

# Facing The Future

REDEFINING EQUITY RELEASE TO MEET TODAY'S SOCIAL  
AND ECONOMIC CHALLENGES

MONDAY, 27 JULY 2009

1 MORE LONDON PLACE



# AGENDA

WELCOME	SARA MCLEISH, ERNST & YOUNG LAURIE EDMANS, SHIP
INTRODUCTION	BARONESS PATRICIA HOLLIS
FACING THE FUTURE	ANDREA ROZARIO, SHIP
SUPPLY-SIDE ISSUES	JAMES HILLMAN, ERNST & YOUNG
THE PPI VIEW	CHRIS CURRY, PENSIONS POLICY INSTITUTE
Q&A SESSION	LAURIE EDMANS, SHIP
DRINKS RECEPTION	ALL

# Facing The Future

## BARONESS PATRICIA HOLLIS



# Facing The Future

REDEFINING EQUITY RELEASE TO MEET TODAY'S SOCIAL  
AND ECONOMIC CHALLENGES

ANDREA ROZARIO

S.H.I.P



# AGENDA.

1. THE SHIP DISCUSSION PAPER –INTRODUCTION.
2. THE EVOLVING MARKET AND CHANGING CUSTOMERS.
3. DEMAND ISSUES.
4. SUPPLY ISSUES - ERNST AND YOUNG RESEARCH.
5. DISTRIBUTION ISSUES.
6. DELIVERING CHANGE - A JOINT EFFORT.
7. THE FUTURE OF THE EQUITY RELEASE MARKET.
8. NEXT STEPS.

# SHIP DISCUSSION PAPER – WHY NOW?

## ONE

### **Changing Society:**

Longer reliance on pensions

Extended working years

Increased burden on the state

Increase in debt

Changing family structures

## TWO

### **Impact of the credit crunch/customers:**

Income from savings

Pensions reduced

Decreasing house prices

Lack of confidence

## THREE

### **Impact of the credit crunch/providers:**

Funding issues

Risk factors

Profitability

Customer demand

# WHAT DO WE MEAN BY “EQUITY RELEASE”?

- CONFUSION SURROUNDING THE TERM “EQUITY RELEASE”.
- WHY WAS SHIP FORMED?
- WHAT DOES THE REGULATED EQUITY RELEASE MARKET LOOK LIKE TODAY?
- AN EVOLVING MARKET?

# THE EVOLVING MARKET ?

	Customer	Needs
1	THOSE WITH LONG TERM CARE NEEDS AND INELIGIBLE FOR STATE FUNDED CARE DUE TO THE VALUE OF THEIR ASSETS. FACED WITH CHOICE OF MOVING INTO RESIDENTIAL CARE, OR PAYING FOR CARE AT HOME.	USING EQUITY RELEASE TO FUND CARE AT HOME AND AVOID A FORCED MOVE TO RESIDENTIAL CARE
2	VULNERABLE, OLDER, VERY LOW INCOME AND NO OTHER ASSETS. POSSIBLY IN DEBT.	NECESSITY AND “LAST RESORT” PURCHASE
3	OLDER, LOW INCOME AND NO OTHER MEANINGFUL ASSETS, LIVING COSTS BECOMING A BURDEN	STRUGGLING TO MANAGE AND NEED HELP TO DO SO
4	NEWLY RETIRED, ADEQUATE PENSION INCOME AND REASONABLE ASSETS, BUT HIGH EXPECTATIONS.	MAINTAINING STANDARD OF LIVING
5	APPROACHING OR IN RETIREMENT WITH GOOD PENSION INCOME AND RANGE OF ASSETS. FINANCIALLY	IMPROVING LIFESTYLE, ASPIRATIONAL PURCHASE
6	HIGH INCOME, LARGE ASSET PORTFOLIO. APPROACHING RETIREMENT AGE. STRATEGIC USE FOR ER BASED ON FINANCIAL ADVICE.	TAX AND ESTATE PLANNING

# DEMAND ISSUES.

Lack of Public  
understanding

Attitudes to  
housing equity

Reputational  
Issues

Internal  
Constraints

Misconceptions

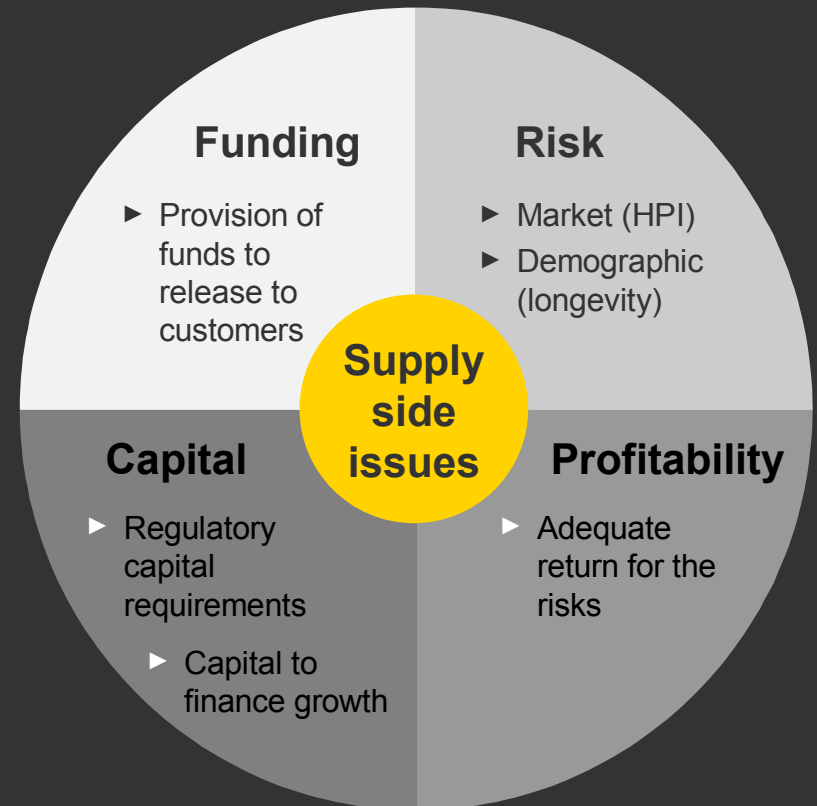


# Supply side research findings

SHIP discussion paper launch

# Equity Release – the Supply Side

- ▶ SHIP standards include important safeguards or “guarantees” designed to protect the equity release customer.
- ▶ These safeguards and guarantees introduce unique challenges for providers of equity release (e.g., the No Negative Equity Guarantee)
- ▶ Issues connected with design, funding and management of equity release products are the “supply side issues”.
- ▶ Supply side issues may act as constraint on willingness to enter the market as a product provider, funder or risk taker.



# Equity Release Supply & Demand Chain

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# Research & General findings

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## Research

- ▶ Research was based on the views of 19 interviewees covering a range of institutions.
- ▶ Objective of research:
  - ▶ Extent to which supply issues were viewed as a constraining force on equity release market
  - ▶ Identification of specific issues experienced
  - ▶ Extent to which these issues are viewed as short term or long term issues
  - ▶ Identification of ideas & opportunities for improvement

## General findings

- ▶ Supply side issues were considered a constraint on the development of the Equity Release industry.
- ▶ Supply side issues mainly arise from:
  - ▶ Nature of the products and the important customer safeguards
  - ▶ Current financial market conditions
- ▶ The two key issues are:
  - ▶ Funding (key short term concern)
  - ▶ Profitability given long term risks and guarantees (key long term concern)
- ▶ A number of opportunities for supply side improvement were identified

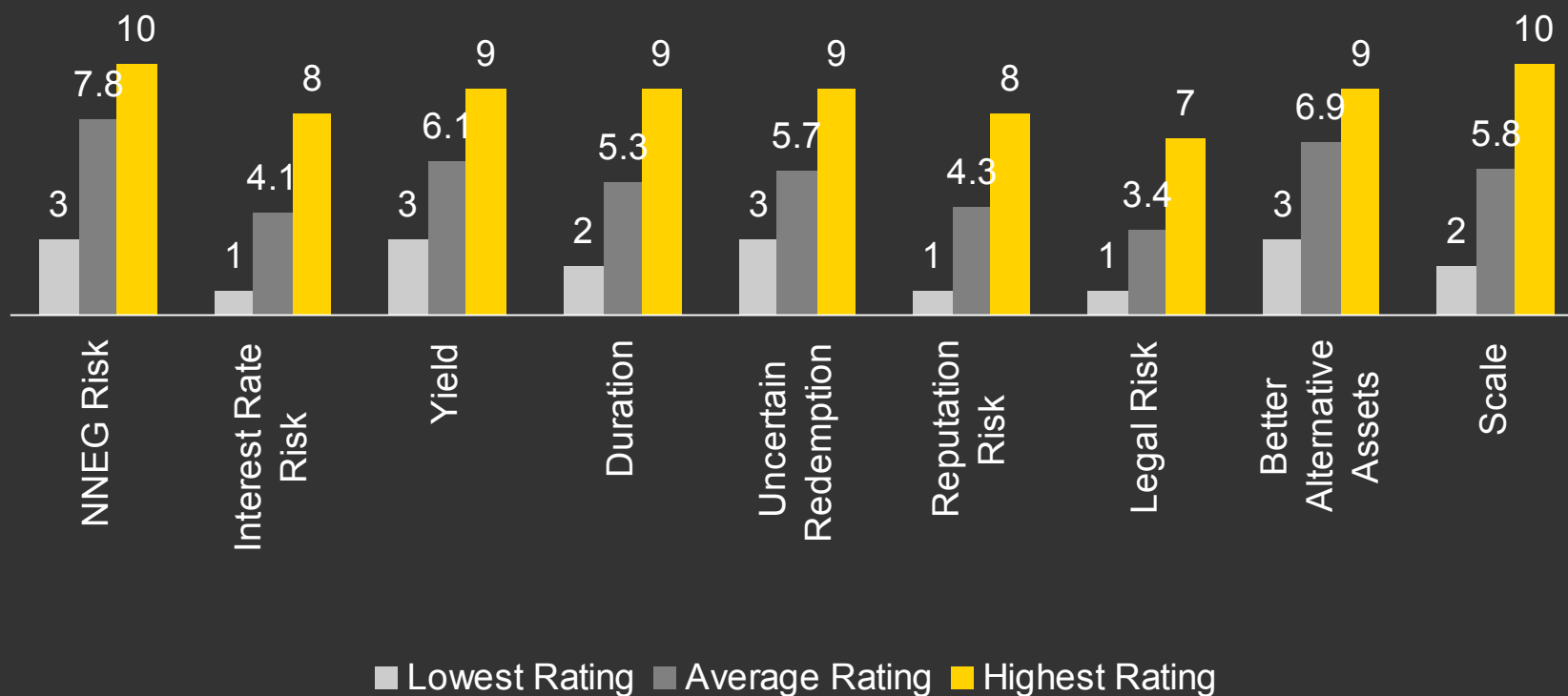
# Funding

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- ▶ Funding was considered the most pressing concern for many organisations
- ▶ Annuity funds seen as the most natural funders given type of liabilities but a range of views exist.
- ▶ Key reasons from research include:
  - ▶ Financial market conditions and reduced lending capacity
  - ▶ Returns on alternative assets
  - ▶ Lack of understanding of the investment of the asset
  - ▶ Insufficient scale and resource to analyse
  - ▶ Longer term concerns about risks (e.g., NNEG risk) and levels of return

# Funding

Which are the most important issues for funders?  
Ratings out of 10 (Lowest, Average, Highest)



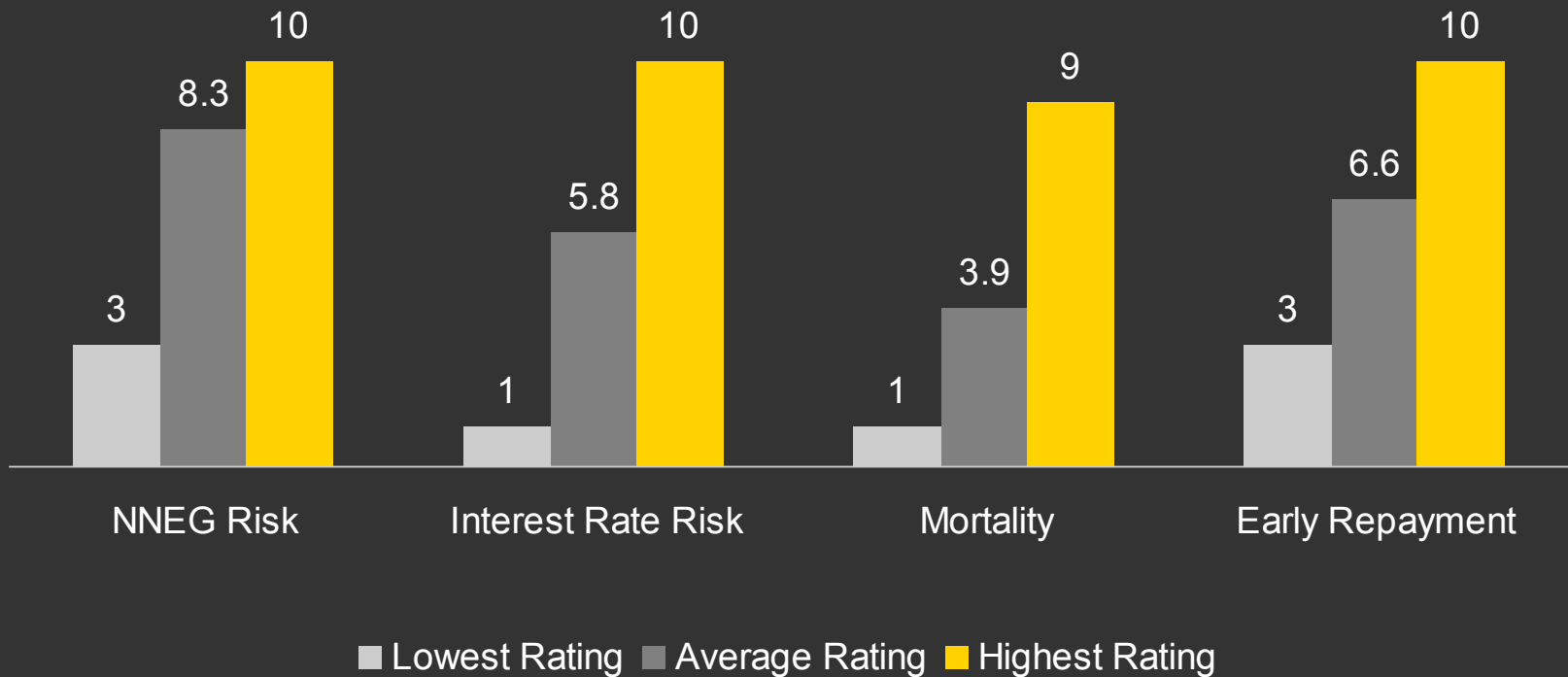
# Risk

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- ▶ Risk is considered a significant issue for the development of the equity release industry
- ▶ Risk issues are however seen as inherent features of the market given the current customer safeguards and guarantees in products
- ▶ The NNEG risk is considered the most difficult of the risks acting as the biggest constraint on potential funders, providers and reinsurers
- ▶ Key concerns include the level of understanding of these very long term risks and the appropriate financial treatment
- ▶ Annuity funds were mentioned as the most “natural” holders of these risks, although others thought that no single type of institution is suitable for holding all the equity release risks

# Risk

Which factors cause the biggest risk issues?  
Ratings out of 10 (Lowest, Average, Highest)



# Capital

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Capital is referring to:

- ▶ Requirements for regulatory capital
- ▶ Capital to finance growth of the provider's business

From the research:

- ▶ Some (but not all) institutions consider capital to be a significant issue for the development of the equity release industry
- ▶ Capital requirements vary according to type of institution and the circumstances of individual firms
- ▶ A number of institutions expressed detailed technical concerns – for example, using internal models to assess capital requirements due to lack of available data
- ▶ For some the need to raise capital to finance organisation costs through funding arrangements was crucial to the business model.

# Profitability

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The profitability challenge is how to structure and price a product that provides an appropriate reward to the provider's shareholders but which:

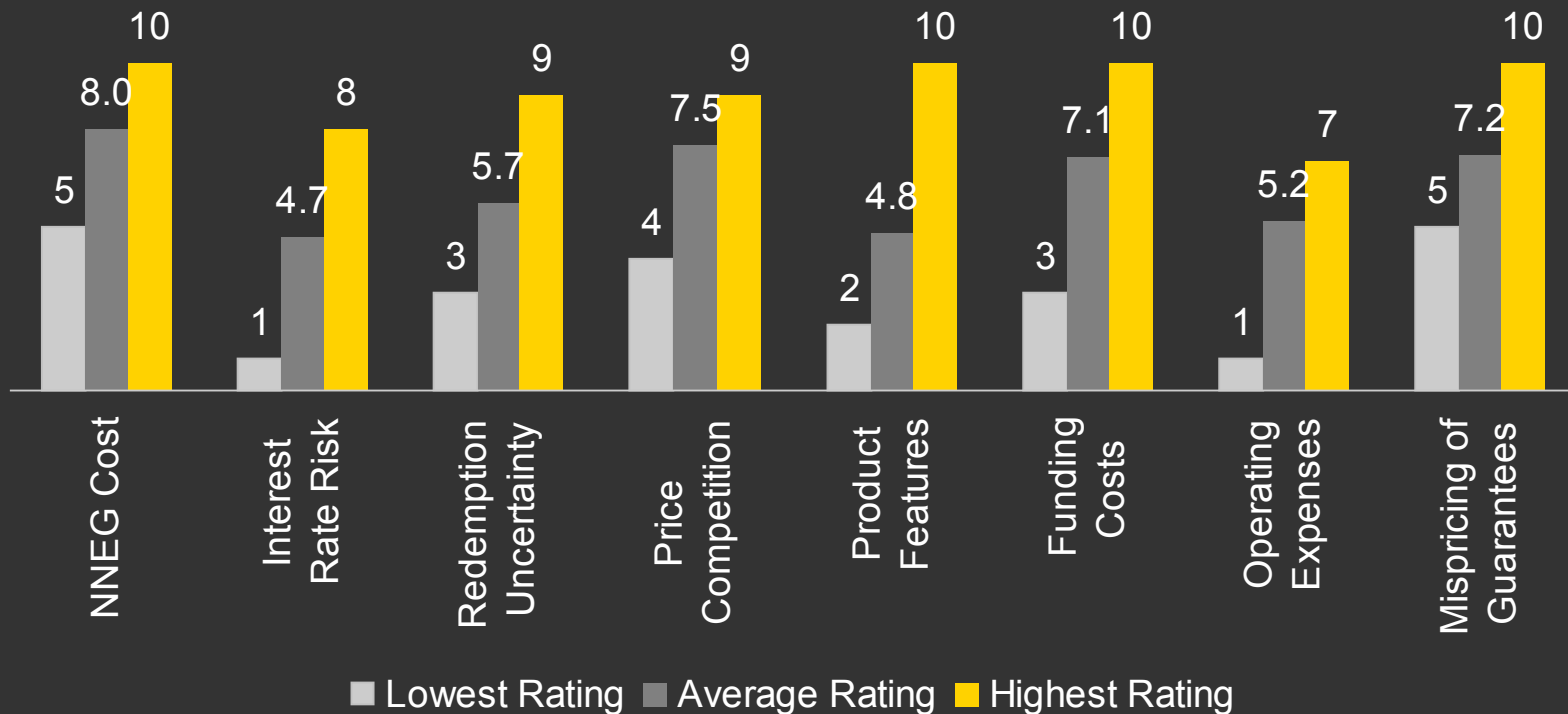
- ▶ Take account of funding, costs, risk appetite and capital requirements
- ▶ And is competitive in the market and attractive to consumers

From the research:

- ▶ Over half the interviewees consider profitability to be a significant long term issue
- ▶ Key factors include the cost of the NNEG risk, the level of the funding costs and approaches to pricing for guarantees
- ▶ There are a number of concerns about the technical aspects of financial reporting and profit recognition

# Profitability

Which factors cause the biggest profitability issues?  
Ratings out of 10 (Lowest, Average, Highest)



# Opportunities

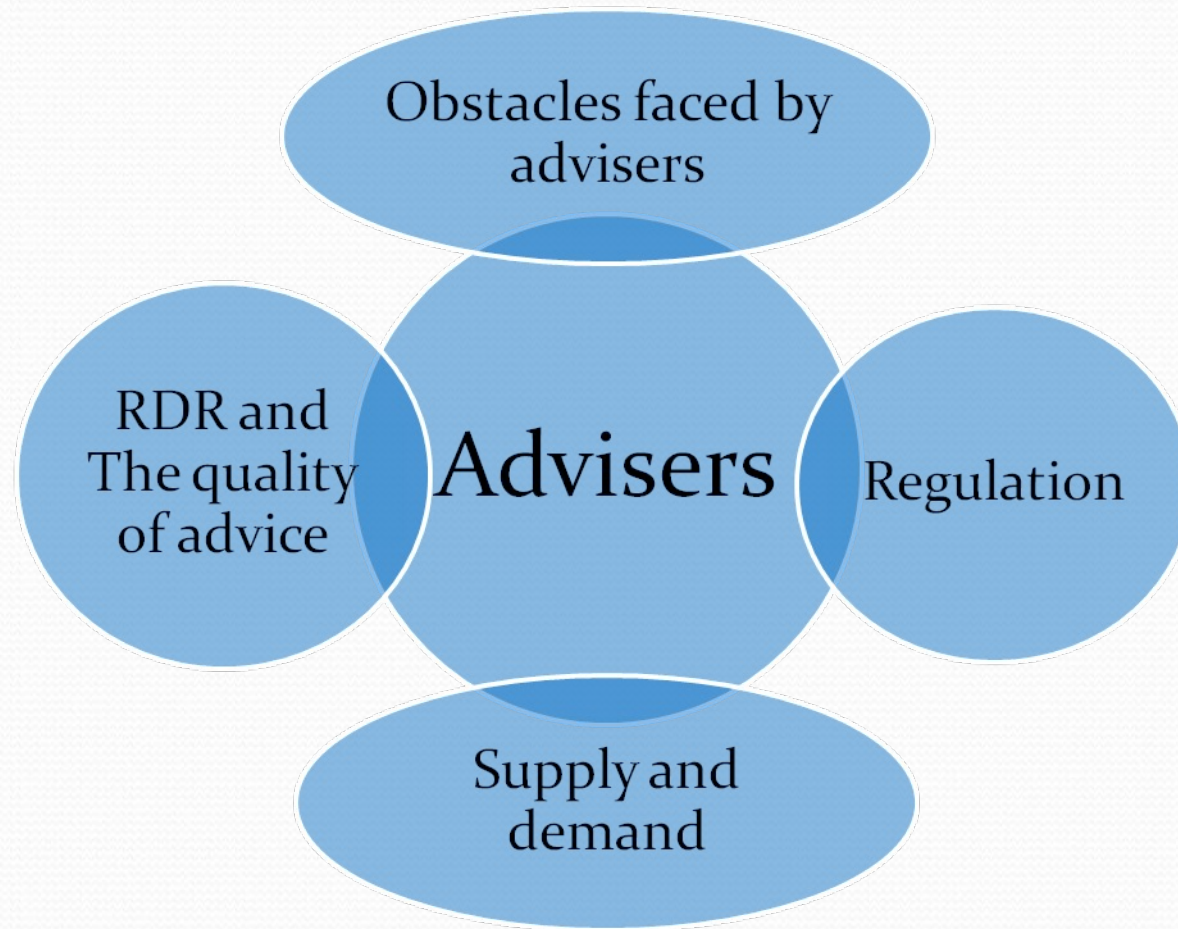
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- ▶ Education
  - ▶ Need for continuing education program around equity release focused on potential providers and funders (as well as consumers)
- ▶ Increased research and debate on technical issues, for example
  - ▶ The NNEG risk - modelling this risk is considered particularly difficult given the combination of economic and demographic risks
  - ▶ And the impact of regulatory and market changes such as new capital regimes (Solvency II)
- ▶ Data
  - ▶ Increased statistics and data on the market, for example mortality investigations
- ▶ Product standards
  - ▶ Support for current standards, appetite for discussing some aspects for example around fixed interest rates

# AGENDA.

- 9 DISTRIBUTION ISSUES.
- U DELIVERING CHANGE A JOINT EFFORT.
- E THE FUTURE OF THE EQUITY RELEASE MARKET.
- C NEXT STEPS.

# DISTRIBUTION.



# DELIVERING CHANGE – A JOINT EFFORT.

SHIP AND  
ITS  
MEMBERS

THE  
GOVERNMENT

THE FSA

INTERMEDIARIE  
S

THE LEGAL  
PROFESSION

TRAINING  
BODIES

LOCAL  
AUTHORITIES

CONSUMER  
BODIES

VOLUNTARY  
SECTOR

OTHER  
PARTICIPAN  
TS

# THE FUTURE OF THE EQUITY RELEASE MARKET?

- EQUITY RELEASE IS NOT THE ANSWER TO ALL THE PROBLEMS FACED BY THE RETIRED, BUT IT SHOULD BE CONSIDERED AS AN OPTION ALONG WITH ALL OTHER OPTIONS.
- THE SHIP DISCUSSION PAPER IS THE BEGINNING OF THE DEBATE.
- THE INDUSTRY AND KEY PARTNERS NEED TO WORK TOGETHER TO BRING ABOUT THE MUCH NEEDED CHANGES.

# NEXT STEPS

- PPI PAPER – DUE IN SEPT 2009.
- LOBBYING AND PR CAMPAIGN TO INCLUDE:
  - FURTHER EVENTS/ROUNDTABLE SESSIONS.
  - WORKSHOPS.
  - MEDIA BRIEFINGS.
  - DISTRIBUTION OF THE PAPER.
- FUTURE SHAPE OF SHIP.
- CALL FOR “GOVERNMENT REVIEW” INTO THE ROLE EQUITY RELEASE MAY PLAY IN RETIREMENT PLANNING.

# Facing The Future

CHRIS CURRY

PENSIONS POLICY INSTITUTE





# VOTING SESSION

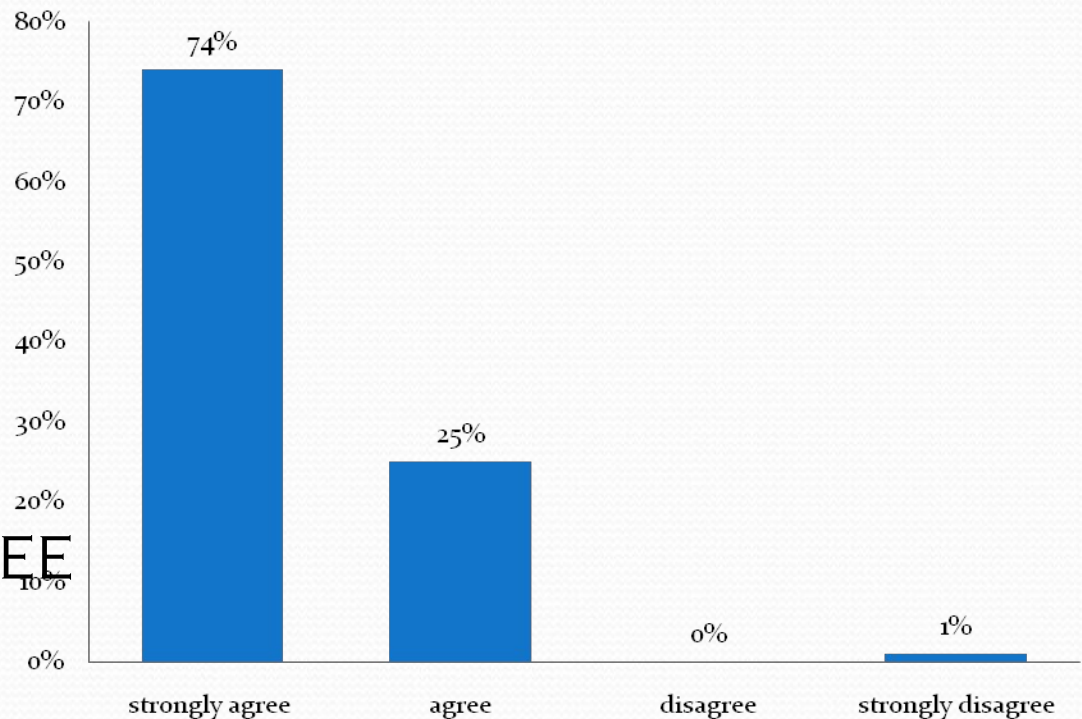
# 1. Do you agree that there are (potentially) different customers with different needs in the equity release market?

1. STRONGLY AGREE

2. AGREE

3. DISAGREE

4. STRONGLY DISAGREE



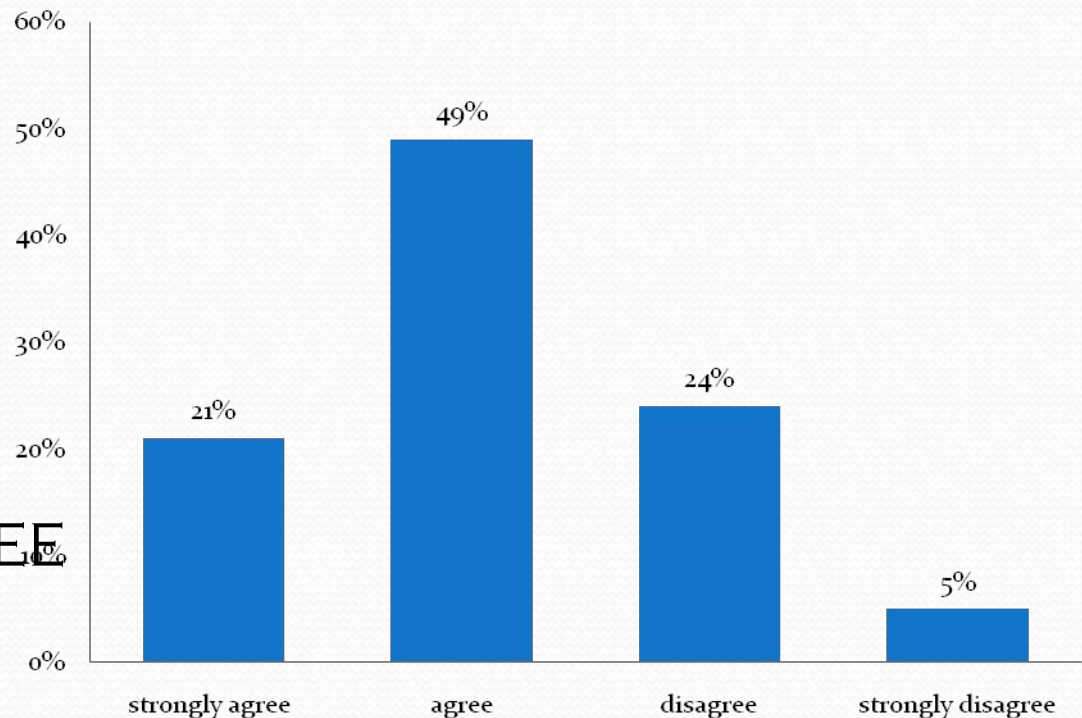
## 2. Do you agree that products, advice processes and compliance requirements should be tailored to different potential customer segments?

1. STRONGLY AGREE

2. AGREE

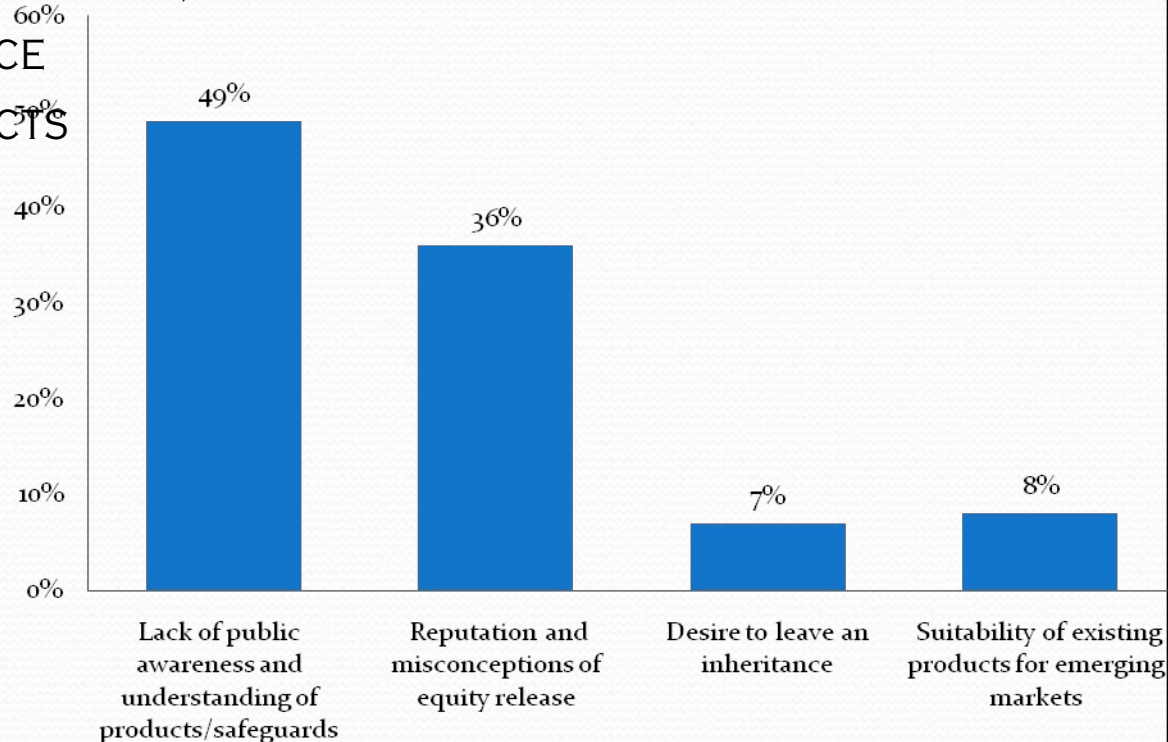
3. DISAGREE

4. STRONGLY DISAGREE



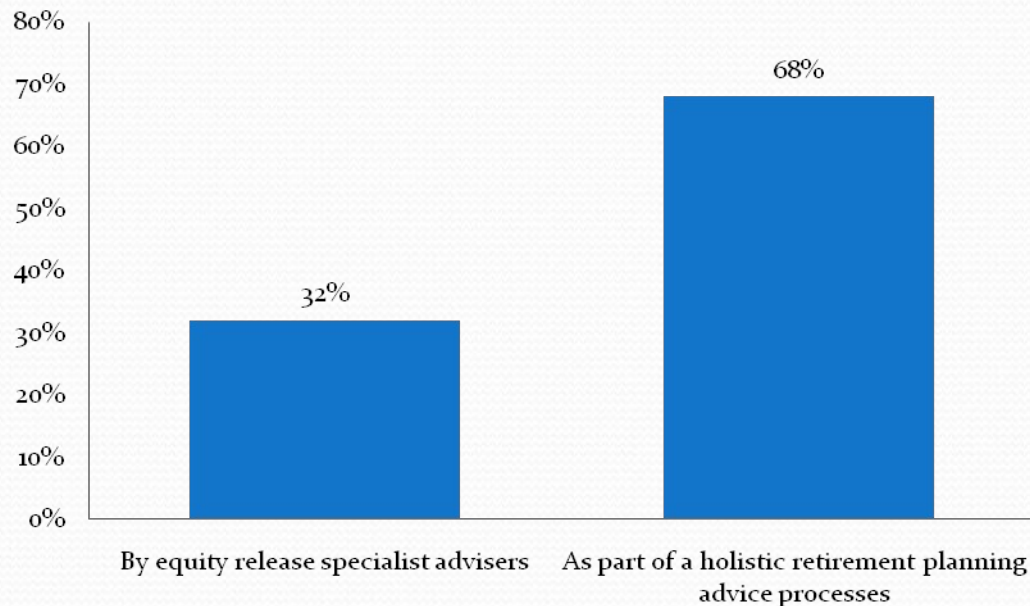
# 3. Which of the following demand-side issues plays the most significant role in constraining the equity release market?

1. LACK OF PUBLIC AWARENESS AND UNDERSTANDING OF PRODUCTS/SAFEGUARDS
2. REPUTATION AND MISCONCEPTIONS OF EQUITY RELEASE
3. DESIRE TO LEAVE AN INHERITANCE
4. SUITABILITY OF EXISTING PRODUCTS FOR EMERGING MARKETS



# 4. How will advice on equity release options be most effectively delivered in future?

1. BY EQUITY RELEASE SPECIALIST ADVISERS
2. AS PART OF A HOLISTIC RETIREMENT PLANNING ADVICE PROCESSES



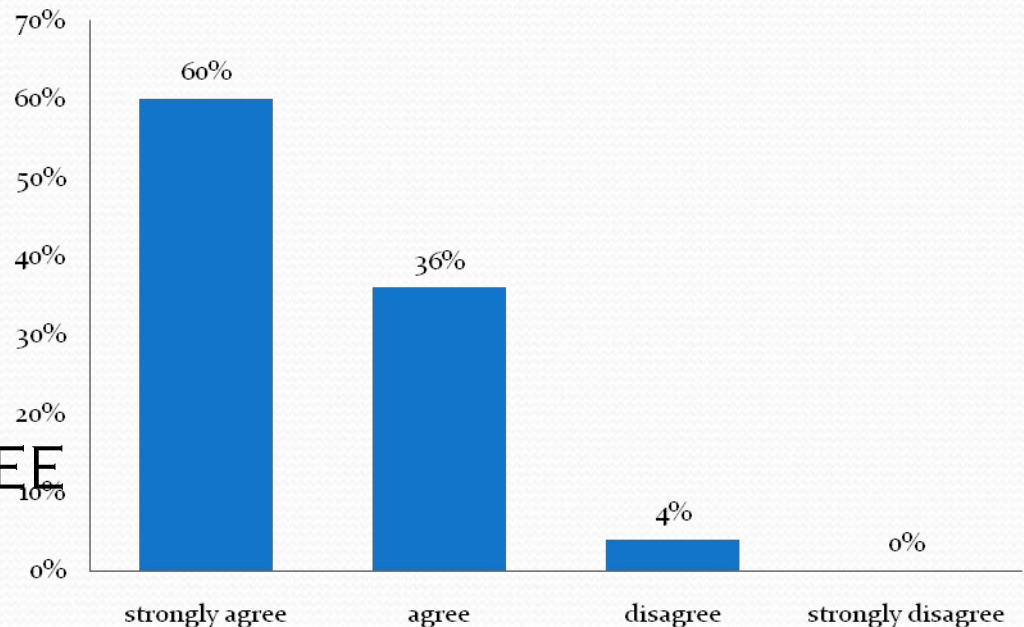
## 5. In shaping the future of the equity release market, how important is a joint effort between SHIP and the industry on the one hand, and the FSA, government departments, consumer bodies and the voluntary sector on the other?

1. STRONGLY AGREE

2. AGREE

3. DISAGREE

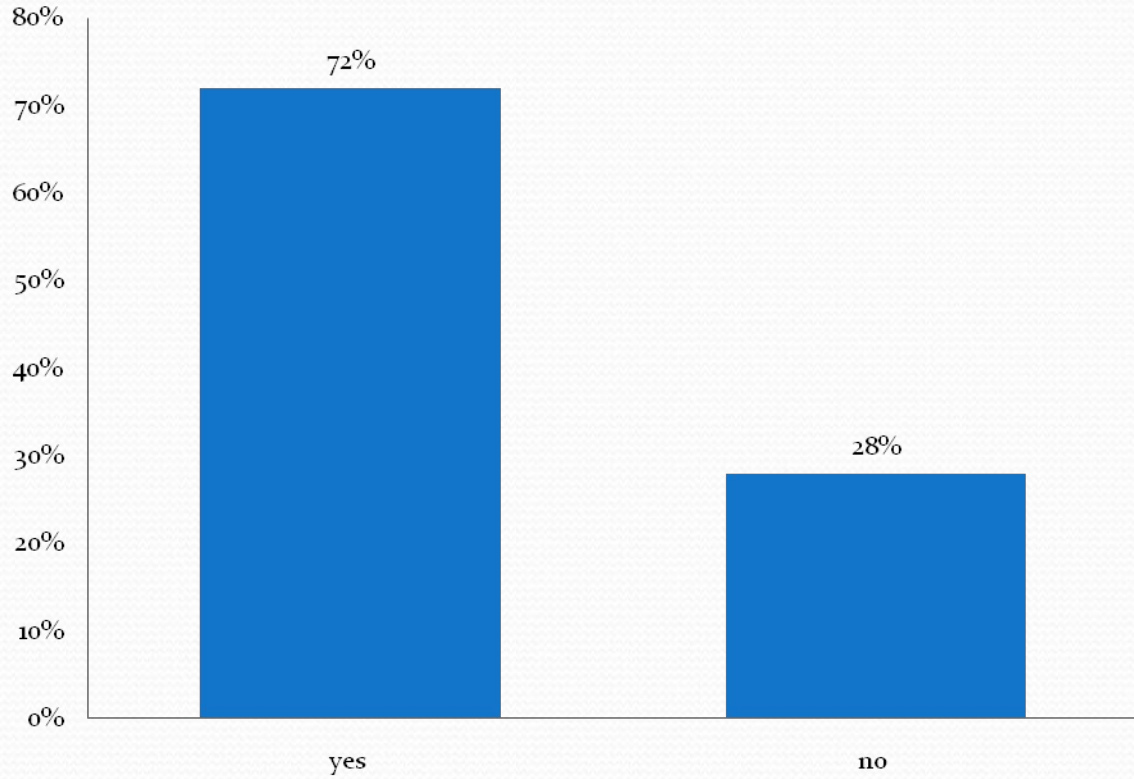
4. STRONGLY DISAGREE



# 6. Should there be a properly structured government review exploring the role of equity release in meeting retirement income and long-term care needs?

1. YES

2. NO





# Q&A SESSION

THANK YOU

