FINANCIAL SERVICES CONSUMER PANEL

POSITION PAPER

HOW VULNERABLE CONSUMERS CHOOSE AND BUY EQUITY RELEASE PRODUCTS

1. EXECUTIVE SUMMARY

The Financial Services Consumer Panel (the Panel) undertook research to understand how consumers choose and buy equity release (ER) products to meet their later life needs. Enhancements in both regulation, such as the introduction of mandatory advice, and industry standards mean that the ER market now successfully serves the needs of many consumers. However, for several reasons, ER products warrant a closer look. They represent a substantial long-term and open-ended commitment, have important features that may be unfamiliar to consumers, and require the consumer to consider a variety of factors that could arise during their retirement. ER products can be difficult or costly to undo, and impact in a unique way, through the erosion of housing equity, on family and dependents as well as the purchaser (see Appendix 1 for an overview of the different product options). As with pensions, the high average transaction value (approximately £104K[1] for ER products) means that poor outcomes are potentially catastrophic for consumers as well as costly for wider society in terms of welfare payments and other support.

The Panel's work indicates that the prevailing guidance, sales and advice processes may exacerbate some of the risks faced by consumers of ER. The research findings suggest that consumers who purchase from a position of vulnerability may struggle to consider the long-term implications of their choice. Decisions made by the participants in the research tended to be informed by marketing and conversations with friends and family rather than through engagement with a professional adviser.

The qualitative research commissioned by the Panel indicates that consumers who purchase from a position of vulnerability may be exposed to the risk of poor experiences or outcomes in a variety of situations. These situations can occur independently or in combination and arise when:

- consumers purchase from a position of necessity or urgency, so are less likely to shop around for a better product, explore non-ER options, or seek independent advice or alternative views
- consumers are unable to ask the right questions about a complex long-term product with which they have no prior experience
- consumers are susceptible to marketing and inclined to seek corroboration through informal channels (adviser contacts / friends or word of mouth)
- consumers are vulnerable to sales techniques and the advice provided by sales advisers, particularly when received in the family home

[1] https://www.keyadvice.co.uk/about/market-monitor

The Panel has identified four sets of risks from its investigation, covering the consumer journey from pre- to post-contract:

Conclusion 1: Marketing - Without comprehensive tools or guidance, and influenced by direct and indirect marketing, there is a risk that consumers will not make a fully informed decision that ER is the right solution for their situation and the best route to achieve this.

Conclusion 2: Advice Readiness - The pre-advice journey and the vulnerable situations of some consumers leads to a risk that consumers' options are influenced by the type of adviser consulted.[1] There is also a risk that consumers are not fully engaged in the advice process, focusing on short-term factors such as their immediate need and the fees and charges. There is a risk that this reduces the effectiveness of advice.

Conclusion 3: Product Understanding - At the point of sale, there is a risk that some consumers are vulnerable because they lack the capacity to consider the long-term financial and psychological implications of their purchase. There is evidence that the statutory disclosures and established processes do not overcome this risk.

Conclusion 4: Product Value - After purchasing ER, vulnerable consumers are exposed to the ongoing risk of financial harm due to the absence of regular product and needs reviews. There is also a risk of long-lasting psychological harms when their regrets and worries are not mitigated by after-sales support.

The investigation was informed by a wide range of sources and data. The Panel was particularly keen to explore the experiences and outcomes of certain important groups of consumers so commissioned qualitative research to elicit important themes and issues. This research consisted of 45 in-depth interviews and is based on a methodologically robust purposive sampling design. The interviews provide insights into the lived experiences of consumers who purchased from a position of vulnerability and, separately, explores the role of regulated advice in securing a good outcome.

This research extends recent studies conducted by regulators and industry by bringing the consumer's voice to the fore. Other sources for this project include extensive desk research and a series of meetings with independent and industry experts (listed in Appendix 2), both before and after conducting the qualitative research.

The overall aim of this paper is to stimulate regulators and industry to undertake further work on some of the issues highlighted by the Panel and, where appropriate and in the light of the forthcoming Consumer Duty, to consider changes to regulation and industry standards in order to improve processes and outcomes. While several contributors to this project noted that some of the issues identified are not unique to ER products, this does not weaken the case for action in relation to ER, and indeed may support arguments for change in other products.

The Panel calls for further investigations into:

- how ER products are marketed and sold to later life consumers, including the role of financial promotions, direct marketing, and commission-based sales

- whether regulation and industry standards can do more to protect consumers from financial and psychological harms
- the impact on consumers of the different regulatory regimes for ER and alternative products
- the risks to the FCA and industry posed by increasing demand from customers who purchase from a position of vulnerability

The following sections cover the contextual background, the research methodology, and the Panel's conclusions and recommendations.

2. CONTEXTUAL BACKGROUND

Although very small in size when compared to the conventional mortgage market, the ER market is considered strategically important from a fiscal policy perspective.[2] Indicators suggest the market grew substantially from 2016 to 2018, although it has declined slightly in recent years following political and economic uncertainty.[3] The proportion of consumers who purchase ER to repay debt (unsecured and mortgage) is estimated to have increased from less than half in 2019 to around two-thirds in the latter period of 2021.[4] This suggests that housing equity is used as a source of short-term funds for an essential need, particularly for those consumers who can no longer afford continuing interest repayments or whose mortgage has reached the end of its term. Younger generations face recognised difficulties in purchasing property, so later life consumers may be increasingly likely to use housing equity as advance inheritance to support family members rather than as legacy. Furthermore, Generation X consumers (born 1965-1980) face particular challenges, with nearly one in three potentially reaching retirement with inadequate income.[5] A quarter of non-retirees with property but with little or nothing in their pension pot expect to use the value of their home to generate retirement income.[6] Inadequate retirement provision is a particular problem for single women, who are already more than twice as likely as single men to purchase equity release products, as well as for people requiring long-term care while supporting younger and older family members.

The Panel presents this paper in the context of evolving industry standards, changes in national guidance, and imminent regulatory change. Regulation has already led to significant changes in the ER market over recent decades, supported by changes to industry standards that have transformed the reputation of ER and which continue to deliver incremental improvements to products and services. Features such as the 'no negative equity guarantee' are valuable, necessary and, according our research, recognised by at least some consumers. Meanwhile, the Panel believes there is scope in the Money and Pensions Service's (MaPS) newly announced UK Strategy[7] for Financial Well-being to develop more support for later life consumers. As noted above, retirement provision for the cohorts entering retirement in the next few years will look different from those of previous generations, and it is vital that this is recognised in the delivery of guidance. Finally, the FCA's forthcoming Consumer Duty provides an opportunity to ensure that regulation leads to better outcomes for all consumers of ER. [8]

---

[2] http://repository.essex.ac.uk/23133/1/Stakeholder%20conceptions%20of%20later%20life%20consumer%20vulnerability%20in%20the%20financial%20services%20industry%20-%20beyond%20financial%20capability.pdf

[3] https://www.keyadvice.co.uk/about/market-monitor?page=1

[4] https://media.kg-cdn.co.uk/mediacontainer/medialibraries/keyretirement/assets/220119-2021-fy-market-monitor-final.pdf?ext=.pdf.

[5] https://ilcuk.org.uk/the-forgotten-generation/

[6] https://www.mortgagestrategy.co.uk/news/nearly-a-quarter-of-workers-see-home-as-retirement-fund/

[7] https://moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/

[8] In June 2020 the FCA concluded its review into the ER sales and advice process, finding three significant areas of concern that increase the risk to consumers: advice did not always take into account consumers' personal circumstances, consumers' reasons for considering ER were not always challenged by firms, and firms weren't always able to evidence that their advice was suitable.

3. OVERVIEW OF THE RESEARCH METHODOLOGY

The Panel's investigation sought to:

- obtain insights into the perceptions, experiences, and outcomes of consumers who purchase ER from a position of vulnerability
- obtain insights into the role played by advice in securing a good outcome for consumers[9]
- explore how consumers navigate and understand equity release and alternative products[10]
- obtain insights into the barriers and challenges faced by consumers of ER products
- compare consumers' experiences and outcomes with the assumptions that underpin regulation and industry standards
- indicate where and how consumers' experiences and outcomes could be improved
- suggest areas for further investigation

The Panel commissioned qualitative research to explore the range and nature of perceptions, experiences, and outcomes of certain groups of consumers, with a particular focus on those who purchase from a position of vulnerability. A purposive sampling design was employed to ensure that the research included consumers with a range of personal characteristics and demographics, who had made their purchases at different times, and who presented a variety of experiences. For comparison purposes, we also included participants who claimed to have a retirement interest-only mortgage as well as individuals who had seriously considered but not purchased ER.[11] The final sample consisted of 45 consumers (more details about the participants can be found in pages 75-78 of the accompanying research report). While not part of the quota, the sample included consumers who self-identified as having obtained good outcomes from their purchase as well as consumers who expressed regret or uncertainty about their decision. This facilitated an analysis of similarities in perceptions (for example, the quality and quantity of information provided) as well as differences that might illuminate the variety of outcomes.

Participants to the study were recruited in two stages. The first stage focussed on the experiences and outcomes of consumers with limited financial resources other than their property. After conducting 35 interviews, the agency found that the participants were describing similar experiences, so concluded the process because the study had achieved 'data saturation'. This means that it is very unlikely that new substantive themes would have emerged from additional interviews. The findings from the research highlight the types and nature of issues that are likely to be experienced by other consumers in similar situations but cannot be used to estimate the numbers of consumers who may have had similar experiences.

The sample included 9 participants who had purchased more than five years ago in order to obtain insights into consumers' ongoing experiences (for example, follow-up support since their purchase) and their reflections on their purchase. Subsequent changes to regulation or industry standards mean that these customers will have had different experiences from more recent customers, but some issues, such as ongoing support, remain current.

The Panel was also keen to include the experiences of elderly consumers or those not willing or able to participate directly in the research. The sample therefore included 13 individuals who were actively

---

[9] Firms that sell equity release products are required to provide advice to help consumers decide whether the product is right for them. https://www.moneyhelper.org.uk/en/homes/buying-a-home/equity-release-help

[10] Equity release products include home reversion and lifetime mortgages while alternative products include RIOs.

[11] During the data analysis phase, it became clear that some participants lacked clarity about their purchases. Despite following up with participants, the research agency was unable to confirm the details of all purchases. A reasonable inference is that not all consumers understand what they have purchased, which in turn implies that the disclosures may not be working effectively.

involved in the decision process (for example, by undertaking desk research on products) as well as the purchase (without power of attorney), and who had continued oversight of the product (for example, by reviewing the annual statement). Although these family members are not the consumer, they played a key role in the consumer's decision so represent the best available means of accessing the stories of a group of consumers who can be extremely difficult to reach. We therefore felt it critical to include these individuals.

The interview process consisted of semi-structured open questions designed to encourage participants to tell their story in their own words, with minimal interruption by the interviewer. Open questions produce comprehensive contextualised responses and reduce the risk that participants provide answers they think the interviewer is seeking. Participants were told that the aim of the research was to 'explore the equity release market and, within that, the sales and marketing practices being used, to understand whether it delivers the best possible outcomes for later life consumers'.

The Panel shared a summary of the findings of the research with independent and industry experts, who probed and tested the research, and whose challenges have been addressed in the research report that accompanies this paper. They also provided valuable additional insights. The research is based on the verbatim reports of real consumers but there were several instances where participants' reported experiences differed from the expectations of the regulator or industry. This may be because the purchase was made before changes in regulation or industry standards or because the consumer's recollection was faulty. The research did not aim to verify whether the sales of ER were compliant so any discrepancies between the consumer's 'truth' and regulatory or compliance reality cannot be resolved. Regardless, such differences indicate the need for further investigation into aspects such as the quality, format, and timing of information, the support for those in vulnerable circumstances, and the post-sales service received by consumers. However, while participants demonstrated some confusion or admitted to poor recall in relation to factual information, it was evident that other aspects of the conversation with their adviser resonated strongly, with participants displaying a vivid recollection of particular phrases. Whether recalled accurately or not, the tone and framing of these discussions appeared to be an important contributory factor in the' decision-making process of some participants.

As with any qualitative research, the data cannot be used to extrapolate to all consumers or to the market as a whole. The research does not attempt to estimate the proportion of all consumers who purchase from a position of vulnerability or the relative frequency of their different experiences. It is not therefore possible to know how many consumers share each experience or the potential value of any financial detriment caused to them; these questions can only be addressed through quantitative research using this current research as the basis for the underlying themes.

Analysis of the first set of interviews indicated the need for more research into consumers' experiences of regulated advice. A second set of interviews was therefore conducted with recent consumers who potentially had alternative solutions to ER and who had taken independent financial advice prior to purchase. Data saturation was reached after ten interviews, indicating that the key recurring themes had been captured. As before, the research does not enable us to indicate the proportions of all consumers to whom these themes apply.

The qualitative research was accompanied by indicative modelling work to compare at a high level the financial outcomes some of our participants might have obtained had they chosen a different product or product variant. Such a comparison turned out not to be a significant feature of the buying process for our participants, so we wanted to consider whether other choices would have changed the quality of the outcome looking at aspects that they themselves highlighted as important.

4. RESEARCH CONCLUSIONS AND THE PANEL'S RECOMMENDATIONS

Conclusion 1: Marketing - Without comprehensive tools or guidance, and influenced by direct and indirect marketing, there is a risk that consumers will not make a fully informed decision that ER is the right solution for their situation and the best route to achieve this.

The participants tended to approach the market with the question "I know what I need, where can I buy it?" rather than asking "should I use the value of my home to meet my financial need, and if so, how do I do that?" They had often decided to purchase an equity release product before taking regulated advice:

> 'I did high-level research…Once I felt that was the right sort of approach, then I used Provider X based on the recommendations on the website.[12]' (Family member of male, 83)

Some felt too embarrassed about their difficulties to seek financial or other forms of support from their family or friends while others believed that their savings and pensions were for a 'rainy day'. Some received validating messages from friends and media that reinforced their decision to purchase ER without considering other options, such as a short-term loan. The growth in the advertising reach of ER products through both mainstream and online advertising suggests that the market is increasingly likely to connect with consumers who possess characteristics of vulnerability[13]. One participant noted, 'There are lots of adverts on the TV about it all the time' while desk research conducted by the Panel indicates a fine line between advertising and editorial content in the mainstream media. The Panel's previous research has highlighted the personalised and targeted nature of digital advertising: 'As soon as you're even thinking about it, the cookies come for you.'[14] Another participant experienced intrusive direct marketing:

> '[Lesser-known providers] - their behaviors reinforced what I didn't like about them. They were pestering me…I was also inundated with emails'. (Male, 78)

The independent experts noted that the decision-making context around ER products plays into well-established consumer biases. These include hyperbolic discounting (emphasising short-term costs over long-term value or suitability) and a tendency to understate longevity risk, impacting their ability to plan for adequate resources to support them in their later years. Supporting the finding from the qualitative research that indicated participants had often decided to purchase ER before receiving advice, one of the experts commented that consumers 'have already spent the money in their heads by the time they go for advice'. Consumers who have invested time in deciding that ER is right for them may be more likely to seek confirmation from a sales adviser that they have made the right decision and less likely to seek independent advice (assuming they understand the different types of advice available). This was also evident from those participants who needed quick access to finance and regarded the ER market as the 'lender of last resort':

> 'My bank gave me three months to pay off the mortgage. I was getting desperate. I thought I would be homeless. [Equity release] saved me from harming myself'. (Male, 70)

---

[12] The quotes in this paper can be found in the published research.
[13] https://www.mortgageintroducer.com/increased-use-of-equity-release-for-purchase-will-be-lasting-legacy-of-stamp-duty-holiday/
[14] https://www.fs-cp.org.uk/sites/default/files/fscp_final_digital_advertising_discussion_paper_20200630.pdf

Other participants admitted to rejecting alternative options to ER:

> 'He did advise that there were other ways to raise money and he told us…"They will take a lot more than you're wanting to get, blah, blah, blah." At that time, we didn't care, I know that's a bit reckless'. (Female, 60)

However, the research did not reveal how alternative options were modelled and presented to the participants. In line with this, independent experts noted the absence of independent expert guidance and information to help consumers triangulate the advertising messages and the experiences of friends and family, and to address broader questions.

The Panel would like the FCA to:

- Support the development of holistic tools and guidance provided by independent bodies, such as MaPS, with the aim of helping people understand and narrow down a broad range of later life lending options, and approach the regulated market better able to pursue their objectives
- Consider whether the financial promotions regime is working as intended, particularly in relation to sponsored editorial or advertorial content and the research findings about the potential impact of marketing on consumers' decisions
- Consider the Panel's previous recommendations relating to digital marketing in the context of ER
- Set higher expectations of good outcomes for consumers who purchase from a vulnerable position, in line with the communications outcome proposed under the new Consumer Duty[1]
- Review advertising practices to understand consumers' responses to different media and messages

Better outcomes for consumers should be evidenced through:

- More customers reporting that they considered a range of options before purchasing
- More customers reporting that their adviser helped them choose a different product and/or provider than they initially considered

---

Conclusion 2: Advice Readiness - The pre-advice journey and the vulnerable situations of some consumers leads to a risk that consumers' options are influenced by the type of adviser consulted.[1] There is also a risk that consumers are not fully engaged in the advice process, focusing on short-term factors such as their immediate need and the fees and charges. There is a risk that this reduces the effectiveness of advice.

Different permission regimes exist for ER advisers and suitably qualified IFAs (see Appendix 3 for the key differences). This means that the options for ER products presented to consumers depend on the type of adviser they consult. Participants demonstrated a lack of clarity about the type of adviser they consulted and therefore appeared not to fully understand any limitations of the advice they received, indicating that the status disclosures do not work effectively for all consumers. Notably, advisers may not be able to advise on other options, such as specific products and providers to whole-of market solutions, including non-ER choices, including pensions and insurance. Participants did not always seem to make active choices during the process; parts of their journey seemed almost automatic once they started on a particular route. For example, participants tended to select from the range of products offered by familiar, well-known, or prominently advertised brands and dealt with representatives of those brands. Consumers who do not fully understand the implications of the type of advice they receive may be at risk of poorer outcomes than those with a better understanding.

Advice is a compulsory element but, as noted above, a variety of types of adviser operate in the market. The adviser who serves a particular customer is influenced by the journey the customer took pre-advice, and factors such as brand. The differences between adviser types, and the significance of those differences did not feature in our participants' accounts of their experiences. No one referred to the regulated status of their adviser, despite prominent prescribed disclosure documentation.

There is a risk that consumers who are presented with a narrow set of options may make worse decisions than those who receive a wider range - which includes options other than ER. As evidence of the potential for consumers to make a sub-optimal decision when they are not presented with a comprehensive set of choices, one participant cancelled the purchase after realising that other options were possible:

> 'We started to get a bit wobbly and started the process to cancel it and pay them the money back. Because we did speak to a couple of people, and they told us about the other options we should have done to raise that money.'

Several independent experts raised the potential conflict of interest that arises because ER advisers are typically paid by a combination of commission and a one-off fee. Some participants were alert to this risk:

> 'I sometimes think with a financial adviser, when they cover different areas, they go with the company that gives them the most profit' (Female, 78)

but participants did not consistently refer to the fees and charges they paid for their advice. Examples can be found online of mortgage advisers offering to source products that attract no advice, valuation, or arrangement fees. Independent experts suggested that consumers may make short-term decisions on the basis of upfront fees and may struggle to compare the long-term cost of products that offer 'free' advice with products that disclose a fee for advice. The conversation about fees resonated with one research participant:

> '[The adviser] said, 'And of course, you don't pay me any advice fee.' So, we went through a number of conversations and there was no fee, so I assume he gets paid through [provider]'. (Male, 57)

Our research suggests that the framing of other solutions may make a difference to consumers' decisions and, unlike some of the regulatory disclosures, appear to be recalled with greater clarity. One participant reported, not as a complaint but as evidence of his adviser's support, that he was advised 'do you really want to have the burden of the monthly payments?' Several independent experts observed that a similar negative framing may exist for a downsizing option if consumers are asked rhetorically 'You don't want to leave your home, do you?' Regardless of the factual accuracy of these reported conversations, it is reasonable to conclude that participants may have been influenced by the framing of options presented to them.

Regulation places a strong emphasis on ‘information vulnerability’ and whether consumers ‘know what they are doing’, rather than considering the interaction between different types of vulnerability, including situational or contextual vulnerability.[15] One aspect of the regulatory approach has therefore been to provide information through regulated advice, with longstanding requirements to protect consumers from potentially excessive fees and charges.[16] Our participants commonly perceived the advice and regulatory disclosures as comprehensive but also overwhelming:

> ‘There's a lot of paperwork…and a lot of small print. You'd need to be a lawyer to pick out what you need to know…but they said by law it has to be done that way.’ Disclosure of fees does not necessarily help consumers to understand all the fees and charges: ‘Their fee just for [paying it off] is £1,295 on top of everything else. And then there's a standard fee, £480, what's that for? Copies, £3. Special delivery charge, £7.14…Locum fee, £90, I mean, what's a locum fee?’ (Female, 64)

The independent experts noted that, while the Mental Capacity Act (2005) allows people to make ‘unwise’ decisions, financial capability is often the first cognitive skill to decline. The provision of more information is therefore unlikely to facilitate later life consumers’ decision making and may even have a deleterious effect on understanding. It is not possible to infer from our research to what extent consumers’ lack of understanding was influenced by their prior psychological commitment to ER. The research indicates that some consumers struggle to engage with information disclosures:

> ‘I don't read the small print, and if I do read it, it doesn't sink in because it's probably not worded the same as I want it to actually be. I'm not stupid by a long way, but it's written in a financial adviser's way.’ (Female, 55)

Reflecting later, some participants felt exploited because they believed that their properties were under-valued by the provider. Again, this raises questions about consumers’ capacity to absorb and question information about the sales process as well as their starting presumption that ER is the right solution for their particular circumstances. Some participants also applied inappropriate frames of reference in assessing the interest rate, such as comparing it to store cards or credit cards.

Finally, the sales process commonly takes place in the property. While this undoubtedly supports consumers with accessibility problems, the research indicated that home-based sales exacerbated some participants’ feelings of vulnerability, by having a stranger in their home. Furthermore, our discussions with industry experts revealed a presumption that the involvement of solicitors reduces the potential for poor outcomes. However, none of our participants mentioned input from solicitors other than to affect the sale.

---

[15] http://repository.essex.ac.uk/23133/1/Stakeholder%20conceptions%20of%20later%20life%20consumer%20vulnerability%20in%20the%20financial%20services%20industry%20-%20beyond%20financial%20capability.pdf

[16] https://www.fca.org.uk/publication/correspondence/mortgage-intermediaries-portfolio-letter.pdf

The Panel would like the FCA to: • Conduct research, potentially including mystery shopping, to map the variety of different journeys consumers might take before they end up with an adviser who will transact a product purchase with them • Conduct further research on consumer understanding of what different types of adviser can offer • Investigate the effect of commission- or performance-based sales on consumers' choices and outcomes • Review the impact of the different regulatory permissions advisers might have on the advice consumers receive, and whether particular combinations of permissions should be mandated to improve consumer decisions • Consider how the Consumer Duty can encourage firms to establish that their products offer fair value for money and that their customers understand this • Review standardised disclosures of fees and charges to achieve the understanding envisaged under the communications outcomes of the proposed Consumer Duty • include in the above review how post-sale service can improve recall, understanding and confidence among consumers • Consider how to mitigate feelings of vulnerability when the sales process is conducted in the consumer's home, potentially drawing on experiences of other delivery mechanisms during the pandemic
Better outcomes for consumers should be evidenced through: • Better recall, understanding and confidence among consumers of the scope, cost, and quality of advice services

---

Conclusion 3: Product Understanding - At the point of sale, there is a risk that some consumers are vulnerable because they lack the capacity to consider the long-term financial and psychological implications of their purchase. There is evidence that the statutory disclosures and established processes do not overcome this risk.

Participants understood the generic aspects of equity release but did not fully grasp the immediate or longer-term financial implications of their purchase. They commonly recalled feeling bewildered when they later realised the future impact of their purchase resulting from the effect of compound interest on their remaining equity: '

> 'I know what compound interest is. But I don't think we really factored in the impact that would have'. (Female, 52)

Compound interest mounts up over time, most significantly for consumers who take out the product at a relatively young age and who, as noted by the independent experts, commonly underestimate their longevity risk:

> ‘I listened but didn’t really understand what they were saying…Over time I will lose most of the value of the house. I feel sick thinking about it.’ (Female, 55)

Some participants were not open to advice:

> ‘I was quite adamant in what I wanted. I'm paying [the adviser] to do their job and instructing them, and they accepted my instructions’. (Female, 55)

while others admitted that they didn’t pay sufficient attention to the information given by the adviser:

> ‘I just wanted to get it done as soon as possible so we can actually start getting care…We didn't really go into details because we were so desperate.’ (Female, 84)

Several participants noted the open-ended commitment of their purchase:

> ‘It shouldn't be lifetime, as at present the value [of remaining equity] is going down and the interest [owed] is going up’ (Male, 64)

and

> ‘it just doesn't feel that great when you see the statements coming through and you [owe] more now than you did’. (Male, 63)

These views contrast with those of industry experts, who pointed to the presumed benefits of ‘fixed for life’ and the associated certainty. Many products now include options for early redemption, albeit at a cost. The above comments from research participants may also indicate limited awareness of these options, or their absence in older products.

Participants’ sense of shock at the impact of compound interest is notable in the context of our finding, reported in the previous section, that some viewed store card APRs as appropriate comparators. Firms are required to disclose the annual interest and fees that mount up over future years and to advise the customer of the effect of changes in value (up or down) to their home. Firms are not required to advise the customer of the point at which they will have no retained equity in their home nor when their equity is projected to reach any particular threshold e.g. 90%, 75%, 50%. There is also no requirement to show the combined effect of different house price changes and total charges on the customer’s retained equity. Participants’ lack of awareness of the long-term financial implications of their purchase indicates that the format in which disclosures are currently presented may be inadequate for consumer understanding, and/or omit a key measure of value for consumers.

We also found evidence of cross-selling tactics, indicating a risk that consumers may feel pressured into additional purchases as a condition of the sale:

> ‘The provider…said ‘what sort of insurance have you got? Have you got this? Have you got that?'…We said “Look, we've already been through all this with our financial adviser. We don't want all the add-ons.”’ (Female, 71)

Finally, industry experts noted the absence of regulation around cooling-off periods, although this is mitigated to some extent by the length of time the process usually takes. The research did not identify whether consumers were aware of cooling-off periods at the time of their purchase nor whether they had contemplated using them. The salience of mandatory cooling-off periods may become less important if other aspects of the sales process, as noted above, are addressed through the new Consumer Duty.

The Panel would like the FCA to:

- Consider how firms could improve consumers' understanding of the long-term implications of compound interest on residual equity, for instance via the provision of standard projections or illustrations
- Require firms to evidence consumers' understanding of the long-term implications of their purchase, consistent with the communications outcome of the new Consumer Duty
- Review the use and impact of early repayment charges and exit fees against the product value outcome of the new Consumer Duty
- Consider whether there should be more friction in the process e.g. mandatory cooling-off periods during which transactions can be unwound
- Review cross-selling during and after the sales process

Better outcomes for consumers should be evidenced through:

- Enhanced consumer understanding of the impact of compound interest
- Enhanced consumer understanding of the implications of the advice they have received and the product they have purchased Similar outcomes regardless of the type of adviser used

---

Conclusion 4: Product Value - After purchasing ER, vulnerable consumers are exposed to the ongoing risk of financial harm due to the absence of regular product and needs reviews. There is also a risk of long-lasting psychological harms when their regrets and worries are not mitigated by after-sales support.

The regulatory regime treats ER purchases as a transactional one-off purchase, so follow-up support is currently dependent on industry standards. There was some evidence from the interviews of ongoing contact, but this did not typically involve any review of the purchase. Our participants mentioned ongoing support in terms of additional sales: 'They send out information every other month saying I can take more money'. Another appeared to have had a more rounded experience: 'The financial adviser rung and asked…if [my parents] need any more equity. He has kept up to date with them and made sure everything is ok. Which is really good…He said if you need any more…'

There is no requirement on firms to switch consumers into better value products so consumer inertia may be an important feature of this market, especially when consumers end the purchase process believing that switching and existing is difficult, expensive, or even impossible. Some of our participants made their purchases when interest rates were much higher, but they have not switched because they believe this would be costly or impossible:

> 'We haven't thought about [a review]. As far as I was concerned, it was set in tablets of stone.' (Female, 68)

This belief reflects a greater weighting attached to the upfront costs than to potential longer-term benefits. Also, certain product features may not be aligned with consumers' ongoing needs. Some participants later believed that they had purchased more equity than they needed or features that they hadn't used, which added considerably to the long-term cost: 'We added this drawdown facility which adds 0.2% to the interest rate but we haven't drawn anymore down since…so that's a waste of money'. This indicates that consumers may benefit from a review of their product.

Some participants expressed uncertainty and anxiety about early repayment charges and exit terms:

> 'I'm just praying that because it's a short term that, well, I don't know. Maybe the shorter the term, it's more…They say it's very, very difficult to get out of it…and costly.' (Female, 65)

and

> '[It] was something like seven years [lock-in period]. Seven years when you get to our age is a long time.' (Female, 71)

One participant experienced regret because he had subsequently benefited from a windfall, which exemplifies the absence of follow-up support that could have identified a more appropriate product, early repayment, or even exiting as a possible solution. One participant whose parents wanted to use ER to gift money to their adult children experienced feelings of culpability and regret for his lack of understanding of the longer-term ramifications*:*

> 'I'm kind of sick to my stomach. I don't want to become bitter about it. It's not the best product or feeling.' (Male, 75)

Subsequent feelings of negative emotions indicate the importance of initiating reviews, particularly for consumers who purchase from a position of vulnerability:

> '[Husband] sometimes says, 'I wish we'd never done that'…[He] had a stroke and…my worry would be the effect it would have on him if we had to review it.' (Female, 70)

The volume of complaints about ER made to the Financial Ombudsman Service and the FCA is very low. Intelligence from industry experts suggests that formal complaints are predominantly made by family members who were not consulted about the process. The research suggests that complaints may be understated due to feelings of culpability or embarrassment by the consumer, lack of understanding by the consumer of their purchase and its implications, and the absence of post-sales rules in relation to, for example, reviews. The following comment might typify an unhappy customer who is disinclined to make a formal complaint:

> 'I'm sure everything [the adviser's] done is absolutely correct and all the rest of it, but I felt a bit, sort of, roller-coastered into it. I blame myself, I don't blame anybody else, but I think I would rather have not done it'. (Male, 63)

The Panel welcomes moves in the market to encourage consideration of switching and to highlight the potential benefits to consumers. It is to be hoped that if more people are encouraged to explore changing their product the flexibility and value will gradually improve.

The Panel would like the FCA to: • Investigate the additional costs paid by consumers who are not switched to better value products as part of sector preparations for delivering the "price and value" outcome under the new Consumer Duty. The Panel has previously researched the benefits of automatic product upgrades[17] where it looked at the potential detriment for consumers trapped in poorly performing financial services products and asked the FCA to consider the merits of introducing a new automatic upgrade rule. A similar investigation with respect to ER might be beneficial • Explore the potential for providers to undertake annual reviews that include benchmarks of value against comparable products and updated costs and risks of switching • Review the utility that consumers obtain from additional product features • Derive metrics and indicators to evaluate consumers' experiences and outcomes
Better outcomes for consumers should be evidenced through: • An increase in positive self-reported reflections (eg drop in % of consumers who express regrets post-purchase)

5. CONCLUDING COMMENTS

The FCA has previously identified four key areas where older consumers typically differ from other groups of consumers: their financial needs and circumstances, capability and preferences, likelihood of experiencing specific life events, and likelihood of experiencing changes in physical and mental health.[18] By exploring the perceptions and behaviours of a group of consumers who exhibit aspects of these characteristics, the research has have provided rich insights into their experiences and outcomes as consumers of equity release.

The findings on which the Panel's conclusions are drawn are not a comprehensive review of consumer outcomes across the market. Other work points to many consumers achieving good outcomes and regretting not taking out equity release products sooner, or not releasing more equity. Our aim has been to highlight that particular types of customers are at heightened risk of not achieving these outcomes and are not well supported by the purchase journey or its regulatory overlay. The Panel believes these findings require further investigation with a view to making improvements.

The Panel's recommendations represent a demanding work programme for the industry, regulators and MaPS. The findings and proposals show the potential benefits of the New Consumer Duty in this market and could guide the industry's preparatory work and the FCA's monitoring of its implementation.

The Panel supports MaPS' UK Strategy for Financial Wellbeing, but believe there is scope for them to develop their planned support for people who arrive at retirement with less financial resource than they need to support a lifestyle without struggles and stress. There is a cohort for whom ER and similar solutions will provide vital options, but for whom there is too little personalised support to aid understanding, enquiry, and decision-making. Given their finite delivery resources, MaPS and FCA should consider how to co-ordinate work across the industry and other stakeholders to improve such support.

[17] https://www.fs-cp.org.uk/press-release-consumer-panel-calls-industry-develop-better-insurance-protection-products
[18] FCA (2017). Ageing population and financial services. *Occasional Paper 31.*

Appendix 1 – The different product options available to consumers of ER and alternative products

Lifetime mortgage, home reversion, remortgaging, grants, bank loans, downsizing

Appendix 2– Independent and industry experts who contributed to the project

Donna Bathgate, Chief Operating Officer, Equity Release Council

Liz Barclay, Equity Release Council Standards Panel

Chris Bibby, Chief Marketing Officer, Key Group

David Burrows, Chairman, Equity Release Council

Sharon Collard, Chair in Personal Finance, University of Bristol; former member, Financial Services Consumer Panel

Jane Finnerty, Joint Chair, Society of Later Life Advisers

Teresa Fritz, Former member, Financial Services Consumer Panel

Will Hale, Equity Release Adviser, Key Group

Jonquil Lowe, Senior Lecturer in Economics and Personal Finance, The Open University

Stephen Lowe, Communications Director, Just Group

Pam Meadows, Economist; former member, Financial Services Consumer Panel

Dr Louise Overton, Director of the Centre on Household Assets and Savings Management (CHASM), University of Birmingham

Chris Pond, Equity Release Council Standards Panel

Professor Debora Price, Professor of Gerontology, Manchester Institute for Collaborative Research on Ageing, University of Manchester

Kath Scanlon, Distinguished Policy Fellow, Department of Economics, LSE London

Robert Sinclair, CEO, Association of Mortgage Intermediaries

Ben Stafford, Head of Public Affairs, Just Group

Professor Christine Whitehead, Emeritus Professor of Housing Economics, Department of Economics, LSE

Appendix 3 – The different types of advisers and advice in the ER market

Intermediary	Permissions	Qualifications
Mortgage adviser/arranger	• Advising on or arranging regulated mortgage contracts (or both)	Level 3 qualification required (equivalent to A Level standard). Example would be the Certificate in Mortgage Advice and Practice
Equity release advisor	• Advising on, or advising on and arranging, regulated mortgage contracts • Advising on, or advising on and arranging, regulated home reversion plans (or both)	Level 3 qualification required (equivalent to A Level standard) as per previous row.

		In addition, advisor must complete a top-up example such as the Certificate in Regulated Equity Release
Independent Financial Advisor (or IFA)	The FCA does not specify a minimum set of necessary permissions to be an independent financial advisor, enabling firms to choose to specialise in specific markets provided they consider products from a wide range of firms across the market, and give unbiased and unrestricted advice. Possible permissions that might be held include: • Advising on investments • Advising on investments (except pension transfers/opt outs) • advising on pension transfers/opt outs • Advising on P2P (peer-to-peer) agreements • Arranging (bringing about) deals in investments • Providing basic advice on stakeholder products • Managing investments • Managing a UCITS (Undertakings for Collective investment in Transferable Securities) • Advising on investments (for non-investment insurance contracts only) • Arranging (bringing about) deals in investments (for non-investment insurance contracts only) • Dealing in investments as agent (for non-investment insurance contracts only) If the firm is holding itself as providing equity release advice it will also need the permissions specified in the second row of this table	Minimum Level 4 qualification required (equivalent to Certificate of Higher Education or, broadly speaking, first year of undergraduate study)
For details on the required qualifications see - TC App 4.1		