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The Over 50s Rip Off

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Guaranteed Acceptance Plans

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Over 50s plans are a Rip Off !!!

- Payout can be substantially less than premiums paid
- Some plans make you pay until death
- Lack of flexibility – possibility of losing everything if you stop paying in, inability to reduce premiums
- Promoted using celebrities and free gifts

ABI citizens advice bureau Which? DAILY Mirror Daily Mail THE SUNDAY TIMES

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What do you think?

THE DECONSTRUCTION OF THE WHOLE OF LIFE INSURANCE PRODUCT

OVER TIME THE CORE PROPOSITION SIMPLIFIED WITH INCREASED SUCCESS, BUT TO CUSTOMER DETRIMENT?

	Traditional whole of life
Underwriting process	12 page app, MAR,ME
Decision time	Weeks
Cover	On acceptance
Mori benefit	N/A
Pricing	Per life
Payment term	Until death
Default benefits	NF, PUP, SV
Gifts	None

THE DECONSTRUCTION OF THE WHOLE OF LIFE INSURANCE PRODUCT

OVER TIME THE CORE PROPOSITION SIMPLIFIED WITH INCREASED SUCCESS, BUT TO CUSTOMER DETRIMENT?

	Traditional whole of life	Direct response u/w whole of life
Underwriting process	12 page app, MAR,ME	4 or 5 u/w questions
Decision time	Weeks	Days
Cover	On acceptance	On acceptance
Mori benefit	N/A	N/A
Pricing	Per life	⬇Age based,
Payment term	Until death	Until death
Default benefits	NF, PUP, SV	NF, PUP, SV
Gifts	None	Enquiry gift, Carriage Clock

Then in 1989…

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THE DECONSTRUCTION OF THE WHOLE OF LIFE INSURANCE PRODUCT

OVER TIME THE CORE PROPOSITION SIMPLIFIED WITH INCREASED SUCCESS, BUT TO CUSTOMER DETRIMENT?

	Traditional whole of life	Direct response u/w whole of life	G'teed acceptance whole of life
Underwriting process	12 page app, MAR,ME	4 or 5 u/w questions	Guaranteed Acceptance
Decision time	Weeks	Days	Instant
Cover	On acceptance	On acceptance	2 years
Mori benefit	N/A	N/A	1.5x prems, AD
Pricing	Per life	⬇Age based,	⬇⬇Age based,
Payment term	Until death	Until death	Until death
Default benefits	NF, PUP, SV	NF, PUP, SV	NF or less
Gifts	None	Enquiry gift, Carriage Clock	Enquiry gift, Flat screen TV, £75

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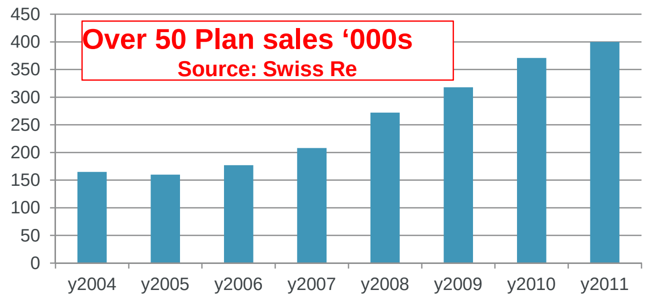
THE OVER 50 MARKET GROWTH TO 2011

WITH SUCCESS, OPINION FORMERS NEGATIVE COMMENTS GREW

- **Up to 2011, a huge sales success story**
- **Marketing spend c£70m a year**



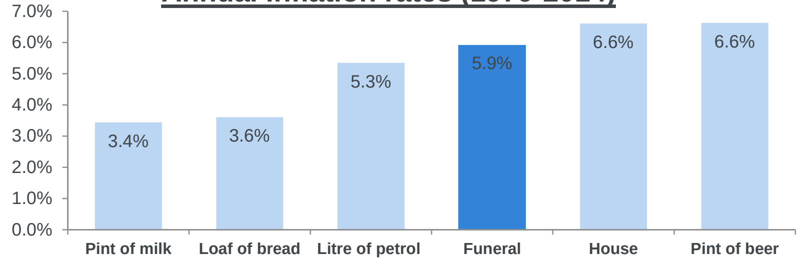
- **Which? were amongst the fiercest critics of the product**
- **Among opinion formers , criticism rests on poor customer outcomes.**

Customer Audience and Need

FUNERAL COSTS ARE THE PRIMARY DRIVER

- **Funeral costs are the primary consumer need**
- **Since the Over 50s launch in 1979 funeral costs have risen from£475 to £3551**
- **Bread has risen from £0.33 to £1.15 , a house £20K to £188k**

Annual inflation rates (1979-2014)



Clarifying Consumer Need

HOW WE PAY FOR A FUNERAL

Savings

Funeral Plans

Over 50s life cover

Debt

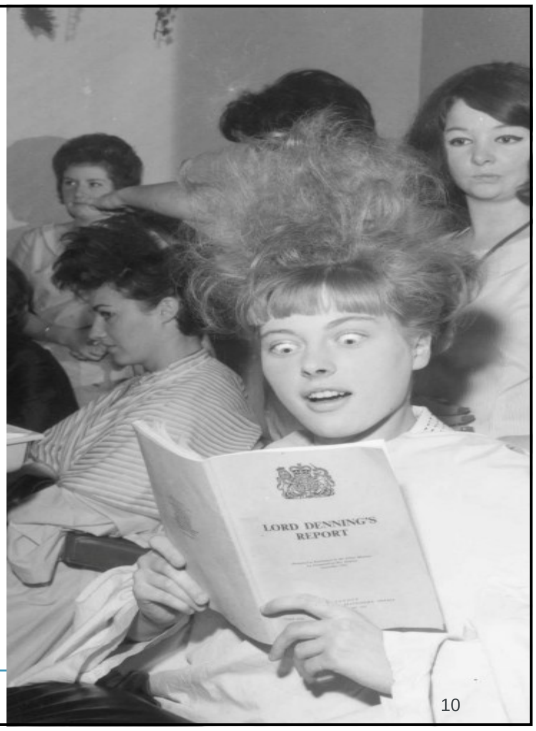
- **Simplicity - of setting up**
- **Flexibility - use in emergency**
- **Certainty - "fixing" funeral costs**
- **Discipline - can't be tempted to use money for other things**
- **Affordability - monthly payments**
- **Discipline - can't be tempted to use for other things**
  - **1 in 5 – Average £1300+**
  - **Funeral poverty record levels**

Funeral poverty

FUNERAL POVERTY SET TO SOAR

Funeral Poverty at record levels

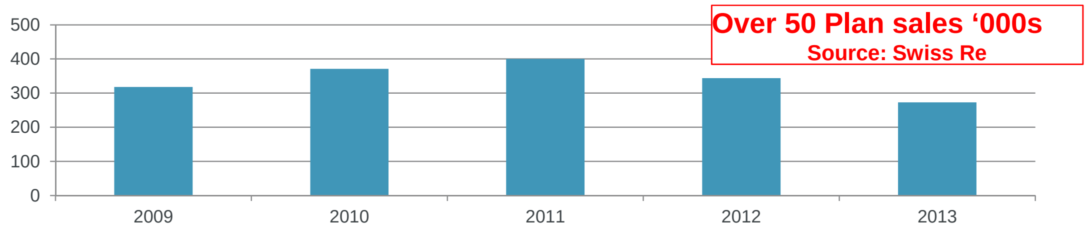
- **19% struggle with funeral costs**
- **average shortfall £1,305**
- **576,000 UK deaths,**
- **funeral poverty up to £142m**



OVER 50 MARKET decline 2011- 2014

FOLLOWING BANCASSURERS WITHDRAWAL, SALES HAVE FALLEN BUT THE MARKET IS SHOWING SIGNS OF LIFE

- **Media attention following the Which? report in early 2012 co-incides with a significant contraction in the market**
- **However since then new entrants have entered the market**
- **Marketing spend levels remain significant**
- **Propositions entering the market offer more value**



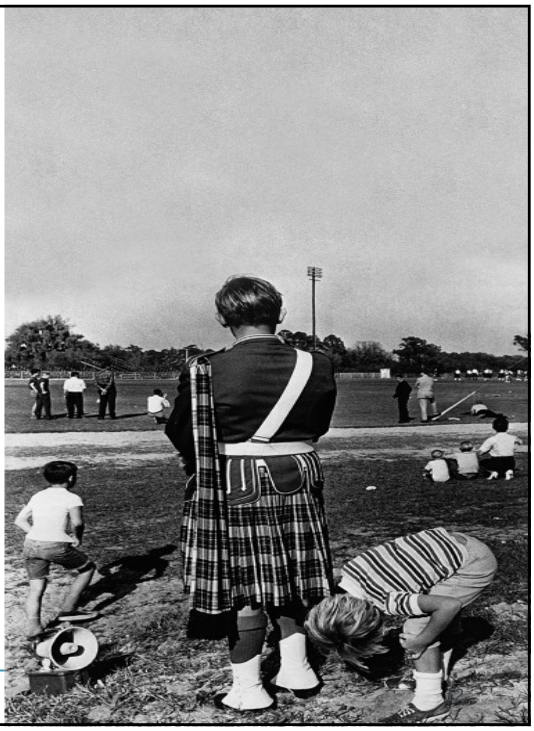
RECONSTRUCTION OF THE WHOLE OF LIFE INSURANCE PRODUCT

INNOVATION AND VALUE

Innovation of The Over 50 market is increasing

Improvements are coming in the form of

- **Better pricing for consumers**
- **Features which augment the need**
- **Features which mitigate poor customer outcomes**
- **Some features which provoke market criticism remains**



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Equity Release

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The Equity Release Rip Off?

'Vulnerable people are being taken advantage of': Ex-tennis star Andrew Castle criticises 'rip-off' equity release schemes after one cost his elderly relatives £46,000

- **Andrew Castle reveals parents-in-law borrowed £70,000 against their home**
- **Six years later discovered they owed £46,000 in fees and charges**
- **The 51-year-old tennis star branded the charges 'not human'**

What do you think?

http://www.dailymail.co.uk/news/article-3183810/Vulnerable-people-taken-advantage-Ex-tennis-star-Andrew-Castle-criticises-rip-equity-release-schemes-one-cost-elderly-relatives-46-000.html

A brief history

1965	The first Equity release plan in the UK
1970s	First home income products. Fixed rate interest only mortgage used to purchase annuity. Interest payments made from annuity proceeds. Killed by 1991 tax changes.

Then came trouble ……….

Early 1990s	Newer variable interest rate home income products hit trouble under falling house prices and high interest rates. Left many with annuity income not high enough to pay interest AND in negative equity, with no way to pay off arears or get out of the debt.
Mid 1990s	Share Appreciation Mortgages. Equity released via an interest free loan with a % share of appreciation in value paid back to lender. They were typically priced assuming a 4.5% annual rise and when property boomed in the mid to late 90s many ended up owing many multiples of the original loan.

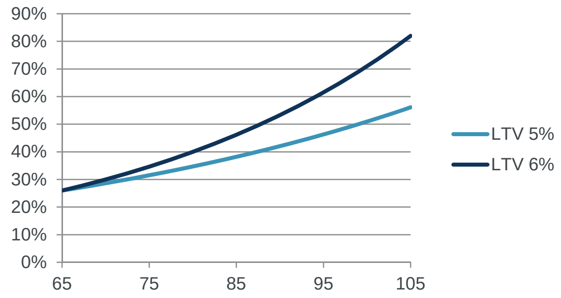
http://fsplimited.co.uk/equity-release/the-history-of-equity-release/

Where are we now?

- Now dominated by lifetime mortgages (c 99% of market)
  - Lump sum advance paid in return for charge on home, lump sum rolls up with fixed interest
  - Policyholder still owns home and lives in it until death or entry to care home
  - Lump sum plus interest paid to provider on sale of home. No negative equity guarantee a feature of most products (and all Equity Release council approved). This guarantee can be set at a lower % to protect some inheritance
  - Drawdown facility products now most common
  - Interest servicing and / or interest only products becoming common
- Home reversion plans less common
  - Provider purchases all (or part) of house for lump sum or income stream
  - Borrower retains right to live in the house until death

Typical features of lifetime mortgages

	Typical features
LTV	55 year old: 10-20% 65 year old: 20-30% 75 year old: 30-40% 85 year old: 40-45% Health underwriting offered by many providers to enhance LTV
Interest rate	5-6% fixed (in current market)
Completion fees	£500-£1000 to 3% of sum released
Early repayment charge	Yield dependent up to 25% of value of loan



Typical loan repayment due as a % of property value. Assumes 25% LTV at outset for 65 year old. House price inflation 3% p.a. 5% or 6% fixed interest. £1000 fee added to loan.

Source: Hymans Robertson Research and discussion with IFA

Market Criticisms

Summary of Market Criticism	Market Response
Unregulated Market	Industry body SHIPs formed (now the Equity Release Council) and full FSA regulation
Vulnerable elderly hoodwinked by hidden costs and unknown charges	Only fully qualified financial advisers can recommend schemes. All costs and charges must be transparent. Solicitor mandatory. Majority insist on family involvement
High uncertain variable interest loan repayments or high build up of loan through excessive shared appreciation	Fixed interest loans dominate the market, not linked to house value appreciation. No regular payments required to service loan
Risk of negative equity as the loan to be repaid outstrips the value of the home	All Equity Release Council approved plans have a no negative equity guarantee
A big one off decision	Plans allow regular withdrawals
Excessive withdrawal penalties	Potential remaining criticism as often linked to market yields and can appear excessive in falling yields
Entire house value wiped out for longest lived	Potential remaining criticism, but many now offer an inheritance guarantee – say 20% of house value

Market demand ….. and market supply

£1.3 Trillion in over 65s housing equity[1]

Freedom and choice may introduces holistic at retirement advice … and income shortfalls

At retirement incomes further squeezed, and later life care needs

The interest only time bomb. CAB predicts close to a million retiring without a repayment vehicle

Record low yields mean insurers and pension schemes are in search of higher yields

Supply under threat from fall in individual annuity sales and solvency II matching adjustment issues …. But

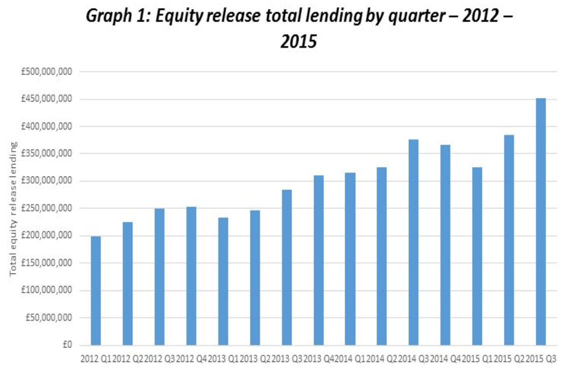
- Matching adjustment solutions in place
- The rise of the bulk annuity market should increase supply
- Pension schemes may be next to get involved

1. Source: L&G presentation at Westminster and City Annuities and Drawdown Conference 2014

The outlook

The sales speak for themselves[2]

FCA to examine equity release amid reputation concerns a “dirty word” reputation has led to an under-functioning market



i.e. the regulator is not saying this is a poor product, but rather that it suffers from reputational issues.

2. Source: http://www.equityreleasecouncil.com/news/equity-release-breaks-new-ground-with-biggest-quarterly-rise/

Victory for Equity Release?

What do you think?

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Funeral Plans

04 November 2015

A brief history

Pre 2002	Unregulated sales of Funeral Plans allowed Funeral Providers could accept payments for funeral plans, with no need to reserve or allow for a future liability.

Then came FCSM (2000), which excluded Funeral Providers from wider regulation, so long as they used one of the following the back the Pre Funded Funeral Plan:

WoL plans	the provider undertakes to secure that sums paid by the customer under the contract will be applied towards a contract of whole life insurance on the life of the customer (or other person for whom the funeral is to be provided), effected and carried out by an authorised person who has permission to effect and carry out such contracts of insurance, for the purpose of providing the funeral
Trust	the provider undertakes to secure that sums paid by the customer under the contract will be held on trust for the purpose of providing the funeral, subject to requirements that are or will be met with respect to the trust.

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Market Criticisms

Summary of Market Criticism	Market Response
No guarantee of getting the funeral you bought due to possible FP insolvency	FPA is the self regulating industry body, which also attempts to find an alternative FP in case of insolvency.
High commissions paid to external agents or large administrative charges taken prior to investment	Potential remaining criticism as this is still done by some organisations and providers. However, what level is 'fair' to attract business?
Poor sales practices	Unfortunately too many instances of companies that perform hard sells in customers homes, its legal but is it morally acceptable.
Lack of understanding of what has been bought	If bought at a FP, then this is usually not an issue. However, if sold at home via a third party, then this often remains an issue
Confusion due to the complexity and choice between providers and within the plans each provide	Potential remaining criticism as, by definition, funerals are very personal, so more options are needed to provide the service required
Industry concern on some providers if they are meeting the requirements of FSMA, or incorrectly interpreting them	Potential remaining criticism as this may lead to customer funds not being protected

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Questions

Comments

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