There are also some legal and fiscal issues increasingly impacting on the market as well. Private pensions were created as a means of allowing individuals to save to generate income in retirement. However, as financial planners in particular are very much aware, pension assets currently fall outside the inheritance tax net and it is a legitimate strategy to preserve pension assets by drawing down on other inheritable asset types first.

While each person experiences these challenges differently, they are combining to demand that all wealth, financial and property assets, sweat harder and more effectively and efficiently than ever before.

5.3. OUTLOOK FOR GROWTH PROSPECTS AND TRENDS

There is little doubt from the telephone interview participants (see section 1.2 for research approach) that there is an inevitability about the likely growth and importance of this market over the next five to ten years. Whether they are supporters of the products themselves or not, advisers see a demand-led period of progress.

Indeed, while pensions have been the gold standard for retirement investing and property has been an important component of household wealth - co-existed alongside each other separately and ploughed their own furrows – this is changing and circumstances are now drawing them together in a more integrated fashion. This will facilitate the expected growth.

In these research interviews, all financial advisers said they ask about and take full account in their fact-finding process of property wealth but all too often, it is then parked to return to as a last resort if necessary. At the same time, the research interviews highlighted at least one ER specialist who characterises himself as a 'property wealth adviser'. Perhaps terminology that can help bring property/retirement discussions to life in future.

5.4. LLL/ER ENQUIRIES - CURRENT LEVELS AND FUTURE EXPECTATIONS (ADVISER SURVEY)

In the online survey (see section 1.2 for research approach), AKG sought to gauge current levels of appetite experienced by advisers from their clients aged 55+ for mortgages and wider later life borrowing.

How has the number of enquiries from clients aged 55+ about mortgages and wider later life borrowing changed in past year?

- **Over the past 12 months**, In total 51% of those responding to this question had experienced an increase in enquiries (45% experienced a slight increase and 6% a substantial increase). 42% had seen enquiries remain at the same level and 7% a slight decrease.

- And it was a similar picture when asking about anticipated number of enquiries **over the next 12 months**. In total 58% of those responding to this question were expecting an increase in enquiries (52% were expecting a slight increase and 6% a substantial increase). 41% felt that the number of enquiries would stay at the same level.

AKG also looked further ahead by seeking to gauge outlook for future levels of enquiries anticipated by advisers from clients aged 55+ for mortgages and wider later life borrowing. And the results painted a healthy picture.

How do you expect to see the number of enquiries from clients aged 55+ about mortgages and wider later life borrowing change in the future?

- In total 77% of those responding to this question are expecting an increase in enquiries **in the next two to five years** (61% a slight increase and 16% a substantial increase).

- Looking even further forward, in total 79% of those responding to this question are expecting an increase in enquiries **in the next six to ten years** (49% a slight increase and 30% anticipate a substantial increase).

- It is worth noting that no advisers responding to this question in the survey felt the level of interest from clients aged 55+ would decrease over the next two to five and six to ten years.

	Increase substantially	Increase slightly	Stay the same
In the next two to five years	16%	61%	23%
In the next six to ten years	30%	49%	20%

5.5. LLL/ER ENQUIRY GROWTH DRIVERS (ADVISER SURVEY)

Building on what the industry believes is driving the growth in the market, AKG asked advisers via the survey what trends they felt were shaping the sector.

What do you believe is driving growth in inquiries about Later Life Lending?

- When asked what is driving growth in client interest in LLL, over half (59%) said clients with interest-only mortgages are driving the interest.
- Close behind this were some key retirement planning factors, with enquiries being driven by people who want to maintain their lifestyle in retirement (55%), those with retirement income concerns (54%), and an awareness of increased longevity (47%). From an inheritance planning perspective, 52% of survey respondents said that clients wanting to gift money to family members is driving growth in inquiries about LLL.
- For some (38%), there is a growing acceptance among clients that they may need to borrow in later life, whilst 21% feel that clients who want to manage or repay debt are among those driving LLL enquiries.
- Specifically relating to products - 29% of those responding to this question felt that changes in ER products are driving growth in inquiries. 18% felt that mortgage lenders offering longer term mortgages to clients is driving enquiries.

5.6. STATE OF PLAY – OUTSTANDING DEBT FOR ADVISED CLIENTS AGED 55+ (ADVISER SURVEY)

With debt – both secured and unsecured – being identified as a key factor for actual ER customers, AKG's survey investigated how advisers viewed this issue.

What proportion of your client base aged 55-plus do you estimate have outstanding mortgages and/or other debt?

This question sought to gauge the state of play with regards to outstanding mortgage debt and outstanding other debt amongst advised clients aged 55+.

Advisers estimate on average 30% of their client base have outstanding mortgage debt and on average 25% have other outstanding debt.

5.7. STATE OF PLAY – MORTGAGE COMPLETION ASPIRATIONS (CONSUMER SURVEY)

One factor which sees people entering retirement with mortgage debt is getting onto the housing ladder later in life and remortgaging for the full 25-years when given the opportunity. Using the consumer research (see section 1.2 for research approach), AKG was interested to see how consumers faired.

At what age will you have completed your mortgage term and payments?

- The highest proportion of those currently with mortgage commitments, just over one-third (35%), say they will have completed their term and payments before the age of 60.
- Just under one-third (31%), say they will have completed term and payments between the age of 60 and 65, whilst a further 14% say between 65 and 70.
- With the repayment of an outstanding mortgage often a barrier or precursor to retirement, it is concerning that 9% don't know at what age they will have made their final mortgage repayment.

With completion of terms and payments for many butting up against key retirement decisions and timings it is clear to see why property and retirement planning considerations are intrinsically linked.

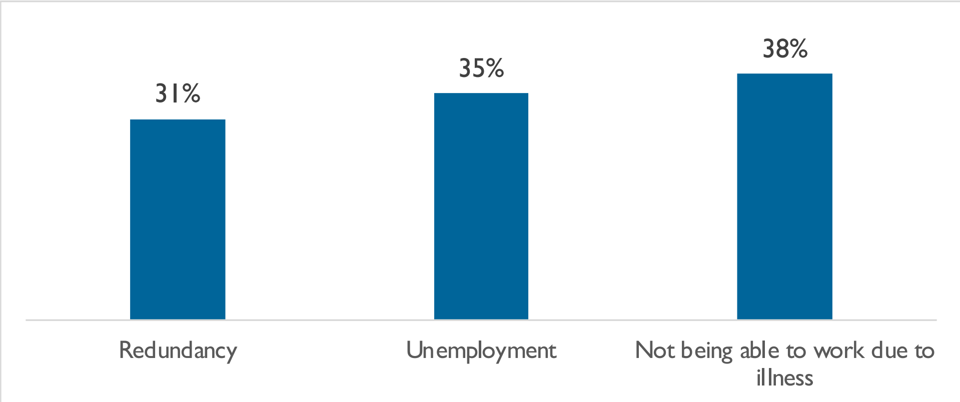
> "Whilst 55 seems early to be the start point for Later Life Lending, this report draws out some clear signals. Whilst many do not want to think of borrowing against their property, there are those who do. When final salary pensions were dominant, equity release advice could be siloed. As more people need advice on defined contribution pots, there needs to be wider conversations on all available assets. Given the complexity, advisers will need to work in tandem or more widely. The consumer will be best served if advice firms work with teams of advisers to ensure all options are reviewed rather than looking to build the single "super-adviser". This will also help ensure that all alternatives are considered and we deliver optimal solutions, not the just the best that the one adviser has available."
>
> **Robert Sinclair**, Chief Executive at AMI – Association of Mortgage Intermediaries

5.8. LIFE EVENTS WHICH MIGHT IMPACT ON MORTGAGE REPAYMENT PLANS (CONSUMER SURVEY)

While the vast majority of people hope for the best when it comes to retirement planning and mortgage repayment, it is important to consider what may throw a figurative spanner in the works.

Which of these life events, if any, are you concerned would make it more difficult for you to pay off your mortgage before retirement?

The top three life events which most concerned those with outstanding balances on their mortgage they wanted to pay ahead of retirement were:



- Other life events such as (costs/disruption incurred by) the death of a loved one (17%), needing to take time out to care for a family member (16%) and divorce (15%) also provide an element of concern for some.
- There are also family related finance/help themed concerns relating to helping family with their finances (13%) and having/helping out with children/grandchildren (12%).
- From a pure mortgage product perspective, a small amount (8%) were concerned about the investment underpinning their plans to repay an interest-only balance not performing.

5.9. CONFIDENCE IN PREPARATION FOR COMFORTABLE RETIREMENT (CONSUMER SURVEY)

Fundamentally, the vast majority of people are keen to secure themselves a comfortable retirement and plan accordingly throughout their working lives. However, the realities of funding both future retirement aspirations and current lifetime needs can get on top of people so AKG was keen to understand how many people feel they were on track to achieve this.

Do you believe you are financially well-prepared for a comfortable retirement?

- When all of those consumers not yet retired were asked about preparations and outlook for their retirement, only 11% felt that they are financially well prepared for a comfortable retirement.
- Others displayed differing degrees of confidence, but with associated caveats. 21% believe they are quite well financially prepared but cautious about potential bills and 20% felt prepared but feared some struggles for a comfortable retirement.
- 22% don't think they are financially well prepared and are concerned about this, while 10% don't think they are well prepared but are not concerned about this outlook.

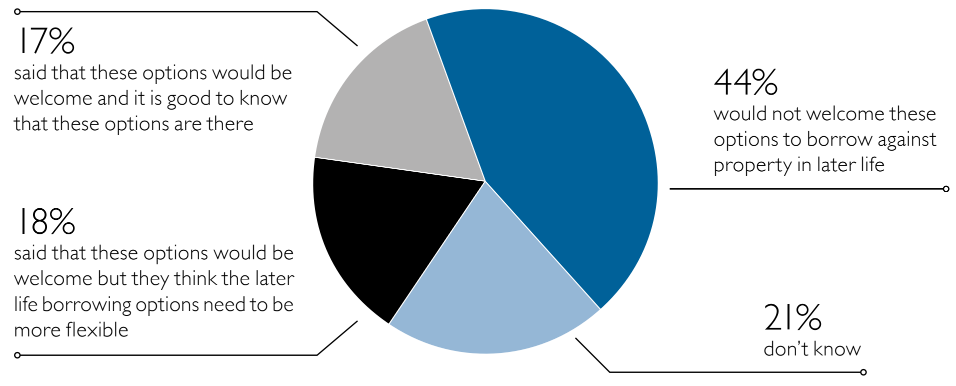
5.10. APPETITE FOR BORROWING IN LATER LIFE WHERE SHORTFALL OCCURS (CONSUMER SURVEY)

AKG also was keen to understand what role secured as well as unsecured borrowing might play in retirement financing in later life.

If you feel that there might be a shortfall in your pension and other savings and investments, would you consider borrowing additional funds during retirement and later life?

- More than a quarter (27%) of all adults would consider borrowing additional funds during retirement and later life. Just over a quarter (28%) of those aged 51-55 and 22% of those aged 56-60 said they would consider borrowing.
- Of the borrowing options provided for consideration should there be a shortfall, ER (11%) appeared to be the most popular choice.

Would you welcome options to borrow against property in later life such as longer-term mortgages, retirement interest-only mortgages and equity release?



5.11. FAMILY INHERITANCE DISCUSSIONS AND ASPIRATIONS (CONSUMER SURVEY)

Whether an older person chooses to access their housing equity via LLL is often tied to the inheritance expectations of the wider family so AKG felt it would pay dividends to look at consumer future intentions.

Have you discussed leaving an inheritance to your children / family?

- Of those consumers surveyed by AKG, 45% have not discussed leaving an inheritance to their children/family.
- 16% of those surveyed had discussed leaving an inheritance and say that this is expected to be received by their children/family, whilst 14% had discussed it but with no expectation of a windfall from children/family.

5.12. STATE OF PLAY – CONSIDERATION OF PROPERTY WEALTH IN RETIREMENT DISCUSSIONS (ADVISER SURVEY)

For consumers who use adviser support, the ability to talk through their property wealth options with a trusted expert can be extremely valuable.

When talking to clients about retirement, how do you incorporate property wealth into this discussion?

- Half (51%) of those who responded to this question in the adviser survey said that they always ask clients about how they intend to use their home as part of retirement and estate planning.
- Others took a more targeted approach with 21% saying that they only raise it if they believed clients may need to use their property to boost retirement income or pay off debts.
- Finally 15% said that if their client's mortgage runs past state retirement age, the impact of borrowing into older age would be discussed.

"While it is gratifying to see that half of advisers are having these discussions with their clients, given the growing importance for many customers it is vitally important that this grows. Whether advisers build their own knowledge on this sector or form relationships with trusted third-parties, we need to ensure that customers fully understand their options."

Jason Ruse, Business Development Director for Key Partnerships

5.13. WHO TO GO TO FOR ER/LLL HELP?

However, when AKG asked consumers who they might speak to about their later life borrowing options, it became apparent that education was needed.

Who would you approach for assistance and advice on matters relating to loans or borrowing in later life or retirement?

- Just 24% of those consumers surveyed by AKG suggested they would approach a independent financial advisor for assistance and advice on matters relating to loans or borrowing in later life or retirement.
- But a similar amount (28%) said that they wouldn't approach anyone and 17% didn't know or would prefer not to say. Meanwhile, 16% would consult with friends and family.
- 14% said that they would approach the Citizens Advice for assistance and advice and 13% would go to the Government Money Wise website.
- Of other professional/industry advice options, 9% would approach a specialist LLL adviser, 6% an accountant, 6% their current mortgage lender, 5% a mortgage broker and 5% a lawyer/solicitor.
- If they haven't done so already it is worth financial adviser firms considering the development of strategic partnerships with other professional services contacts including accountants, lawyers/solicitors and mortgage brokers, and vice versa.

"When it comes to Later Life Lending, a fantastic array of products and options have developed along with market demand, however, has the way products are marketed and sold caught up? Taking the client experience from transactional to advised and to some extent future-proofing advice will improve client outcomes. There are some inevitabilities advisers can factor in such as poorer declining mobility and cognition, and the potential to need some degree of help and care. The need to move to more suitable accommodation in due course or the death of a partner for example must be factored into the conversation.

Picking up on softer facts and feeling comfortable challenging what clients may think they need is a skill which improves advice and recommendations. Advisers who decide to 'up-skill' understand the wider areas of later life issues they need to know. Working alongside other professionals and SOLLA advisers to provide holistic later life planning requires a good understanding of where Later Life Lending fits within that overall advice. SOLLA aims to improve the quality of Later Life Lending advice available to older clients so they can find the right kind of advice at the right time."

Jane Finnerty, Joint Chairman of the Society of Later life Advisers (SOLLA)

6. WHAT WILL 2030 HOUSING MARKET LOOK LIKE?

6.1. THE FUTURE – CHANGES TO THE HOUSING MARKET (ADVISER SURVEY)

With the development of the LLL market closely linked to that of the UK housing market, AKG was keen to understand how advisers saw the market developing in future.

What changes do you expect to impact the housing market over the next ten years?

- By some distance the top item selected here by those who responded to this question was an expectation that parental help will become increasingly important for first time buyers (81%) over the next ten years.
- Around half (52%) felt that there would be an increase in demand for properties suited to the needs of older owners, while 41% felt that multi-generational households would become more common over the next ten years.
- In terms of other changes expected to impact the housing market over the next ten years, 41% sensed more pressure to fall on the Government to encourage more property building and 38% anticipate increased legislative focus on making properties greener.
- A third (33%) anticipate changes to affordability criteria to allow more people to buy property and 28% expect an increase in the number of specialist homes that support adapted living.

6.2. THE FUTURE – CHANGES TO THE HOUSING MARKET (CONSUMER SURVEY)

Seeking to ascertain future outlook for the mortgage market through the eyes of consumers AKG also asked them via the consumer survey to select aspects which they might expect to impact on the market over the next ten years.

Do you expect any of the following to impact the mortgage market over the next ten years?

- **Mortgages after retirement** - 29% expect more people to be paying mortgages after they have retired from full-time work. 20% expect more specialist mortgages for people borrowing after retirement. 18% expect more firms offering specialist LLL mortgages/loans.
- **Downsizing** - 23% expect more pressure on older people to downsize. 13% expect tax breaks for people to downsize.
- **Multi-gen living and property adaptation** - 22% expect multi-generational households becoming more common. 20% expect an increase in demand for properties suited to the needs of older owners. 12% expect an increase in the number of specialist homes that support adapted living.
- **Accessing property ladder** – In an interesting contrast to adviser sentiment, just 27% anticipate that help (to borrow/purchase) from parents and grandparents will become even more important. 12% foresee pressure on mortgage lenders to allow people to borrow more.
- **House building supply and green agenda considerations** - 25% expect more pressure on Government to encourage house building. 22% expect changes in the law to make properties greener.

7. TARGETING RESPONSIBLE MARKET GROWTH - THE ENABLERS

7.1. CURRENT MARKET STATUS – EMERGING FROM COVID-19

Although 2021 was a record year for the ER market with borrowing reaching £4.8 billion, and the wider LLL market started to officially form, many of those intermediary firms interviewed in AKG's qualitative research exercise perceive that the market is in a short period of flux with further growth to come.

The circumstances of the last couple of years are felt not to have been helpful, despite stamp duty holidays and low interest rates and the feeling from respondents is that the time has been marked by a flurry of product development activity and a reordering of the market, though it is also true that many advisers feel the market is not helped by the plethora of product choices and the overhang of now rather outdated products.

7.2. UNDERLINE THE BENEFITS OF LLL TO ADVISERS AND CUSTOMERS

When asked about the benefits of LLL, flexibility is the word used almost universally by advisers of all types in AKG's series of qualitative interviews. It is felt that LLL allows clients to boost their quality of life, fulfil life aims and consider courses of action that may otherwise be beyond their reach.

Each of the LLL products come with its own flexibilities which can appeal to different customers at different times. Some customers might like the security of a lifetime fixed rate, others might fear being stuck on a fixed rate as they see prices reduce. Some might see the ability to switch payments on and off as their retirement needs change as attractive while others will want to know that their balance is reducing and at some point they'll end up debt free. Ultimately advisers and customers are increasingly having to find the balance between flexibility, protections and the overall cost of the product.

In the examples below we've illustrated just how difficult those decisions might now be:

Product Features

	Inheritance protection	Fixed rate for life	Guaranteed tenure	Ability to start/ stop payments if income changes	Remortgage	Lump sum overpayments	Portable
Capital & Interest	No	No	No	No	Yes	Yes	Yes
Interest only	No	No	No	No	Yes	Yes	Yes
RIO (2 year fix)	No	No	No	No	Yes	Yes	Yes
RIO (lifetime fix)	No	Yes	No	No	Yes	Yes	Yes
Interest serviced equity release	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Compounding equity release	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Based on two-borrowers (65 and 67 years old) who wanted to borrow £70,000 against a property worth £373,493.

	Initial monthly payment	Payment after initial product term	Total cost of borrowing (15 years)
Capital & Interest (2.39% fixed – revert to 4.99%)	£463.14	£541.42	£97,286
Interest-only (2.45% fixed – revert to 3.75%)	£142.92	£218.75	£115,713
RIO 2 year fix (2.59% fixed – revert to 5.54%)	£151.08	£323.17	£123,284
RIO lifetime fix (4.55% for life)	£266.42	N/A	£117,775
Interest serviced equity release (3.99% for life)	£232.75	N/A	£111,895
Compounding equity release (3.99% for life)	N/A	N/A	£127,230

All products sourced using moneysavingexpert or Equity Release Supermarket and best buy at end of May 2022. ER used for deposit gifting (£61,023) and credit card debt repayment (£8,663) so amount borrowed based on this and house price is average property used for ER (Key MM Q1 2022).

Reviewing the figures above, you will be faced with some of the challenges that advisers and their clients deal with regularly.

The impact that the LTV has on the underlying ER rate shouldn't be underestimated. An LTV of 18% and rate of 3.99% certainly allows the Equity Release product to demonstrate its competitiveness. If we increase the borrowing amount to the Q1 market average of £111,511 (Key Q1 market monitor) the LTV would rise to 30% and we'd see rates of around 4.5% – the other products remaining unchanged. Comparing the overall cost of each option does create a genuine question about the price of the protections offered by each product in comparison to the their related costs. If an example is needed of the importance of seeking advice when looking at LLL this could well be it!

Also, you may question the impact the revert rate has on the total cost of borrowing in the Capital & Interest, Interest Only and RIO (2 yr fixed) examples given the likelihood that the customer would simply remortgage at the end of the product period. And you might be right, however we'd then need to factor in the cost of the new advice, the cost of the new product plus the risk that rates might well have increased by that point. In our example, over a 15 year period it's conceivable that remortgaging every few years could add over £10,000 to the total cost of the mortgage.

So aside from the economic choices, advisers/customers might also need to consider life expectancy as well. And not just on equity release plans, if ill-health materialised on any of the mandatory payment products and mortgage costs became unaffordable then the potential consumer consequence could be catastrophic. What cost protecting against that risk?

If we solely look at protections then both of the equity release products would seem to provide the greatest degree of consumer safety – if we deem the greatest consumer risk to be losing their home! If it isn't and the customer considers not leaving an unencumbered property and maximum inheritance as their greatest risk then of course the monthly cost of a full repayment mortgage might outweigh the benefit of a reduced monthly cost on the equity release options.

Establishing which risk causes the customer the greatest concern and then discussing the cost of protecting against that risk would seem a minimum advice requirement when considering holistic product comparison.

Finally we should also consider affordability. When we say affordability we're talking about the ability to make some financial contribution to the mortgage in order to keep total costs down, rather than the ability to pass underwriting checks against full mandatory payments. Customers might see the lack of affordability assessment (the ability to pay something) within some products (equity release) as a positive, but it could also be said that others might one day rue the fact that they didn't make payments when they could afford to. Either way, it's unlikely that affordability will remain static throughout the customers retirement so understanding the pro's and con's of assessing and reassessing affordability throughout the life of the mortgage seems critical when considering product suitability.

It's yet to be seen how the LLL industry will address the affordability challenge, but if the industry is to accurately assess product suitability both at application and throughout the product lifecycle then decisions will need to be made about advice models, review periods and adviser/lender data sharing.

How – in a largely siloed market - all of these considerations are handled in terms of adviser/lender process is unclear, but given the direction of the upcoming consumer duty it feels inevitable that in order to be confident in the product outcome the industry is first going to have to determine on what basis products should be compared. Ultimately more holistic product comparisons, better sign-posting of options and more regularly product reviews should all lead to far greater movement between the different LLL products in the coming years, which customer outcome wise can only be a good thing.

7.3. HIGHLIGHTING ISSUES TO TACKLE AND HURDLES TO CLEAR

7.3.1 Perceptions and challenges in the market

Coming from the telephone interviews, from advisers of all types, risk and compliance are the major concerns in this market. Some, whether rightly or wrongly, are still swayed by the historical perception of ER products. It weighs heavily in terms of both risk to the business and professional indemnity cover considerations. To manage this, compliance requirements are set high, especially in networks and national advice firms where new cases often have to be pre-qualified.

Many advisers, despite holding relevant qualifications will often pass the business to specialists or work as a team with them providing a broad wealth management perspective to business. While this is certainly of benefit to customers and avoids 'dabblers' who only transact a few cases each year from engaging with the market, it does highlight the reservations held by advisers and their firms.

With vulnerability high on the agenda for many firms and older customers considered to be more prone to vulnerability, firms are also keen to tread delicately.

While the ER market has celebrated increased product choice, wider adviser perceptions can be less positive with respondents citing complexity, opaqueness of terms and conditions, lack of knowledge, lack of education and communications and client misunderstanding of products, their purposes and suitability as challenges relating to the market.

Alongside product complexity and, for some bewildering product choice, there is the issue of costs and charges.

7.3.2 Barriers to discussing LLL options with clients (adviser survey)

With advisers voicing these views, AKG were keen to understand the impact on client conversations.

What problems or issues have you seen/do you anticipate seeing when discussing LLL options with clients aged 55+?

- In terms of hurdles to discussing LLL options with clients aged 55+, the top two issues selected by those who responded to this question in the adviser survey were clients being wary of ER because of historical issues (61%) and clients seeing their property as an inheritance for the next generation (60%).

- In addition, 41% felt that their clients do not want to borrow money in later life, 21% say that clients see their property as their pension and 20% say that clients would prefer to downsize their property.

- 14% felt that clients have a limited range of options.

7.3.3 Improving consumer awareness (consumer survey)

Advisers highlighted education as something that was sorely needed in this market so AKG asked consumers about their understanding.

How aware are you of options to borrow against property in later life such as longer-term mortgages, retirement interest only mortgages and equity release?

- With only 15% of consumers saying they were very aware, we must conclude that 85% are to varying degrees, not. This ranged from 44% who categorised themselves as somewhat aware (by knowing about the options but not all the details) through to 26% who declared themselves as not very aware in that they had heard of this but didn't know any details.

- At the other end of the scale, 15% had not previously heard of these options.

Although this underlines the requirement for investment in the education of customers about LLL options, it also raises the question whether more needs to be done to engage with the wider adviser market to encourage them to have conversations about LLL with their clients.

As previously identified in this paper, collaborative industry work towards the further development of LLL market definition and useful market data would also present a step forward with education and understanding. As would recognition by the regulator that LLL products are not necessarily options of last resort and can be part of a sensibly balance retirement portfolio.

"Modern equity release products are light-years away from what we saw even ten years ago but this research clearly shows that not only do we need to keep innovating but ensure that the wider adviser community better understands their options. There is much to talk about and the Later Life Lending community needs to start the conversation."

Dave Harris, CEO of more2life

7.3.4 Mortgage sourcing for clients aged 55+ (adviser survey)

The challenges of supporting older borrowers experienced by advisers was also considered.

Have you experienced problems in sourcing mortgages/remortgages and/or other borrowing solutions for clients aged 55 plus in the past year?

- 40% of those who responded to this question in the adviser survey have not experienced any issues finding the right solution for their clients, but 26% had experienced problems with clients being rejected on affordability.
- 15% had seen clients rejected because of age, 13% due to a lack of repayment vehicle and 8% had experienced clients being rejected due to credit rating. 11% were unable to find the right type of product that suited their client due to lack of choices.

These points would appear to make the case for more sourcing engines which cover a wide range of LLL options rather than simply one product group.

7.4. THE ROLE OF ADVICE AND GUIDANCE

7.4.1 Changes required for better integration/consideration of property wealth (adviser survey)

And so AKG posed the question to advisers, what can the industry do to better ensure due consideration of property wealth as a key part of people's retirement planning matters in future.

If the ambition is to ensure that property is considered as part of people's retirement planning, what changes do we need to make this a reality by 2031?

- Education - 61% of those who responded to this question in the adviser survey felt greater education of consumers is required so that they expect to discuss the subject as part of retirement planning.
- Innovation - 55% feel that more product innovation is required that provides better borrowing options for consumers.
- Lifetime and holistic advice - 45% believe greater emphasis should be placed on the value of advice throughout a person's retirement and 36% feel that Regulatory changes should be made to encourage a more holistic approach to advice. Should this happen, the case would then be made for the evolution of training and qualifications to support this more holistic approach.
- Facilitate more LLL advice - 25% of those responding to this question felt that it should be easier for financial advisers to advise on mortgages that run into later life.

While ER is but part of the LLL sector, previous research carried out by NMG Consulting on behalf of Air Group echoed some of these points. Flagging the need for ER to re-brand to a wider LLL approach and not just focus on ER, to re-engage with both advisers and consumers, and to re-educate those groups on the range of solutions available.

These were identified as themes for 2022, but work which builds on achievements like the UK Finance LLL guide in these key areas will need to continue to be done during 2022, 2023 and beyond if the LLL market is to achieve its full potential and deliver the consumer benefits it is desperately required to provide.

"The world has been significantly disrupted by unprecedented social and economic factors, and the time is right for a more holistic approach – one that puts the customer at the centre of the advice process. Moving from Later Life Lending towards later-life planning is essential.

"So how do we make this a reality? Advisers who offer a comprehensive service need to keep their knowledge and skills up to date. They can do this through structured CPD and by attaining the right qualifications. Advisers who specialise should ensure they hand off customers to other relevant professionals when necessary. Continuing education and collaboration within the sector will ensure customers get the advice, and the outcomes, they need."

John Somerville, Head of Financial Services at The London Institute of Banking & Finance

7.4.2 Bringing more people into planning discussions - Client engagement and involvement of third parties

Advisers interviewed by AKG have a strong preference (at least partly driven by compliance best practice) that they engage not just with the primary client but also with other, actually or potentially, interested third parties, children and other possible estate beneficiaries etc. While this is not always possible due to customer preferences, it does provide additional protection for advisers against negative consequences further down the line and if not done, the reasons are typically carefully documented.

7.4.3 Advisers, partnerships and alliances – development of strategic relationships

There was a time and not that long ago that ER business was commonly regarded as a standalone transaction and there is still plenty of this type of business being transacted. However, the qualitative research interviews suggest that, as property wealth becomes more integrated into the mainstream financial planning world, the practice of wealth advisers/planners working alongside or in alliance with LLL specialists is gaining traction. Whether this is done through in-house expertise or in collaboration with strategic partners.

Other types of alliance whether with accountants or solicitors/legal advisers may well also grow in importance in the future but, for a variety of reasons, are generally currently less well developed amongst those interviewed.

7.5. BUOYANT AND COMPETITIVE PROVIDER MARKETPLACE REQUIRED FOR GROWTH

It became clear in the qualitative research interviews that the market is generally viewed as being currently characterised by a strong provider sector and indeed one which is still improving.

Established providers are widely praised but the entry/re-entry into the market of big-name high-street brands and the involvement of major investment providers is also welcomed and seen as a positive step for the market, for advisers and for clients.

7.6. PRODUCT/PROPOSITION DEVELOPMENT

Advisers interviewed by AKG in the qualitative research exercise recognise the whole spectrum of LLL products as potentially having a role to play depending on client needs and circumstances. ER mortgages are still the primary product solution, while reversions are seldom if ever used by any of the advisers interviewed. RIO mortgages have been much talked about but are seldom used by those interviewed with standard interest-only mortgages seen as more relevant and cost-effective in suitable circumstances.

Notwithstanding their current low usage, however, many advisers believe RIOs remain worthy of consideration and potentially a strong solution for future use if design and charging issues are resolved. Affordability is also a factor for customers who may find that they are unable to access these products due to lack of guaranteed retirement income.

Across the whole market, the drivers for choice are suitability, costs, product design and charges. But there is a strong underlying view that products have more developing to do and providers need to respond in a more focused way to evolving client needs and preferences.

While RIO, ER and standard mortgages arguably service similar demographics some advisers question whether there are unnecessary differences which result in higher charges, higher costs and more product design issues (relating to terms, conditions etc. and how they work) than there should be. However, ER specialists might argue that these products provide more protections which are embedded in the products and as well as the advice so the charges and costs are justifiable.

Education and considered product design to build better understanding within the advice industry is certainly the key to answering why the two product streams are not better aligned.

7.7. IS FURTHER EXPANSION REQUIRED (ADVISER SURVEY)

Thoughts on range of borrowing solutions available was also sought in the adviser survey.

Do you believe the current range of borrowing solutions for clients aged 55 plus needs to expand?

- When asked whether the current range of borrowing solutions for clients aged 55+ needs to expand in future, 38% of those responding to this question in the adviser survey felt that there needs to be more mortgage options made available for clients aged 55+ and 36% felt that ER needs to be more flexible.

- Also, on the product range side of things, 18% felt that a wider range of repayment vehicles should be considered, and 14% felt that there needs to be more RIOs.

- Further, 22% of those responding to this question in the adviser survey felt there needs to be changes to how we approach advice that facilitates borrowing solutions for clients aged 55+ and 20% felt there needs to be changes to regulation to facilitate this.
- Just 16% said no changes required to current range of borrowing solutions but felt that more needs to be done so that people are encouraged to consider all of their options.

7.8. TECHNOLOGICAL INNOVATION (ADVISER SURVEY)

Further technological innovation is predicted to create cost and process efficiencies across financial services in the coming years.

How do you think technological innovation will change how you provide advice in the Later Life Lending sector?

- When explored in the research from a LLL sector perspective, half (49%) of those who responded to this question in the online survey felt that the advice process will become more digital with clients providing more information up-front so the subsequent discussion is more targeted.

- 45% felt that technology would enable customers to be better informed and hence more engaged when they speak to an adviser.

- 44% feel that wait times will decrease as increased digitisation means administrative tasks, such as obtaining documents of Land Registry, take less time.

- And 39% anticipate that providers will make more use of apps and other technology that is common in the consumer space with the adviser community.

7.9. RECENT MARKET DEVELOPMENTS

During the final stages of our work on this paper, two developments have occurred which also need to be taken into consideration by all those parties seeking to further grow the LLL market in future in a responsible manner and for the ultimate benefit of customers.

7.9.1 – FCA Business Plan

In April 2022, FCA published its 2022-23 Business Plan which included a hint of a potential revisit of LLL advice processes:

"An increasing number of consumers are approaching retirement either owning their homes outright or with a mortgage. The lifetime mortgage market caters to those who want to use the value in their home to meet their later life needs. Given the significance of these decisions for consumers, we are considering the work we need to do to ensure that the market is working well. This could include following up on our earlier findings about poor quality advice and checking that standards among intermediaries giving advice have improved."

Source: FCA - *https://www.fca.org.uk/publications/business-plans/2022-23*

This serves as a timely reminder to adviser firms and providers that the regulator is still paying close attention and whilst positive progress has been made in the market there remains a requirement to continue to target better and more consistent LLL advice processes and standards.

7.9.2 – Consumer Panel research makes case for development of tools and guidance for Later Life Lending

On 11 May 2022, The Financial Services Consumer Panel published new research which looks at the experiences of consumers as they choose and buy equity release (ER).

"The research shows that without comprehensive tools and guidance, there is a risk that consumers will not make a fully informed decision that is right for their circumstances.

As a result, the Panel has asked the FCA to support the development of holistic tools and guidance *provided by independent bodies, such as MaPS, with the aim of helping people understand and narrow down a broad range of later life lending options and approach the regulated market better able to pursue their objectives.*

The Panel commissioned in-depth qualitative research to explore the ER market from the perspective of consumers who purchase from a position of vulnerability. The secondary objective was to explore the role of regulated advice in securing a good outcome for particular borrowers.

The research was informed by a wide range of sources and data. The most significant element was new independent qualitative research with consumers. The findings suggested that consumers who purchase from a position of vulnerability may fail to consider the long-term implications.."

https://www.fs-cp.org.uk/consumer-panel-research-makes-case-development-tools-and-guidance-later-life-lending

As with some of the findings and themes from this AKG paper, this is encouraging the LLL market to do more with the development of support, guidance and advice in order to help customers with awareness, education and decision making.

It will be interesting to see how MaPS, as well as providers and adviser firms, respond to this with further development of tech-based apps and tools, and in the ongoing development of more traditional advice services.

The requirement to put a consistent and comprehensive set of facts, including the range of LLL options and wider wealth linking, is coming through clearly as a next step for the industry.

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ISSUED 14 June 2022

IN ASSOCIATION WITH: keygroup