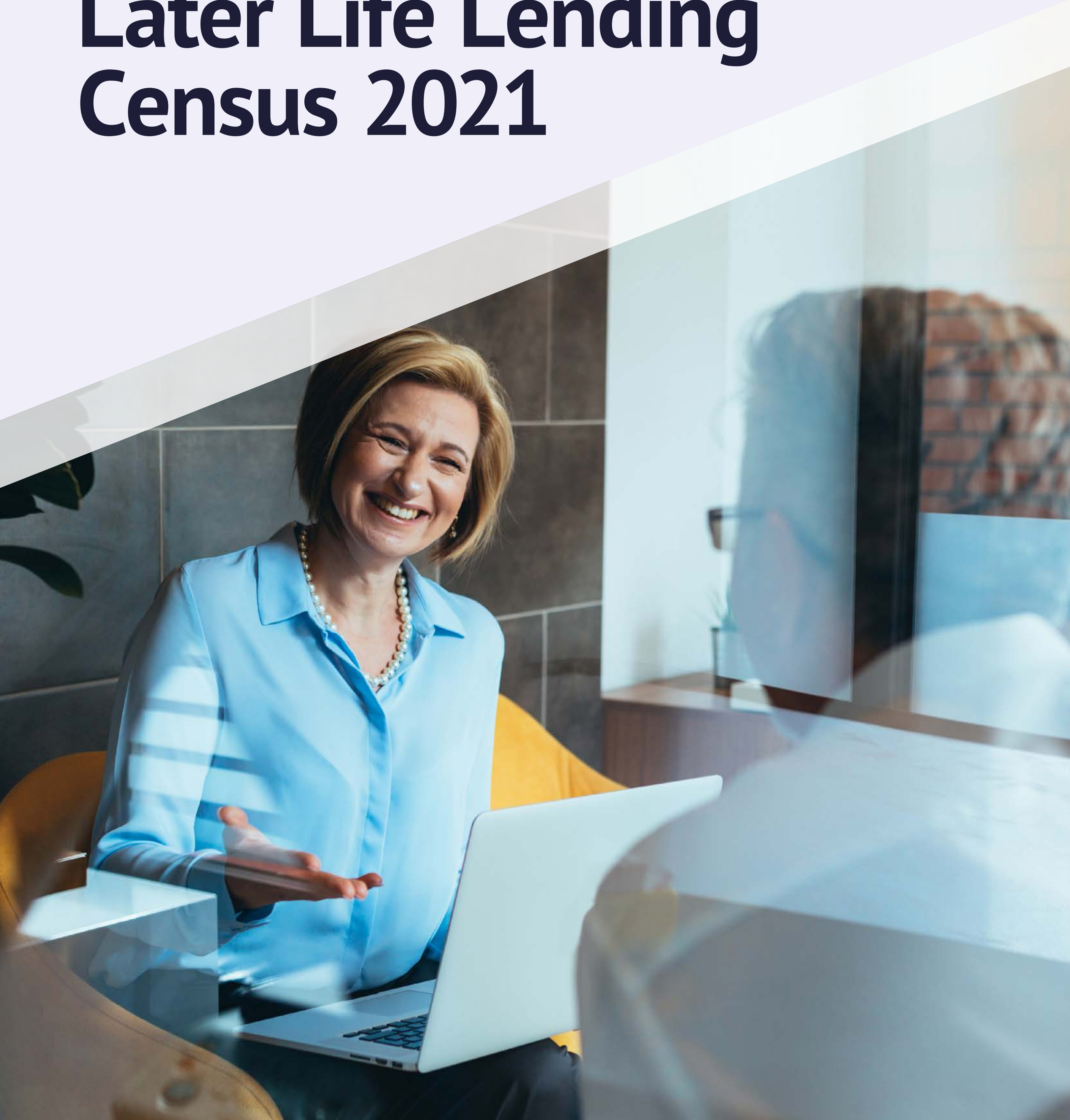
MORTGAGE CLUB

ANSWERS IN RETIREMENT

Air Mortgage Club

Later Life Lending Census 2021



Foreword

Over the last three years, the term 'Later Life Lending' has become familiar to most people in financial services but where has it come from and what does it mean?

To answer that, you need to acknowledge that homeownership has undergone somewhat of a revolution over the last fifty years with building societies, banks and other lenders looking at how they can help people to get onto the housing ladder – and maybe even eventually move up it. We've seen high LTV products, low LTV products, guarantor mortgages, shared-ownership schemes and all manner of interesting variations on a theme.

The one area of the market that has perhaps hesitated to step up has been the area which looks to cater for older borrowers. Until the end of the default retirement age, equity release was the only option and while in exceptional cases borrowers were allowed – by agreement – to repay their mortgages a few months into retirement, it was far from common place.

Much has changed since then with the advent of retirement interest-only mortgages (RIOs), later life mortgages and a renaissance of innovation in the equity release sector. However, the current regulatory approach means that more holistic comparison is challenging and we need to ask ourselves whether the current structure of the later life lending market (RIO, ER and standard mortgages that go beyond retirement age) is indeed serving the more than 20.5 million over-55s in the UK?

To better understand how this market can grow and flourish, we launched the Air Group Later Life Lending Census which gathered the views of over 400 intermediaries up and down the country on this important topic. While 90% of advisers see a clear and growing need for later life lending products and, few disputed the need to make sensible choices around housing equity as people age, they identified some fundamental challenges the industry needs to address.

Misconceptions and misinformation continued to hamper advisers' attempts at engagement and there was a real need for more support, education and – dare I say it – cohesion from the later life lending industry.

As an industry, I believe we've now reached a pivotal decision point, we can either make a concerted effort to break down these barriers by rebranding, re-educating and re-engaging or accept that we are content to remain niche. I know the decision that I believe, we now need to make.

Stuart Wilson
CEO, Air Group

Census Overview

In Q2 2021, Air Mortgage Club, as the voice of smaller advisers in the Later Life Lending market, undertook a census to gain insight into how this vital distribution network saw the market developing.

Just over 400 advisers who operate, or hope to operate, in this market were surveyed to understand what their views, ambitions and concerns were for this rapidly-growing sector. The clear messaging that came through is there is a real appetite for the industry to:

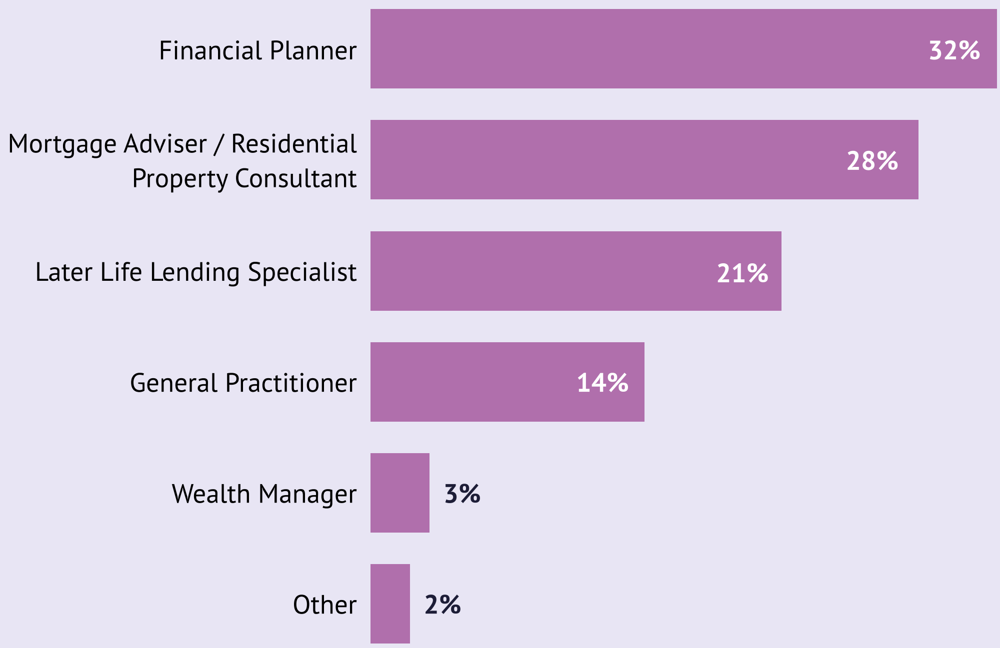
1. **Rebrand**

2. **Re-educate**

3. **Re-engage**

A series of short reports which tackle each of these topics over the coming months will be released and collated to form the UK's first Later Life Census.

Census Respondents



Rebrand

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Rebrand

The later life lending industry has seen an organic evolution which has left stakeholders unclear as to what it covers and who it serves. To better serve our customers, we need to rebrand.

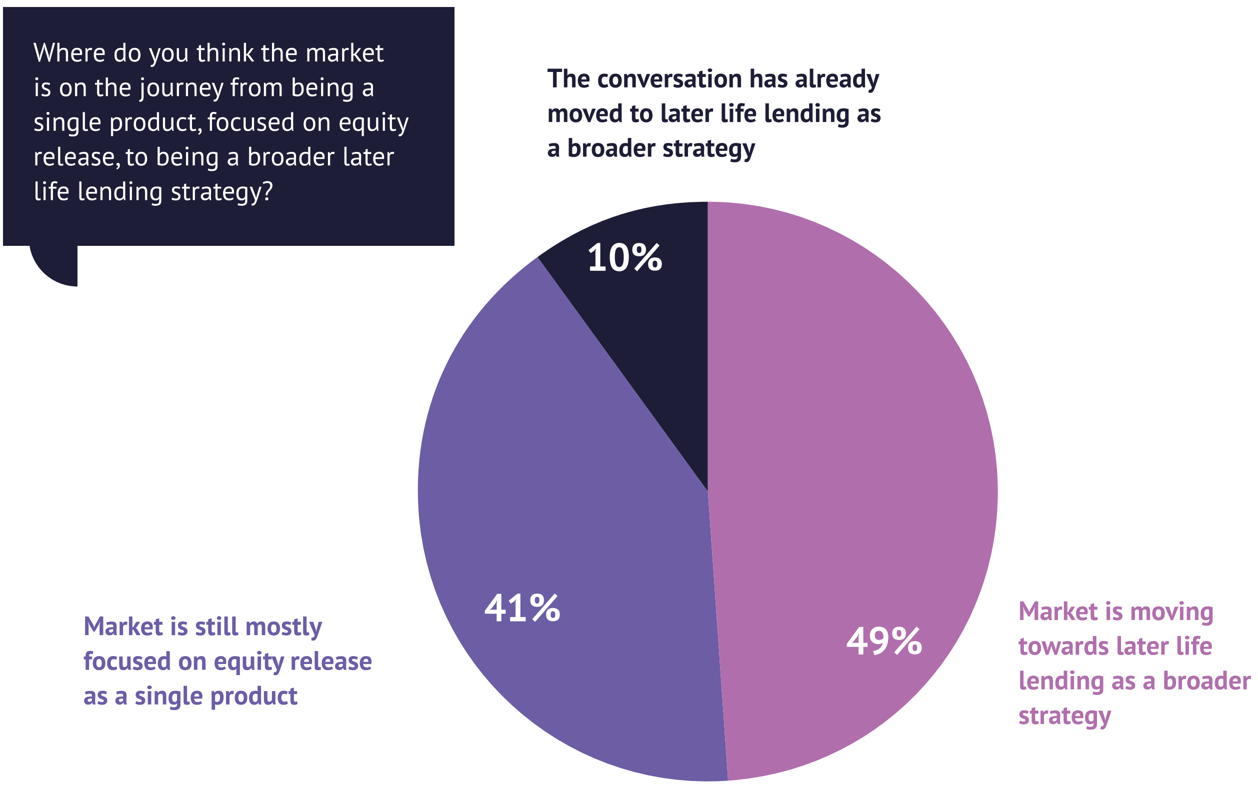
It all started with the scrapping of the Default Retirement Age in April 2011 provided people with the option to work into later life - arguably giving birth to a fundamental shift in society and financial services.

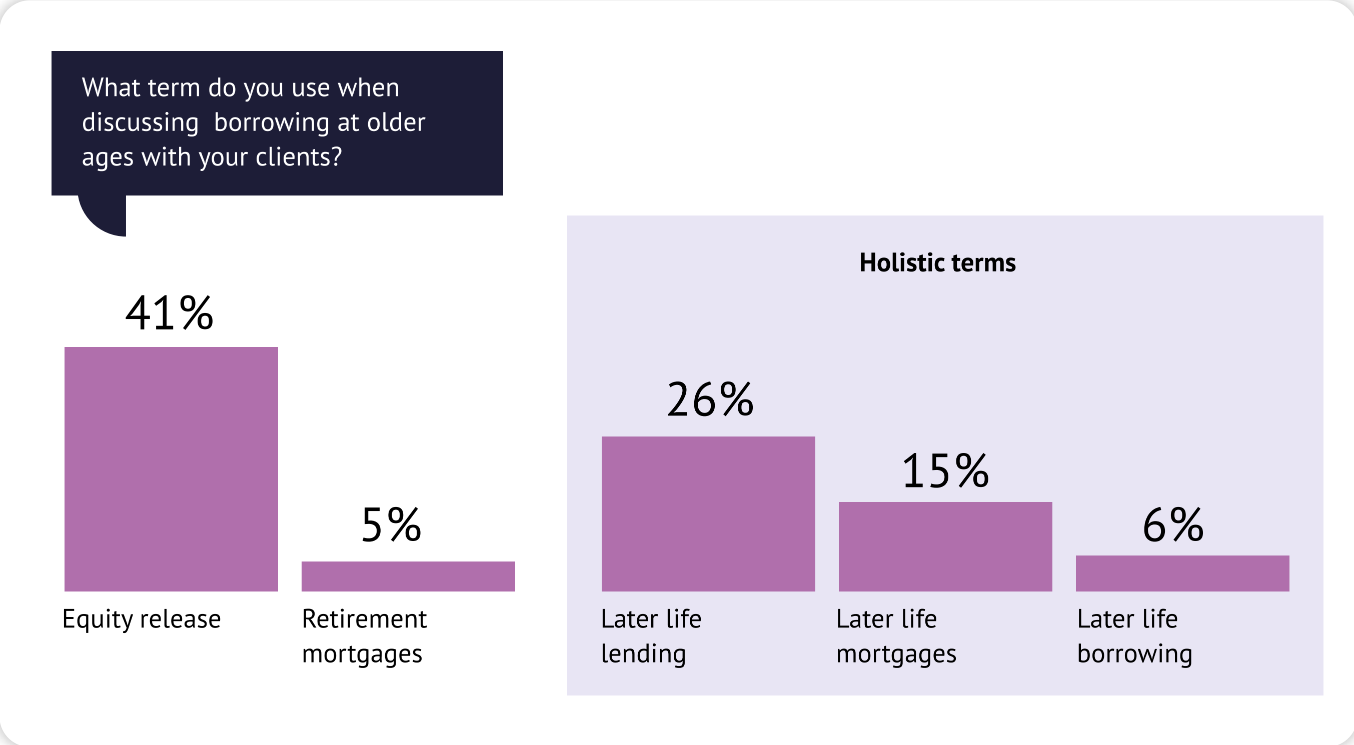
It raised a host of questions for these financial services companies but most notably for the mortgage market; it gradually saw the maximum borrowing age increase and product innovation accelerate. Over time no longer was equity release the only show in town if you wanted to borrow after 55 but RIOs and later life mortgages were now new, serious and attractive options.

However, while all of these products can appeal to over-55s, the fact that equity release requires more qualifications than RIOs and later life mortgages means consumers are seldom offered a true comparison, which makes creating a level and holistic playing field tricky. It also raises the question, what should we call this new market that has developed to serve older customers?

Of those surveyed, 59% of respondents believe the market has (10%) or will (49%) ultimately move to later life lending as a broader strategy.

Indeed, while 41% favour equity release and 5% use retirement mortgages as the 'correct' term when currently discussing borrowing at older ages, others favoured more holistic terminology - discussing later life lending (26%), later life mortgages (15%) and later life borrowing (6%) with their clients.

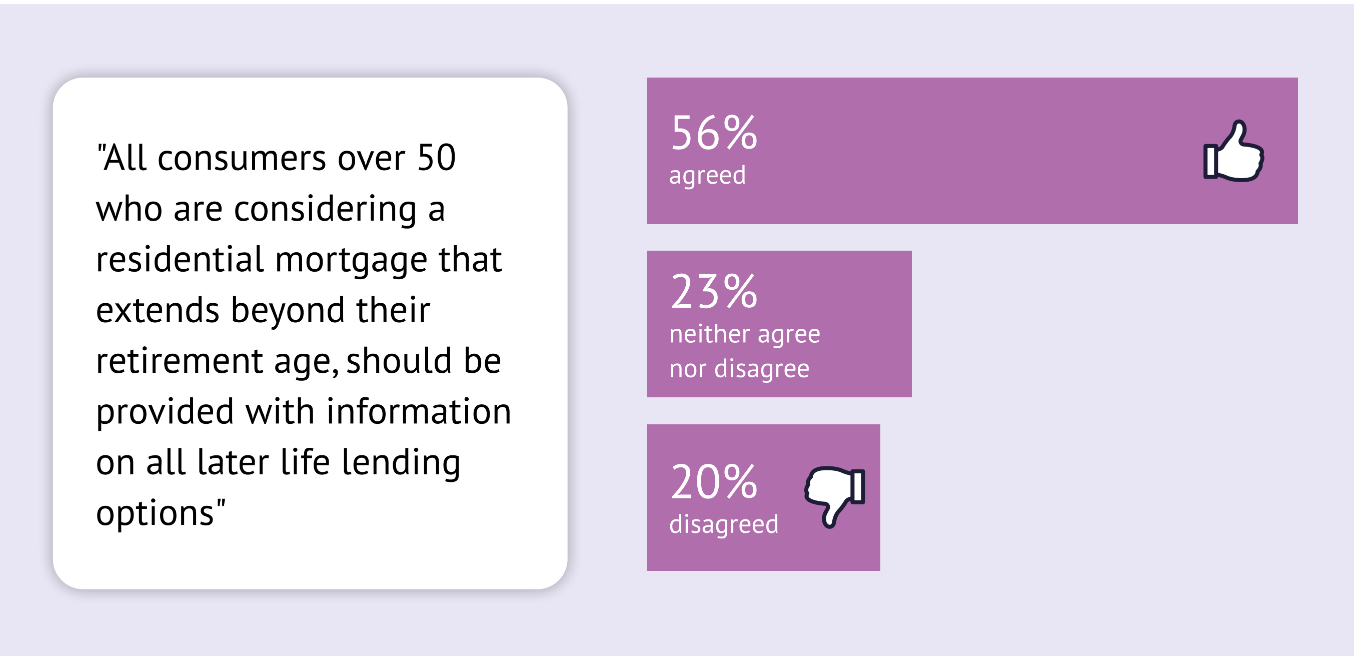




Interestingly, the specialists (59%) who are arguably more engaged with this market were more likely to use the term 'later life' than the wider adviser community (37%) potentially as they are able to provide advice on the entire range of options. This seems to suggest that, far from being focused on equity release to the exclusion of other products as is sometimes suggested, these advisers are keen to promote a panel of later life products.

While providing holistic advice in this market is trickier due to differing regulatory, as well as qualification requirements, the majority of advisers were keen to see a more level playing field which is better able to support customers. Indeed, the vast majority (80%) agreed it is in the industry's best interest to move the discussion from just equity release to the broader later life lending strategy.

What this may look like in practice was also explored and 56% of respondents agreed that, "All consumers over 50 who are considering a residential mortgage that extends beyond their retirement age, should be provided information on all later life lending options". Only 20% disagreed with this statement – typically raising queries as to whether 50 was too young to be the limit and whether it was state or stated retirement age.



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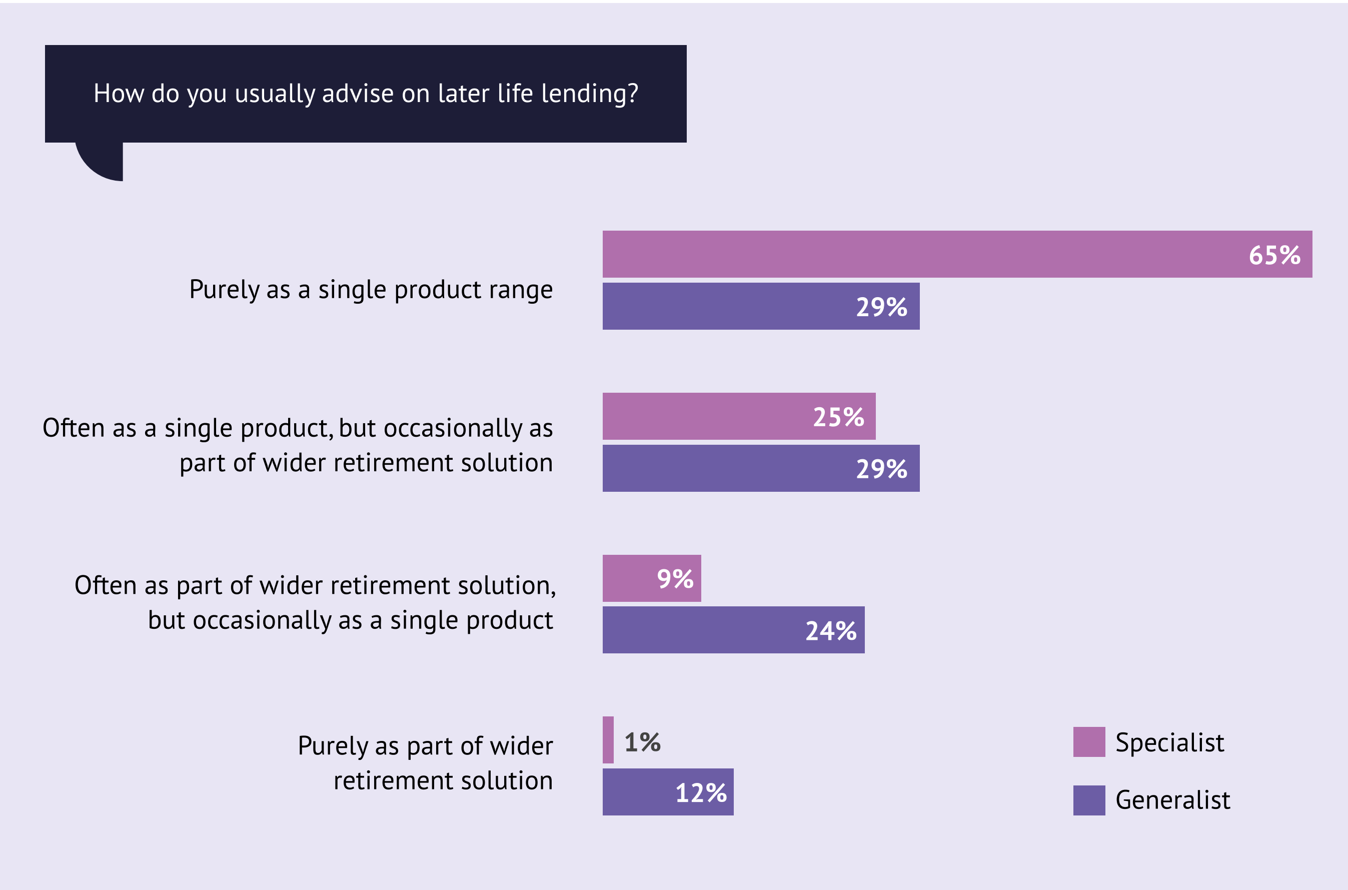
The reasons that drive people to borrow in or into later life are as varied as each individual client but we know that how they use the proceeds and how they manage this borrowing impacts on their retirement.

Therefore, it is not entirely surprising that the vast majority of advisers (87%) also believe that it is in clients' interest to consider property assets as part of a wider retirement strategy. This too added to the debate about what the market might be branded as, with 5% keen to see the wider term 'property wealth management' used.

Interestingly, while a more holistic approach was favoured by most intermediaries, what this meant in practice differed depending on their specialism. Specialists who already operate in this market saw later life lending as a single suite of products (65%) while generalists were more likely to see it as part of a wider retirement solution but occasionally as a single product (29%).



While work needs to be done to iron out the areas of disagreement, there is a clear appetite from smaller advisers to see the term 'later life' applied to the market which covers borrowing into retirement. Rebranding to talk about 'later life lending' or 'later life borrowing' is only the first step in the process but if we can build a cohesive view of this market then we are one step closer to ensuring customers can confidently find the right option for their individual circumstances.

Re-educate

Re-educate

With advisers keen to engage with the concept of 'later life lending' and 94% saying it meets a genuine customer need, it is important to ask what the barriers to market growth may be?

Lack of education appears to be the key with 76% citing limited understanding of what the later life lending market is from consumers and 43% highlighting limited adviser understanding of the same topic. When you add to this the fact 71% of advisers believe consumers attach a negative image to equity release and 68% feel that most consumers see later life lending products as 'a last resort', you realise that not only does the industry need to rebrand but re-educate.

76% cited limited understanding of what the later life lending market is from consumers

43% highlighted limited adviser understanding of the same topic

71% of advisers believe consumers attach a negative image to equity release

68% feel that most consumers see later life lending products as 'a last resort'

When asked what the most challenging part of the advice process to manage was, 56% of intermediaries suggest 'customer reassurance and managing misconceptions' was one of the top challenges they faced. This came above meeting regulatory and compliance requirements (54%) and managing vulnerable customers (49%) which highlight how deep-seated some of this misinformation is.

Interestingly maintaining technical expertise (22%), adequately capturing customer needs (21%) and product sourcing/ criteria (21%) were also highlighted which suggests that as well as educating and helping customers as an industry, we need to ensure we extend that support to our distribution channels as well.

With equity release arguably the most recognisable face of the later life lending market to many people, the industry has been working hard to land messages around the flexibility and protections offered by these products. These messages appear to be landing and when asked to rate the top five features most valued by consumers, competitive interests rates came out on top followed by flexibility with regards to how you receive the money and make repayments.

What features of equity release is most valued by consumers?

77%
Competitive interest rate

76%
Flexibility in how you receive the money

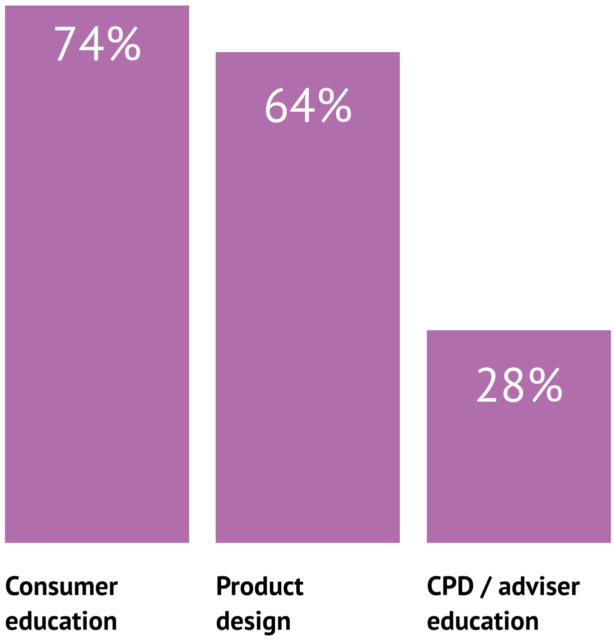
71%
Flexibility of repayments

60%
No negative equity guarantee

48%
Access to tax free cash

When researchers dug into what areas most needed innovation, consumer education (70%), product design (64%) and CPD/ adviser education (28%) topped the table – confirming the relative importance placed on education by advisers.

Top three areas in need of innovation



While consumer education is clearly front of mind, almost a third of respondents were clear advisers needed the opportunity to educate themselves about the market and continually build their skills via CPD.

Specific areas of interest included:

50%
finding the right product mix for their clients

41%
having the risks associated with these products explained in a more transparent way

Re-engage

Re-engage

Having clearly outlined why as an industry we need to rebrand and re-educate stakeholders, we now need to ask how we can re-engage with those consumers who need us and the advisers that support them.

Thankfully, this may well be pushing at more of an open door than imagined as despite the misconceptions and reservations some advisers have, 90% see a clear and growing need for later life lending. While later life lending specialists are the most positive about this (97%), the wider intermediary market is also strongly convinced (84%).

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With the world experiencing an unprecedented international pandemic, it may be argued that the growing need is due to the financial disruption felt by over-55s and their families. However, this does not appear to be the main driver as – for example, just 28% expected to see more people paying off their existing mortgage with later life lending due to the pandemic. Instead, 85% expected established demographic drivers to keep the market buoyant over the next two to three years.

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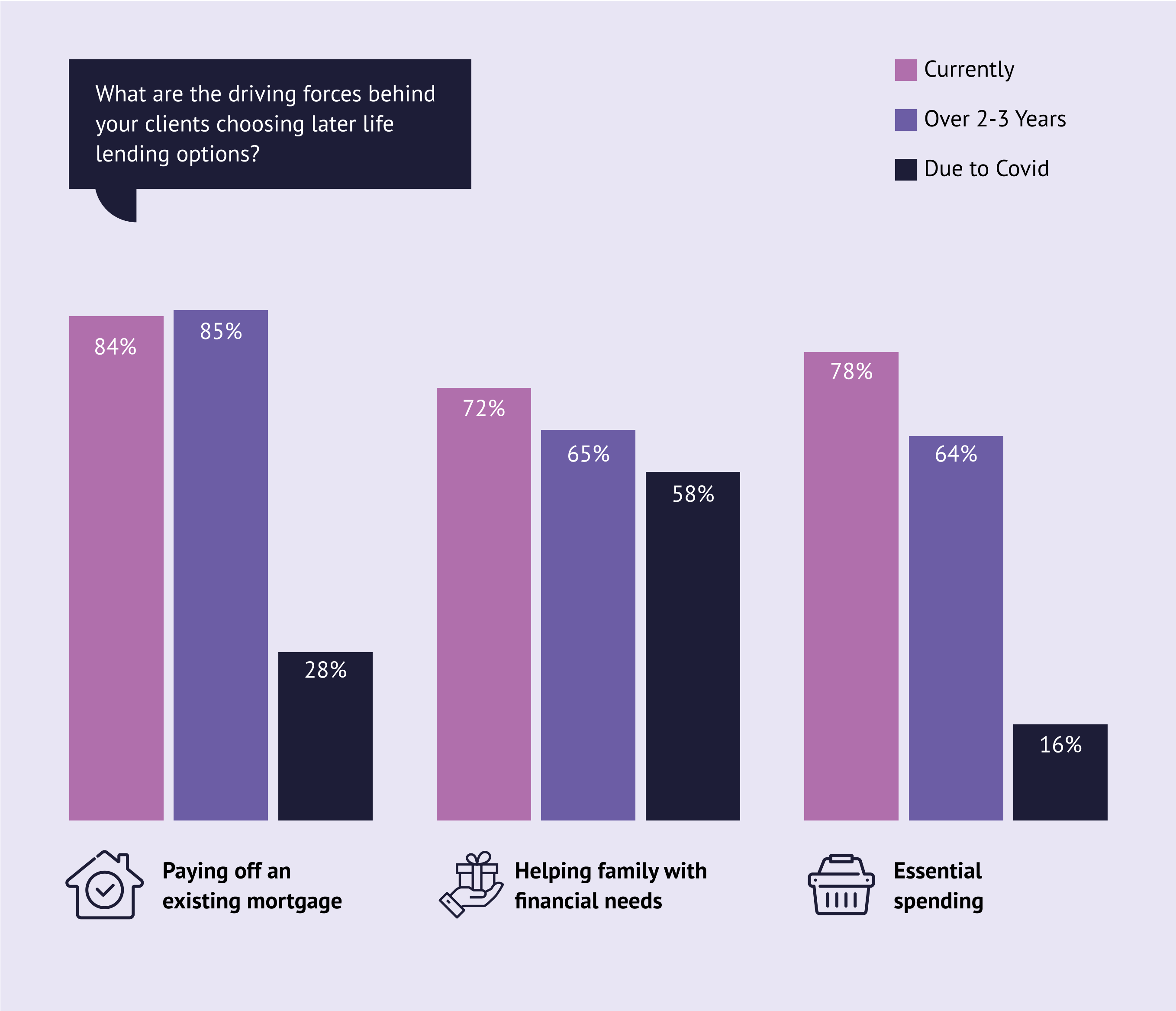
58%

expected established demographic drivers to keep the market buoyant over the next two to three years.



That said, 47% of advisers believe we will see some increase in demand as people deal with redundancy, early retirement and wider families needing support. While choices made around housing equity at that point will need to be carefully considered with the support of advice – both for now and in the long-term - the ability to use the value tied up in bricks and mortar is likely to be an option worth exploring for many over-55s.

Given the expected growth in the market, it is perhaps unsurprising that 87% of advisers suggest they will get more involved in this market over the next two to three years. While mortgage advisers (92%) were most bullish about their involvement, financial advisers (80%) who may traditionally have been less engaged were also extremely positive.

87%

of advisers suggest they will get more involved in this market over the next two to three years

Being involved in a growing market is naturally attractive to advisers but the opportunity to build or extend a relationship with customers by providing a range of support is also seen as valuable. Indeed, while many take the traditional transactional view of this market (56%), others provide this support to existing clients (29%) or use it as an opportunity to build a new ongoing relationship with a customer (15%).

What form this involvement might take roughly fits into three approaches – refer to specialists in the market, retrain to provide later life lending services or refocus efforts on speaking to clients about these products. For those who intended to refer, the main reason behind this was the need for specialist qualifications (47%) and the need for specialist knowledge (44%) which suggests adviser education should be a focus for providers if they wish to grow the number of advisers in the market.

With a clear need for more advisers in this market, we asked those who refer what might encourage them to retrain and refocus efforts on speaking to clients about these products. Almost half (41%) said that when later life lending becomes a 'normal' part of retirement planning, this will be the tipping point that encourages them to make the move. Over a third (34%) also cited better training and support which suggests the call for re-education is a vital one.

This theme was also echoed in advisers' responses to the question – "what support would you need to help you write more later life lending business" – with 52% saying a marketing campaign to support customer awareness would see an increase in businesses.

Innovation in product design (47%) and a wider range of providers offering later life lending products (43%) were also broader asks to drive business. More practically, 29% wanted focused webinars/seminars to improve knowledge and 28% felt access to better digital tools would be a great boon.

So to conclude, there is huge potential for growth ahead but first we must rebrand the market, re-educate our key audiences and re-engage the advisers who are the backbone of the financial services industry.

Overarching Industry Ambitions:

With advisers calling for the industry to take positives steps to facilitate growth and better serve customers in this rapidly growing market, Air Mortgage Club has considered what we believe the industry needs to focus on in order to achieve this.

1. Rebrand

- Develop a clear industry definition of what the later life lending market is, what products it covers and which customers it serves.
- Challenge lenders and advisers to think differently about product innovation and advice delivery to support this emerging market
- Build an understanding of later life lending with key stakeholders to encourage greater use of the language across the industry

2. Re-educate

- Work to deepen consumers understanding of their borrowing options post-55 and the role they can play in supporting their retirement ambitions
- Dispel misconceptions around individual products types and actively encourage customers to consider all their options fully
- Better support advisers as they work to meet regulatory and compliance requirements around later life lending

3. Re-engage

- Provide a greater degree of support for advisers who want to become more active in the later life lending sector including digital tools and more opportunity to build knowledge
- Encourage the view that considering if and how you use housing equity in later life is a normal part of retirement planning for any homeowner
- Work to clearly identify and breakdown barriers that prevent more advisers from including later life lending within their product offering.

Methodology:

Research undertaken on over 400 advisers in H1 2021 by NMG Consulting comprising of both quantitative and qualitative work. Both financial advisers as well as mortgage specialists who write or are in a position to write later life lending business were researched.

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