MORTGAGE PROFESSIONAL

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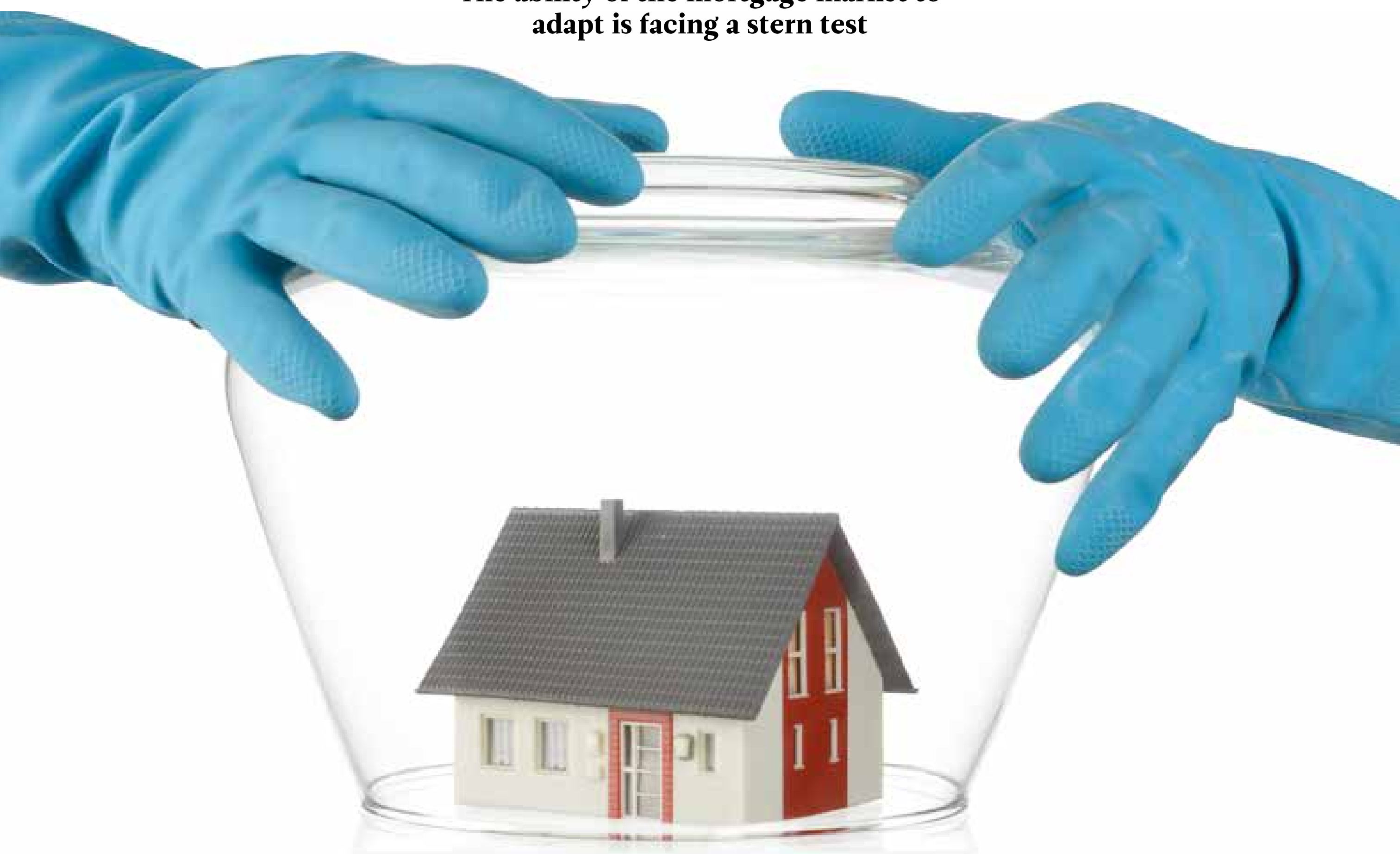
Society of Mortgage Professionals
Chartered Insurance Institute

PROTECTING THE FUTURE

The ability of the mortgage market to adapt is facing a stern test



WE MUST PULL TOGETHER

Matt Hall reflects on an unprecedented situation for the mortgage market

With the mortgage market facing an almost complete suspension in lending and current lockdown guidance making moving to a new house all but impossible, the sector is likely to face severe impact in the short term. As the longer-term impact becomes clear, lenders and brokers will also need to come to terms with the economic damage this pandemic will cause to the sector.

Despite all of this, individuals and organisations will still want and need to buy and sell property when all of this is over. So, while our focus will be on helping members mitigate the immediate commercial impact on their organisations, we will also be supporting them in returning to normality as soon as possible.

Our ability to adapt and overcome will be tested through the coming weeks and months and I believe the situation can be a positive catalyst for change. Technology offers a number of potential ways to deal with our issues. The sector has been extremely quick to pivot to remote valuations and, of course, there remains areas of the market such as product transfers and remortgaging that can be transacted entirely digitally.

Ensuring customers do not have their credit ratings negatively impacted by using the temporary measures available will be a key component in ensuring a swift recovery for the mortgage market. This will place individuals and firms in a stronger position when things begin to return to normality. Of course, the devil is always in the detail and it is important that despite what is undoubtably a fast moving and unprecedented situation, the impact of any such measures are considered carefully. It is also crucial that the sector takes a unified approach to this guidance – all lenders should adhere to guidance to ensure the best possible outcome.

VALUABLE RESOURCES

The SMP's new 'Coronavirus hub', which is available via our website, is a valuable resource which I encourage you to take advantage of. While I hope it will not be needed for very long, it brings together information and advice from across the sector. While securing the best outcomes for our customers and clients remains at the heart of what we do, now more than ever we must all support our colleagues and peers as we navigate through a challenging time. Many members will be understandably concerned about the stability and future of their own businesses. In light of this, you can find tips on effective home working and how to maintain good mental health and wellbeing during this period.

While it was necessary to protect the health and safety of our members, it was unfortunate to have to cancel the remaining dates in our popular SMP conference programme. However, we were able to hold a few of the conferences before the situation prevented further events and importantly, we filmed the different sessions. They are all available on our website now and in particular the advice on customer vulnerability seems more topical than ever before.

Our advisory board continues to examine the issues facing the market on a regular basis. We are also in continuous dialogue with regulators and government to ensure the concerns of our members are heard. If there are matters you would like to raise, or you have ideas for how to support our members further, I encourage you to get in touch.

It has been encouraging to see how we have pulled together as a professional community and I am confident with the support of each other, we will come out of this even stronger. ●

***Matthew Hall** is an advisory board member for the SMP*

HELPING THE HOUSING MARKET THROUGH

With a partial lockdown in place, the UK economy and its housing market are navigating challenging times

While the most devastating impact for many from the Covid-19 pandemic will be a death or serious illness in the family, the other impact for everyone is that on the economy.

With experts from the likes of Swiss Re warning that the pandemic could result in a global recession, closer to home people are fighting to keep their businesses afloat and the roof over their family's heads.

On March 17, UK Chancellor Rishi Sunak announced a package of measures to help UK businesses, alongside a mortgage payment holiday of three months for all those struggling to meet their payments. However, there are several warnings about this "free" holiday that mortgage professionals will need to guide their clients through.

As we all know there is no such thing as a free lunch and the first point is that this will have to be repaid and will not suit everyone. Borrowers will need to contact their lender as soon as they hit financial difficulties, where there should be a fast track process in place and mortgage providers have made clear there will not be any additional fees associated with this.

Mortgage lenders are likely to spread "holiday" payments across the overall outstanding term of the mortgage, so borrowers will see an increase in their monthly mortgage payments once the holiday is over. Some lenders may consider increasing the length of mortgage terms, particularly for those making interest or capital only payments. ●

In some cases, specialist finance may become the solution. Read our article on page 6

MOVING HOME

The government has urged anyone about to move to stop the process. As a result, UK Finance said that, to help home movers impacted by Covid-19, mortgage providers will give customers who have exchanged contracts the option to extend their mortgage offer for up to three months.

Stephen Jones, chief executive of UK Finance, said: "It is clearly not appropriate for people shielding or self-isolating to move home. Therefore, where chains contain people in these groups, lenders, conveyancers and other professionals are working together to enable these customers' moves to be delayed.

"Where people have already exchanged contracts for house purchases and set dates for completion this is likely to be particularly stressful. To support these customers, all mortgage lenders are working to find ways to enable customers who have exchanged contracts to extend their mortgage offer for up to three months."

Robin Fieth, chief executive of the Building Societies Association (BSA), added "It is possible that some borrowers' financial circumstances may change during the three months. If this happens, or the terms of the purchase change, we will work closely with the borrower to achieve a sensible outcome."

KEY POINTS

- While not making mortgage payments, borrowers are still racking up interest on the remaining balance
- When the payment holiday comes to an end, the outstanding mortgage balance and mortgage payments will be higher than before the holiday
- Even if the lender agrees to this temporary solution, the borrower's credit file will be affected and could impact their ability to get credit in the future
- The mortgage payment holiday will also extend to people with buy-to-let mortgages whose tenants are affected by Covid-19
- Lenders have offered a three-month moratorium on residential and buy-to-let repossessions
- Meanwhile, a three-month ban on evictions was also announced by the government

Source: The Money Advice Service

FLOODING THE MARKET

What does the recent flooding mean for the UK mortgage market? Will mortgage companies have to take the risk of flooding into decisions about access to finance? We take a look at a fast-changing picture

This winter has been one of the wettest on record in the UK, with floods affecting large swathes of northern England. In its recent pre-Covid-19 crisis budget, the UK government doubled investment in flood defences to £5.2 billion in the next six years, as well as gave flood affected communities more than £300 million to cope with the immediate impacts.

On top of that, the Association of British Insurers said its members were expected to pay out more than £360 million to insured homes and businesses. Europe wide, Storm Ciara caused insured damage of more than €1bn.

Responding to the new government investment, Simon Welton, market head P&C, UK & Ireland, at Swiss Re warned: "It will still take time for this money to translate into actual schemes to protect or alleviate the risk of flood. This investment should be part of a concerted and coordinated effort by the government, insurers and the wider business community to build more resilience into our infrastructure and help mitigate the growing danger of climate change on our lives."

This begs the question: what can the country do in the face of climate change and a broad expectation that the UK will experience a greater amount of rainfall in the future? And how will property lenders react?

Later this year, the Environment Agency is to set out its policies to tackle flooding in the long term as well as publishing an updated Flood and Coasts Strategy (although Covid-19 crisis may impact timings). Lawyers have been suggesting the result might be a sea-change in approach. Instead of building "limitlessly high walls", they suggest the plan will be to help people rebuild water-damaged homes or to move away from flood-risks areas.

ENTERPRISE RISK

So, what does this mean for the mortgage market? Financial data analytics company, Credit Benchmark, has recently looked at the credit risk for UK small and medium enterprises (SMEs) and flood risk. It has collected UK small and medium enterprise (SME) probability of default (PD) data from all major UK banks as part of their credit portfolio benchmarking service.

The SME dataset consists of more than 140,000 monthly observations and these observations can be linked by postcode to UK Environment Agency Flood Risk data to help analyse sensitivity to flood risk areas across the UK corporate SME population.

Credit Benchmark revealed an interesting disconnect between areas at risk of flooding and the average PD of SMEs in the same geographic area. While roughly 20% of all UK SMEs are located within an area at some risk of flooding and almost 10% of these present a medium to high risk, bank data does not reflect comparatively heightened credit risk for these vulnerable SMEs.

While these results suggest that there are other drivers of credit risk influencing the banks' credit views of their SME customers, consensus PDs appear to currently show no clear link between different levels of flood risk and differences in portfolio credit risk.

These results suggest that:

(1) there are many other drivers of credit risk that would need to be taken into account before anyone can estimate the marginal impact of increased flood risk; but

(2) it is possible that flood risk has not yet been fully factored into the main credit risk models used by UK banks for SME estimates.

Meanwhile back in January and before Storm Ciara and Storm Dennis hit, Family Building Society CEO, Mark Bogard, revealed the regulator was asking lenders to explore how a range of climate change scenarios would affect them.

He said: "The Prudential Regulation Authority has just started to ask lenders to go on the journey to understand the risks, if any, inherent in lending books associated with certain temperature change scenarios and what that looks like.

"They have told us they will help us with that, we're not climatologists, so it'll be quite interesting to see. It's relatively easy for them to give us a few scenarios, a bit like stress testing – if this happens what does it look like for your mortgage book?"

Mark Cunningham chief executive and co-founder of residential property data company, Whenfresh, added "There are a number of properties that banks have on their books where, if lenders knew then what we know now, they might not have lent."

And Cherry Mortgage and Finance director, Matthew Fleming-Duffy, said: "Mortgage lenders, particularly lifetime mortgage providers, ironically, are very aware of flood risk. Of course, the UK is very exposed to flood risk."

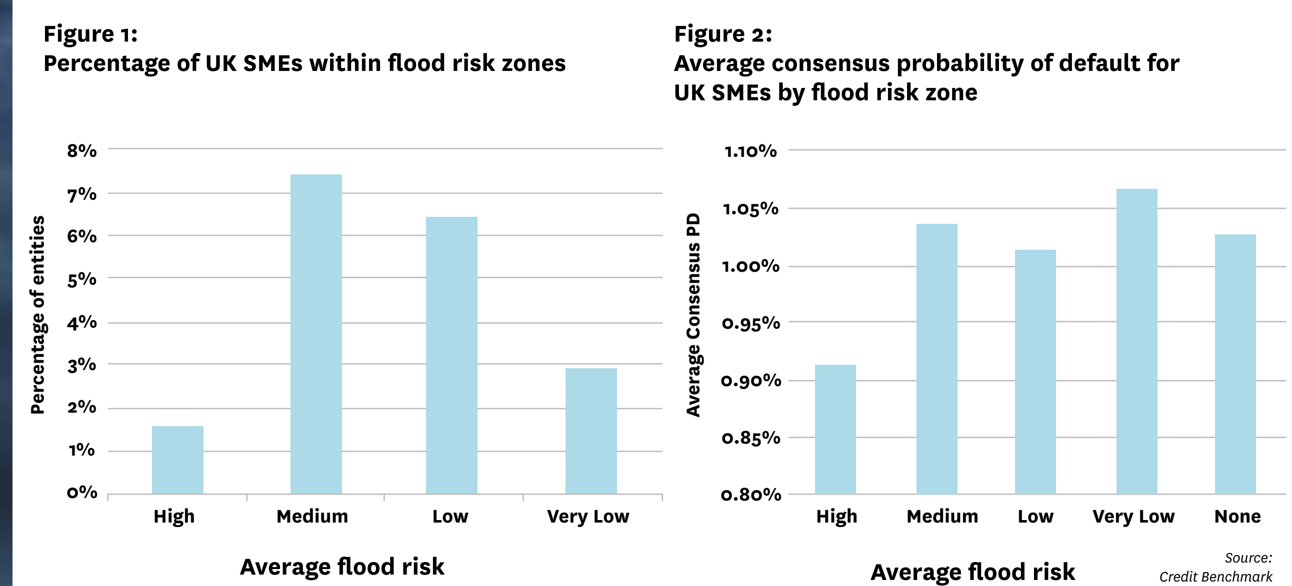
He explained that equity release lenders are more likely to ask the question because they are looking at an unlimited term, as the borrower could live for a further 30 or 40 years, so they are used to paying more attention to long-term risks affecting the property.

Christine Whitehead, emeritus professor of housing economics at LSE London, summed up the concerns: "I have nightmares about this, literally, because in a certain wider environment the capital value of housing may start to look like the capital value of retail and that is a really scary thought." ●

Liz Booth is a freelance journalist

ISTOCK

FLOOD RISK AREAS



Source: Credit Benchmark

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SPECIALIST FINANCE

SPECIAL MOVES

Paul Huxter highlights the option of specialist finance after a big year for loan-to-value lending

There are many reasons and situations why the need for specialist finance arises, but how do you know what product and which lender to go to?

UK banks recently revealed how they are going to implement "payment holidays" of up to three months for households affected by the coronavirus. So, at a time when families may find themselves in a difficult financial situation, it is helpful to look back at the last year to get an overview of why specialist finance is required and what products are out there to help your clients.

2019 saw an increase in higher loan-to-value (LTV) applications, with 5.9% of mortgages before Q3 2019 having LTV ratios exceeding 90%, this is the highest since Q4 in 2008. The share of mortgages with LTV ratios of 75% or lower fell in the quarter to 58.9% vs 63.1% Q1 2019.

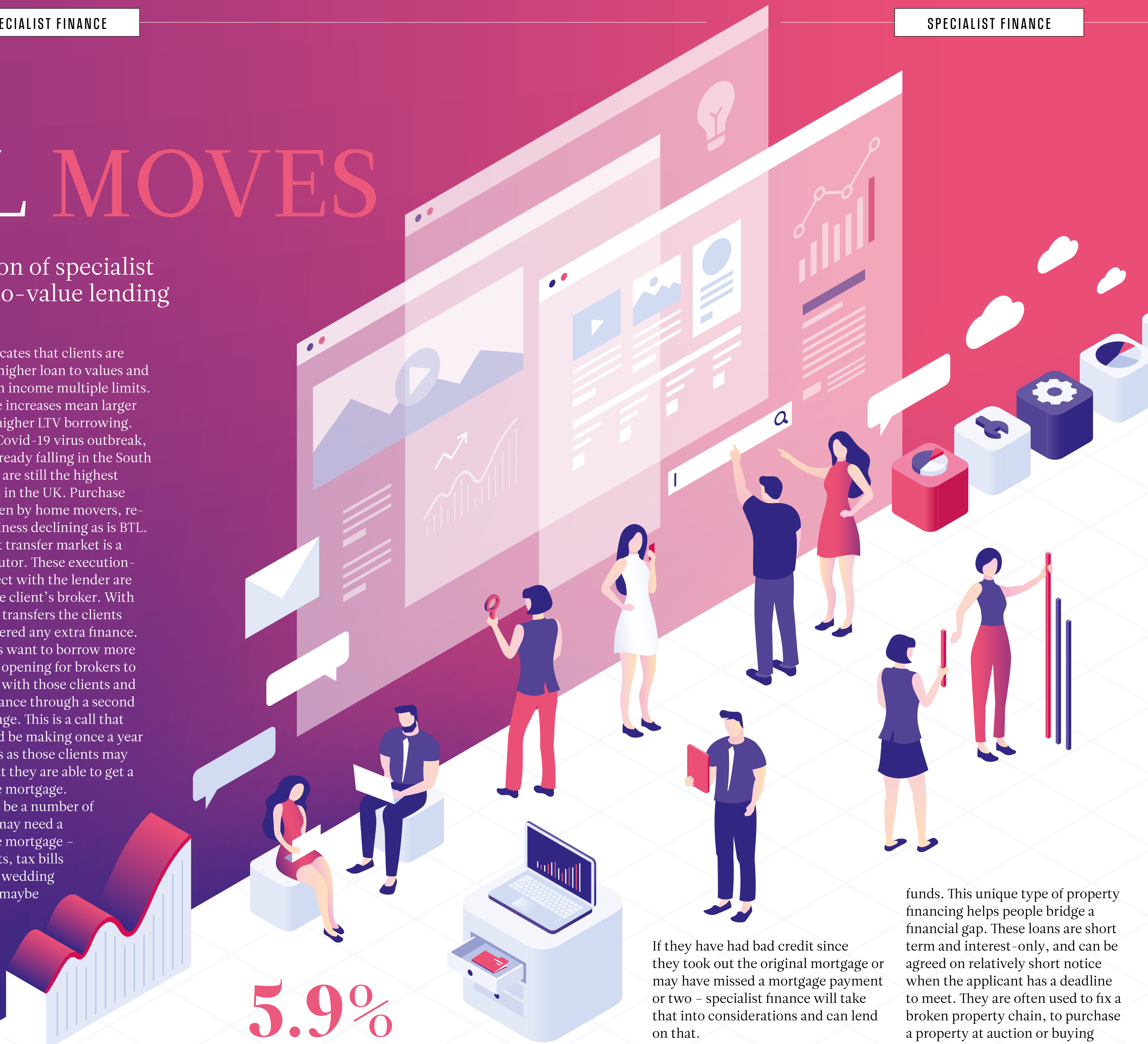
There has also been an increase in higher loan-to-income lending (greater than 4x income for a single buyer or greater than 3x income for joint applications). This currently sits at 47.2%, its highest since Q1 2007, 1.9% up on 2018.

New lending at loan-to-income of 4 or above is steady at 10.8%, but there has been a 2% rise since 2018 of lending where the joint income is loan-to-income of 3 or above at 36.4%. Re-mortgage cases share fell to 28% of advances. Further borrowing business accounts for 6.4% - highest since Q3 2008.

All this indicates that clients are borrowing at higher loan to values and having to push income multiple limits. Property price increases mean larger deposits and higher LTV borrowing. Ahead of the Covid-19 virus outbreak, prices were already falling in the South East, but they are still the highest average prices in the UK. Purchase market is driven by home movers, re-mortgage business declining as is BTL.

The product transfer market is a major contributor. These execution-only sales direct with the lender are cutting out the client's broker. With these product transfers the clients will not be offered any extra finance. If these clients want to borrow more money – it an opening for brokers to get in contact with those clients and offer them finance through a second charge mortgage. This is a call that brokers should be making once a year to their clients as those clients may not realise that they are able to get a second charge mortgage.

There could be a number of reasons they may need a second charge mortgage – refurbishments, tax bills or to pay for a wedding – whatever it maybe – they can do that with a second charge mortgage.



5.9%
OF MORTGAGES BEFORE Q3 2019 HAD LOAN-TO-VALUE RATIOS EXCEEDING 90%

SHUTTERSTOCK

If they have had bad credit since they took out the original mortgage or may have missed a mortgage payment or two – specialist finance will take that into considerations and can lend on that.

BRIDGING THE GAP

Bridging finance can also help many people who think they may not be eligible for a large amount of funds. This unique type of property financing helps people bridge a financial gap. These loans are short term and interest-only, and can be agreed on relatively short notice when the applicant has a deadline to meet. They are often used to fix a broken property chain, to purchase a property at auction or buying an 'unmortgageable' property to undertake refurbishment work but they can be used for any legal purpose.

It shows that the need for specialist finance is increasing, especially as the borrower's circumstances can also deter High Street lenders. When clients need specialist finance many of them won't know that there is the option of going for specialist finance and, if they do, they may not understand the products available. This is why they will need a knowledgeable specialist finance broker to explain these products to them for the client to then make a decision on the product that will be most suitable for their situation.

The majority of sales are advised, so the client is guided through the whole process, simplifying and streamlining the application process. Specialist finance offers flexibility in criteria and underwriting, which is needed for clients who may have complex situations.

Most applicants will be eligible for specialist finance, which is great for people with adverse credit. Most properties can be used as security for finance. This includes residential and commercial properties, plus land with or without planning permission. Currently, interest rates for specialist finance products are at an all-time low.

Put simply, specialist finance can change lives. It can stop a person losing their business or having their home repossessed. Where the high streets don't lend, when your clients need urgent financial help, specialist finance companies will. ●

__Paul Hukter__ is head of sales at Enterprise Finance

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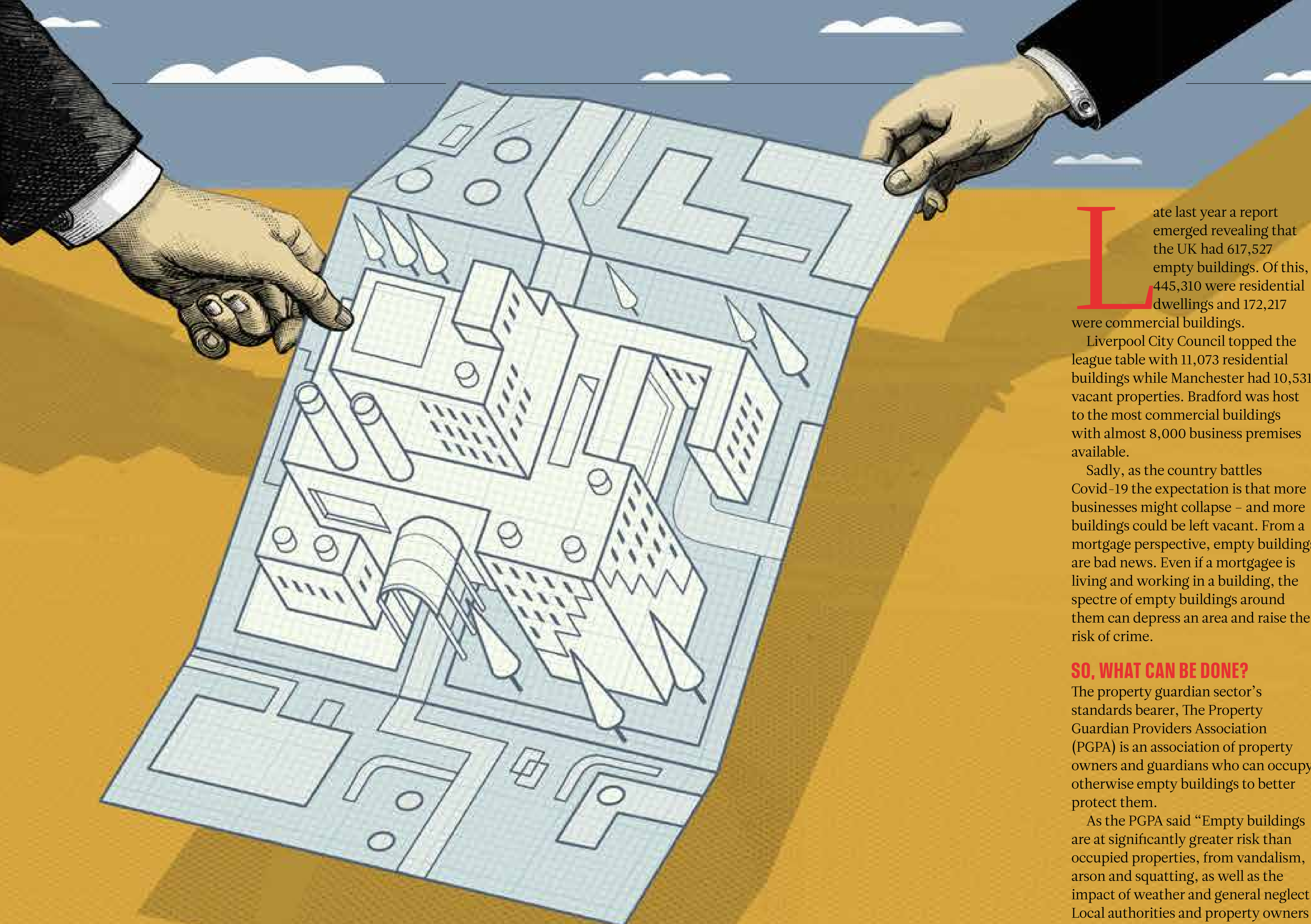

FILLING THE VOID

Empty properties can create extra risk, either because they are falling into disrepair or because of the possible impact on mortgaged properties nearby. **Liz Booth** finds out that the problem is not just at the bottom end of the market

Late last year a report emerged revealing that the UK had 617,527 empty buildings. Of this, 445,310 were residential dwellings and 172,217 were commercial buildings.

Liverpool City Council topped the league table with 11,073 residential buildings while Manchester had 10,531 vacant properties. Bradford was host to the most commercial buildings with almost 8,000 business premises available.

Sadly, as the country battles Covid-19 the expectation is that more businesses might collapse – and more buildings could be left vacant. From a mortgage perspective, empty buildings are bad news. Even if a mortgagee is living and working in a building, the spectre of empty buildings around them can depress an area and raise the risk of crime.

SO, WHAT CAN BE DONE?

The property guardian sector's standards bearer, The Property Guardian Providers Association (PGPA) is an association of property owners and guardians who can occupy otherwise empty buildings to better protect them.

As the PGPA said "Empty buildings are at significantly greater risk than occupied properties, from vandalism, arson and squatting, as well as the impact of weather and general neglect. Local authorities and property owners spend £100s millions to secure and repair vacant buildings, targeted by vandals, arsonists and squatters.

"By occupying them, property guardians greatly reduce both the risks to the buildings, and, consequently, also cutting the costs to local authorities and owners of security or dealing with the aftermath of vandalism or neglect. The surrounding environment benefits from having less eyesores in the area and the community benefits from the economic input from guardians living in a building that would otherwise stand empty."

It explains that approximately a third of property guardians are key workers, (teachers, nurses, doctors, police and emergency services workers), who choose to be property guardians so that they can live nearer their work.

In the past year the Association reports a steep rise in the number of applications to become guardians, rising to more than 60,000, double the 2018 figures.

The property guardian model first began in the Netherlands in the 1990s, where there is also a serious housing shortage and private rental accommodation in the cities can commonly take up to 70% of an average person's income. The guardian sector has grown there to provide approximately 30,000-35,000 people with affordable accommodation, which for a country with 17 million population, would equate to more than 100,000 people in the UK. Property guardians in the UK could also become a significant support to help ease accommodation shortages.

The chairman of the PGPA, Graham Sievers said "There are hundreds of thousands of houses, apartments, offices and public buildings standing empty across the UK, while they undergo redevelopment planning and fund raising. And yet there are also hundreds of thousands of people who want to find affordable accommodation nearer to where they work."

However, he warns "So far this year, the increasing legislative and regulatory landscape for the private rental sector has only put pressure on owners of these properties to keep them empty and not to put them to good use while their future is decided. We hope the support we provide together with the safety standards the PGPA imposes on its members will help to redress the balance."

Liz Booth is a freelance journalist

KEY STATS

As of September 2019:

- the UK had 617,527 empty buildings
- 445,310 were residential dwellings and
- 172,217 were commercial buildings

EMPTY PROPERTY

- More than 600,000 residential and commercial buildings lie empty in the UK
- Local authorities and property owners spend £100 million to secure and repair vacant buildings, targeted by vandals, arsonists and squatters
- Regulations designed for short-term assured tenancies are being inconsistently and inappropriately applied to the guardian sector, restricting empty properties being put to good use

Source: Property Guardian Providers Association

THE RICH LIST

Not every home is left empty as a result of a failed mortgage or disrepair. Action for Empty Homes is a charity that monitors empty homes and the reasons behind that. It is about to produce a report focused on the London issues.

It explains London is a prime location globally for wealth investment in residential property. New tower blocks containing luxury apartments have sprung up across the capital. As of January 2020, more than 500 more applications have been agreed for high-rise developments. At the same time, London is at the epicentre of the UK housing crisis, with average prices for residential properties being well out of the reach of households on average incomes.

In Islington, for example, the typical cost of a two-bed home is more than 12 times the average income – a couple both earning the average wage would need at least three mortgages to buy a home. The charity said many people have expressed concern about the impact of so-called buy-to-leave on the London housing market, with the finger of blame frequently being pointed at foreign investors for the growing number of 'lights out' unoccupied tower blocks in central parts of London.

DRONES

VIEW FROM ABOVE

Sam Barrett explores the increasingly effective use of drones within the property market

Drones are increasingly commonplace among estate agents, enabling them to take aerial shots that flaunt the size and character of a property (and sometimes even screening off the less than perfect neighbour). But, as well as being a powerful marketing tool, these unmanned aerial vehicles are being put to good use in other areas of the property market too.

Surveying is an obvious example, as Philip Angell, CEO and Chartered engineering surveyor at Angell Surveys and a member of the Royal Institution of Chartered Surveyors (RICS), explains: "A drone can capture images that it would be difficult and, in some cases, impossible for an individual to get themselves."

As an example, he points to a recent internal inspection his firm carried out on a property that had been destroyed when a mains water pipe running underneath it burst. "The property was deemed unsafe to enter but we were able to fly a drone inside to document the visual condition and contents. Surveys such as this can be used by interested parties, such as insurers," he adds.

Insurance is certainly an area where drones are playing a larger part. Douglas Barnett, director of mid-market and customer risk management at Axa Insurance, says that drones are most useful in a post-event situation. "When we want to quickly assess the damage a storm has caused to a block of flats or where we can't access a building because fire has made the whole structure dangerous to enter, a drone can be used to assess the damage."

ECONOMIC BENEFITS OF DRONES

In its report, Drones impact on the UK economy, PwC found that, by 2030, there could be:

- £42bn increase in the UK gross domestic product
- £16bn in net cost savings to the UK economy
- 76,000 drones operating in the UK's skies
- 628,000 jobs in the drones economy.

76,000

DRONES OPERATING IN THE UK'S SKIES

> DRONES CAN ALSO BE USED TO ASSESS BROADER AREAS, IDENTIFYING REGIONS THAT MIGHT BE MORE PRONE TO FLOOD RISK OR COASTAL EROSION

Loss adjusting firms are particularly keen to make them part of their arsenal. For instance, Crawford has its UK Drone Network, working with drone service provider Iprosurv to provide access to more than 240 Civil Aviation Authority registered pilots across the UK.

"We do a lot of work with the insurance profession on storm and flood damage claims," explains Rebecca Jones, owner and cofounder of Iprosurv. "We can fly a drone over a flood area to determine the level of water and how many properties are affected, enabling an insurer to set reserves, prioritise claims and determine interim payments. With other types of claims, footage can be shared with forensics experts to help them determine what caused the loss and what remedial work is required."

The insurance profession is not only using drones when catastrophe strikes. Ms Jones says they can also support risk management activity. "We can fly a structure and, by running the drone data through analytical software, produce a report that identifies any potential risks," she explains. "It could highlight a potential leak on a roof, preventing a business from suffering a large loss due to water damaged stock or as a result of a fire if it the electrics are affected."

Drones can also be used to assess broader areas, identifying regions that might be more prone to flood risk or coastal erosion. As an example, Angell Surveys conducts regular surveys for the Isle of Man government to monitor the rate of coastal erosion.

"We carry out aerial surveys at low tide, comparing the results with historical data to produce both a quantitative and qualitative assessment of the rate of erosion," explains a spokesperson from Angell. "This enables us to provide ongoing analysis, showing which areas and coastal properties are likely to be exposed to risk sooner than others."

Although drone usage is taking off in the property market, there are some obstacles. For Mr Barnett, cost is prohibiting greater use in insurance. "It's too high," he says. "A number of drone operators have approached us to help us inspect old hotels or difficult buildings, however their fee was higher than the total insurance premium we were charging."

As with anything technology-based, this is likely to change. Five years ago, it would have cost around £1000 to fly a drone, today, a basic drone inspection is in the region of £300. This could clear the runway for drones to be used in building surveys, providing buyers with more insight into the state of a property. Aerial photographs could show whether a roof needed to be replaced with thermal imagery revealing a property's energy efficiency.

But, as their application increases, it is also essential that operators abide by the regulations. From November 2019, anyone flying a drone must register and pass a theory test, with stricter rules for commercial operators. "Operators must get a permission for commercial work from the Civil Aviation Authority, even where there's no specific charge for the drone flight and it's offered as a way to enhance the service provided," explains Ms Jones. "Safety must be of the upmost importance." ●

__Sam Barrett__ is a freelance journalist

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IT'S ALL ABOUT TRUSTS

Ian Smart explains why trusts can provide a simple and efficient means of making protection better value for clients

Not all advisers consider adding a trust to their service during the protection sale. It's true that some trusts can be complex and time-consuming documents that some would rather leave to a solicitor.

Nonetheless, they can present considerable advantages to clients and can be counted as another string to your bow when it comes to the value of seeking professional advice.

WHAT IS A TRUST?

Trusts – the word conjures up thoughts of hefty documents thick with legalese. But they don't have to be like that. Simply put, a trust is a legal form which holds money or other assets for someone else. Often, they are an inexpensive, simple and efficient means of making protection better value for your clients.

There are three good reasons to put a protection plan in trust:

- To get the full sum assured to the beneficiaries without paying more tax on the estate.
- If a claim for £100,000 of life cover is made, and the plan is not in trust, the sum assured will pass into the client's estate. If the value of their estate, including the £100,000 payout, is sufficiently large, they will pay inheritance tax (IHT) at 40% on every £1 above the current IHT threshold – which is £325,000.

For example, in an estate valued at £500,000, the £100,000 payout would attract £40,000 of IHT – leaving only £60,000 available to your client's family.

- If their plan is put in trust, a payout of £100,000 would be held separately out with the client's estate after their death and therefore would not be subject to IHT. The full sum assured could then be passed to the beneficiaries.

TO GET THE SUM ASSURED TO THE RIGHT PEOPLE

A trust document, also known as a trust deed, will clearly show who should benefit from a life cover payout. Without a trust, the payout will go to either the beneficiaries named in a will, or if there's no will, the state will decide who should get the money, based on the laws of intestacy.

Some types of trust can leave the decision of who should benefit until later. The advantage of having this flexibility would be if a client knew their circumstances were going to change in the future – for example, if more children were likely to be born. With this type of trust, the trustees can change beneficiaries accordingly, even after a client's death.

TO PAY OUT THE SUM ASSURED AS QUICKLY AS POSSIBLE

Even if a client has left a valid will, it can take weeks or months to legally prove the will. Until then an insurance company cannot pay out the sum assured to anyone. And if the will is disputed for any reason, it can take years for the courts to settle it.

So, in short, a trust gets the right money to the right people at the right time. They can make life easier for a client's family and beneficiaries after their death. However, to be attractive to your clients during the protection sale, a trust needs to be quick and easy to set up, inexpensive and understandable for all those involved in it.

SETTING UP A TRUST

A range of standard trust forms are often provided for free by insurance companies and many, also offer technical help too. Standard trust forms are simple to complete (often running to just a few pages), easy to understand and will meet the needs of most clients.

> DISCUSSING THE BENEFITS OF TRUSTS WITH YOUR CLIENTS DURING THE PROTECTION SALE CAN HELP SHOW A CLIENT THE DEPTH OF YOUR EXPERTISE

It is best to set up a trust at the same time as completing the application for life cover.

You will find that most plans are written under a discretionary trust. These offer the greatest flexibility – your client can leave instructions setting out what they'd like the trustees to do with a payout under certain circumstances, but any action taken is at the trustees' discretion so they can act in the best interests of the beneficiaries at the time.

You may also come across the following types of trusts:

Absolute or bare trusts – Trustees hold any payout for the beneficiary until they can claim it, for example, trustees can hold funds for children until they turn 18. These trusts are very simple, but inflexible in terms of the choices the trustees can make in best interests of the beneficiaries.

Life interest trusts – A beneficiary has an interest in possession, so the funds in the trust are effectively held for them during their lifetime, after which another beneficiary is appointed.

Statutory trusts – In England, these are trusts under the Married Woman's Property Act, 1882. These are simple trusts which can be used to gift the payout of life cover to a spouse and children. They're designed to protect families against the threat of bankruptcy – due to this they're inflexible and can only be used for single life cover policies.

Within the trust, your client is known as the settlor and they must sign the trust form (for jointly owned covers, both clients must sign), the appointed trustees will need to sign the form too. If a trustee dies, or wishes to stand down, most insurers have a Deed of Appointment form, that can be completed to change the trustees within a trust.

Beneficiaries of the trust do not need to sign the trust form – they do not even need to be told they are a beneficiary of the trust until after your client's death. This can be a helpful point if the beneficiaries are children.

After a successful claim is made, the trustees are required to distribute the payout according to the trust form wording.

The trustees your client appoints are not paid for managing the trust, but they can recoup any necessary expenses they incur. The trust deed gives trustees the powers to invest or borrow money – however, trustees must always act legally and in the best interests of the beneficiaries of the trust.

Discussing the benefits of trusts with your clients during the protection sale can help show a client the depth of your expertise as well as provide peace of mind that they're fully prepared in case the worst should happen. ●

Ian Smart *is product architect at Royal London*

SERVE *AND* PROTECT

Andy Walton explains the importance of having a conversation with customers about protection early in the home buying or moving process

In my experience, it is important to have a process in place which advisers can follow to help them talk about protection with customers.

In short, at the beginning of a mortgage appointment with a customer – whether that's telephone or face-to-face – the conversation can start with: *"Hi, I'm a specialist in mortgages and can help you find the most suitable product for your needs and I also specialise in helping you keep up the repayments on the mortgage once we've arranged that for you.*

"To start with, we look at your mortgage requirements and later we will look at ensuring you can keep up the repayments – is that ok?"

It is simple but this can be the most effective way to put protection on the agenda early on – without mentioning protection directly.

As we know many customers do not even understand what we mean when we say "protection". It is extremely rare that a customer asks us to arrange their mortgage and all protection needs to cover the mortgage. However, it is also rare (if we ask the customer the above question) that they say they aren't interested in keeping up the repayments on their mortgage.

By gaining their agreement at outset, there are two distinct parts to the mortgage process which means the agenda is set and customers tend not to change their mind later.

PROTECTION

DIFFERENT TYPES OF PROTECTION

Not only does the word protection confuse customers so do many of the product names – IP, CI, FIB – can all lead to confusion. Here is a brief summary of how advisers can approach the subject of protection and associated products:

- When the mortgage is being applied for, point out to the customer the statement on their documentation that says, "your home may be repossessed if you don't keep up your repayments".

This is the stepping stone from the mortgage to the protection conversation.

- Ask the customer what could stop them keeping up their repayments.
- Document their answers. This now gives you a list in the customer's own words of what could stop them paying their mortgage. Many of the things they tell you are the very things we can help them with such as being off work, serious illness, accidents or death.

The next step is to talk about these areas, what the consequences would be and how long could they keep paying their mortgage for should any of those things happen. Clearly understanding any existing provisions to help in these areas is extremely important.

All of this conversation can be done with no reference to actual products – remember the product name is not important, it is what the product does to support the customer that is important.

All our products do one most important thing – they pay cash to the customer when they need it most.

Focus on that and the benefits rather than talking about a product called "income protection" etc. This will help customers prioritise the gaps they will see for themselves.

HOW MUCH DOES IT COST?

The final piece of the puzzle is to establish how much the customer is willing to spend per month to cover the gaps that most will have when it comes to keeping up the repayments on their mortgage.

As advisers, we normally say about 10%-15% of the mortgage payment. However, it is worth converting this into actual monetary amounts. So, for example – your mortgage is £900 a month and we find that the usual amount required to fill the gaps costs about 10%-15% of that – so in your case £90-£120 p/month. Where would you fit between those amounts?

With an agreed budget you are now able to go away and create a protection portfolio and come back with solutions for the customer that will work. This is the next phase of the protection journey which I won't go into detail right now.

So, positioning protection in the right way works – asking the right questions at the right time will lead to engaging customers with healthy budgets – all an adviser needs to do then is advise on the right solution. ●

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