



**Equity Release Council response to
Mortgages Market Study: Interim Report
published by the Financial Conduct Authority, May 2018**

About the Equity Release Council

The Equity Release Council (the Council) is the industry body for the UK equity release sector. The Council represents over 750 members, including providers, financial advisers, solicitors, surveyors, intermediaries and other industry professionals.

The Council leads a consumer-focused UK-based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products specifically in the equity release market, which itself dovetails and complements the wider regulatory environment. Since 1991, nearly 420,000 homeowners have accessed over £22 billion of housing wealth via Council members to support their finances.

Every member is committed to the Council's Statement of Principles and 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.

The Council welcomes this opportunity to comment on the Financial Conduct Authority's (FCA) findings in its Mortgages Market Study interim report. We have laid out our response to reflect the main themes in that report.

Summary

- The Council is pleased and reassured by the FCA's assertion that overall the mortgage market is working well.
- A wider debate is needed on appropriate advice and distribution across all asset classes - important factors for individuals considering several financial planning requirements.
- Online tools can support both market and consumers but need to be tailored to ensure their safe application.



Overview

The Council was pleased to read the FCA's comment in Chapter 1 of the interim report that overall the mortgage market was working well. We are encouraged by this high-level conclusion. However, we are of the opinion that should a different and much wider financial market focus for such a study be conducted, it might result in the identification of further specific and possibly more relevant areas for improvement.

As the mortgage market has undergone fundamental regulatory changes recently we are reassured that it has weathered those changes and continues to evolve appropriately. In specific relation to the equity release market, the scope of the study by its own definition was limited, yet we can concur the market to be operating and evolving safely and proportionally. For example, the movement towards reducing early repayment charge periods and serviceable features of equity release products, demonstrate some of the many areas of improvement the equity release market has already undertaken. As the market grows product improvement and innovations will inevitably develop. This is being driven by a wish to provide consumers with greater value and choice and thus far without need for any specific regulatory imposition or change.

However, we do believe there is a need for a wider debate on the essence of appropriate advice and distribution across all asset classes which will be important factors for any individual considering several financial planning requirements. We believe consideration of the role of advice will provide a more helpful context within which to understand the proper operation of the mortgage market.

We are **uncomfortable** that there appears to be a focus on cost (i.e. cheap is good) and eligibility to get a product, with access to price comparison websites being the preferred or supported route to market for self-service execution-only transactions at the expense of other important features (such as suitability) when a consumer makes this important choice.

Suitability is the driving force (and the base requirement) for good advice and likely to reduce the likelihood of bad outcomes, particularly given the length of the contract the consumer is agreeing to. Price is an important feature in a choice made by a consumer when purchasing any product, and competitively priced products are necessarily a part of any healthy market. However, good consumer outcomes over the length of the contract should outweigh assumptions which favour cost above other features.

There is an important distinction between information that is essential and that which is either unnecessary or inappropriate. This principle applies to markets – in terms of competition law – and also to consumers, where the wrong type of information might lead to unreasonable expectations from customers and potential conflicts with professional advisers when their services are obtained. As the report clearly identifies, the equity release market operates in an advised environment. We believe it is a good benchmark.



With the evolution of the mortgage market, lenders are moving ever closer into servicing a similar demographic of customer to the equity release community. Accordingly, we believe the consumer journey, and an ability to provide advice based on consumer aspirations over the longer-term is fundamental to the proper provision of advice, not merely product expertise. Making informed choices for anyone who might face vulnerabilities now or in the future must be considered. Any move towards implementing fundamental differences between the type of product you might choose and how you can get it should not be the determining factor.

We also believe that consumers who wish to carry out their own research and have decided not to utilise the services of the Single Financial Guidance Body (SFGB) might benefit from being directed to a form of decision tree that helps identify the areas on which they should take advice.

Separately, it is recognised that there are potential improvements to be made in how information might be available on sourcing systems within the marketplace. Although that is an area already evolving on its own merit, it may be worth a deeper dive.

Consultation response

Vision for the market and principles for potential remedies

The Council represents a rapidly growing part of the mortgage market sector, with equity release attracting twice as many customers as five years ago and annual lending in 2017 exceeding £3 billion. Lifetime lending has seen the fastest growth within the overall mortgage market during the last two years. As the market has developed, products have become increasingly flexible with options such as servicing loan interest and the facility to make voluntary ad hoc early repayments without penalty.¹

The Council welcomes the FCA's vision for the market, albeit there is need for consideration on proportionality, practicality and perspective. We believe that it should be easy for consumers to source the right financial solution to meet a need, with a wide range of tools available, as well as access to high quality advice and the right intermediary to help customers achieve the best outcomes. We also agree that, where it is appropriate and suitable, consumers should be able to switch freely to new deals without undue barriers.

While we welcome an array of choice in the market for consumers, many financial products are complex which, without appropriate advice, can result in consumer detriment in the longer term. The fact a consumer may be eligible for a product, does not mean it is the most suitable product for them. Without an in-depth understanding of the consumer's needs and an experienced vision

¹ <http://www.equityreleasecouncil.com/document-library/equity-release-market-report-spring-2018/>



of a financial services/mortgage market, this can result in poorly informed and/or misinformed choices.

The reasons for purchasing a mortgage can be compounded by the complexity of the situations facing consumers (particularly elderly consumers as mortgage providers seek to move into that demographic) when they seek to make that decision. Vulnerable consumers exist across the financial spectrum and special care and tailored advice should be given to identify those vulnerabilities at the point of purchase and anticipating them in the longer-term.

To counter this, and ensure a level playing field, we believe it is essential that in the equity release, mortgage and broader financial planning markets, consumers are provided both with the tools required to help them make informed decisions and high-quality advice from suitably qualified and experienced professionals who can recommend products on a case-by-case basis. Chapter 5 of the interim report outlines that in most circumstances, consumers are not necessarily purchasing the cheapest mortgage with their desired features. Independent advice will help consumers select these, in turn driving competition in the market. As such, we welcome these measures from, and want to work with, the FCA to ensure maximum visibility and understanding for consumers of their potential mortgage products.

We also believe that there should be a minimum burden placed upon consumers and that it is the role of regulators and business to ensure that the consumer journey is as easy as possible when navigating financial products. To ensure this, we believe that signposting at all points of consumer interaction is crucial and we see potential for the Council to collaborate closely with the FCA and the future SFGB to ensure consumer awareness.

Signposting options is even more important following the 2015 pension freedom reforms, as with new options available there is a responsibility to both encourage and assist further with cohesive retirement planning, a key part of which is the ability to compare market products and receive high quality advice.

Making it easier for consumers to find the right mortgage

We support efforts that help consumers find the right solution and welcome measures that increase public awareness and understanding of the range of financial options available. We would however add a note of caution. There is an important distinction between eligibility and suitability – a customer may be eligible for a certain type of product but that does not mean it is the most suitable. An experienced and qualified adviser can provide greater insight into various options, set out the pros and cons of different approaches and make recommendations as to which would be the most beneficial and long-term value for money solution, given the client's circumstances and need.



The Council would therefore like to see consumers empowered and engaged, utilising the tools and expertise that currently exist and are in development, enabling them to have informed conversations with an adviser. The combination of consumer engagement and qualified expertise will lead to better consumer outcomes. Research is a good thing, and it has been shown that there is a likelihood for customers to do a degree of online shopping before making a decision. Providing too much information however can itself be disadvantageous for the consumer, leading to preconceived decisions that might not be in their best interest. This could be the case if consumers believe that the cheapest products will inevitably provide them with the best outcomes, when they might not be the most suitable. Balanced messaging to reduce this risk is important.

A wider range of tools giving consumers more choice about the support (including advice) that they need and offering greater convenience

The Council supports measures that improve the customer experience, providing greater choice, flexibility and convenience. Innovations such as online price comparison style tools can provide an overview of different products, which can help consumers when researching financial decisions. However, it is important to recognise the limitations of such comparison tools, as a high-level comparator may not provide sufficient detail of the distinctions between different products, including their intricacies and flexibilities.

Comparison tools are also most effective when considering similar product types. The retirement landscape has changed considerably since pension freedoms were introduced in 2015, resulting in an increasing array of financial options available to retirees. It would be more useful if online tools were able to consider the range of potential retirement options available and help signpost to the most appropriate advice specialist to provide a more tailored service. Therefore, while online tools can support consumers by helping to inform their financial decision making, independent advice **enables** the customer to have a much wider appreciation of the potential options available and choose financial solutions accordingly.

In Chapter 4, the review highlights the challenges in developing online advice services, with industry feedback suggesting it would be difficult to deliver online advice to anyone except experienced and low-risk consumers. Again, we would emphasise the importance of independent advice to help explain retirement solutions and variances between products from across the mortgage spectrum and other financial options.

The SFGB will have an important role to play in raising awareness of retirement options and signposting consumers to advice and support. The Council has a *Find a Member* function which is one such resource that the SFGB could signpost to straightaway. We are happy to support the SFGB in any way we can to improve officials' understanding of equity release and thus in turn, improve consumer awareness and understanding of financial options and the resources available to them.



It is important that the SFGB when it is finally operational recognises the need for continuing guidance for the elderly in the mortgage market beyond age 55 when people are initially eligible for pensions freedom advice.

Helping consumers choose an intermediary on an informed basis

The SFGB can help raise awareness of the financial planning landscape, through the development of tools such as an online decision tree that highlights to SFGB staff the need for consumers to take advice on their finances in the round, i.e. liquid and illiquid assets – pensions and property, for example. SFGB colleagues should have the relevant portal(s) to which they can then direct the consumer to research a line of enquiry suitable to them.

These portals already exist with most of the information embedded. Examples include the FCA register which holds qualification and permission data for firms and individuals in the market which could be usefully employed to provide a comprehensive tool which outlines an adviser's specialisms, interests and practice areas. Consumers would benefit from having a central hub for such information - with this platform vigorously maintained - rather than requiring separate areas of the market to reproduce this information. This would save expense and time and the inevitable bureaucracy to ensure completeness and relevance. In the omission of such a searchable database, other platforms such as the Council's existing *Find a Member* facility fill the gap currently and could in the shorter term be formally utilised by the likes of the SFGB.

Reducing barriers for those consumers who do not or cannot switch

As highlighted in Annex 5 of the review, unlike the mainstream mortgage market, lifetime mortgages are historically not designed with the expectation that borrowers switch regularly after a few years. However, as we highlighted at the beginning of this response, there has been movement towards early repayment charge structures and amounts that in some instances, might make it more attractive to switch. There are two distinct benefits to switching: first, minimising payment costs for consumers; and second, driving competition in the marketplace which could lead to more innovative products.

The Council supports the principle of greater consumer choice. The range of equity release product options is growing by 25 per cent year on year,² and there are now over 80 equity release products offering greater flexibility such as the ability to make ad hoc, penalty-free voluntary repayments. Opportunities to switch should be underpinned by high quality, independent advice to deliver better outcomes for older consumers.

The concept of switching needs to be considered within the context of later life financial planning more generally and therefore, that consumers may wish to switch across different types of financial product in the later life market.

² <http://www.equityreleasecouncil.com/document-library/equity-release-market-report-spring-2018/>



The increasing array of later life options, including retirement interest-only mortgages (RIO), means that advisers need to have sound understanding of the whole later life market and be able to signpost consumers to appropriate resources and expertise accordingly. The advent of RIOs, means a consumer may be best suited switching from an interest-only to RIO for the short-medium term and moving to a lifetime mortgage later as their financial situation changes, due to a life event, for example.

High quality advice from experts with a solid understanding of the later life market helps deliver better consumer outcomes. Advisers and providers may establish review periods with customers, to check if their financial status has changed. The SFGB can also play its part in raising awareness of retirement options, particularly following life events such as bereavement, divorce or a partner moving into long-term care. As their personal and financial circumstances change, consumers need to be aware of the resources, advice and support available to them.

It is important also that consideration is given to those consumers who may benefit from switching but are unable to do so. We welcome work by the FCA to address and protect consumers, from detriment. This may include understanding whether there are alternative measures that can be enacted to facilitate their ability to switch either internally or externally to alternative options.

Remedies – timeline and general questions

Q18. Do you have any comments on our timelines?

Timelines should be proportionate to a good outcome and where debate ensues for the right reason this should take precedent to ensure the most appropriate answer is reached.

Q19. Do you have any views on the relevance of our findings on first-charge residential mortgages to other mortgage markets that we regulate and which were not within the scope of the market study – for example, second charge?

We revert to other trade body submissions regarding this matter.

Q20. Do you have any views on the extent to which these potential remedies (with further enhancement or refinement) are relevant to lifetime mortgages (in light of our assessment of lifetime mortgages in Annex 5)?

We have included specific references where appropriate.

Q21. Do you have any views on these options or any other alternatives?

The regulator should look beyond the mortgage market and seize the opportunity to take a wider view of financial planning throughout the lifecycle of a consumer and regulate the markets on that



basis. Where a market is operating well, the temptation to impose change for the sake of it should be resisted.

It is also important to challenge any assumption or focus that is interpreted as the cheapest being automatically the best option. As we have described earlier, there are factors other than price that need to be considered when making financial decisions and this needs to be clearly recognised.

Product and service innovations need time to filter through and should be accorded sufficient time for their effects to be felt. At the same time, there are good portals of information that already exist, and these should be utilised to their full extent to avoid creating another layer of complexity and upkeep for signposting. Self-service fits a small proportion of the consumer market and we would therefore urge that not too much importance is placed upon it.

The whole finance industry has a crucial role to play in protecting consumers, particularly the vulnerable, not only at the time of financial decision making, but also throughout their customer journey.

**Submitted by the Equity Release Council
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