Introducing the Introducers

A look at the equity release referral market

Foreword

Almost a third of the population in the UK is over-55 and for many financial services, property and legal businesses, this generation or the one below, make up a large proportion of their client base. They are a generation facing the challenge of managing retirement without the safety blanket of compulsory annuitisation and defined benefit pension schemes but with the added pressure of the younger generation looking to them for help. Add to this the indisputable fact that the world is getting faster with clients expecting more from their advisers than ever before and you have a challenging opportunity.

Between 2016 and 2018, Key Partnerships saw a 285% increase in the number of businesses signing up to provide their clients with access to equity release – citing client interest and the view that the market is best served by specialists. Mortgage brokers (42%), independent financial advisers (40%) and wealth managers (6%) are the three biggest introducer groups and their confidence in the future of the market is evident. The majority of introducers (68%) believe that this part of their business will grow over the next five years and they see it providing in the region of 11% of their businesses monthly income.

While this is good news for introducers and their customers who can now access the benefits of equity release, it is also positive for the equity release market as well – beyond simple growth ambitions. Encouraging trusted advisers to speak to their clients about the potential uses of property wealth pushes people to think more holistically about their assets and also helps specialists reach clients they might not have otherwise spoken to.

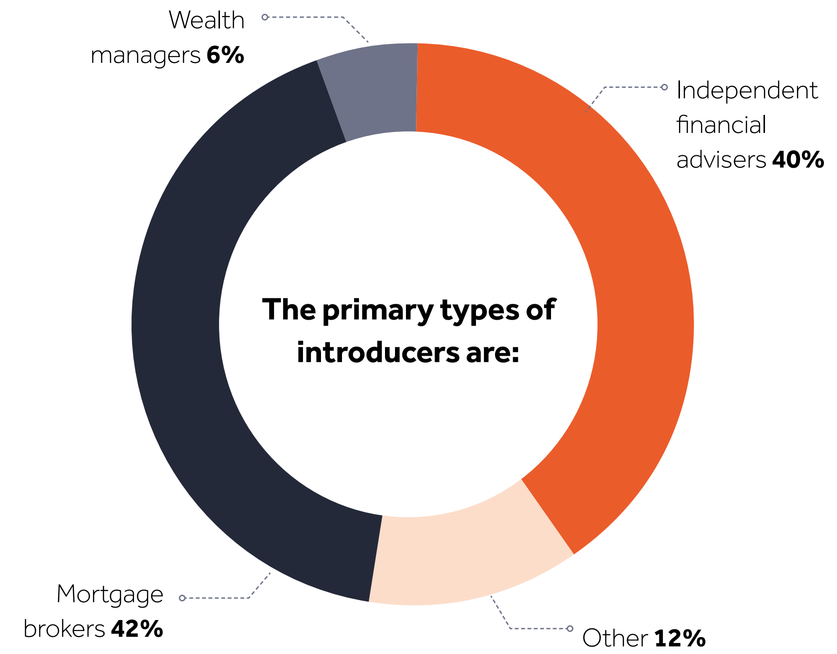
It's a win-win situation for a growing industry and an opportunity which is only going to keep growing in the future.

Jason Ruse | Head of Key Partnerships

Key findings

The introducer market is growing and Key Partnerships saw a 285% increase in introducers signing up between 2016 and 2018.

285% increase

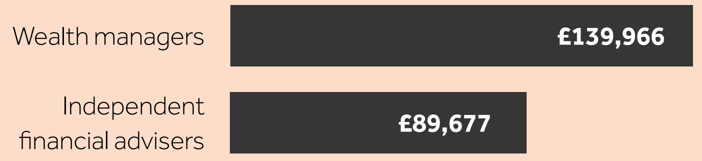


Introducers' clients are typically wealthier than other equity release clients and released

£10,000 more

than the market average in 2019.

Average amount released by clients YTD 2019



Why Refer?

Organisations signed up to introduce equity release plans due to the feeling that this is a specialist market. One that they need support with (either their own or network/head office views) while others were encouraged by customer enquiries.

Introducers say that offering equity release allows them to help clients they previously would have had to turn away and allows them to provide a wider range of services.

Key findings

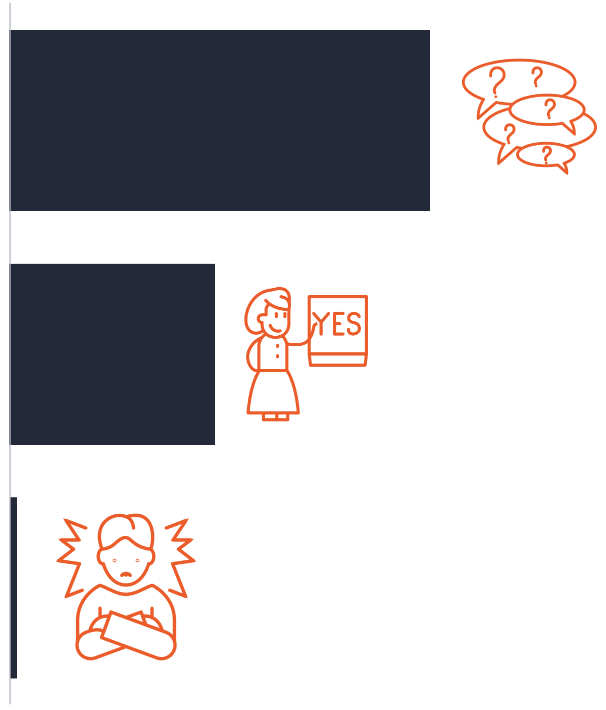
While introducers typically felt that just 9% of their client bank would be interested in equity release, a far larger proportion may actually be. Indeed, when they spoke to clients 25% were interested and just 1% reacted negatively. It seems that more needs to be done to educate potential introducers.

For those who broached the subject:

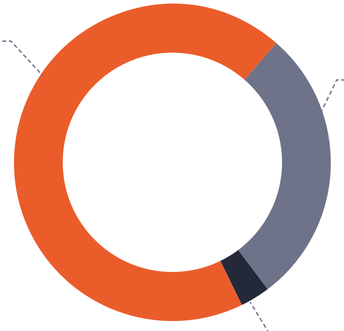
51% said their clients had a mixture of positive and negative comments

25% said their clients were interested

1% said their clients had reacted negatively



Looking to the future...



68% said they felt that the equity release side of their business would grow

28% maintain current levels

3% that it would shrink

Within 5 years they felt it would account for around 11% of their monthly income.

66%
of introducers intend to continue to refer

7%
said they provide advice for all clients who needed equity release

26%
said they would refer or advise depending on the business requirements

Funding the UK's retirement aspirations – the challenge

Currently, there are more than 20.5 million people aged 55 and over in the UK[1] and this is estimated to be on track to rise to just over 24 million by 2030. While the end of the default retirement age[2] has meant that people are working longer, they are also enjoying longer retirements, with a man[3] who decides to retire at 65 years old living for 18.6 years and a women for 20.9 years.

However, people's savings habits have not kept up with the increase in longevity and while the State Pension (£169 per week[4]) will provide a basic income, it is generally agreed most people will see some shortfall. Indeed, 32% of those 65 and over say that their expenditure exceeds their income[5]. One potential option to make up this shortfall is to make use of the considerable value tied up in the older generations' homes.

Proportion of assets that are in residential property

55-64 years

over-85s

Analysis suggests that 31p of every pound of a 55-64 year olds assets are in residential property – rising to 53p for over-85s[6]. With UK housing stock estimated to be worth £7.14 trillion[7] and over-55s holding 65% of property wealth in the UK[6], this is a significant amount that this generation has at its disposal.

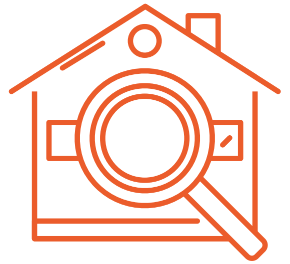
While traditionally, people have seen the family home as an inheritance or a nest egg, if they have little other choice, this is changing as they consider the need to fund a longer retirement and the desire to help the younger generation sooner rather than later. Over half (51%) of over-45s say that their property forms part of their plans for later life[6].

Funding the UK's retirement aspirations – meeting the need:

While every over-55 is not a homeowner nor in need of the value tied up in bricks and mortar, if even 10% wish to use this asset, this equates to more than 2 million people. Typically, those who have looked to access the value tied up in their property have looked at equity release, downsizing or other types of later life lending products such as retirement interest-only mortgages (RIOs).

Downsizing is often seen as the most sensible option for people who wish to release some of the value of their property, however,

79% of over-65s say they want to live in their current home for as long as they can[6]



and 77% of estate agents[8] admit that there is already a lack of properties suitable for retired people

...so this may not be possible for everyone.

This suggests that we may see more people looking to equity release and other later life lending options to meet their needs in retirement which raises an interesting question – how will they access this market? For people with existing relationships with mortgage brokers, independent financial advisers and wealth managers, it is not unreasonable to assume they might start by asking by asking them for help.

However, equity release is regulated and in order to transact business, a person needs to hold the Certificate in Mortgage Advice and Practice (CeMAP) and a Certificate in Regulated Equity Release (CeRER). While these exams are certainly attainable and hundreds pass them each year, they do require interested parties to devote the time and resource to achieving this – something that people may be reluctant to undertake unless they are certain of the market demand.

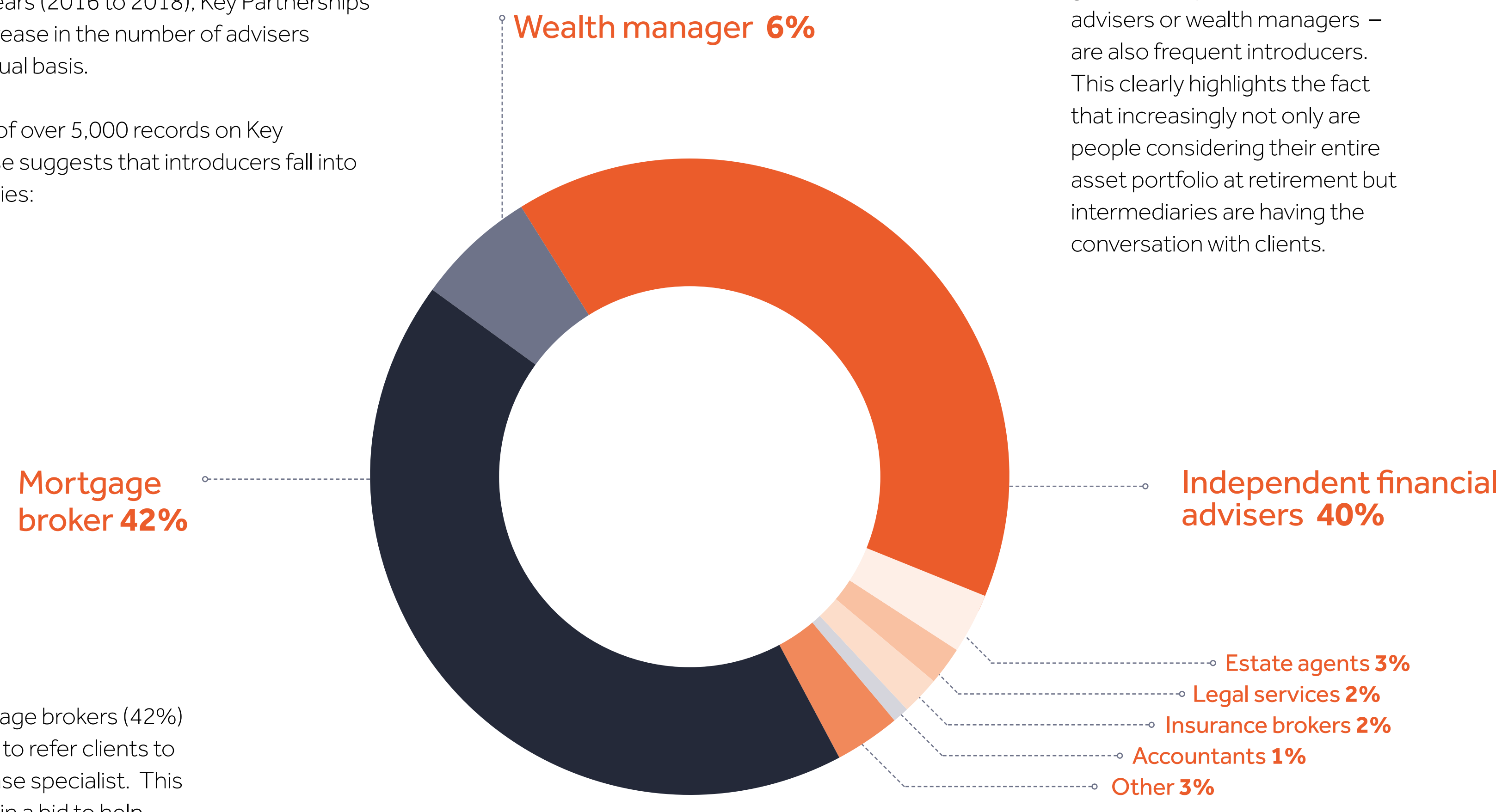
Another option – which has proven successful for a wide range of businesses is to look at setting up a referral relationship with an equity release specialist like Key Partnerships. Key Partnerships has been operating since 2014 and is the referral arm of Key, the independent equity release advice firm.

To build understanding of this growing market, Key Partnerships has launched a report which looks at how this market is developing.

Who refers to whom?

Over the last three years (2016 to 2018), Key Partnerships has seen a 285% increase in the number of advisers registering on an annual basis.

Analysis of a sample of over 5,000 records on Key Partnerships database suggests that introducers fall into the following categories:



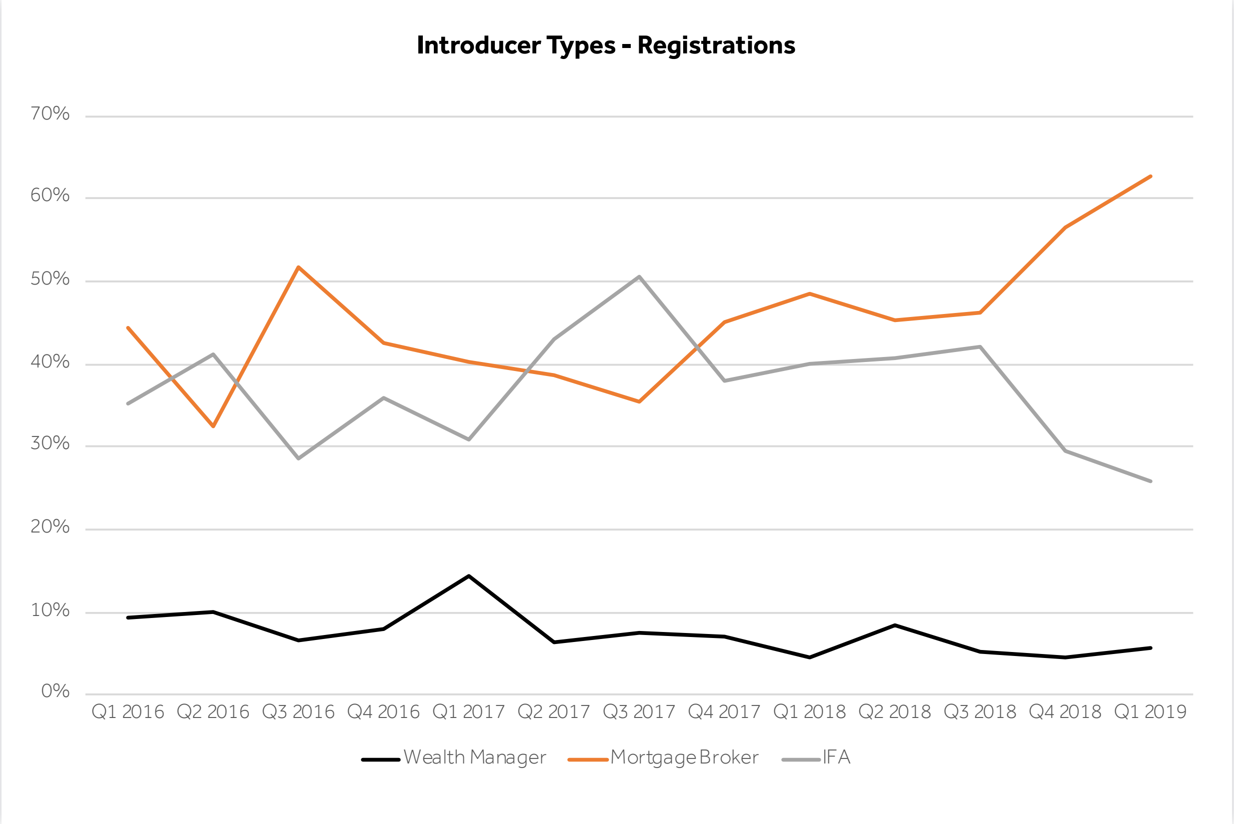
Intermediaries (46%) – either general independent financial advisers or wealth managers – are also frequent introducers. This clearly highlights the fact that increasingly not only are people considering their entire asset portfolio at retirement but intermediaries are having the conversation with clients.

Overall, mortgage brokers (42%) are most likely to refer clients to an equity release specialist. This suggests that in a bid to help older clients that may fall foul of affordability rules or age restrictions, brokers are encouraging them to consider equity release.

Estate agents, legal services, insurance brokers, accountants and debt management services (0.4%) also regularly discuss equity release with their clients and recommend they speak to experts.

Changes to the introducer landscape

The three most common types of introducers are mortgage brokers (42%), independent financial advisers (40%) and wealth managers (6%) – a trend which has been fairly consistent since Key Partnerships was originally founded.



The largest proportion of wealth managers registered in Q1 2017 (14%), mortgage brokers in Q1 2019 (63%) and independent financial advisers (IFAs) in Q3 2017 (51%).

While the number and type of firms that register is naturally somewhat driven by the type of marketing activity that Key Partnerships undertakes, it is interesting to note the impact that wider market conditions have. In Q2 2018, the first retirement interest-only mortgages (RIOs) were unveiled and as part of this process, mortgage advisers are required to highlight that 'equity release may be a better option for your client'.

The proportion of mortgage brokers who are signing up to refer equity release cases to Key Partnerships seems to suggest that they are taking this directive to heart and rather than simply providing generic information they are ensuring their clients can explore their options with an expert.

Similarly, Key Partnerships saw an increase in wealth managers (14%) signing up for referral partnerships in Q1 2017 – immediately prior to the introduction of the residential nil rate band. We also saw more IFAs sign up in Q3 2017 (51%) which may be related to these changes as annual discussions with clients take place.

Different client profile

In 2018, the average amount released by all equity release customers was £76,473 and the average amount released by those referred by introducers was 4% higher at £79,374.

While this is not significantly higher than average, the gap had grown to 13% between introducers (£85,099) and the rest of the market (£75,032) in 2019. When you dig deeper into the data, you find that there is far more variance than originally thought. In 2018, Wealth managers (£89,663) helped people release the most followed by independent financial advisers (£85,011) and mortgage brokers (£74,276).

As might be suspected, wealth managers and intermediaries deal with wealthier clients who wish to release more. In 2018, wealth managers' clients also reserved an average of £170,478 which is substantially higher than the amounts reserved by other introducers (£118,250).

	2018		Year to Date - 2019	
	Released	Reserved	Released	Reserved
All Introducers	£79,374	£118,250	£85,099	£118,339
Market Monitor[11]	£76,473	N/A	£75,032	N/A
Wealth Managers	£89,663	£170,478	£139,966	£186,068
IFAs	£85,011	£119,173	£89,677	£116,030
Mortgage Brokers	£74,276	£111,627	£77,585	£115,116

When you consider the year on year picture, the amount reserved is similar but clients appear to be actually releasing higher amounts (+£5,725 from 2018 to 2019). This goes against the general market trend (-£1,441 from 2018 to 2019) and seems to suggest that those with more valuable homes have more faith – or at least more of an equity cushion - in the continued growth of the housing market.

Impetus to engage

When asked why they had decided to start referring equity release, 26% said head office prefers them to refer these cases to a specialist while 21% said they personally felt it was a specialist area so they wanted to refer.

It appears that while half of over-45s (51%) say that their property is part of their financial plans for later life, some organisations are reluctant to engage directly with the market due to these products being viewed as specialist – potentially due to historic issues - or outside their core business areas.

What prompted the initial interest in the market is less clear but with 19% saying they decided to refer business as their clients asked about it, customer demand is likely to be a strong driver. Wealth managers (30%) followed by mortgage brokers (16%) and generalist IFAs (12%) were most likely to cite this as the prompt which encouraged them to engage. The potential growth of the market (17%) was a factor which encouraged others to become involved, followed by the belief that their clients could benefit from access to these products (10%).

Long term benefits of refering

Now that they are involved in the market and have a referral relationship in place, 41% say they believe the main benefits are being able to help clients who they previously would have had to turn away and 39% like that it allows them to provide a wider range of services to clients.

Wealth managers (57%) were most likely to say that it enabled them to help clients they previously had to turn away followed by mortgage brokers (53%). This clearly highlights that for these practices referrals allow them to reach, retain and service a wider range of clients. One in ten (10%) admit that it also provides a useful additional revenue stream and 6% say their clients expect them to provide access to these products.

Long-term benefits of referral relationships

Top considerations when setting up a referal relationship

While companies who choose to refer clients to experts are obviously concerned about the type of support their client will receive, they also look at the deal as a business relationship. Commission, followed by how the potential partner uses technology to make doing business easier and the partners ability to tailor the referral deal to their individual needs were all rated as important. Followed by being a recognisable brand and providing the introducer with support to speak to their clients.

The chicken or the egg

When asked what proportion of their client bank could benefit from these products, introducers thought that 9% would be interested in equity release. Wealth managers (11%) were most likely to believe this while estate agents (6%) were the least likely to believe this.

With property making up a significant proportion of most over-55s assets, the fact that introducers thought such low levels of customers might be interested suggests that more education is needed as to the potential uses of these products. For example, one area that is not always appreciated is the fact that equity release can help with people who are looking to 'up size' or indeed, move to a more conveniently located property – potentially close to family and friends or amenities. Since January 2017, almost 800 people have used equity release to take this step[12].

You might expect introducers to routinely discuss how people plan to manage the value within their bricks and mortar when they speak about retirement. However, this is not necessarily the case with just 5% saying that they have marketed the service, 3% starting a discussion around the potential uses of property wealth and 2% actively segmenting their client bank to ascertain who might be interested. Mortgage brokers and independent financial advisers are the most likely to look at marketing to their clients (4%).

Instead, 42% wait until they identify a client with an aspiration/need they feel equity release can fulfil and 32% say they look to mention equity release in appointments with 'appropriate clients'. While introducers naturally know their client banks, it is hard not to wonder whether more clients might be interested if the subject was included more generally in planning discussions.

In addition, 14% were not looking to ascertain whether their clients might be interested in equity release. When asked why they were not speaking to clients about these products, 48% said they had other priorities or services they wanted to cover and 21% admitted they did not know how to correctly identify clients who might need equity release. This last point is particularly telling and raises the question whether some of those who are waiting to identify a client with an aspiration or need for equity release before they mention the products may also fall into this camp as well.

Since January 2017, almost 800 people have used equity release to up size or move to a more conveniently located property.

Just under a fifth (18%) said that they had set up a referral relationship as a client had requested help but then had not looked into how this might help the rest of their client bank. Just 9% of those who were not speaking to their clients about these products said they were cautious due to historic issues.

All ears

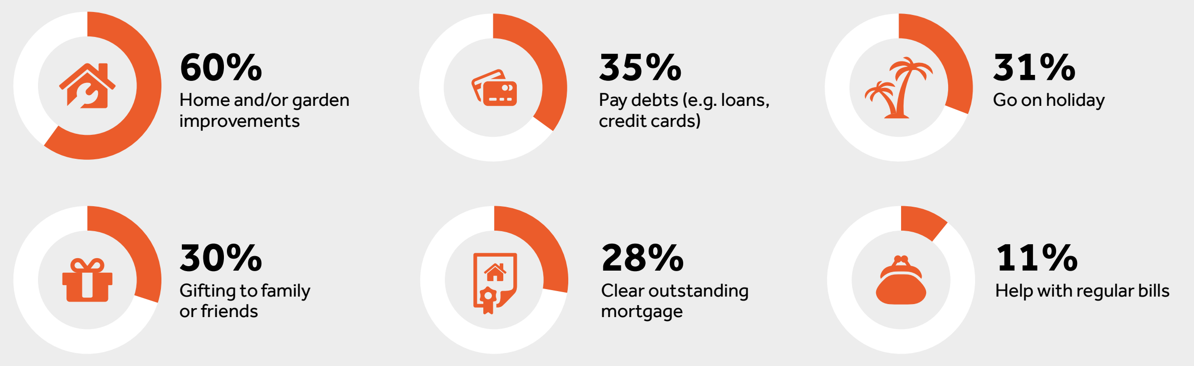
Of those who did broach the subject, over half (51%) said their clients had a mixture of positive and negative responses based on their individual circumstances.

A quarter (25%) said their clients were interested and keen to understand how this might help them and 18% were interested and keen to know more. Just 1% said that the reaction they received was mostly negative. Overall, this appears to highlight that in order to use their client insights and target the right people, introducers need to fully understand the breadth of financial challenges that equity release can help the older generation manage.

When asked how many clients were open to discussions around equity release vs. what they expected, 50% said that the level of interest was pretty much what they expected and 12% were surprised as they had less interest than they thought. Interestingly, 16% said they were surprised about the high level of interest and 20% admitted that now they were offering this service, clients were more likely to speak to them.

Wealth managers (26%) were most likely to say that they had seen more interest than anticipated and estate agents (86%) were most likely to say that they had expected the levels of interest that they saw.

Popular uses of equity release



Source - Key Market Monitor - Q1 2019

Additional income stream

As with other referral relationships, not only are those who refer able to provide a wider range of services for their clients, they are also remunerated for the introduction which provides a handy additional income stream.

When asked what proportion of typical monthly income equity release will provide to their businesses over the next five years, introducers – who were happy to comment - suggested that it would provide in the region of 11%. Mortgage brokers (9%) followed by wealth managers (8%) and general intermediary practices (7%). Estate agents – although boasting a sample too small to accurately identify a proportion – felt it would be a lower proportion of their overall income.

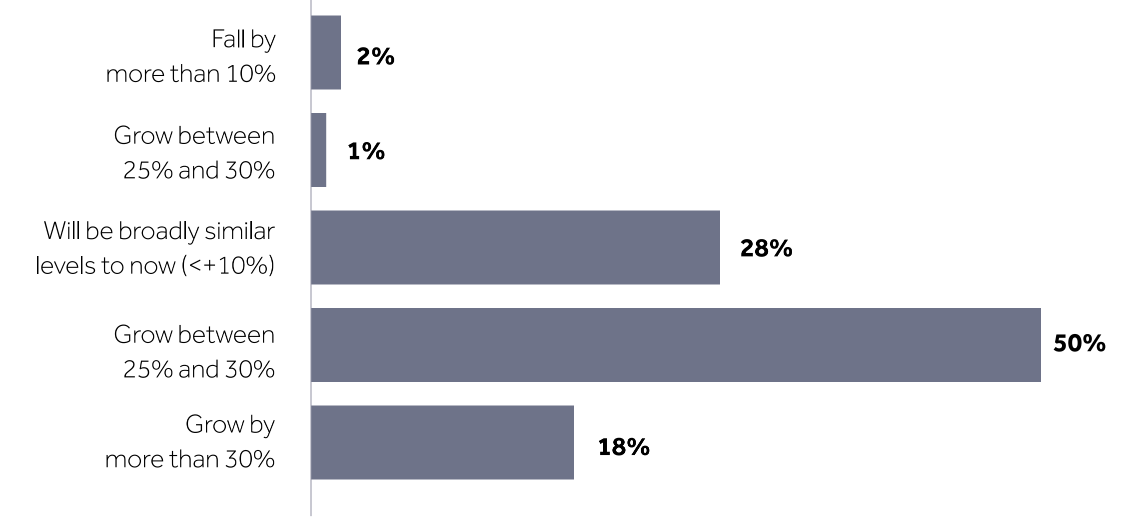
How bright is the future?

Being able to offer a wider range of services is one of the benefits people have seen when setting up a referral relationship but what do they think about the future?

More than two thirds (68%) say they believe that this side of their business will grow – either substantially – i.e. over 30% (18%) and modestly – i.e. between 10% and 25% (50%) over the next five years.

Just over a quarter (28%) felt that they would see the current level of business sustained and only 3% thought it would be lower than current levels. Overall the majority of introducers foresaw growth with wealth managers (74%) were the most likely to see equity release becoming a bigger part of their business while general intermediaries the least (54%).

Changes to business volumes over next 5 years



With introducers predicting big things for the equity release market, the next question is how they intend to engage? While introducers are confident about the future of the market, they are also comfortable with their existing arrangements and 66% say they intend to continue to refer in future.

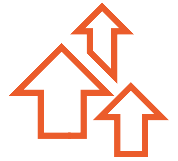
On the other end of the scale, 7% either felt that the opportunity presented by the market was too great to miss or had used a referral relationship to test the waters and intended to provide advice themselves. Independent financial advisers (12%) were most likely to decide to take up this opportunity. The remaining 26% said they would either mainly refer but occasionally provide advice (12%) or mainly provide the advice but occasionally refer (14%).

What next?

Research[5] suggests that the size of the later life lending market in 2019 will reach

£295 billion

and is set to grow by



85% growth

to over

half a trillion pounds by 2029

With research[5] suggesting that the later life lending market is set to grow by 85% to over half a trillion pounds by 2029, more older clients than ever will be looking for support to manage their borrowing and make up any financial shortfalls they may have. They will turn to those organisations who have helped in the past – the mortgage brokers, estate agents, wealth managers and IFAs they trust.

The market is already showing positive signs of growth with the number of introducers increasing by 285% over the last two years as these organisations choose to step up to the challenge. Mortgage brokers (42%) and IFAs (40%) are most likely to have a referral relationship in place but we are seeing interest from wealth management firms, accountants and legal firms to name but a few.

And this is set to continue with more than two-thirds (68%) of introducers believing they will see growth in the future. That said, while the market is attractive, there is clear evidence that referral relationships are working, with 66% saying they will keep offering their clients access to these products via a referral relationship rather than gaining the qualifications themselves.

While introducers suggest that only 9% of their client bank might be interested in these products, it is interesting to note that 25% reacted positively when it was discussed with them – suggesting significant untapped potential in the existing market. With introducers clients wealthier than the typical equity release customers (releasing almost £10,000 more) and likely to be looking at this more as part of their financial management, firms need to ensure that preconceived ideas do not get in the way of these conversations.

Whether it is choosing to refer, provide advice themselves or set up in-house capabilities, it is imperative that advisers and intermediaries in all sectors of the Financial Services market develop a strategy for dealing with this increasing consumer demand and seek help to navigate the most appropriate pathway for their business.

Methodology

In May/June 2019, Key Partnership surveyed over 200 of their introducers to build up a picture of their views and opinions on why they decided to refer equity release clients. In addition, over 5,000 records were reviewed to identify introducer subsets. Other data sources include:

1 ONS - 2016-based National Population Projections (released – 27 October 2017)
https://www.ons.gov.uk/releases/nationalpopulationprojections2016basedstatisticalbulletin

2 Department for Business, Skills and Innovation – 2011 –
https://www.gov.uk/government/news/default-retirement-age-to-end-this-year

3 Office of National Statistics – National Life Tables – September 2018
https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017

4 Department of Work & Pensions - Average Full State Pension – June 2019
https://www.gov.uk/new-state-pension/what-youll-get

5 More 2 Life – Retirement Lending Report – 24 June 2019

6 Equity Release Council – Beyond Bricks and Mortar Report – 17 June 2019

7 Value of UK Housing Stock – Savills – February 2019
https://www.savills.co.uk/blog/article/274512/residential-property/value-of-uk-housing-stock-hits-record-high.aspx

8 Pollright Research on national sample of 101 estate agents – June 2018

9 HMRC – Residential Nil Rate Band – June 2017
https://www.gov.uk/government/publications/inheritance-tax-main-residence-nil-rate-band-and-the-existing-nil-rate-band/inheritance-tax-main-residence-nil-rate-band-and-the-existing-nil-rate-band

10 Key FY 2018 and Q1 2019 Market Monitor

11 Analysis of Key Customer Data – January 2017 to March 2019

For additional information, please don't hesitate to contact:

Lee Blackwell
Director of Public Relations and Public Affairs
Key Retirement Group
07384511140
lee.blackwell@krgroup.co.uk

Rachel Mann
Key Retirement Group
01772 508322
Rachel.mann@krgroup.co.uk

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