21 July 2022

Equity Release Council response to HM Treasury Review of Solvency II: Consultation

Section 1: About the Equity Release Council

The Equity Release Council ("ERC") is the representative trade body for the UK equity release sector with over 700 member firms and 1678 individuals registered, including providers, regulated financial advisers, solicitors, surveyors and other professionals. The ERC represents the majority of the current funders of equity release in the UK. Its Funders' Forum is made up of technical experts in this field including Ernst & Young and Willis Towers Watson.

The Equity Release Council and its predecessor Safe Home Income Plans have set authoritative product standards that give confidence to consumers since 1991, when £28m of property wealth was release by members' customers. Thirty years later the market has grown to £4.9bn and the drivers that underpin this growth – market innovation, socioeconomic challenges and robust consumer protections – remain.

Every member is committed to the ERC's Statement of Principles and Rules and Guidance, which aim to ensure consumer protections and safeguards

This includes a No Negative Equity Guarantee (NNEG) when customers take out a lifetime mortgage product from members. This means that when the mortgage matures on the event of borrower death or entry into long term care and their property is sold and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to the lender, neither the customer nor their estate will be liable to pay any more.

In addition, the ERC 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.

Section 2: Key comments

- The ERC view the Matching Adjustment ("MA") eligibility proposals to be positive however **significant gaps remain**. HMT proposals do not, for example, include pragmatic proposals on a key constraint: **the fixity of cash flow requirement**:

    - A more pragmatic requirement for <u>expected or predictable cash flows, rather than cash flows absolutely fixed in time and amount</u> would open investment opportunities in, for example, **renewable assets such as wave, wind and solar panel farms**. Instead of involving a bank in structuring the asset into debt and equity, the insurer could take on the entire asset, considering appropriate safeguards exist to ensure that the resulting MA was not overstated.

    - Another example of the impact of this constraint and a potential solution can be seen in a portfolio of **equity release mortgage** loans, which we expect to become increasingly important as a means by which consumers can access retirement income in the future and to raise capital to improve the energy efficiency of their homes. The introduction of a quantitative tolerance for any uncertainty in the asset cash flow, assessed at a portfolio level, <u>would avoid the need for complex restructuring currently required simply to comply with MA rules on the fixity of cash flows</u>. This adds nothing in terms of risk mitigation as the underlying risks and cashflows are unaltered but adds considerable cost to products such as equity release mortgages – which we expect to become increasingly important as a means by which consumers can access retirement income in the future.

- Funders of equity release mortgages have already been through significant scrutiny from the PRA with additional measures being introduced to ensure undue benefit is not being taken for equity release mortgages on the regulatory balance sheet (i.e. the introduction of the Effective Value Test).

- We would expect that any changes to Solvency II would take into account the measures already introduced for equity release to ensure they are not unduly penalised.

Section 3: Background and social purpose of equity release

Equity release is a way of releasing the wealth tied up in peoples' property without them having to sell it and move to another home. It is designed to help older customers who either own their property outright or have relatively small mortgages left to pay.

The equity release market is a rapidly expanding market. Current estimates are that one in twenty homeowners use equity release to fund their retirement. It has a key role to play in the future social and economic health of the UK.

Equity release can be used for many different purposes including green equity release (releasing funds to update homes to make them environmentally friendly and energy and economically efficient), inter-generational gifting much of which is aimed getting younger people on the property ladder, pay for care costs in later life or just to fund a happier and more comfortable retirement.

In all cases, equity release results in increased funds circulating within the economy.

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Data* from one of the UK's largest equity release providers, Key Group, found that 19% of equity released was gifted, often helping loved ones on to the housing ladder. Meanwhile, a study** by Legal & General estimated that Equity release has funded approximately £3.1 bn of retiree spending, accounting for one in every £90 spent by retired people and directly funding 45,000 jobs. Considering 65% of the UK's £6.7tn overall property wealth is estimated to be in the hands of people aged over 55, the potential for further growth is clear.

* https://media.kgcdn.co.uk/mediacontainer/medialibraries/keyretirement/assets/220119-2021-fy-market-monitor-final.pdf?ext=.pdf
** https://www.legalandgeneral.com/landg-assets/personal/retirement/_resources/documents/more-money-in-retirement/reports/da1445.pdf