IndustryVoice

Analysis. Commentary. Trends.

Autumn 2021

#11

New wave

Later life lending comes of age

Articles from

Equity Release Council,
Legal & General,
Pure Retirement,
more2life and Iress.

Welcome

In this 11th issue of Industry Voice, we're taking a deep dive into the world of equity release, asking 'what's next?' for this ever-evolving industry. The last 18 months brought many unexpected challenges and opportunities for later life lenders, intermediaries and homeowners. Now we're seeing a wave of fresh thinking and innovation from the industry as providers and brokers aim to build closer connections and deliver better service to the end consumer.

This issue explores the future of the equity release market, the changing relationship between lenders, brokers and their clients, and how the industry is transforming the way it sells later life lending products and services in 2021 and beyond.

Thanks to our partners in this issue for sharing their thoughts about new plans, new approaches and a closer connection to those they serve. As always, I'd love to hear your thoughts about this issue and the topics discussed. Please get in touch, Jane - **jane.cetinel@iress.com**

Visit **iress.com/industry-voice** for more perspectives from our provider and lender partners about the issues affecting our industry.

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The equity **release new wave**

Dave Miller
executive general manager at Iress

Equity release is going mainstream bringing greater freedom, liberation and choice to the retirement market. But with it comes great responsibility, and lenders and technology must join forces to help advisers make the most of this multi-billion pound opportunity.

Equity release was always the controversial alternative to traditional play-it-safe retirement income products. But a lot has changed since the misselling and roll up scandals of the late 80s. These are different socio-economic times - needs and attitudes have changed, and so has property wealth. This will be the decade equity release goes mainstream. Are we ready?

Alive and kicking

Consumer interest in later life lending has been steadily increasing over the years. No longer the last resort it once was, equity release now appeals to more sophisticated consumers looking to access their property wealth for all kinds of reasons (something both Legal & General and more2life explore in their articles in this issue). With the UK market - currently around £4bn - predicted to reach annual volumes of £13bn in the next decade, equity release is set to become a core aspect of retirement planning and financial advisers' propositions (check out the Equity Release Council's article on p8 for all the latest stats from their Autumn report).

This time around however there are stronger safeguards and extensive regulations in place to protect consumers. The return of a familiar face in the shape of a major well-known brand should restore confidence while some much-needed innovation will keep everyone on their toes.

You spin me 'round

The launch of more products with better options, features, and safeguards has made equity release an increasingly flexible and attractive financial option in later life. While the introduction of personalised rates supported by medical underwriting is proving a big hit with advisers and their clients with suggestions it could become industry-standard.

Things are moving fast. Lenders are moving too but with caution to ensure their market position and products can be understood. It means lenders must work hard to help advisers provide the right guidance for their clients. They have to support advisers on an individual basis as well as provide

> Technology has stepped up to improve the efficiency, but its potential is limited by lenders' existing capabilities."

online sessions and content ([read Pure Retirement's article about this on p15]), but they can only do so much.

Electric avenue

It means technology has a vital role in helping advisers stay close to the market and all its latest offerings and innovations. With a typical search for equity release products leading to well over 300 options, sourcing technology like The Exchange is the only sensible way to navigate and filter the huge product choice available. Now that advisers can also directly source personalised quotes and rates, more are gaining the confidence to advise on cases themselves, rather than just referring them elsewhere.

Technology has also stepped up to improve the efficiency, but its potential is limited by lenders' existing capabilities. Right now, only a handful of lenders can automatically do a KFI or support straight-through processing. It means functionality like real-time quotes, KFIs and a seamless apply process on the Equity Release service on The Exchange is only available from a small number of lenders. We want to see this from across the market, not just from some - and soon.

Stand and deliver

It's why we're having conversations with the industry, like our recent Iress Live panel debate on the future of equity release in which we discuss how lenders are on the same journey, but at different speeds ([watch it here] and [read the Q&A on p20]).

We've initiated industry standards for equity release lenders, sourcing and other systems to join up the end-to-end journey - just as we have done for protection and annuities (which is streets ahead) - but we need all lenders to come on board to make the technology work.

Those that don't deliver in 2022 risk being left behind. So we're helping lenders, whatever their technical capabilities, get to this position. By joining together we can make it easier for advisers to get the best outcomes for their equity release clients. Who's in?

Learn more

Transformation in later life mortgages

Guest contributor Jim Boyd
CEO at the Equity Release Council

From record amounts of property wealth to changing attitudes towards adult social care. CEO Jim Boyd reflects on some of the findings in the Equity Release Council's Autumn Market Report.

The pandemic has created many challenges for the UK over the last 18 months. However, one positive is that the UK housing market has proven robust.

Our Autumn Market Report, published in September, found that households have been paying off their mortgages and converting borrowing into property wealth at record rates.

In fact, mortgage capital repayments have increased by 20% year-on-year, bringing the total amount of debt repaid in the first half of 2021 to an unprecedented £38bn.

Combined with property price rises fuelled by the Stamp Duty holiday, homeowners now have record equity to potentially draw upon in later life.

The Autumn 2021 Market Report also highlighted a significant shift in consumer attitudes and behaviours surrounding equity release.

People's biggest source of wealth

The transformation of later life mortgages in recent years has given people more opportunities to access their biggest source of wealth. We are seeing mindsets change to the point that using property wealth is now a common consideration to meet various retirement needs, from topping up pension income to providing a 'living inheritance' via gifting to younger generations.

Overall, customer numbers in H1 2021 were broadly consistent with this time last year, while the number of new plans agreed returned to the pre-pandemic activity levels last seen in H1 2019 and 2018. Interest rates remained low, and product options remained high; nearly 200 new product options were launched in the first half of this year, and there are now more than double the number of options available than was the case two years ago.

Property wealth continues to evolve

However, one of the most interesting developments has been that almost a third of new drawdown single plans are being taken out by female customers, the highest level seen in the last two years. This comes as the pandemic has shown that women approaching retirement have been most anxious about supporting themselves in later life and paying for care costs.

Against this backdrop, property wealth continues to evolve from having been seen as an 'emergency fund' in retirement to an enabler of people's life ambitions and financial goals.

Older people are deciding to stay in their homes and communities, gift money to loved ones while they are alive and use the capital in their homes

> **"Homeowners now have record equity to potentially draw upon in later life."**

> The transformation of later life mortgages in recent years has given people more opportunities to access their biggest source of wealth."

to enjoy the later years of their life. The increase in equity release products and the rise in house prices allow consumers to use their property wealth and meet their retirement needs.

Meeting the cost of care

The Equity Release Council recently published the report 'Solving the social care funding crisis: perspectives on the contribution of property wealth'. Our research has shown that 67% of over-50s are determined to remain in their own homes if they ever need care in future. This desire grows stronger with age and is shared by 76% of those aged over 70. Equity release is likely to be an increasingly valuable source of funding to help people meet their care costs. It can fund adaptations to homes - like providing a downstairs wet-room, bathroom or bedroom. It can also pay for technologies and additional care services, enabling people to continue living in their homes independently, which is what they want.

A key takeaway from the report is confusion and public concern regarding later life care and how it will be paid for. Over one in five adults surveyed admitted they did not know they might have to pay towards the cost of social care, and half have not thought about how to pay for future care needs, while only 12% of the over-50s have made any plans or provisions.

Are later life products the answer?

The Council's research also found that nearly half of UK adults surveyed feel state-funded care should be available for everyone to access, up to a certain point, with the option to top this up using their finances. Interestingly, fewer people, about four in ten, believe care should be completely free at the point of use, while less than one in 20 believe care should be entirely self-funded. The solution will be down to policymakers who have debated a range of care funding solutions over the last decade. A care cap has been proposed for England, and while we are yet to see the details, further consultation will take place later this autumn. However, the importance of accessing all assets and sources of income will continue.

Could the answer be as simple as choosing to use later life products? We have already seen a fundamental shift in perceptions towards later life products, advice, policy and financial education. Clearly, there is still a long way to go, and it must keep evolving.

Property wealth will remain critical to the nation's financial wellbeing and later life security in the post-pandemic world. It is equally crucial that a commitment to delivering good consumer outcomes through expert advice, flexible products and robust safeguards remains central to everything we do.

Learn more

Industry Voice is created and published by Iress with contributions from the financial services industry.

The rise of the **asset affluent**

Rob Miles
head of adviser sales at Legal & General Home Finance

As rising house prices lead to an emerging group of 'property millionaires', is it time to think differently about property wealth?

The UK is famously a nation of proud homeowners. Buying, renovating, redecorating and selling property might as well be a national pastime. Accelerating house prices offer an opportunity for people to review how they look at their homes, think differently about property wealth, and consider how they might include it in their financial planning.

Double-digit house price growth

Data shows us that the number of wards in England and Wales with an average house price of more than £1 million has increased by 95% in just five years (from 2015 to 2020). An emerging group of 'asset-affluent' people, who might not have extravagant incomes or lifestyles but, under the rising value of property, are now effectively millionaires. Double-digit house price growth could see an additional 40% increase in the number of these 'property millionaire' areas in 2021.

This growth in house prices has come when the societal need for more effective solutions at retirement is also on the rise. With the value of a home as significant as it is, in many cases, it should be considered an investment to build a better future for a client and their loved ones.

Access to property wealth

An obvious reason someone with significant property wealth might consider using it is the potential to boost their income. We know from FCA data that in 2019/20, most pension pots accessed for the first time had a value of less than £10,000. If the average homeowner could access 25% of their property wealth, they could receive about £60,000. However, when considered in the context of a 'property millionaire', particularly someone who might have benefited from house price increases rather than an overabundance of income, this could have an even more significant impact on the lifestyle they might live in retirement.

Many people in or nearing retirement will also have extra burdens on their finances through their ongoing support of younger family members. Parents and grandparents can be called on to provide money to support a range of issues, whether that be as simple as regular support on day-to-day expenses, or something more significant, such as the deposit on a first home.

For the asset-affluent, many of whom may have the majority of their wealth tied up in their property, considering property wealth may help them make smart choices to manage their estate in a savvy way, which maximises the potential benefits for their families.

A new type of customer

Based on the trend data we're seeing, the 'asset-affluent' is a segment of the market that will likely continue to grow. The conversation about property wealth as a resource will be increasingly normalised, even among the wealthy.

In turn, the market itself has to evolve to reflect this new type of customer, offering flexible products that give advisers more opportunities to introduce property wealth as part of any sensible conversation at the point of retirement.

At Legal & General Home Finance, we've recognised the different needs for advisers with affluent clients. We've launched a new educational hub to coincide with our new Premier Lifetime Mortgage products which includes case studies, articles and support for advisers when dealing with higher-level loans.

As an industry, by not considering property wealth, advisers are missing out on an opportunity to grow their business. But, more crucially, it is possible we're not doing enough, if we're not taking steps to help guide clients towards a solution that could quite literally change their fortunes in retirement.

Learn more

> **"By not considering property wealth, advisers are missing out on an opportunity to grow their business."**

Customers are more prepared to engage with major financial decisions."

The importance **of adviser support**

Paul Carter
CEO at Pure Retirement

The equity release sector is booming with greater choice, flexibility and consumer confidence. If recent growth is to be sustainable, advisers will need all the support they can get.

The latest figures from the Equity Release Council show a consistent pattern of rising consumer confidence as wider market trends begin to move towards pre-pandemic levels. Prevailing market conditions over the summer have shown that there's been a lot to be optimistic about regarding the equity release sector's market outlook.

Reasons to be cheerful

Indeed, the £1.17bn of property wealth unlocked by over-55s during Q2 of this year represents a 67% increase compared to the same period in 2020 (which saw a total of £698m released). This was when the market was arguably at its lowest as the uncertainty of life meant many consumers deferred making any sort of significant financial decision.

We've also seen a sizable rise in the average amounts borrowed due to both rising property values and increasing instances of gifting among older homeowners to help family members enter the property market before the stamp duty holiday expired. This is borne out by June being the busiest month of the quarter and the first month for more than a year where lump sum plans were more popular than drawdown variants. As a result, the average lump sum amount released grew 5% quarter-on-quarter to sit at over £129,500.

A real resurgence

Some of the most interesting statistics from the last quarter, however, came not from new customers, but returning ones. While the average amount released in the first instalment of a drawdown plan dropped quarter-on-quarter by 4% to £86,349, there's been a real resurgence in the proportion of customers returning to providers to access their reserves and other account features.

Returning drawdowns rose 67% quarter-on-quarter, with over 9,300 customers seeking repeat access to their plans during Q2 (compared to around 5,600 for both Q2 2020 and Q1 2021). Similarly, further advances are currently sitting at levels reflective of pre-pandemic standards, again suggesting customers are more prepared to engage with major financial decisions.

Little sign of slowing down

The number of available equity release plans in the marketplace has been consistently rising of late, and with current numbers sitting at well over 700 at last count is showing little sign

Recent years have demonstrated the need and the sector's ability to support advisers at the start of their journey in the market and throughout it."

of slowing down. Additionally, based on the ERC's figures, customers are again more prepared to explore their plan features, not to mention are seeking more flexible retirement solutions in the first instance. Consequently, it's perhaps more important than ever that advisers are receiving the best possible support right from market entry to serve their client base best.

Over the last 18 months, financial advisers have faced a dilemma. To double down on their areas of expertise, or branch out to a more holistic advice approach.

While the usual development routes, such as roadshow-style networking events, have been on hiatus, lenders have continued their commitment to adviser support via virtual events, marketing resources and learning tools to help advisers develop in an emerging commercial space.

The need to support advisers

Ensuring that advisers have ready access to all salient information either prior to or when they enter the market can go some way to ensuring the market grows in a sustainable way that best serves customers. The Equity Release Council has worked tirelessly to provide enhanced guidance frameworks, culminating in an updated version of The Adviser Guide To Equity Release. Building on the success of the 2016 version, the latest edition, launched in June and created in partnership with ourselves, has been designed to provide new advisers with key information to help them follow best practice, understand the advice process, and focus on customer needs. Considering the current situation, this has included additional information on best serving vulnerable customers, ensuring the document remains relevant to a wide variety of circumstances in the future.

While both Pure Retirement and the wider sector are undoubtedly committed to product innovation and technological innovation, recent years have demonstrated both the need and the sector's ability to provide support to advisers at the start of their journey in the market and throughout it. With those exploring retirement solutions now being faced with unprecedented levels of choice and flexibility, it's vital that as the market continues to open up again that we all work together to ensure that the sector's adviser network is appropriately assisted as they seek to navigate a path to serve their clients best.

Learn more

What's driving **the later life boom?**

Stuart Wilson
corporate marketing director at more2life

Life might not be certain but the future of equity release is more certain than ever. Stuart Wilson looks at the growth drivers that will push this market ahead once more.

As we enter the fourth quarter of 2021 and life starts to resemble some sort of pre-Covid normality, the equity release market is rebounding and starting to forge ahead once more. We are still not back to the growth curve we saw during the second half of the previous decade, but there's certainly a sense that consumer confidence is returning to a market that took a deep breath and a different pace as we all got used to life under lockdown.

The race for space

Needs-based later life lending – repaying mortgages, personal loans and other unsecured debt – rose rapidly amongst the over-55s and replaced discretionary spending on holidays and other luxuries that were simply not practical – never mind a priority – at a time when their financial wellbeing was as uncertain as their physical wellbeing.

There were, however, some interesting and unexpected growth shoots that were fuelled in part by the Government's focus on ensuring the housing market could continue to flourish. The Stamp Duty holiday underpinned an extraordinary property purchase boom as house buyers across the country entered a 'Race for Space' to secure bigger homes and gardens to suit an anticipated shift towards more home-based working.

Bank of Mum & Dad

From an equity release perspective, this led to more 'Bank of Mum & Dad' lending to fund first-time buyer deposits and also caused a tripling of purchase-related applications at more2life compared to pre-Covid conditions. This is a rather unusual, even unknown use of equity release that suddenly found a new audience among advisers desperate to help their clients achieve their home-buying dream. And what's fascinating is that, despite the fact that the Stamp Duty holiday has now ended, we are continuing to see a high level of new purchase cases coming through.

So purchase-related lending looks set to become a growing area of the market. And undoubtedly, as travel restrictions and other Covid-related issues abate, we will see a return to more discretionary spending among those seeking to unlock the financial wealth in their homes over the next 12-18 months. But what other factors could play into a renewed rise in equity release lending volumes?

Basic living costs

The announcement by the Government regarding the future funding of social care and the temporary suspension of the so-called 'Triple Lock' on pensions is also likely to have an effect.

The most recent 'Later Life Borrowing' report from more2life (based on research we commissioned through the Centre for Economics & Business Research) shows that one in four people aged 55+ rely on debt to meet basic living costs and one in three expect to accrue debt over the next 12 months simply to make ends meet.

The report also highlighted the huge 'gender pay gap' between men and women in retirement, with women potentially missing out on £180,000 of retirement income compared to men of the same age based on their life expectancy, despite women typically contributing a higher percentage of their income towards pension funding.

Silver Splitters

Indeed, with women typically living longer than men and 'Silver Splitter' divorce rates on the rise, the report highlighted that 59% of widows and 39% of divorced women said they had lost out on pension income as a result. With only 35% of women having independent pension wealth but with older women holding a higher degree of property wealth than men, the bricks and mortar of a home could become increasingly important to women's retirement finances in particular for some time to come.

Unlocking a more comfortable retirement

These common and converging later life factors – rising life expectancy, poor retirement savings rates, a squeeze on State benefits and increasing costs of living (which can hit those on fixed incomes even harder) – are likely to play a major part in the growth of later life lending as more and more consumers realise that housing wealth could be the key to unlock a more comfortable retirement. This is especially true if their health begins to fade and they require more help around the home, need to adapt their home or perhaps move home altogether.

We may not be out of the Covid woods just yet and other economic uncertainties remain, but the future of the equity release market is looking stronger and more certain than it has done for quite some time.

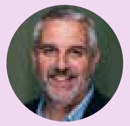
Learn more

What's next for **equity release?**

A recent **Iress Live webinar** brought together some of the best in the business to ask 'what's next?' for the ever-evolving equity release market. Here are some of the highlights as lenders talk about speed, going green and why they don't want to know your client's inside leg measurement.

Host: Dave Miller
executive general manager at Iress

Panelist: Dave Stratton
distribution director at Legal & General Home Finance



Panelist: Paul Glynn
head of sales at more2life

Panelist: Chris Flowers
head of intermediary sales at Pure Retirement

Dave Miller: To improve efficiency, Iress has introduced real-time quotations and online applications for equity release products. What difference has this made so far?

Paul Glynn: It's a journey that providers will be on at different speeds, as are intermediaries. We've seen some really embrace it while others are still doing dual processes. We need more lenders on board to make it work, and we need to have a consistent message - that there are real efficiency gains for intermediary businesses using the technology.

Dave Miller: Both more2life and Pure Retirement now have the technology in place to change their rates at will. Why is that so important?

Chris Flowers: We want to make sure we can deliver the most competitive rates for our customers as quickly as possible. Having those API links is an absolute win. It's all about customer outcomes - getting the best product at the most competitive rate as quickly as possible.

Dave Miller: Energy performance certificates (EPCs) are expected to be the starting point for a greener mortgage journey. What impact do you see that having on the equity release market?

Dave Stratton: We foresee changes coming, albeit slowly. A report earlier this year found only a 1.7% difference in value between a B rated property, and a D rated property. That stretches to about 3.5% for those with an F or G rating. So the price of properties isn't baking in that kind of EPC differential yet. But 60% of UK housing is D rated or below, so there is an opportunity.

Dave Miller: Looking at medical underwriting, do you foresee a need for more data capture before getting a quote?

Chris Flowers: Everything we do needs to be about our customers. We don't want to add another hour to the fact-finding process because we need to know your client's inside leg measurement. We've done well in opening up this marketplace, making it more accessible and ensuring that advisers can explain simply how the products work. We need to be conscious not to add an extra layer or more detail to put them off. It's a fine balance, but as lenders build up more data, they'll be able to model it and have better pricing. The sooner we start getting more granular data, the more customers can benefit.

Dave Miller: Standard Life has entered the market, partnering with Key to provide lump sum and drawdown products. Is there room for more entrants, and does this white-label approach suggest it's too difficult for newcomers to enter without support from existing players?

Paul Glynn: High street names like Standard Life coming in is good for awareness and customer engagement. There are 13 providers listed on the equity release council's website. If you compare that to the residential market, we've got a long way to go to reach saturation point. Coming into any market as a new brand is challenging. There are a couple of unique aspects to the equity release market that make it even more difficult.

It's one of the most regulated products out there and probably one of the most heavily scrutinised. Supported partnerships enable players to come in and test the waters.

Dave Miller: The Equity Release Council's stats for Q2 show customer levels returning close to pre-pandemic activity. What's your take on that?

Dave Stratton: It's great to see the market returning to those sort of pre-pandemic levels. There's been a hiatus in the more aspirational spend and a move to intergenerational planning lifetime gifting, and with that comes larger loan sizes. We've seen quite a growth in £1m+ value properties coming to us. We didn't see quite as much of that pre-pandemic. While the active market is 55+, the 40-55 age group is showing a much greater willingness to consider using property equity in the way of lifetime mortgages. That speaks well to the future opportunity to engage with clients as they move through the age groups.

Dave Miller: Growth of the equity release market relies heavily on intermediaries. How can we get more intermediaries selling equity release products?

Dave Stratton: Many intermediaries are in the space but are referring rather than advising, so we need to give them the confidence to take on the advice themselves. Lenders can do a lot to support understanding and education. Equity release is a smart choice given where rates are and household equity, so bringing it into the holistic retirement planning conversation will help take this market forward.

Dave Miller: Where do you see the equity release market in 2-3 years time?

Chris Flowers: We talk about wanting to align lifetime mortgages with traditional mortgages. The one big difference now with some plans is early repayment charges (ERCs), so I'd like to think that we could move that forward.

Paul Glynn: This product and area of advice and innovation has mass-market appeal. I hope in a few years from now, we've had a mindset shift to not consider ourselves a niche market.

Watch the webinar

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Every day around the world, our technology helps millions of people make better financial decisions. We provide software to the financial services industry in Asia-Pacific, North America, Africa and UK & Europe. Iress software has more than 200 integrations and 300 data feeds, and is used by more than 500,000 users globally.

From entrepreneurial and established advice firms to challenger banks, digital disruptors and the world's most iconic finance brands, businesses of all sizes choose Iress technology to enhance their impact, performance and customer relationships. Together, we help them find better ways to manage investments, navigate financial markets, deliver high quality financial advice, simplify mortgage applications, find and compare insurance and create better customer experiences.

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