



FINANCE & TECHNOLOGY RESEARCH CENTRE

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# Market Evolution Report

**Equity Release**  
**(Alternative Retirement Products Phase 2)**

Prospectus 25/11/08

**Contact Details**

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# Equity Release - the next mass market product for babyboomers?

- The average homeowner has more equity in property than the value of other savings and pensions combined and are likely to include their house as part of their retirement planning process
- Individual pensions are, in many cases, unlikely to be sufficient to maintain current lifestyles
- Inflation and poor market returns significantly erode the value of long term savings
- For many the need to support aging older parents and grown up children make the need for extra income and capital essential
- Longevity means income is needed for longer in retirement, so decumulation of all assets needs to be explored
- Retirement planning is the fastest growing sector of the UK Personal Finance market:
  - 45 to 60 year olds make up 20% of the population but own 70% of the wealth
- Equity release in its many forms should be an integral of the detailed planning for post-retirement income

**In practice, faced with the alternative of a serious reduction in lifestyle, we believe Equity Release will become a standard component of any retirement planning. However, to achieve this, there is a real and urgent need to identify an evolved advice process reflecting this.**

**Retirement Planning – the facts:**

- Increased longevity means consumers now need to secure an income in retirement for longer than in the past
- A male retiring at 65 has a 50% chance of living to 87 and a 25% chance of living to 92  
*(source: Lifetrust)*
- Despite this massive opportunity, Equity Release products sales are still only a fraction of overall mortgage lending. Many advice firms are reluctant to recommend such products for fear of a future mis-selling scandal due to the lack of a detailed holistic advice process identifying all the specialist risks in this market
- Only 10% of current working population have good idea of income potential in retirement
- Over 66% have no idea what their retirement income will be
- 4.7 million people are not saving enough for their retirement
- You will need a pension pot of about £100,000 to provide an income in retirement of around £6,000 a year, a benchmark most future pensioners will never reach!!!!

*(Items 4-7 source: Government National Statistics Online)*

**ARP Phase One  
Provider Testimonial**



“The feedback we get from Advisers shows that they are crying out for help in understanding when alternative retirement products are suitable for their clients and where they fit into the advice process. The work that FTRC have done in this field is detailed and the process that they have constructed as a result is very usable; having been garnered from qualitative research with some top IFAs firms. This is a giant step forward in the advice process for alternative retirement products.”

**Simon O'Connor - Head of  
Products & Marketing  
Lincoln Financial Group**

# Market Size/Opportunities

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- UK private wealth = £7 trillion      Property = £4 trillion
- Estimated seniors (over 60's) share of property equity = £1.57 trillion
- Current retired population circa 15.5 million
- Maximum viable Loan To Value equity release roll up circa 24%
- 3.8 million of over 65's own their own home
- Equity Release is, in our opinion, the choice financial product for the next 10 years

### OPPORTUNITY FOR DISTRIBUTORS

- ⇒ If 50% of max LTV lent £188 billion estimated margin for distribution 20bps
- ⇒ If 10% share of mature market £376m p.a. revenue
- ⇒ N.B. this is presently an immature market so these numbers will take an extended period to achieve
- ⇒ The target gross profit margin on a typical ER case for a lender circa 60 bps
- ⇒ The provision that ER providers make for procurator fees range from: 0.5% to 3%

### Adviser Participation for Phases 1 & 2 of this Research

Alexander Forbes	Barclays Wealth	Openwork
Annuity Direct	Burns Anderson	Park Row
AWD Chase de Vere	Co-operative IFAs	Positive Solutions
Bank of Scotland IFAs	Hargreaves Lansdown	RBS IFAs
Bankhall	Heath Lambert	Sesame
Barclays Wealth	HSBC	Simply Biz
Burns Anderson	Lloyds Private Banking	Thinc
	Money Portal	

*(Either participated in Phase 1 or have asked to participate in Phase 2)*

### ARP Phase One Provider Testimonial



"Participation in the FTRC research by AEGON has proved to be extremely beneficial for us. Adviser engagement with the research was impressive and the logistical aspects of bringing together such a diverse group of Advisers and Manufacturers was handled efficiently and professionally.

The conclusions of the research were portrayed in a clear and understandable way that allowed for the maximum engagement of the various audiences and we were particularly pleased to see that our thinking was confirmed by the research findings".

***Dominic Holmes - Head of  
Sales & Distribution  
(Individual Pensions)  
Aegon Scottish Equitable***

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# Why is this research different?

- Various trade bodies and the FSA have produced excellent compliance guidance notes for advisers on Equity Release. These go some way to help maintain compliant sales and record keeping. Generally these processes address the specific compliance need rather than the wider client dialogue, however, this research will focus on the wider “adviser process” necessary to support the sale of these products..
- Despite the opportunity, Equity Release product sales are only a fraction of overall mortgage lending. As a product, Equity Release is to a significant extent stigmatised – with mis-selling issues relating to previous equity release type contracts, resulting in many advice firms being reluctant to recommend such products. As a result, defining a clear and evolved advice process offers an opportunity to provide comfort to firms who are reticent to offer Equity Release.
- Leading providers that help develop and support this robust holistic advice process will help develop not only the market but will also improve protection to both the adviser and the consumers best interests.
- This research will then:
  - Identify a scalable operational model to recognise the role of Equity Release within an extended retirement advice process
  - Scope the business and technology support need to support this
- The recent market evolution study of Alternative Retirement Products (phase 1) September 2008 with presentations to wider advice market, highlighted the gap in the ‘at’ and ‘post’ retirement planning in using property assets as a primary rather than a last resort option

## ARP Phase One Provider Testimonial



“The Alternative Retirements Product Research provided a perspective which had never previously been explored by any other research company. The work examines the impact that new product innovation in the retirement market has had on the advice process and the different considerations that need to be borne in mind by the adviser community and their compliance departments. The results of the research are an invaluable tool for any advisory firm serious about working in this market.”

**Janine Menasakanian**  
**National Account Director,**  
**MetLife Europe Ltd**

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**Advance Participant  
Price: £8,500 + VAT**

**Plus:**

- Invitation to attend presentation at the conclusion of the project to review the findings
- An additional £1,000 discount will apply to those organisations who subscribed to Phase 1 of the work

**Post Publication  
Price: £10,000 + VAT**

# Equity Release (Lifetime Mortgages & Home Reversion Plans)

## This research study will:

- Identify a suitable advice process recognising the special features of these products whilst considering the impact of benefits and also the client's holistic circumstances; i.e. incorporating a review of their other assets and investments options that are available for consideration within this advice process
- Obtain the buy in of compliance departments from leading intermediary firms to this process
- Document the facts (assets and investment considerations) that should be taken into account by analysis tools which have been designed specifically to take these property based products into account. This documentation will include modern decision mapping
- Agree an approach that advisers and technology suppliers can adopt

## The objective of the project is to catalyse the market by introducing a new approach to the advice process in order to meet current and future needs of retirees. This includes:

- Helping remove common barriers to selling
- Enabling advisers to have a fully compliant, TCF advice process for the provision of access to income and capital in retirement

## Alternative Retirement Products Study - Deliverables

The paper based output from this study will provide:

- A detailed summary of the project activity and findings
- A mapping of the advice process
- Requirements for comparison tools
- Prioritisation of these requirements
- An executive summary
- Thought leadership

### ARP Phase One Provider Testimonial



"I believe your work has done much to prompt, identify and document the common needs of individuals approaching, at or indeed, in retirement. FTRC has produced a robust and highly detailed piece of analysis that can only bring to life a far greater, more accurate awareness of needs in retirement, set against known and lesser known sources of income. I am passionate that we succeed in assisting the customer and adviser in this market and your work will do much to encourage confidence in this area. I believe that in a baby-boomer generation, the industry must do more to appreciate the significance of this customer base and their complex needs. Your work will do much to initiate the discussions now urgently needed between provider, adviser and customer. "

**John Brewer - Senior Product  
Development Analyst  
Marketing Retirement  
Planning, Standard Life**

# ARP Phase 1 – Adviser Testimonials

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“We really liked the concept and will definitely be using this in the future to develop our training and development material for our advisers”

“This work highlights a lot of the issues surrounding these products and retirement advice in general. It is current very difficult to gain an understanding of the products in this area and this work has raised points that we had not considered. A lot of advisers are looking to use these products but are unsure of how to advise them so any piece that helps is useful.”



“There’s general confusion in the market about what a 'third way' product actually is. I think that the use of 'alternative retirement products' is perhaps more appropriate. We are aware of the need for us as a company to monitor the situation and adapt the advice process accordingly which this work will help with immensely.”

“I enjoyed your workshops and appreciated the opportunity to compare our approach to that of other firms. We are currently conducting a review of our at retirement sales process specifically in order to assimilate 3rd way type products and will definitely use this in helping to shape our policies.”



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