BRIEFINGS

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Intergenerational Justice and Family Welfare

The UK equity release market

Since the first equity release product was launched in the UK more than 40 years ago, the market has undergone some significant changes in terms of growth, product development and new forms of regulation and safeguards (see Factsheet 2 for more information on regulation). This factsheet provides an overview of the nature and scale of the equity release market; focusing in particular on changes that have occurred since the Global Financial Crisis (GFC).

The size of the market

The market for regulated equity release products has grown since its inception but remains relatively small. Estimates of the total size of the market vary because of a lack of centralised publicly available data, but the Office for National Statistics (2009) predicts that equity release products are used by around 2 per cent of owner occupiers over the age of 65. The market peaked at the height of the property boom in 2007, but the GFC has had a negative impact on supply and demand.

Supply

The providers of lifetime mortgages and home reversions are insurers and specialist retirement financial services companies. Before the GFC, there were a number of building societies offering equity release plans but this is no longer the case.

There are multiple reasons for the downturn in the market since 2007, with a reduction in lending being a significant factor. In 2007 there were 22 SHIP-member providers of equity release products. However, the GFC led to a shortage of (reasonably-priced) wholesale funding, and around half of all SHIP-compliant companies left the sector. In 2011 there were some signs of recovery with three providers re-entering the market, but the supply side of the equity release market remains relatively limited. The development of solvency II regulation is also considered to be a barrier to the number of providers in the market (Towers Watson, 2013). Solvency II is the modernisation of the prudential regulation for insurance companies in Europe (Towers Watson, 2013). As an EU Directive, it sets rules around the amount of capital that insurance companies must hold to reduce the risk of insolvency and in this, equity release assets are not recognised as appropriate for backing long-term liabilities (Towers Watson, 2013). It is believed that this directive is stifling innovation and preventing large European insurers from entering the market (Towers Watson, 2013).

Table 1: Number of equity release providers before and after the GFC

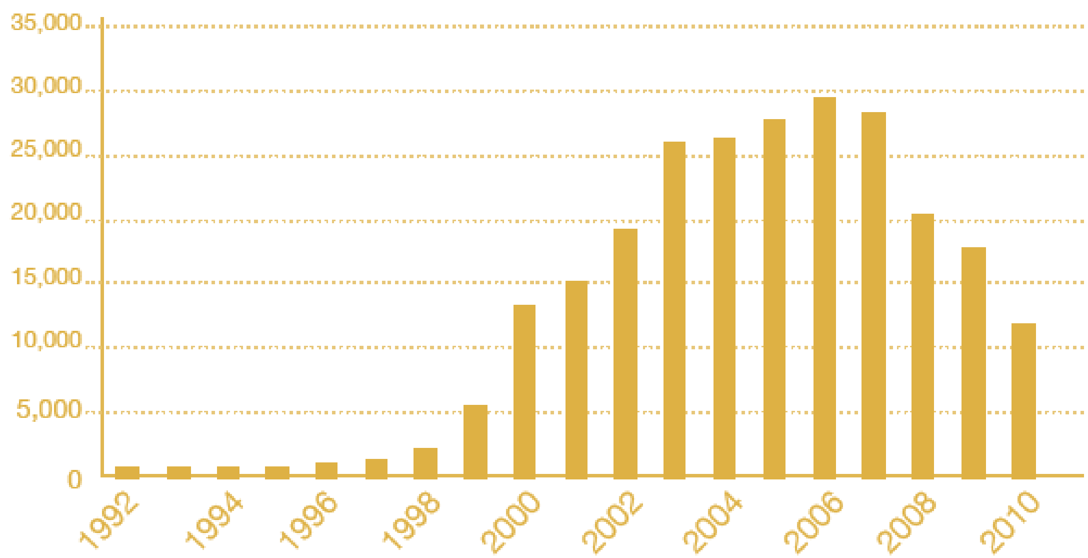
	2007	2013
Number of providers	22	10

Source: www.equityreelasecouncil.com

The vast majority of providers (over 90 per cent) are members of the Equity Release Council (formerly SHIP) which is the UK trade body for the equity release industry. SHIP was launched in 1991 as a direct response to the problems faced in the previous decade which highlighted the need for consumer protection (SHIP, 2009). All members must comply with their code of conduct which aims to protect consumers from some of the main risks associated with equity release (for details, see http://www.equityreleasecouncil.com/equity-release-council/code-of-conduct/). As well as representing providers, members of the Council now include advisers, solicitors, and surveyors.

The majority of lifetime mortgages and home reversions (approximately 65 per cent) are distributed via independent specialist advisers with around a third being sold by tied-sales teams from two large providers (SHIP, 2009; 2012).

Figure 1: Volume of plans (1992-2010)



Source: SHIP 20TH Anniversary Report, available at http://www.equityreleasecouncil.com/document-library/ship-20th-anniversary-report/

Demand

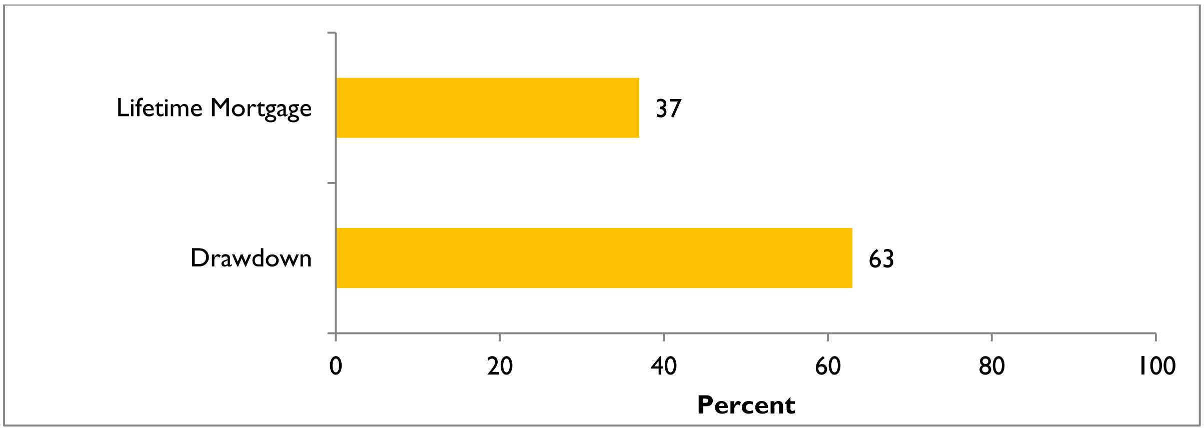
Before the downturn, the equity release market grew steadily over a period of 15 years. SHIP was formed in 1991, and at the end of 1992, 570 plans had been sold worth 28.9 million (SHIP, 2012). Ten years later there had been substantial growth and in 2001 the market was worth 572.2 million with the sale of 14,900 plans. In 2007, demand for equity release was at its highest with record numbers in the value of new business written and plans sold. However, since 2007, numbers have declined (see Figure 1, previous page).

The industry has responded to the downturn, in part, by offering greater product flexibility with features such as:

- *Inheritance guarantees*, where consumers are able to protect a proportion of their property value from the outset
- *Impaired life schemes* (otherwise known as enhanced lifetime mortgages), which take into account the health and lifestyle of the consumer, working on a similar principle to enhanced-rate annuities.
- *Interest payment options* – one provider who re-entered the market in 2011 now offers lifetime mortgages where consumers are able to pay off some of the interest during the life of the loan. This reduces the overall cost and increases the amount left for inheritance at the end of the loan term.
- *Wider provision of drawdown* – drawdown lifetime mortgages allow the borrower to obtain an agreed, maximum amount of money as and when required. It can reduce the effect of compound interest by allowing customers to take out smaller amounts of money at different periods rather than accessing a single, larger lump sum.

Product innovation is considered to be central to attracting more consumers to equity release and members are keen to develop new products that meet a range of consumer needs. It is clear that the flexibility offered by drawdown plans is popular among consumers as they continue to outsell standard lifetime mortgages (see Figure 2).

Figure 2: Product Mix



Source: Key Retirement Solutions UK Equity Release Market Monitor. Half year 2013

What might the future look like for the UK equity release market?

For a number of years commentators have been predicting significant growth in the equity release market which has yet to be seen. However, demand for these products may well increase among the next generation of retirees, particularly for those who find themselves with lower than expected pension income, those who are still making mortgage repayments after they retire, and those who see housing wealth as a means of supporting their children and grandchildren with such things as buying their first home and paying for university fees.

There is also evidence of an increasing number of providers responding to the changing retirement landscape and offering greater flexibility to meet the changing needs and preferences of older owners. One provider, for example, has launched an equity release plan specifically aimed at helping over 65s pay off interest-only mortgages. This combination of increasing potential demand and more innovative and flexible supply could lead to expansion of the equity release market, but reputational risk continues to be a barrier to growth in terms of preventing some of the larger, more well-known institutions from entering the market and in preventing larger numbers of consumers from using the products. It remains to be seen whether attitudes change.

References

SHIP (2012) *SHIP 20th Anniversary report, December 1991 to December 2011*, London: SHIP.

SHIP (2009) *Facing the Future: Redefining equity release to meet today's social and economic challenges,* London: SHIP.

Towers Watson (2013) *Equity Release – Accessing housing wealth in retirement,* London: Towers Watson.

Contact for further information: Dr Louise Overton, School of Law, University of Essex (loverton@essex.ac.uk).