HOME WEALTH RESEARCH REPORT

September 2023
Based on research conducted by
the lang cat

Introduction and methodology

For many people, the equity in their homes represents a significant, if not their largest, pool of savings. The Office of National Statistics found that property was the largest category of wealth accumulation in the UK after private pensions.[1] And Scottish Widows' 2023 Retirement Report of the UK found that home equity release could provide an additional £60,000 to fund retirement. In the Southeast, this doubles to over £120,000 and in London it is over £170,000.[2]

However, it is important to highlight that accessing the equity in a home for non-housing uses has difficult history. There have been cases of vulnerable people being sold inappropriate, high-cost options, often resulting in poor outcomes for end-clients. In fact, the FCA recently released announced the results of an investigation of later-life mortgages, which found "poor advice and misleading promotions" ongoing in the UK in this area.[3]

These two facts – that homes are a significant savings vehicle, and that current practices are leading to poor advice – seem like a call to action for the wealth management industry. If home equity could be better integrated into a holistic financial plan, with trusted advice provided, then would this situation shift? And would the looming retirement income crisis[2] in the UK look different?

At this juncture, it seems important that wealth management technology provides end-clients and financial advisers with the ability to integrate this important asset into holistic financial planning. As part of our joint effort to better incorporate home wealth into financial technology, Nokkel and FNZ partnered to uncover current financial adviser perceptions of house wealth in the United Kingdom.

To explore financial adviser attitudes and concerns, we asked the lang cat to conduct research on our behalf.

This report shares the results of that research, along with some observations about the state of the industry, home equity's relationship to Consumer Duty, and perspectives from the lang cat's Director of Public Affairs.

Hi there, the lang cat here. As you'll see in this short report, we did the research, and from time to time you'll see us chiming in with our two pence on the research and its potential implications.

Everything else in here is perspective from Nokkel and FNZ on our research, and although they paid us to do it, they didn't try to direct our activity or influence our findings.

Methodology

The lang cat conducted 12 in-depth interviews with advisers and conducted an equity release adviser survey with over 200 respondents in May 2023.

Our Director of Public Affairs also provided perspectives on this topic that consider Consumer Duty, foreseeable harms and the Retirement Income Thematic review, with opinion on the potential implications for housing wealth, and how it is incorporated into retirement planning.

Executive summary – House Wealth

The interviews and survey results indicate that most UK financial advisers believe house wealth should be better incorporated into the advice process.

Key findings

- 93% of advisers believe property wealth should be considered when giving financial planning advice.
- Most advisers also believe property wealth should be considered in retirement, estate and cashflow planning.
- Over 80% advisers believe an advice fee is warranted on house wealth related solutions.
- Two-thirds of advisers either provide mortgage solutions or refer to a trusted partner.

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Observations

- Nearly every firm we contacted thought housing wealth should be considered in financial planning. Nearly every firm captures some housing wealth data, but usually just the value, and the data's use varied from firm to firm.
- Respondents saw roadblocks, however. These included investor concerns with using their homes in planning, and the current tech landscape.
- Consistent with other research we've done with advice firms around technology, they expressed the need for manufacturers to make tools that easily integrate with firms' existing tech stacks. Nearly all firms in the UK are small and often don't have the technological expertise to integrate lots of systems together. Advisers' skills lie in delivering advice, not tech integration, so it's super important for manufacturers of tech to make integration as easy and seamless as possible.

Executive summary
– Equity Release

Many advisers see housing wealth - and equity release specifically – as a possible solution for the pension gap.

Key findings

- Approximately 50% of advisers believe equity release should be integrated into the advice process.
- Approximately 80% of advisers believe equity release is a viable solution to address the pension gap, to some degree.

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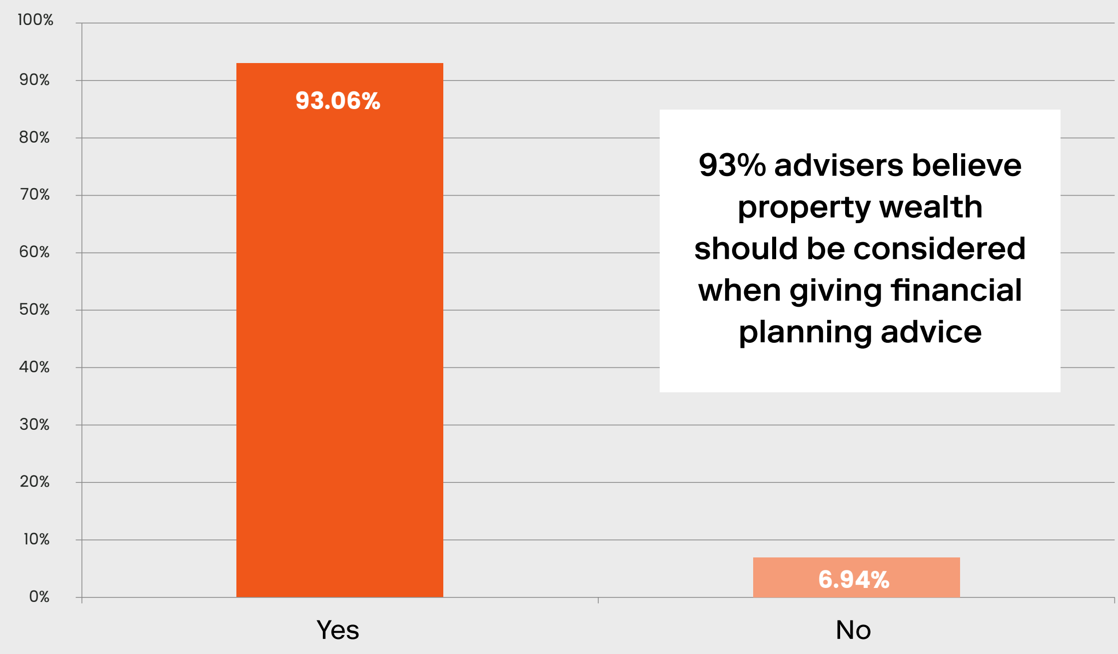
Observations

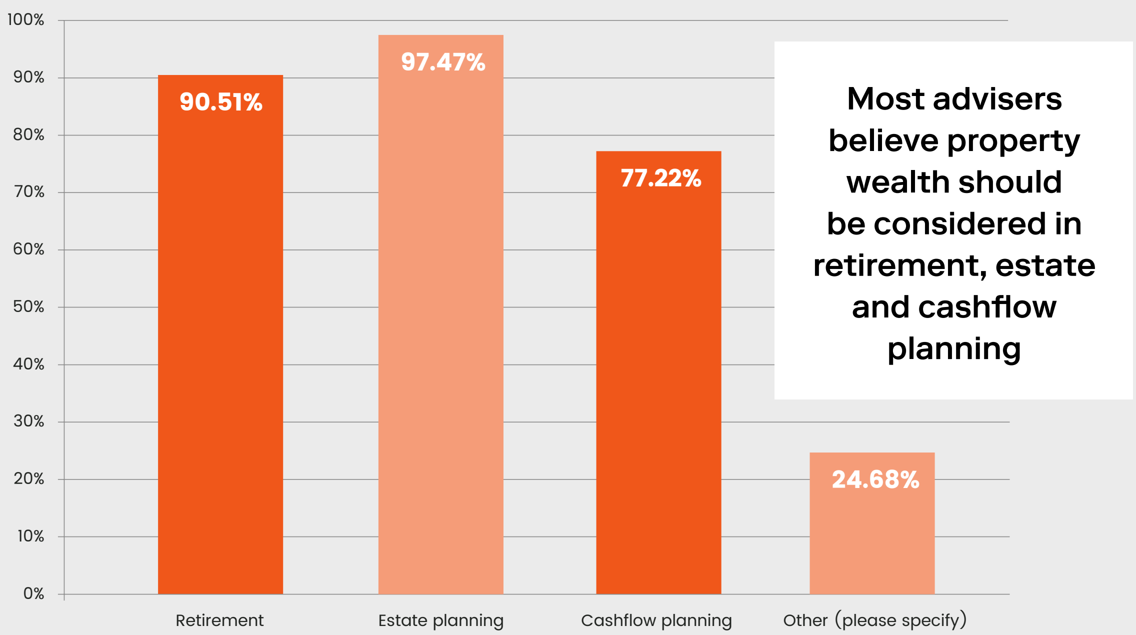
- Historically, we've observed a largely negative opinion of equity release in the adviser community, but our research here suggests the needle is turning. Although delivering this is often difficult due to the shortcomings in technology currently in the market, reliable data, and the integration with other advice software.
- With the advent of Consumer Duty, and in particular the foreseeable harms cross-cutting rule, there's more onus on advisers to show they've explored options for clients in and throughout retirement, and equity release is a part of that. That of course doesn't mean it's suitable for every client, but it should be explored to ensure a firm doesn't fall foul of preventing a foreseeable harm in the eyes of the FCA.

Survey Results

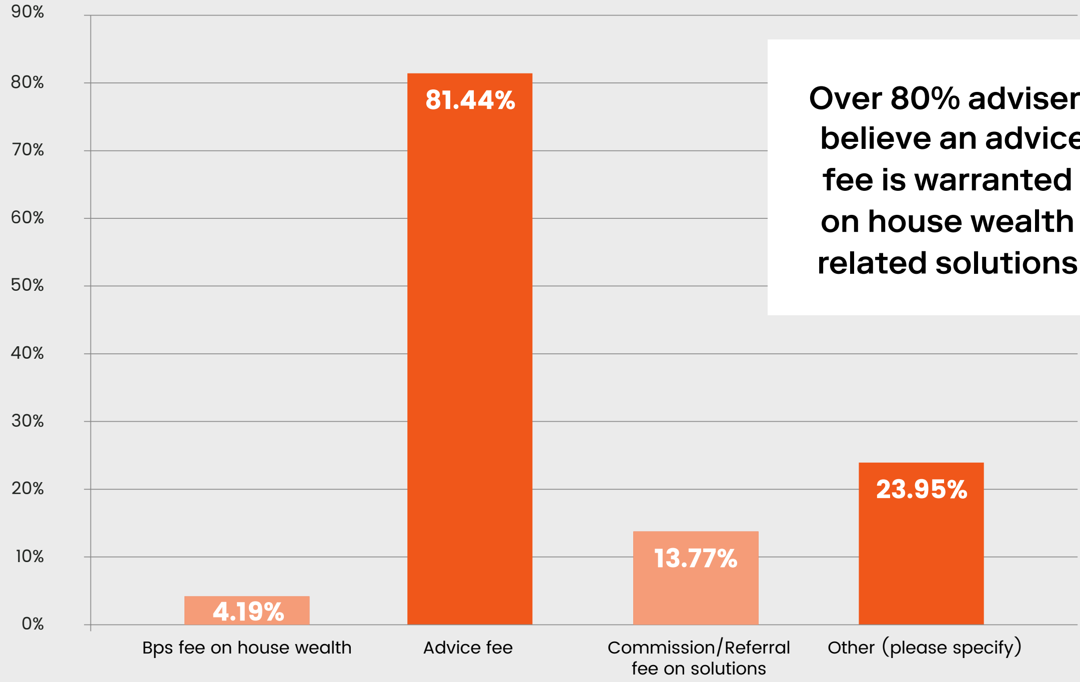
Should property wealth be considered when giving financial planning advice?



Which elements of advice should include property wealth?

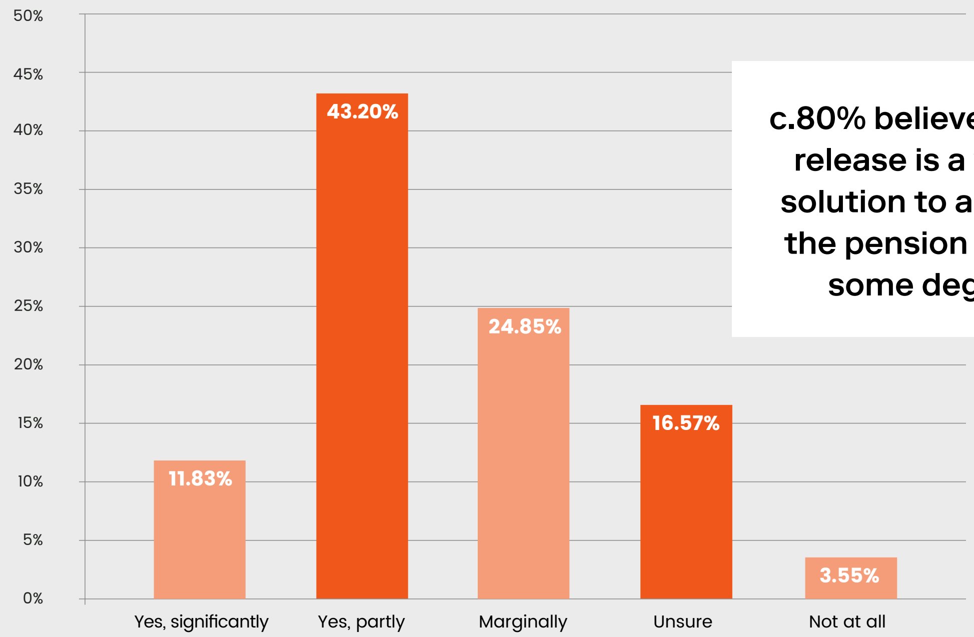


Which of the following do you think are reasonable forms of remuneration in return for advice and solutions provided in relation to housing wealth?



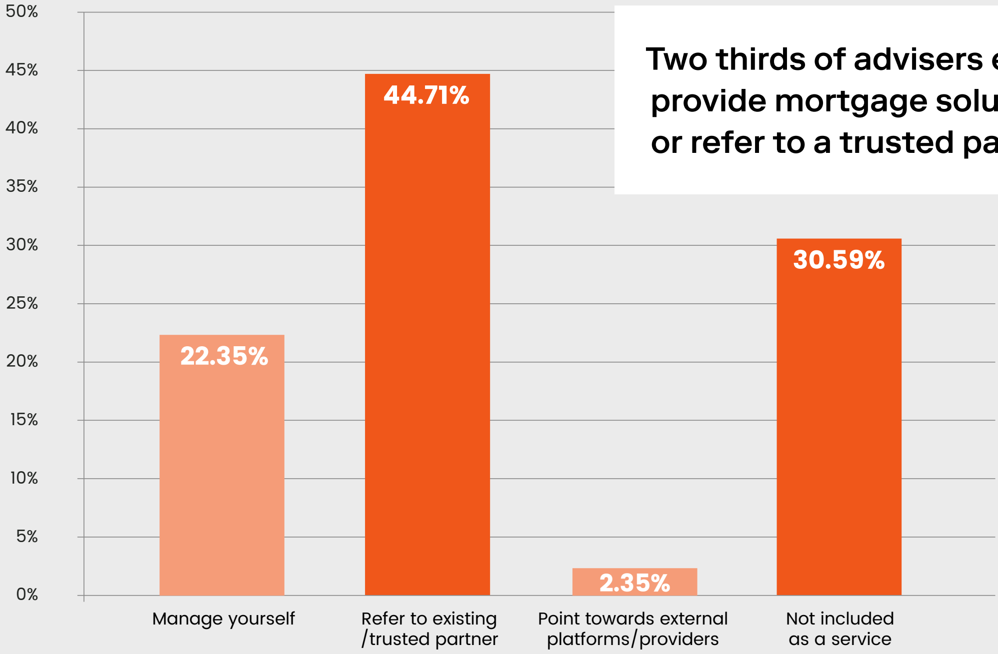
Over 80% advisers believe an advice fee is warranted on house wealth related solutions

In your opinion, to what extent is equity release a viable solution to address the pension gap?



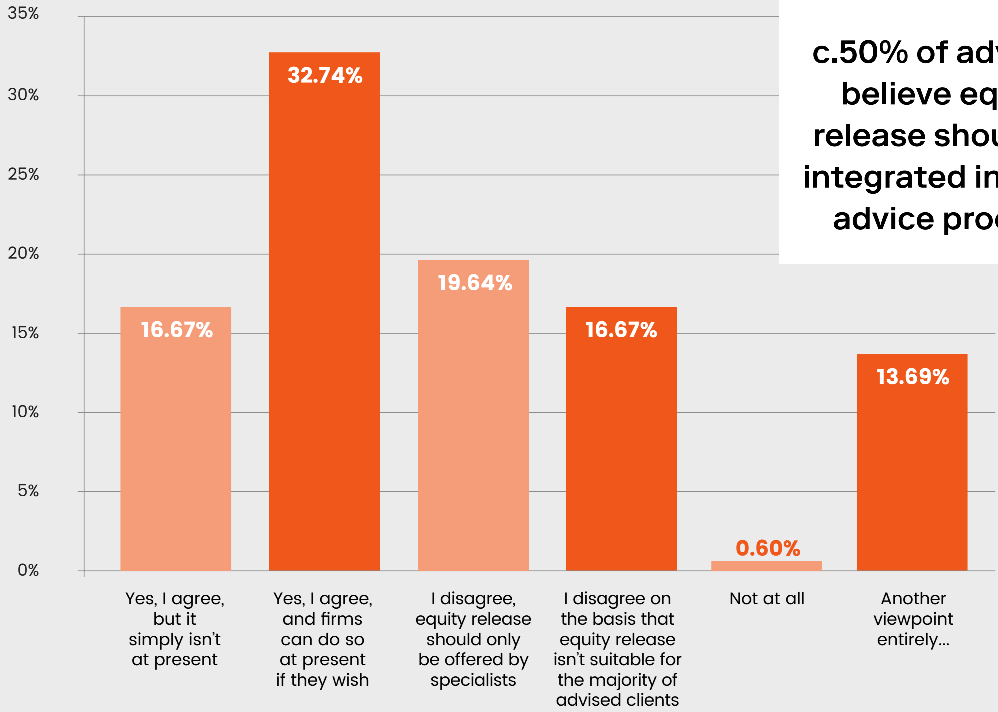
c.80% believe equity release is a viable solution to address the pension gap to some degree

For mortgage solutions, do you...



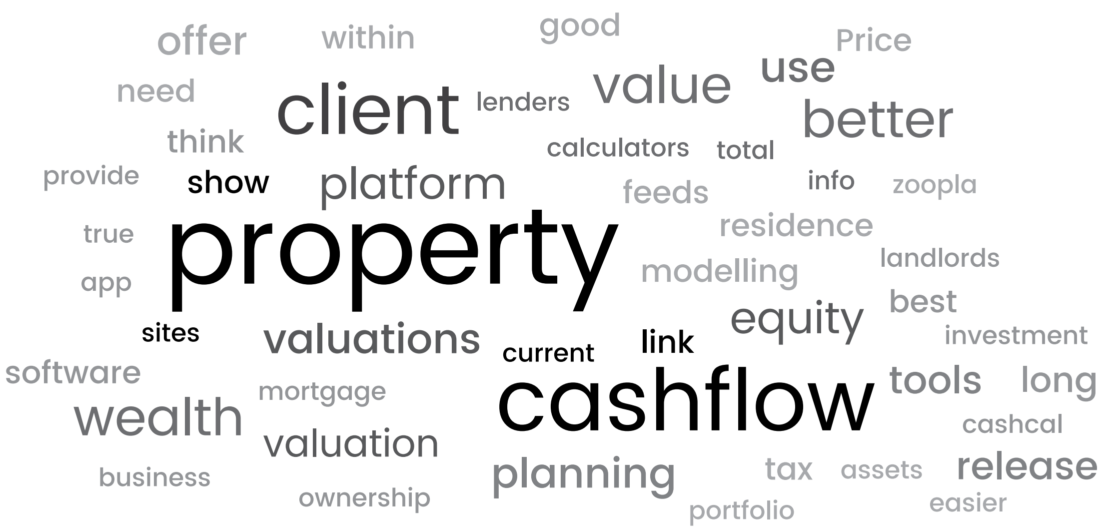
Two thirds of advisers either provide mortgage solutions or refer to a trusted partner

It could be argued that equity release should be more adequately integrated into the advice process. Which of the following best reflects your view?



c.50% of advisers believe equity release should be integrated into the advice process

Thinking now about whether or not current technology sufficiently addresses client needs with respect to property wealth... If anything, what do you think could be improved?



Observations

While the responses were free form, it's safe to say there are plenty of gaps in the current tech landscape, which hinder advisers' ability to include housing wealth into the advice process

The gaps can be categorised into three main groups:

1. **Integration**
2. **Gaps with existing software**
3. **Reliable Data**

Observations from qualitative interviews

- There is significant variation on how housing wealth is treated and incorporated into financial plans, but nearly every firm gathers at least some details around housing wealth information during the fact find stage. Most often, this is logged and retained in the firm's back-office system, but how often this data is maintained, and how or if it is used as part of a wider financial plan can vary a lot.

- Some advisers see home equity as a means for enhancing retirement plans or enabling early retirement. Several pointed out that in some instances clients may benefit by leaving tax-advantaged pensions alone in favor of housing wealth, for example.

- However, they also noted challenges to consider around investor attitudes. Often investors want to keep the home that they have worked hard for, which is entirely understandable, as it is an emotional subject for a lot of clients.

Conclusion:
Consider Consumer Duty as Home Equity Attitudes Shift

This research suggests that attitudes towards equity release are turning. Financial advisers see the benefits of integrating home equity into end-client financial plans, noting that housing wealth - and equity release specifically - is a possible solution for the pension gap, or could fund enhanced or early retirement. Perhaps this attitude shift is also in recognition of the facts covered in this paper's introduction: that homes are a significant savings vehicle, while current practices are leading to poor advice.

The flip side of the home equity discussion involves Consumer Duty. We appreciate the lang cat's Director of Public Affairs thoughts on this topic, which we have integrated into this commentary. Under Consumer Duty rules, advisers must evidence that their services provide value for money, and that they've considered and taken measures to avoid foreseeable harms. Later this year, the FCA is sharpening its focus on retirement income through its thematic review. Both Consumer Duty and the review could have implications for housing wealth, and how it is incorporated into retirement planning.

If we consider that the average age of an advised end-client is typically at or approaching retirement, and that these end-clients often pay an ongoing charge for advice throughout retirement, it could be argued that incorporating housing wealth into retirement plans will help meet value for money assessments. In addition, consider how home equity integration could help address the foreseeable harm cross-cutting rule under Consumer Duty, which directs professionals to avoid foreseeable harm to retail customers.

Nokkel and FNZ have been discussing wealth management industry needs related to home equity for some time. This research mirrors our perspective that the industry may be under-serving clients by not integrating home equity into financial planning, and that improved technology could help open up wealth – for wealth management firms, financial advisers, and end-clients.

About Nokkel:

Nokkel is an innovative fintech company with a free mobile app available to owners and buyers that consolidates property market information. This provides homeowners with the information they need, including valuation, to make better-informed decisions about their properties and connects into the financial services ecosystem. It also helps home buyers to find properties and to engage with potential sellers. Nokkel features almost every one of the UK's 28 million properties and has a scalable platform to facilitate expansion into new markets.

About FNZ:

FNZ is a leader in global, end-to-end wealth management platforms, partnering with over 650 of the world's leading financial institutions and over 12,000 wealth management firms. With 5,000+ employees in 30+ global locations, FNZ's mission is to open-up wealth, helping everyone, everywhere to invest in their future.

FNZ removes friction from wealth management, freeing its partners to create hyper-personalized and differentiated experiences for their advisors and end-investors. To date, FNZ administers more than $1.5 trillion in client assets and enables over 20 million people, from all wealth segments, to invest in a simple and transparent way. For more information, please visit www.FNZ.com and follow us on LinkedIn (@FNZ Group).

About the lang cat:

the lang cat is Leith's leading (probably) specialist financial services consultancy. The lang cat works with financial advisers and providers, helping them develop new propositions, turn marketing strategy into action and articulate their services in such a way that people without financial services degrees have a hope of understanding them. It aims to make the industry a little bit less corporate and stuffy and a little bit more human.

References:

1. Office of National Statistics, Household Total Wealth in Great Britain: April 2018 to March 2020, released January 2022.
2. Scottish Widows, 2023 Retirement Report, released June 2023.
3. Financial Conduct Authority, Press release: Review of later-life mortgages finds poor advice and misleading promotions, released September 2023.

Disclosures

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