



COVID-19

Stop-start Mentality

Impacts on Later Life Lending

May 2020

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SERVICES FASTER



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Foreword

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Industry response: the picture so far

As the UK lockdown begins yet a further extension, Altus turns its attention to Later Life Lending (LLL), a market that had stalled in 2019, demonstrated a strong bounce back in Q1 this year with new business up 14% but now faces fresh challenges in the new norm. As with our previous papers, we have taken a view of the key impacts across all areas of business.

Initially lurching to a stop in Q2 as valuation and legal services became unavailable, the market has rapidly moved on to introduce remote business standards that enable lending and protect the customer. As we write, the first offers, processed completely remotely, have already hit customer doorsteps. All this whilst moving mountains to enable home working and facing the associated capital spend this incurs.

Yet we live in uncertain times. Increasing levels of unemployment may drive house prices down, reducing the value of lending per property. Downsizing is likely to become less attractive as a

result of depressed property values. Land registry and legal searches are still hazy, then add in “Help to Buy” finishing; pension values suffering from volatile markets; the increased usage of technology; and we are looking at a classic storm for the market, offering up threats and opportunities.

With actuaries predicting that 2020’s mortality rate will be between 3% and 6% higher than 2019’s, there will be further impacts on funding model assumptions and capital reserving. This type of funding model uncertainty has already seen some of the big external funders withdraw from the market.

Despite this, what is to be celebrated is that from a market that has often been measured by its chequered past, there has been the ability to adapt and change at speed, whilst keeping the wellbeing of the customer at the centre of all activity. A great benchmark from which to move forward.

Altus Later Life Lending Capability Framework

An engineered framework of the logical capabilities of an LLL business

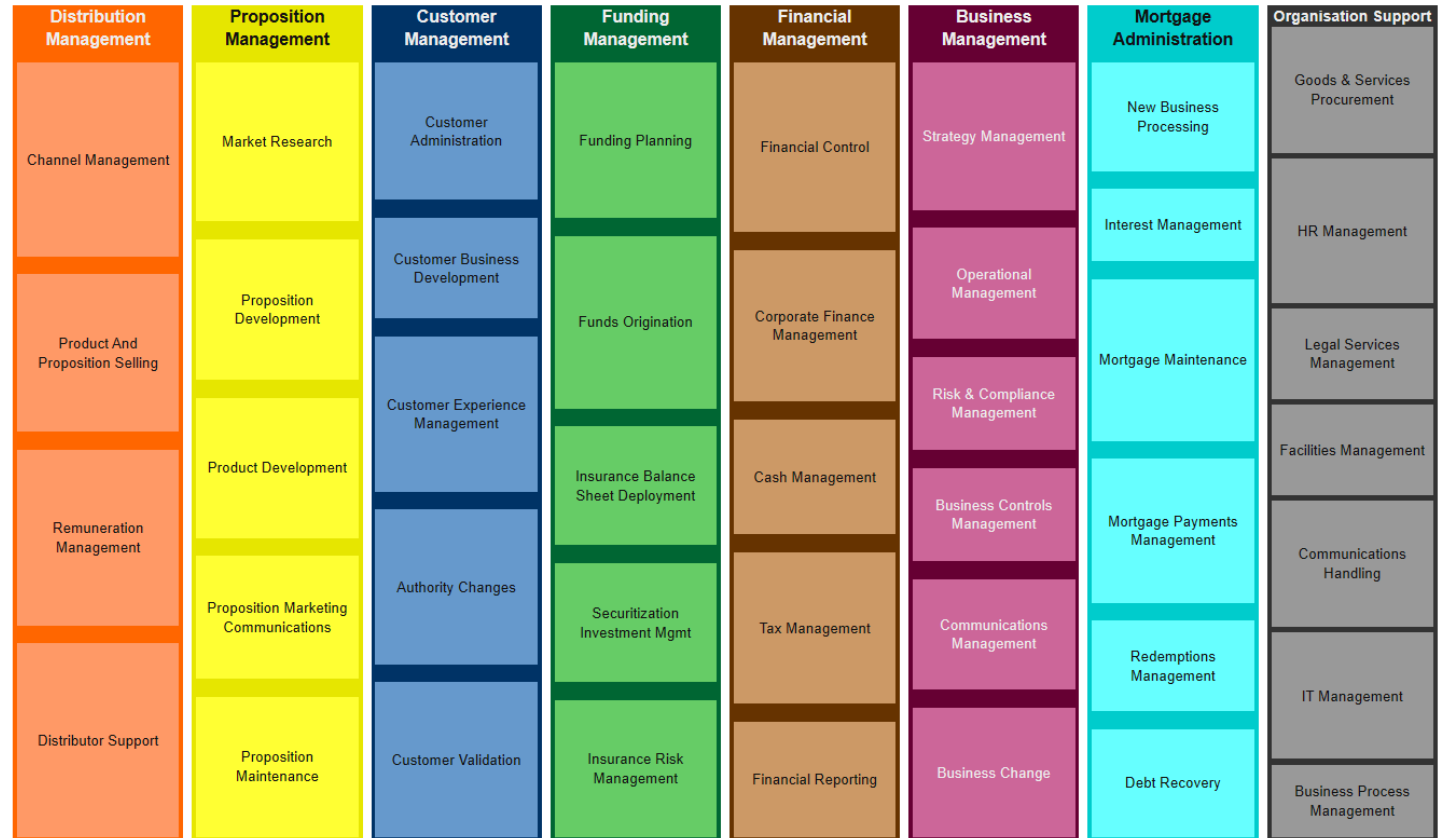
Introduction:

With the current COVID-19 crisis in full flow, providers are having to be proactive in managing impacts across every area of their business.

Altus has captured and visualised the key impacts against its Later Life Lending Reference Model, across all business

capabilities – the building blocks of a lender, which are delivered by people, processes and technology. This model enables organisations to define what they do using a common language in order to fully understand the end-to-end business.

The model shown here is to the first 2 levels only.



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Approach

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Impact of COVID-19 on Later Life Lending

Providers are still taking short term actions to meet the changing market needs, while business continuity plans are being re-fashioned, having been found inadequate for such a broad-based crisis. Global experience shows us that returning to normality will be a slow, phased process. The Government will prioritise the return of parts of the economy that cannot be run remotely ahead of re-opening large offices, and it's plausible, with concerns about further waves, that these will have to remain as they are now for six months or more. Lenders therefore face the challenge of regaining their usual levels of efficiency but should also use this opportunity to enhance their operation for the longer term. Few, if any, would have believed that such a large part of the industry could have moved to remote working as quickly as it has.

It is certainly the case that activities adopted because of COVID-19 have coincidentally offered a more mature level of capability and will become the new norm. The lifetime mortgage sector is being turned on its head, moving from where face to face advice was seen as the key, to new digital and remote based solutions becoming the must haves. Providers will come under increasing pressure to digitise operations in order to continue to compete. Key examples are the adoption of digital communication and authority, back-end processes that 'just happen' and the potential for widespread remote working, reducing or even eliminating the need for office space, so vastly reducing fixed costs.

At a high level we see the impact of COVID-19 being felt across the Later Life Lending Model:

Financially: We have seen completions temporarily stall whilst new processes were installed, with increased costs being generated to fund the exodus to working from home. Some external funders have withdrawn from the market, which will change the shape of competition moving forwards and the types of product that can be made available.

Operationally: New business has had to adapt to new remote valuation and legal practices, supported by changes agreed through the Equity Release Council. Land Registry and searches are impacted by reduced servicing in some counties.

Organisationally: Business Continuity Plans have been found wanting, with new solutions created "on-the-fly" and now undergoing constant review and flex. Given the magnitude of this event, thoughts are turning on how to return, post-pandemic, to whatever business under the new normal may look like.

HR departments are seeking innovative ways to monitor staff mental health and wellbeing, whilst managing the challenges and concerns around potential furloughing.

IT departments have rapidly delivered home-working kit (e.g. laptops & video conferencing) and resolved connection security issues.

Businesses are challenged to ensure that internal and external communication with customers, staff, intermediaries and suppliers is maintained, including call-recording where needed. Those that fail to address this are being called out.

Change priorities are being re-evaluated with acceleration seen in some areas and pause in others, primarily with a focus on keeping the business afloat.



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Impact
Overview

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Funding & Advice Overview

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Impact of COVID-19 on Funding & Advice

Specific to the LLL market are the funding models used for Lifetime Mortgage products, and the huge impact this can have on lenders.

Pre-COVID-19, the market was oversubscribed with funding, too much money was chasing the demand. Some lenders were wholly dependent upon single funding sources, others had built up diverse funding arrangements with several "dance-partners" and others having the benefit of internal funding sources.

Now, we are seeing a fork in the road.

- Firstly, we have those funders that are **seeking out alternative assets**. Corporate bonds, whilst still carrying significant risk, are offering much improved risk and reward terms for asset models which may make securitised LTM's less attractive.
- Secondly, we have the **non- PRA funders** that are looking at the market with a long-term view, these are typically the types of funder where **high LTV products** can still be offered.
- Finally, we have **lenders with internal funding sources**, not dependent on third parties taking a view and controlling their business. This latter group may be more prudent in product provision than our second source but are more able to handle scale.

We expect to see funding difficulties leading to consolidation in the lending market, as those lenders with few or even a sole external funding source, come under increasing pressure to engage with alternative funding sources. Those that fail to source alternative funding are likely to suspend or even exit the market, as it is unclear when, or if, funders will return. Following the credit crunch of 2008/2009 the number of funders more than halved.

It should also be borne in mind how much of an impact on funding comes from distribution.

- Historically, face to face advice generates the highest conversion rate and has been the preferred solution.
- COVID-19 has seen the target customer leap forward in digital engagement, with more shopping and banking on-line than ever before.
- New robo advice and guidance solutions are entering the market and gaining more traction with customers.
- Advisers recognise remote contact is easier with existing customers than new.
- More businesses are farming existing customers for drawdown opportunities, further advances and re-broking.

Whilst re-broking is still at a relatively low level in the LLL market it poses a threat to funding models as the average duration of the loan is at risk of reducing. Historic books may come under attack as advisers seek to leverage "easy" options (e.g. reducing the impact of double-digit interest rates) during this time.



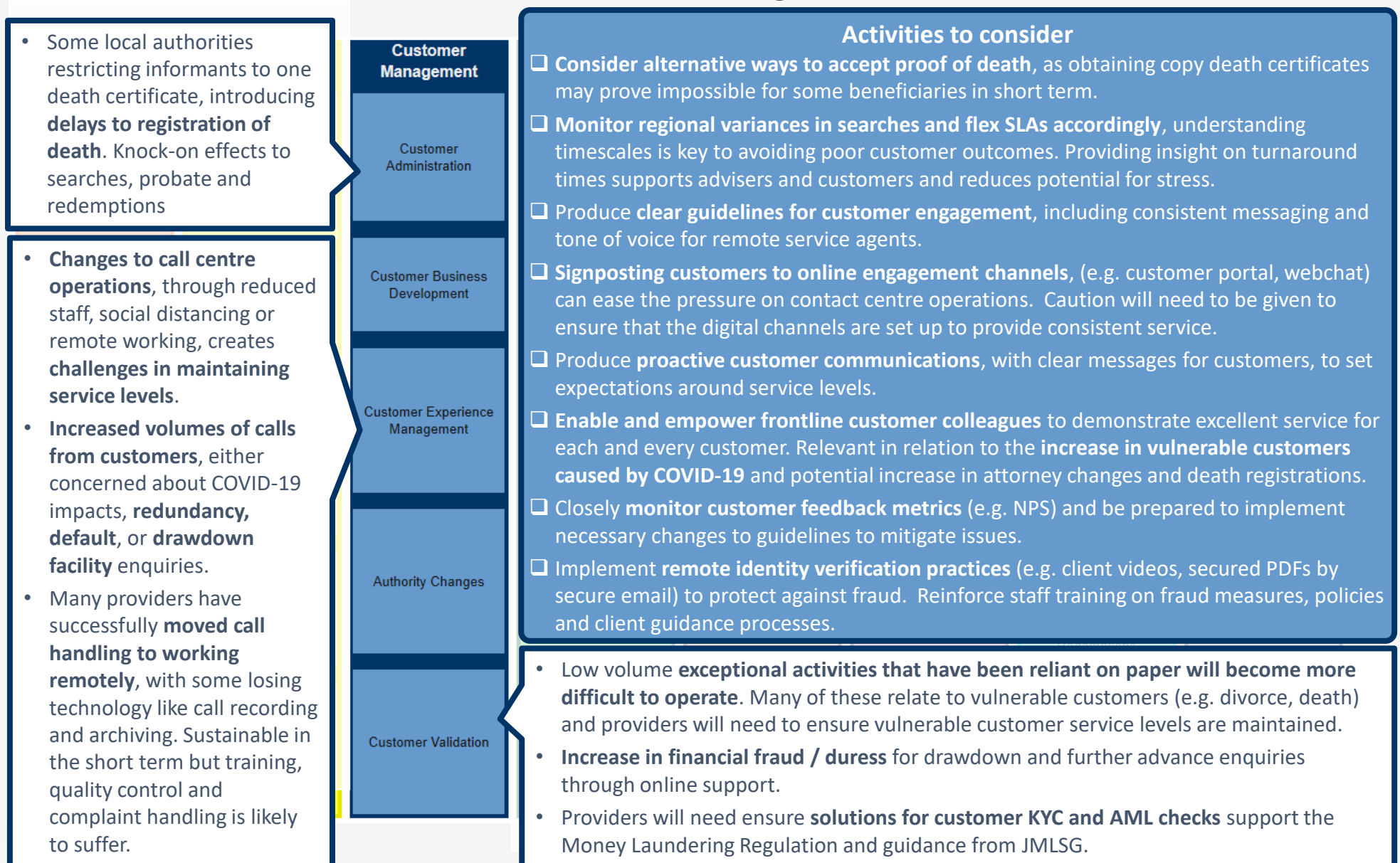
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Customer Management

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Customer Management

The administration and management of customers





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Mortgage Administration

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Mortgage Administration

Administration and management of loans

Activities to consider

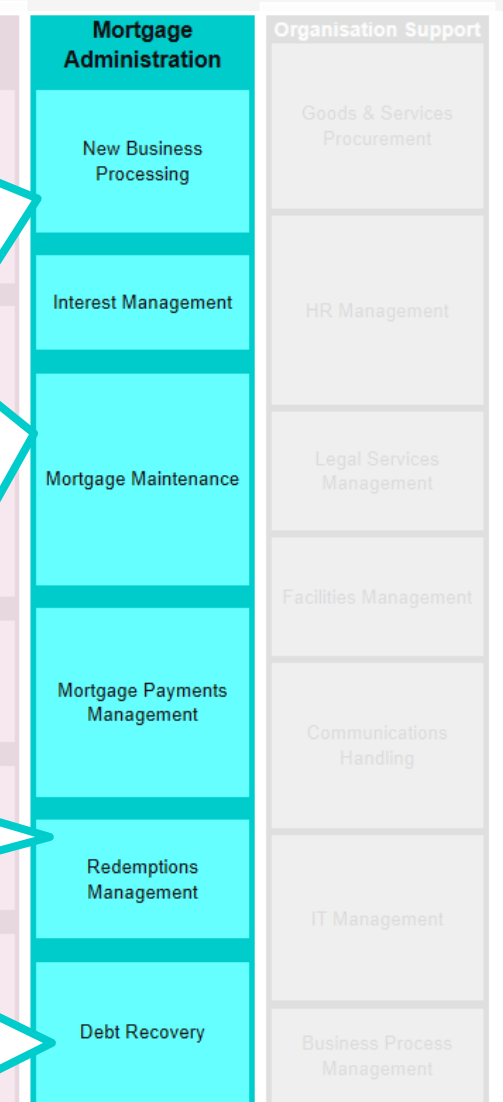
- Where wet signatures are required e.g. trustees, put in place **rota of signatories** to enable social distancing on-site.
- Reallocate staff from non-critical business areas** to mitigate operational pressures.
- Use workflow tools and business activity monitoring** to divert resource from non-critical tasks.
- Review vulnerable customer policy** to reflect the impact of COVID-19, which it could be argued has made every customer vulnerable (i.e. when video conferencing including a relative is permitted).
- Review ethical lending policy and associated processes** to ensure additional pressures from COVID-19 are considered and supported.
- Consider a **pragmatic approach to client authority** i.e. whether completed forms can be attached to a secure message.
- Review SLAs** to ensure adviser and customer expectations are managed (e.g. estimated times for legal searches to complete)

- Already seeing a **move away from physical channels and wet-signature requirements** ensuring that customer's consent and legal sign off can be obtained online effectively.
- **Increase in operational pressures** may affect ability to meet targeted service levels. This has been particularly evident where there is a lack of straight through processing and self-serve digital capabilities.

- A significant proportion of **customers will become vulnerable**, either temporarily or in the longer term, as a result of the financial and health impacts of current nationwide restrictions and the virus itself. This is likely to **increase operational pressure (e.g. arrears, defaults, loan repayment holidays)**.
- Providers with significant volume of drawdown business may see a **spike in withdrawals** as a result of the market volatility impacting other income streams and family members.

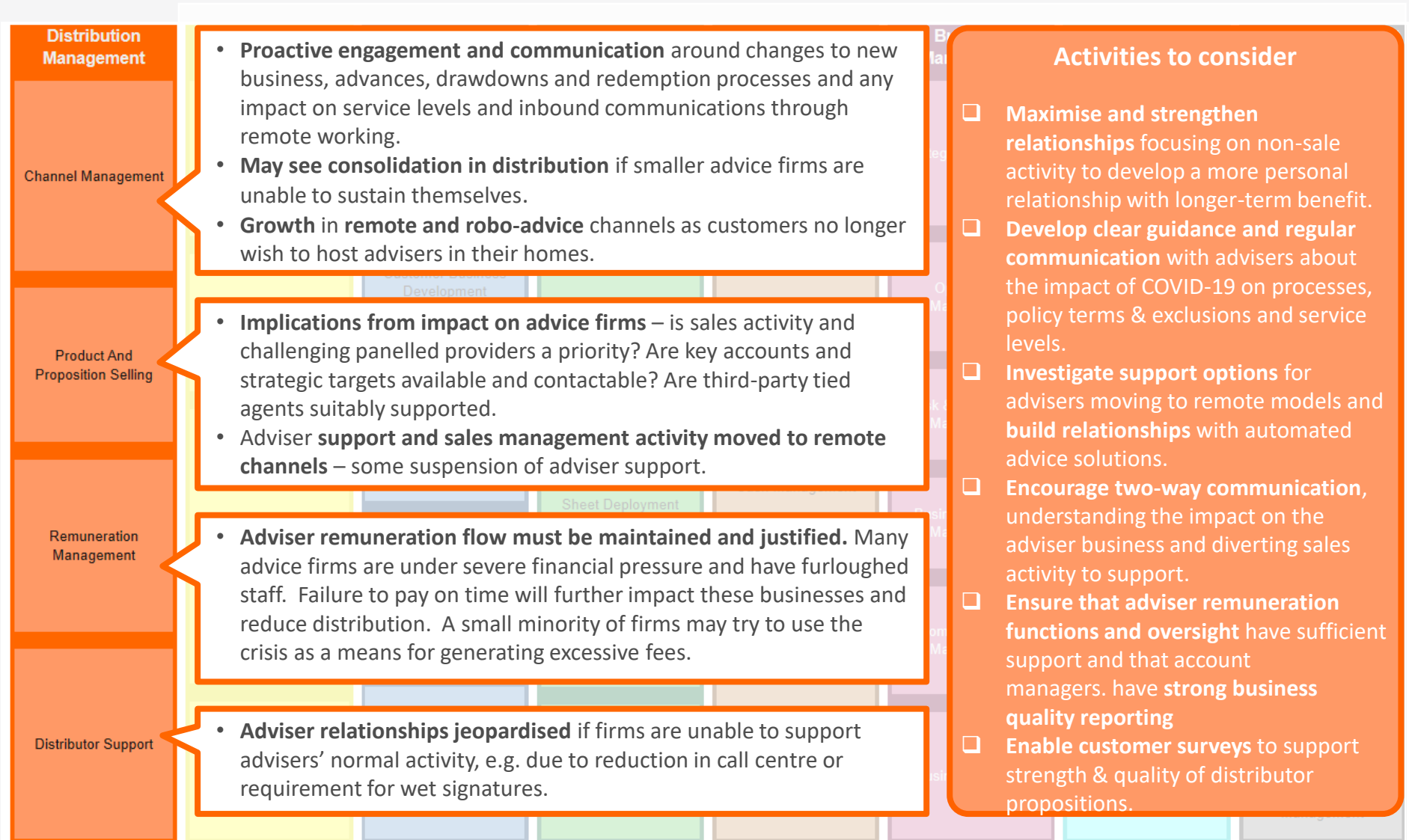
- **Increases in death cases** may lead to a **higher volume of redemption business** than would normally be forecast.

- **The economic impact** on the property market, jobs and incomes may lead to an **increase in defaults and crystallising of no-negative-equity guarantees, increasing pressure on property and debt disposal solutions and increasing potential for write-downs.**



Distribution Management

The distribution of the commercial proposition through a variety of channels



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**Distribution
Management**

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Funding Management

The planning, origination and administration of funding.

Activities to consider

- ❑ **Origination models**, should be reviewed to consider wider funding options – prior markets have seen those with limited funding models squeezed out.
- ❑ **High LTV models** should be reviewed with funders in light of short, medium and long-term expectations.
- ❑ **Ensure access to flexible actuarial resource** to maintain and flex capital model.
- ❑ **Review capital model testing** for pandemic based economic, asset and mortality risk profiles. Consider additional short and medium-term capital reserving requirements and inform product manufacture accordingly.
- ❑ **Review drawdown facilities for sustainability and risk factors.** Determine if assets are still able to support existing “undrawn” facilities and what steps, if any, need to be taken.
- ❑ **Risks from re-broking, hedging and maximising drawdown** should be assessed against capital model.

Funding Management

Funding Planning

- **Forecasting, contingency and stress testing** have not experienced an economic force of this nature and require **bolstering**.

Funds Origination

- **External funders have withdrawn from the market**, a reduction in funders will potentially drive down the competitive edge and reduce product flexibility.
- **Bulk Purchase Annuities** are booming at the moment but are LTMs still the right asset to match liabilities?
- **Bulk Purchase Annuities** have high availability in the short term but typically capacity constraints for onboarding in terms of advice and administration.
- **Asset Values are depressed** leaving drawdown facilities unsustainable.

Insurance Balance Sheet Deployment

- **Pipeline Management** may become congested by short term deals and reduced competition from external funders.

Securitization Investment Mgmt

- **Global economic challenge** increases pressure on **credit risk management and investment governance**.
- **Investment Valuations** become more challenging as a result of risk and volatility.

Insurance Risk Management

- **Capital Risk models** facing **increasing pressure**.
- **Volatility** drives up the **cost and complexity of risk hedging**.
- **Increased demand** for alternative assets to **offset more volatile credit and stocks**.



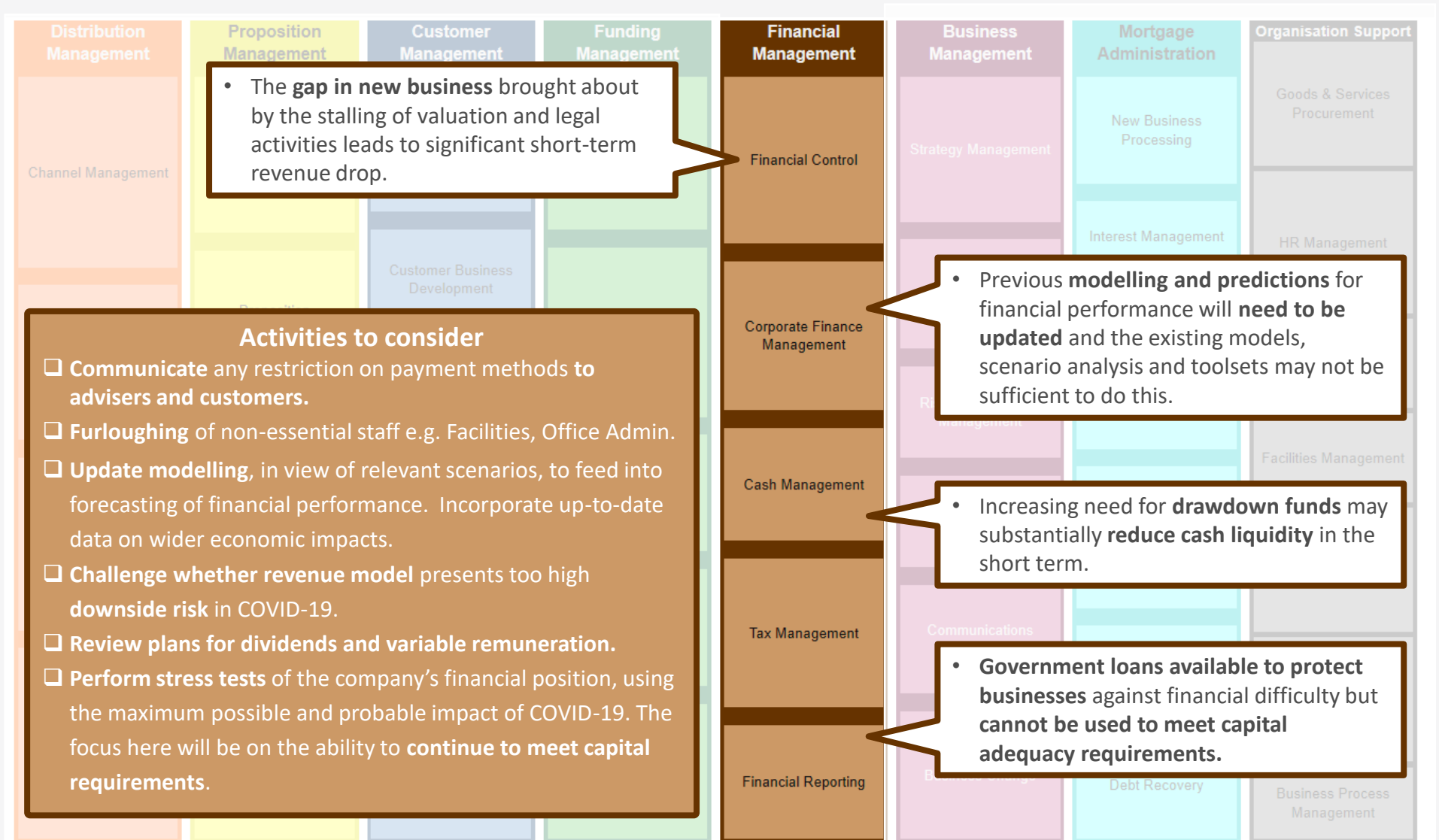
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Funding Management

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Financial Management

The handling of, planning and accounting of company money



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Financial Management

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Proposition Management

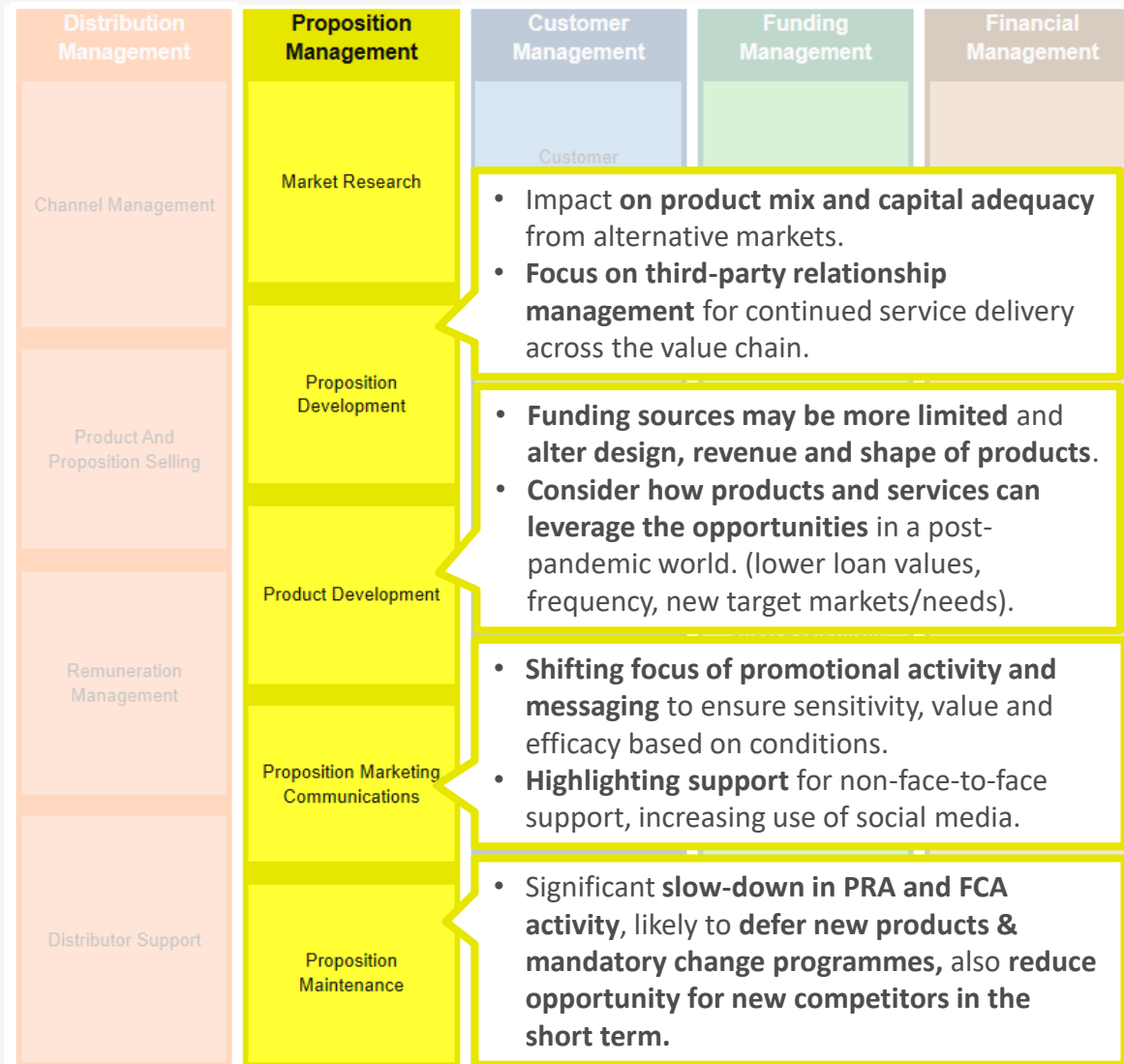
Development, management and marketing of commercial propositions



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Proposition Management

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Activities to consider

- Model macro-economic impacts of COVID-19.
- Determine channel effectiveness – ensure that the efforts on third-party relationships are targeting those areas most affected by the lockdown and how a return to work will change those services.
- Expedite product reviews – is funding supply sustainable? Will different funding sources be utilised moving forward? Adjust product design to cope.
- Adjust product features and functions to accommodate COVID-19 challenges, adjusting of interest rates to support the needy, review withdrawal and further advance processes to balance vulnerability, security and facility.
- Become more empathetic – the lifestyle purchases that drove the market are less likely to be the main driver of business moving forwards.
- Don't go silent – being seen to have a presence is key whenever this type of challenge arises – show you are there to the market.
- Embrace the cloud – more of the client base is digitally enabled as a result of shopping and banking – solutions should make more use of digital engagement.
- Focus on getting better with less regulatory change, take stock of the lessons from COVID-19 and attack the weaknesses in the proposition, where relevant.

Business Management

Management and control of the business including the setting of strategy, developing and delivering plans

Activities to consider

- ❑ Prepare for a 'new norm' – Produce a 'Return to BAU' plan.
- ❑ Significant and sustained operational planning activity to manage capacity and demand.
- ❑ Review Business Continuity Plans.
- ❑ Document & consolidate incident management activities as they happen.
- ❑ Review of change priorities – immediate focus on high priority, mandatory changes, or changes to support COVID-19 working practices.
- ❑ Assess opportunities that take advantage of quiet new business period e.g. adviser training, staff upskilling, new distribution planning.
- ❑ Actively look for opportunities to leverage strategic advantage if capital adequacy sufficient.
- ❑ Clear and consistent communication –, to reduce reputational risk associated with potentially reduced levels of support.
- ❑ Review of current risk and compliance policies – analysis of existing governance structure to ensure agile decision making.

- Significant focus on BCP (Business Continuity Planning), both within the business and those of core suppliers.
- Immediate changes to operating model around location, technology, information and process; in particular, a drive to remove paper and manually driven procedures.
- Heightened operational planning, including forecasting in response to fluctuating business flows, increased utilisation of drawdown plans, valuation queries, vulnerability and ethical lending challenges and death registrations.
- Pressure on call centre resource management function, particularly for short & medium term planning, due to significant increase in demand and likely reduction in capacity.



- M&A opportunities may arise if lenders can't maintain funding.
- Strategic initiatives with sales team whilst new business quiet.

- Leadership teams may see new expectations among home-working staff for more flexible ways of working post-crisis, as they re-assess their work-life balance.

- Levels of risk increasing as a result of the move to home working on short notice.

- A need to focus business planning, public relations activity, communication with customers, advisers, suppliers, shareholders and internal communications (e.g. situation updates and priorities / expectations).

- Reduction in change activity with strategic initiatives de-prioritised, alongside a reduction in resource availability due to BAU priorities.

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Business Management

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Organisation Support

Functions that support the running and organisation of the business



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Organisation Support

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Activities to consider

- Perform regular and proactive reviews with suppliers and other 3rd parties to understand impacts and collaborate on interim activities to ensure readiness for future re-engagement.
- Ensure good staff health and safety, including mental and occupational health. Employees with additional needs or dependencies to be given flexible arrangements and support wherever possible.
- Employee engagement is key – ensure regular touchpoints, increased use of social channels and opportunities for employees to interact as if they were in their normal place of work and providing support networks.
- Train customer-facing staff to recognise customer vulnerability and develop any new processes to support.
- Review activity with Land Registry and monitor servicing by office to provide customer and adviser insight.
- Review IT security and scalability to adhere to standards and ensure sufficient capacity for the changing demands of users and the business; provide homeworkers with support on tech and connectivity.
- Look to the Cloud – cloud-based solutions are now a necessity.
- Review disaster recovery plans and wider processes to ensure that they are fit for purpose in current environment. Remember to check suppliers too.

- Remote management of the supply chain by Procurement necessary with varying levels of interaction.

- An increase in staff absence through self-isolation, being unwell, or providing support to dependants. A dramatic increase in staff working remotely, including front-line and back office staff.
- Staff may be furloughed, resulting in additional processes for HR teams to consider.

- Searches and conveyancing impacted as a result of social distancing and COVID-19 risks.

- Building Services will have a skeleton staff on site. Many offices closed, however security will be essential and could impact insurance arrangements.

- Communication and other technologies have seen an increase in use, with increase users, licenses and new processes. Impact across other technologies, including more use of remote VPNs, cloud-based solutions and end user tech, e.g., laptops.

- Impact on business processes, for example the need to undertake additional activities digitally.
- Increased focus on business activity monitoring (e.g. case progress, service level performance) and capacity planning.

Organisation Support

Goods & Services
Procurement

HR Management

Legal Services
Management

Facilities Management

Communications
Handling

IT Management

Business Process
Management

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Conclusion

Industry response: next steps

Making the types of changes to working practices we have seen in the LLL market is unexpected. To do so in the short time the market has achieved this in, whilst enduring a national crisis is something to be proud of, yet this is just the beginning.

Whilst providers smooth out the rough edges of solutions delivered in the heat of the moment; the market is at a crossroads. It has taken great strides with the customer at the centre of focus, but we believe that as firms transition to a new type of 'business as usual', a better, more trusted industry will emerge that embeds the 'in this together' spirit we've seen throughout the country, a real boon to a market that has wanted to shed its historically poor image during its formative years. These are some of the key longer-term factors we urge firms to consider:

1. Lenders need to prepare for a correction in the property market. With economic regression, unemployment, reduced retirement incomes and the end of Help to Buy all impacting the market at the same time, a significant drop in house prices is almost assured. History has shown that the market recovers, but the multitude of factors here may drive a much longer recovery period than previously seen. This volatility means that reviewing and solidifying funding becomes the number one challenge facing lenders in this market.
2. The shape of lending is likely to change. The focus is likely to shift from luxury or lifestyle purchases, to immediate & recurring needs for self or close family members. LTVs are likely to be lower, but providers can expect an increasing call on drawdown facilities as customers seek to prop up retirement incomes or loved ones suffering hardship.
3. There is a lot this crisis will have taught us about how to manage vulnerable customers, based on a shared understanding that we are all vulnerable right now. Firms should also take these learnings and apply them more broadly across their own staff, among whom new vulnerabilities have emerged as a result of working from and isolating at home.
4. The renewed focus on customer-centricity is a huge positive; firms have found new ways to communicate with, support and reassure customers and as a result will more likely become trusted partners who can offer more guidance to them.
5. The homeworking genie is well and truly out of the bottle. Progressive firms will reap rewards by realising that continuing to offer this unprecedented flexibility will attract the best talent. Providers can also reduce their spend on expensive real estate.
6. Even very large and complex organisations have proved to themselves and their customers that they can make large-scale logistical and technology changes in a very short time (albeit with some leniency from regulators). Capturing this spirit by re-examining the way change is managed and governed could lead to a much-improved industry, more responsive to the needs of customers, advisers and even funders, potentially opening a new age of innovation.

Customer Management	Product Management	Operational Management	Customer Management	Family Management	Financial Management	Business Management	Strategic Administration	Customer Support
Churn Management	Market Research	Customer Acquisition	Family History	Financial Control	Strategy Management	New Business Planning	Legal & Services Provision	
Product Portfolio Selling	Product Development	Customer Business Development	Family Support	Capital Raising	Operational Management	Strategic Management	HR Management	
Retention Management	Product Development	Customer Experience Management	Customer Support	Capital Raising	Legal & Compliance	Strategic Management	Legal Services Management	
Marketing Support	Product Development	Customer Experience Management	Customer Support	Capital Raising	Legal & Compliance	Strategic Management	Facilities Management	
Marketing Support	Product Development	Customer Experience Management	Customer Support	Capital Raising	Legal & Compliance	Strategic Management	Communications Handling	
Marketing Support	Product Development	Customer Experience Management	Customer Support	Capital Raising	Legal & Compliance	Strategic Management	IT Management	
Marketing Support	Product Development	Customer Experience Management	Customer Support	Capital Raising	Legal & Compliance	Strategic Management	Business Process Management	



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