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24 October 2024

Dear Chief Executive,

FCA strategy for lifetime mortgage providers in 2025

We are writing to lifetime mortgage providers (LMPs), including firms who provide lifetime mortgages, home reversion and later life lending products, to set out our key concerns and priorities in 2025.

We expect LMPs to act to deliver good outcomes to retail customers and contribute to high standards of market conduct. We expect you and your board or senior management committee to discuss this letter, consider your business in the light of the risks we discuss, and review your approaches to mitigating these and driving improved outcomes, including the prompt remediation of any issues you identify. You should be prepared to show and explain to us how you are taking reasonable steps in those respects.

We will use tools, including bilateral firm engagement, 'shallow' and 'deep' dives involving firm visits, and multi-firm work of various kinds. Our programme includes some specific planned pieces of work, but we will continue to reprioritise and adapt where issues or events demand this.

The external environment and strategic context

Recent years have been 'tumultuous' for consumers' financial lives and challenging for firms, and the cost of living has risen significantly, increasing pressure on personal and household finances. At the same time, LMPs have faced significant regulatory change, including around the treatment of customers with characteristics of vulnerability (2021), the implementation of the Consumer Duty (2022-24), and the rising expectations around operational resilience.

We expect to see higher demand for credit, although interest rates and lower disposable income may make borrowing less affordable, or unavailable, for some. Firms will also see a wider group of consumers in financial difficulty, who will find it harder to pay their debts. Some of these consumers will be in vulnerable circumstances or may be experiencing financial difficulty for the first time. Firms need to remain alert to the changing situation of their customers and target their efforts in response.

In the lifetime mortgage sector, market conditions remain challenging, and this has affected sales volumes and restricted availability of some higher LTV products. Higher funding costs also continue to strain the typical LMP funding model.

In response, some LMPs are working to develop various types of 'hybrid' product, where consumers service their mortgage interest until a set point (e.g. retirement) and then swap to interest roll-up. This can facilitate higher LTVs than those currently available.

LMPs must give appropriate consideration to the design and introduction of new products such as 'hybrid' style lifetime products, to ensure these meet the needs of their intended target market and provide fair value.

We are particularly concerned that consumers who are facing financial stress may be more susceptible to the purchase of unsuitable later life products. As highlighted below, it is important that your firm meets the standards set out in our Principles, Rules and Guidance and, in particular, that appropriate attention and resource is given to the treatment of those customers in vulnerable circumstances.

However, as our chief executive said in his speech 'Investing in Outcomes' (March 2024), we have always been clear that firms may need to adapt their business models in response to competition and a changing market, and we recognise that by responding agilely to changes in markets, we can help to facilitate growth, competitiveness and innovation that can bring better outcomes for all consumers.

Thus, LMPs are having to manage regulatory change, ensure ongoing compliance and act to deliver good customer outcomes, whilst they evolve their business models in a constrained market. This complex set of challenges puts a premium on LMPs having effective culture and controls, including:

- Leadership and people management which establishes healthy purposeful cultures in which staff at all levels act with integrity and in a customer-centric way.

- Governance and oversight which is strong and balanced enough to plan and execute major changes in a way that safeguards customers.

- Risk management frameworks which give proper early consideration to both prudential and conduct risks, and to monitoring the customer outcomes being delivered and improving any shortfalls.

These should apply equally to non-financial as well as financial conduct. If allegations or evidence of non-financial misconduct, such as bullying, harassment or discrimination, come to light, we expect firms to take them seriously and consider each case through appropriate internal procedures, thereby building confidence among staff that such concerns will be independently and fairly assessed. Firms should consider the proposals outlined in CP23/20 to explicitly include non-financial misconduct in Fit and Proper assessments, The Conduct Rules, and the Suitability guidance on the Threshold Conditions. CP23/20 also proposes measures to improve diversity and inclusion, which supports healthy cultures, including by helping to reduce group think.

We will engage LMPs on their cultures and controls, including in those respects, during our work with them through 2025 on the 5 priority areas below, which set out what we expect of LMPs and what we will do.

Priority 1 – The Consumer Duty

The Consumer Duty ('the Duty') is a cornerstone of the FCA's strategy to set and test higher standards to 2025 and beyond, and of our own work with LMPs.

What we expect LMPs to do

We expect the Duty to be a top priority for you personally, as chief executive. Ensuring your firm is acting to deliver good outcomes for retail customers should be at the heart of your strategy and business objectives, and your board and senior management should be embedding the interests of retail customers into the culture and purpose of your firm.

In addition to our Finalised Guidance on the Duty (July 2022), we commend the following publications to you:

- Our expectations and approach concerning the implementation of the Duty by mortgage lenders and administrators (February 2023), where we highlighted some specific products, services, risks and outcomes that firms should consider especially carefully under the Duty, and our feedback to firms on their implementation of the Duty in some of those areas (December 2023) including mortgages used for debt consolidation.
- The results from our Duty preparedness firm survey across sectors (February 2024).
- Our feedback report across sectors on good practice and areas for improvement in Duty implementation, and accompanying speech (February 2024). That report highlights, among other things, the importance of firms considering the needs of customers with characteristics of vulnerability as part of product/service design and doing more to identify and support these customers and track and improve their outcomes.
- Our update on good and poor practice around the Price and Value Outcome (September 2024) which collated insights from the first year of implementation and is intended to help firms improve the way they think about fair value assessments.

Having regard to those helpful materials, your priorities now should include:

- Continued embedding of the Duty in your culture and your full range of mortgage and credit activities.
- Continued monitoring that your firm's products and services are designed appropriately for their target markets.
- Evidencing that your firm's products/services are offering fair value, including an assessment of the costs, benefits and limitations of the product/service through its lifecycle and distribution chain, how the product/service compares with others in the firm's portfolio and relevant market competitors, and any differential outcomes affecting particular customer groups.
- Providing support that meets consumers' needs throughout the life of the product or service, and communicating in a way that supports consumer understanding and equips them to make effective, timely and properly informed decisions.
- Continued regard to the importance (which we highlighted previously) of working and sharing information with other firms in the value or distribution chain, including to support your monitoring and review of the outcomes that your mortgage customers are experiencing, to ensure those products and services are distributed to the right target market and meet customers' needs and objectives. We would expect LMPs to have reviewed and, where necessary, acted on our findings on later life advice and advertising.

- Continued sourcing and delivery of data, management information (MI) and dashboards you need to monitor and evidence customer outcomes under the Duty and identify and address poor outcomes promptly.
- Refining your mechanisms for governing and reviewing those dashboards and acting on them, including preparing your board's assessment (at least annually) of whether your firm is delivering good outcomes for its customers (see 10.11-14 of our Finalised Guidance).

Your board's assessment will be part of the evidence we use to review compliance with the Duty, and we expect to be provided, if we request it, with the report and the key MI that sits behind it.

Responsible Lending

We expect firms to lend responsibly, including by conducting accurate and appropriate affordability assessments where applicable.

We see our responsible lending requirements as especially important for later life lending, including lifetime hybrid products where consumers are expected to service mortgage payments. We expect firms who operate in this market to pay particular attention to signs of vulnerability.

Firms should ensure that poor product design and governance does not lead to consumers purchasing later life products they don't fully understand, and which do not meet their needs. It is equally important that where a customer is making interest payments, the lender deals with any change in circumstance, such as financial stress impacting their disposable income, appropriately.

We expect LMPs to have effective monitoring frameworks in place to ensure their products are delivering positive customer outcomes. Firms should give themselves comfort that they have sufficient sight, for example in the form of MI, to identify where this is not happening.

Closed products and services

You should by now have finished [implementing the Duty for your closed products or services] (applying learnings from your implementation for open books). However, we would highlight again here two ongoing challenges for firms with such typically older books.

1. Out-of-date or incomplete client records that are missing characteristics and needs, sales records, or historic performance of the product. This can make it harder to serve consumers appropriately, particularly those with vulnerabilities. So, if you really can't fill these records gaps, you should take additional steps to mitigate the risk of harm, for example by enhanced outcomes testing for these customers.
2. Tracking down less engaged customers: a lack of engagement by firm or customer can lead to problems such as not being aware of key changes impacting their use. So, you need to test, monitor, and adapt your approach to communications, including timing and content, if these aren't driving the right customer engagement and understanding.

What we will do

We will continue to engage with LMPs on the Duty and its embedding, focusing on their:

- data and MI and Board reports on outcomes and what these show
- ongoing embedding of the Duty within their culture and controls framework
- understanding and treatment of the needs of their customers in vulnerable circumstances

We will continue to actively monitor the market to identify poor customer outcomes for borrowers in closed books and will act where necessary.

Priority 2 – Financial resilience (for non-dual regulated firms)

In a potentially volatile environment, firms must be aware of interdependencies between risks, which could increase the overall risk profile of the firm. For example, what may start as a failure to manage operational, credit, conduct or reputational risks can quickly transform into liquidity or solvency risk and even result in concerns about a firm's financial safety and soundness. In the event of liquidity or solvency challenges, there are often new conduct, operational or reputational challenges to manage. So, firms' ability to manage these risks and the links between them, and the clarity of their communications in such scenarios, is very important and can have a material effect on consumer protection and market integrity.

What we expect LMPs to do

LMPs must ensure that they have adequate financial resources in place. They should proactively monitor their prudential position, take necessary steps to ensure they are meeting Threshold Conditions, and notify us promptly if they are experiencing difficulties. The starting point for this is Chapter 4 (Capital resources) of our Prudential sourcebook for Mortgage and Home Finance Firms and Insurance intermediaries (MIPRU). LMPs should pay particular attention to MIPRU 4.2D on liquidity resources requirements, including stress testing and contingency funding plans. Further guidance is also found in FG20/1 (Assessing adequate financial resources).

It is important to keep your stress assumptions up to date, especially in respect of your funding model, including remaining alert to concentration risks of various kinds and other unforeseen risks.

All firms should also maintain adequate wind-down plans that have been reviewed and approved by their boards and which are kept up to date. This includes incorporating the liquidity necessary to successfully complete a wind-down into your liquidity risk management framework and considering how you will ensure liquid resources remain available at wind-down. Please see the Wind-down Planning Guide for further information.

For further observations on good practice and areas for improvement in financial resilience and risk management, see our recent Multi-firm review of consumer credit firms & non-bank mortgage lenders.

You should take care to consider customer outcomes in taking steps to stay financially sustainable, such as cost cutting or looking to increase sales or fees, and should ensure that such steps are appropriate and do not lead to poor outcomes.

Ultimately, some LMPs might conclude that their business model is not sustainable and choose to withdraw from certain activities and services or consider merging with other firms. If such steps are being contemplated, you should carefully consider your contractual arrangements and any legislative or regulatory requirements around notice. You should also address how ceasing any activity may affect your customers and how you can mitigate any harm in line with the Duty. For example, when first considering any sale or purchase of assets you should carefully consider the impact on customers including continuity of service provision, in line with the Duty and other Principles, before starting on the transaction and the necessary regulatory processes.

What we will do

We will continue our regular analysis of firms' data, business models, and other intelligence, to help us identify those with outlier prudential positions. We will prioritise our engagement or mitigation work with those at greater risk of causing customer harm through disorderly failure. We will also continue to engage with those firms who proactively notify us of prudential matters via the appropriate regulatory channels. This includes where we learn that firms are at risk of exhausting cash reserves or face liquidity challenges and may need to exit the market. If your routine monitoring highlights financial concerns that we would reasonably expect to be notified of, you should report these to us.

Priority 3 - Operational Resilience

There is a risk that firms fail to have adequate systems and controls, processes and policies in place – and the appropriate governance and oversight - to mitigate the risk of operational events. These include systems failures that result in incorrect notifications or demands for payments being issued to customers, causing distress/financial loss.

What we expect LMPs to do

LMPs face inherent risks in relation to their operational resilience that can cause customer distress and loss throughout the customer journey, starting from lending decisions through to servicing during the lifecycle of the loan. We expect firms to have adequate systems and controls, processes and policies, and appropriate governance and oversight, to mitigate the risk of such events and failures.

We expect to see increasing sophistication and maturity in firms' testing of resilience in different scenarios, and their refinement of action plans for remediating vulnerabilities and remaining within their tolerances.

Other risks to flag for firms' consideration (and of interest to us) are the:

- Potential concentration risk, and consequent risk of systemic disruption, arising from shared reliance on small numbers of third parties.
- Risk your supply chains are not well protected: third party failures are a common root cause of reported incidents and we know firms sometimes struggle to maintain the right level of visibility throughout their supply chains on risks in third, fourth or nth party suppliers.
- Risk of technology arrangements being insufficiently resilient to cyber-attacks (poor 'cyber hygiene') or not including well-tested plans to mitigate the likelihood of harm from such.

Sales of lifetime mortgage products are predominantly made through mortgage intermediaries. Where firms rely on intermediaries, they should have clear policies, and be able to evidence their use, in relation to the due diligence carried out at the outset of any relationship. This due diligence should be reviewed on an ongoing basis to ensure firms minimise the risk to themselves and consumers in terms of operational resilience and business continuity.

A reminder of your firm's existing obligations around operational resilience can be found at Annex 2 of our PS21/3 Building operational resilience. While the new Business Impact Tolerance framework PS21/3 sets out does not strictly apply to LMPs, it should be a helpful framework for firms considering their own approach going forward.

We would also remind you of your obligation, including under Principle 11 (see p8 below), to notify us of relevant issues and events, including plans to embark on significant change programmes, and our expectation that you should promptly remediate issues yourselves.

What we will do

Where relevant, we will engage proactively with firms on their resourcing and appetite to invest in technology, and significant transformation programmes, and we will continue a risk-based engagement where relevant issues and events warrant it.

Priority 4 – Financial crime and fraud

We have conducted significant work with retail banks in this area over the last five years which has led to a number of important public outputs including enforcement notices.

What we expect LMPs to do

By virtue of their less transactional business models, LMPs generally face lower inherent risks of money laundering or fraud against customers than, for example, retail banks. However, LMPs still have significant legal and regulatory responsibilities in this space, and their own important role to play in defending the financial system from criminal misuse.

LMPs should pay close attention to our previous work and key publications as they evolve their own systems and controls, including in response to the continually evolving tactics of bad actors: see the full list of available FCA resources around financial crime and look out for any further publications from us during 2024/25 including our proposed updated Financial Crime Guide.

LMPs should also see our update on FCA progress in reducing and preventing financial crime (2024), which includes 4 areas of focus and a number of related questions for firms' boards to ask themselves.

What we will do

Financial crime remains a FCA top four priority in our 2024/25 business plan. We will make increasing use of data and analysis to identify outlier firms and target our engagement and other interventions.

Priority 5 – Sustainable Finance

LMPs have a role to play in helping the economy transition to a more sustainable long-term future. This includes increasingly looking beyond net zero targets and climate change to consider wider environmental risks, such as those related to nature and biodiversity.

What we expect LMPs to do

As firms develop sustainable finance offerings, they should take care to have appropriate governance and controls in place and make sure that any sustainability-related claims made about their products and services are fair, clear and not misleading, so that consumers and other market participants can make informed decisions. Our specific new anti-greenwashing rule came into force on 31 May 2024, and we encourage firms to use the finalised guidance we published.

Similarly, where firms publish climate transition plans, they should be able to demonstrate how they are meeting their commitments. It is important that consumers and the market are protected from potentially misleading or inaccurate information, so any communications made about climate commitments and transition plans should be representative, and any limitations should be clear.

What we will do

With our new anti-greenwashing rule now in force, we will be paying close attention to firms' claims and controls in this area.

Conclusion

We expect LMPs to deliver good outcomes across the full range of the priorities above.

For our part, we will make full use of our knowledge, data and technology to deliver incisive outcomes-focused supervision, in support of proportionate and effective regulation and, where appropriate, our Secondary international competitiveness and growth objective.

Together, we can thereby contribute also to high standards of market conduct, to the UK's position as a trusted competitive global financial services centre, and to supporting sustainable growth and competitiveness in the wider UK economy.

Next steps

A cooperative relationship between regulated and regulator is crucial and we expect firms to be open and honest with us. But in our engagement with LMPs we have encountered circumstances where issues have arisen and the FCA has not been informed, where we would reasonably have expected to be. You must tell us about anything we would reasonably expect notice of under Principle 11 (relations with regulators), which applies to unregulated activities as well as regulated activities, and takes into account the activities of other parts of a group. You should also consider your notification obligations under SUP 15.3.1R (matters having serious regulatory impact) and SUP 15.3.11R (significant breaches of a rule/Principle).

In the context of this letter, we note the particular importance of our being notified of:

- Any areas (products, services, customer journeys) of the business that are significantly non-compliant with the Consumer Duty.
- Any proposed restructuring, reorganisation, business expansion or change which could have a significant impact on your firm's risk profile or resources.
- Any proposed provision of a new type of product/service, or proposed cessation of a regulated or ancillary activity or significant reduction in the scope of such (see SUP15.3.8G (1)(c)&(d)), including the purchase or sale of mortgage books or the transfer of legal title.

In our supervisory work, we will continue to consider carefully whether those with relevant senior management functions have carried out their responsibilities appropriately under the Senior Management and Certification Regime.

If you have any questions about this letter, please contact the FCA Supervision Hub on 0300 500 0597, or your normal supervisory contact where applicable.

Yours faithfully

Emad Aladhal
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Supervision, Policy and Competition