



FCA CALL FOR INPUT ON THE EVALUATION OF THE RETAIL DISTRIBUTION REVIEW AND FINANCIAL ADVICE MARKET REVIEW

Response from the Equity Release Council – June 2019

Introduction

- The Equity Release Council ('The Council') is the trade body for the equity release sector. The Council represents over 300 member firms and 1,000 registered individuals, including: providers, regulated financial advisers, solicitors, surveyors, intermediaries and other industry professionals. Every member is committed to the Council's Statement of Principles and associated standards, rules and guidance, which aim to ensure consumer protections and safeguards.
- In addition, the Council works to boost consumer knowledge and increase awareness of equity release as a solution to financial challenges facing people over the age of 55 across the UK. Since 1991, over 465,000 homeowners have accessed more than £26bn of housing wealth via Council members to support their finances.
- We welcome this opportunity to respond to this call for input and make the following headline points, informed by our experience and member views from a recent poll:¹
 - Customer needs should be viewed holistically – the Council's adviser checklist encourages broad thinking when addressing consumer needs and demonstrates our sector driving best practice;
 - The regulatory environment must support broadening knowledge of across markets: advisors need to know at what point they should trigger advice into other market segments;
 - Technology has a role in improving advice and guidance, but it is not a panacea and should not replace conversation and thorough consultation with clients; and,
 - Advice and guidance can do more than direct a client to the right product: often in the process of looking into an individuals' affairs, advisers discover non-product related benefits their client can benefit from.

Response

The Council has responded only to the questions of direct relevance and impact to the broader equity release and later life lending market. The role of advice within and across different regulated areas of financial services is vital to ensuring consumers achieve the best possible outcome from their financial services products.

This is especially true in later life when consumers may present to a firm with a specific request but where their best need may be served by another. For example, when seeking advice regarding their pension income, a customer may be best served by a lifetime mortgage product, or may require information regarding power of attorney, each of which are currently siloed into different regulated areas.

¹ Equity Release Council member survey 2019 [not published externally]

The Council recently polled its members to understand “what are the most important actions to ensure consumers can access the right advice?” 109 respondents to this question were able to choose up to 5 responses – details of which are below.²

As demand for equity release products grow, what are the most important actions to ensure consumers can access the right advice? Choose up to five [Responses from 109 members]	
Ensuring more wealth managers and IFAs have an understanding of equity release and when it might be appropriate	71%
Improving adviser training and Continuing Professional Development	65%
Ensuring more mortgage advisers have an understanding of equity release and when it might be appropriate	60%
Improving access to information e.g. clearer websites, marketing literature without technical jargon	55%
Ensuring equity release advisers have a broader understanding of related products/markets	50%
Building new relationships with firms in the pensions and investment market	39%
Building new relationships with firms in the mortgage market	38%
Encouraging more adviser firms to enter the sector	21%
Increased recruitment of advisers by existing firms	16%
Reforming existing equity release qualifications to encourage wider uptake	14%
Engaging with advisers who are already qualified but not practicing	12%

The Council is delighted to continue to work with the FCA to address these structural challenges and ensure that customers can access quality and high affordable advice which is always geared to their best outcome. Naturally, this should not be a race to the bottom in terms of cost. We must also ensure, by close working between the regulator and industry, that the qualifications and training regime is future proofed.

The Council has recently announced a range of initiatives³ to support advisers, including a new competency framework and a qualification review, to help firms deliver a high standard of support for customers exploring equity release and later life financial planning as the market continues to grow and evolve.

Q4: Do consumers have the right information to compare advice and guidance services and to shop around? How easy is it for them to compare services?

Customers in the later life market have a number of avenues to seek and compare advice and guidance services. A list of all equity release and mortgage advisers will be listed on the Single Finance Guidance Body (SFGB / Money and Pensions Service – MAPS) with linking to the existing Council Member Directory⁴ to cross reference Council members from the public list. This will provide a starting point for

² Equity Release Council member survey 2019 [not published], 109 members answered the question: As demand for equity release products grow, what are the most important actions to ensure consumers can access the right advice? [Choose up to five responses]

³ Equity Release Council, *Equity Release Council announces later life projects to support advisers and consumers* <https://www.equityreleasecouncil.com/news/equity-release-council-announces-later-life-projects-to-support/>

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⁴ <https://www.equityreleasecouncil.com/member-directory/>

consumers to review potential advisers who offer equity release services in line with our standards and safeguards. We are pleased that the FCA has recognised⁵ the value of this resource.

The Council has been involved in the FCA working group tasked with providing remedies to help customers choose an intermediary. The MAPS will have a large number of consumers seeking information and guidance relating to mortgages through its contact centre and website, as well as pensions and other aspects of later life finances. Therefore, extending the existing Money Advice Service retirement adviser directory to cover mortgage intermediaries – including those with the extra qualifications and permissions to advise on equity release – is a logical addition to this service. As part of this expansion, we believe the directory will include some useful additional content still to be determined in full, such as information on the number of providers with whom intermediaries typically places business and the qualifications and accreditations held.

The Council supports the FCA's view⁶ that financial technology (fintech) can play a greater role in supporting eligibility, and though whilst increasingly firms are improving services through use of fintech this should not be seen as a panacea but as a supporting element to back office functions.

Q5: What barriers exist to making advice or guidance services more affordable?

Advice has become more expensive. As the advice market (post-RDR) has professionalised, along with national attrition rates and a significant increase in firms' cost of compliance, there was a decline in the supply of suitable advisers following the implementation of RDR. However, since this initial fall, we have seen adviser numbers grow as firms continue to recruit and train and a new generation make this a profession of choice.

Market innovation – for example, conducting appointments using video calls – may provide an opportunity to consider different delivery models at a lower cost for certain types of advice. However, from a later life financial planning perspective, while all generations typically become more familiar with technology over time, it is worth noting that the older generation generally (and more so at a crucial time of life) are more inclined to prefer to still be offered the option of in-person contact and interaction when receiving financial advice.⁷

The Council is strongly of the opinion that specialist regulated advisers can often positively challenge a customers' assumptions and ensure that they are guided towards the most appropriate product (whether or not this is an equity release product or not). There is an additional need for referral pathways between specialist forms of advice. Mainstream mortgage and pensions advice and guidance services (e.g. the MAPS and Mid-Life MOT programmes) should and could signpost and refer to equity release specialists where appropriate for example.

Q6: Do advice and guidance services offer sufficient quality and choice to meet the needs of different consumer groups? Are any consumer groups underserved?

From an equity release perspective, customers require and benefit from advice and guidance (advisers are required to consider and discuss all options with potential customers) to ensure that they are

⁵ FCA Mortgage Market Study, Final Report: <https://www.fca.org.uk/publication/market-studies/ms16-2-3-final-report.pdf>

⁶ *ibid*

⁷ Social Market Foundation: *Balancing Bricks and Clicks (2016)* – findings include two-thirds of consumers make complex decisions face-to-face with firms, regardless of age <http://smf.co.uk/publications/balancing-bricks-click-understanding-how-consumers-manage-their-money/>

directed to appropriate products including services such as external service providers for benefits and /or grants or even such as care consultants.

Equity release customers are by definition expected to be older consumers (as defined by the FCA – over 55-year olds)⁸ and, as previously mentioned, these are more likely to prefer an option for human contact rather than an online only guidance option.⁹

However, the Council's membership is more diverse, and includes not only equity release specialists but also advisers who are expert in supporting customers across a range of products including mainstream mortgage market, retirement income products (pensions and annuities), investments, wills and estate and tax planning.

While some of our larger member firms are often able to offer products and support across different product lines (pensions and wealth management alongside equity release), even for those who do not, best practice exists in our sector through our adviser checklist which encourages broader thinking when addressing consumer needs. We would petition that other sectors should reciprocate this holistic approach – actively ensuring they appreciate and understand where referring customers to other specialists might be needed.

Q7: Do consumers have confidence and trust in advice and guidance services and do these services address their needs?

The Council believes that equity release customers are well served. However, as in our answer to question 6, we believe there is a case for further underlining alternatives to be sought as the best outcome for the consumer. Given the regulatory disparity between different market segments it could be argued this has led to a series of complications for consumers given they don't know what they don't know. They can be forgiven for expecting one financial adviser to be much the same as another and not necessarily appreciate the limitations in their knowledge or their market reach to offer the best option for them. The Council is seeking to address this for older consumers where practical opportunities present themselves.

Q10: What new business models are being developed and how will they meet consumer needs?

In relation to the breadth of the advice market, relatively few advisers are able to give a complete end-to-end advice service to clients, and so many firms are changing their business models, working in partnership or themselves building up their internal resource to cover more of the holistic knowledge.

Some firms rely on digital media to interact with consumers. Referrals can be artificially intelligent systems, and a number of sourcing systems and video link options are used by our Members. One of these includes Nationwide's new business model – the mortgages for later life service (covering equity release, retirement interest-only and other later life mortgages). This allows appointments to be set up via Nationwide NOW – a video link in branch to connect people to a specialist without the specialist needing to be based in their local branch.¹⁰

⁸ FCA Occasional Paper 31 (2017) Ageing Population and Financial Services
<https://www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf>

⁹ Social Market Foundation: *Balancing Bricks and Clicks* (2016) – <http://smf.co.uk/publications/balancing-bricks-click-understanding-how-consumers-manage-their-money/>

¹⁰ <https://www.nationwide.co.uk/products/mortgages/borrowing-in-later-life>

Q11: What aspects of advice and guidance services do consumers value and why? Does it vary by consumer group or financial need?

Yes – customer groups and those with different financial needs certainly require and value different aspects of advice and guidance. All equity release customers receive independent legal advice leading up to taking out or adding to their product: our members frequently find that this is a useful opportunity for customers to receive broader input on their legal affairs as they reach a turning point into older age.

As with all sectors, equity release providers interact with vulnerable and potentially vulnerable customers. Structural checks and staff training and guidance drive best practice, and the Council is pleased to continue to collaborate with the FCA and other trade bodies and market participants to address the needs of vulnerable customers.

As previously mentioned, sometimes customers may approach a firm seeking one product which, it is evident to the adviser, is not the appropriate answer to their needs. As a result of advisers being encouraged to consider all possible alternatives (supported by tools such as the Council's adviser checklist), can enable customers to access benefits they may have not previously been aware of, including access to benefits, care, or a review of their holistic financial needs. Equity release is not a "last resort" product but a valuable tool in managing one's assets and wealth. In two examples, shared by Council members:

Yesterday I learned of the most heart-warming story in over 10 years running an equity release business. [An adviser] visited a client who was looking for advice on releasing money from his home.

The client, whom you could class as vulnerable, said they'd opted out of the state pension even though he paid into National Insurance all his life. He was living on £250 a month. [The adviser] ran a state benefits check for him (for free and part of our service) and it turns out he was owed £120k in back-dated pension. The client gets the first of many cheques for £13k next week. Needless to say, we advised him against equity release given his new windfall.¹¹

A lady with severe debt problems approached us for equity release advice to clear her debts.

In conversation we discovered that she had two workplace pensions which she did not know how to access. Our advice helped her access her pensions to clear her debts and she did not need to use equity release.

Q12: What emphasis do consumers place on the cost of advice and guidance, against other elements of value for money?

See answer to question 11.

Q14: Are the rules and guidance around advice and guidance working well?

The Council supports the FCA's objective of driving competition between firms offering advice and guidance. But the current regime is unstable, seemingly under constant review and insufficient time is spent on reviewing the impact of rules. The speed of evolution doesn't allow enough time for evaluation. Conflicting effects on some decisions to amend rules can have unintended consequences for the consumer and cause a deal of friction within the market itself.

¹¹ Available on LinkedIn: <https://www.linkedin.com/feed/update/urn:li:activity:6514047729948250112>

In addition, the Call for Input document does not appropriately distinguish between *advice* and *guidance* – we are concerned that unless this is simply a failure to communicate the point effectively, it may mean the regulator expects consumer outcomes to be similar for each.

Q19: Are there any new or emerging trends (for example, the ageing population and increased pension flexibility) that will lead to further changes in consumer demand for advice and guidance services?

The FCA referenced two emerging trends (ageing population and pension flexibility) that are likely to lead to further changes in consumer demand. These two are particularly important.

The impact of the ageing population on financial services, and vice versa, is well rehearsed, not least by the FCA's own work.¹²

With 50p of property wealth being unlocked for every £1 of flexible pension payments in 2018¹³, and the annual growth of the equity release sector averaging 20% in new customer numbers over the last five years (2014-18)¹⁴ consumer interest is continuing to rise in the sector.

Given the ability of property wealth to provide funding for people's needs in retirement – including supporting social care costs – we anticipate additional interest in the sector and expect the breadth of product options available to consumers to continue to grow to provide for a large range of needs.

In this digital age, we are increasingly seeing a more individual approach to financial planning as opposed to generational financial planning as occurred historically (and as is more evident for high-net-worth (HNW) planning). Conversations with the extended family seem to be less prevalent: the effect is that planning ahead is minimised and the likelihood of families feeling aggrieved by outcomes after the passing of their loved one is potentially heightened.

Q20: What changes to the market might be needed to encourage consumer interaction with, and good outcomes from, advice and guidance services in the future?

Building on our answer to question 19, the Council is proactively reviewing its own principles, rules and standards to ensure our members continue to uphold best practice when it comes to the delivery of advice and products in the modern-day marketplace. Encouraging a conversation within families is extremely important to ensuring the success of later life lending products both for the generation in present need and that of the needs for the generations coming after.

The Council is therefore pleased to see that the MAPS plans to engage regionally and hope that this work extends to developing a thorough understanding of what life is really like for customers – a back to basics approach which may well involve less technology in some areas, but should create better outcomes. This supports the important new role of fintech particularly in supplementing back office functions but recognises that digital approaches are not a panacea for the advice sector.

¹² FCA 2017 *Ageing population and financial services* <https://www.fca.org.uk/publications/occasional-papers/ageing-population-financial-services>

¹³ Equity Release Council Spring Market report 2019: <https://www.equityreleasecouncil.com/document-library/erc-spring-market-report-2019/>

¹⁴ *ibid*

Q22: What future market trends do you expect to see and what do you expect their effects will be?

See answer to questions 19 and 20.

Q23: What opportunities and barriers are there for developing advice and guidance services in the future?

See answer to question 5.

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