Aviva Green Home Finance Accelerator

Discovery Phase Report

OCTOBER 2023

Green Home Finance Accelerator Discovery Phase Evidence Report:

Green Lifetime Lending led by Aviva

Disclaimer

October 2023

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Executive Summary

1.1 Project introduction, aims and objectives

The Aviva Green Home Finance Accelerator (GHFA) project aimed to explore a specialised lifetime mortgage (equity release) product targeted at homeowners looking to upgrade the energy efficiency of their property.

The purpose of the discovery phase research project was to examine the appetite of homeowners to upgrade their properties, how advice can be targeted to encourage suitable improvements, and how to tackle behavioural blockers currently inhibiting uptake. These project aims were completed via external research on customer attitudes, and on the role of financial advisers (FAs), who are already required to be involved in the sale of equity release products. The delivered project has been in line with the original aims.

The research project has examined behavioural barriers faced by consumers, including barriers of confidence and information availability.

Our wider aim has been to design and launch to market an equity release proposition, targeted as a cost-effective way of funding home improvements to improve the energy efficiency and the Energy Performance Certificate (EPC) rating of customers' homes. This included stand-alone work from Aviva to engage an external delivery partner for property upgrade advice and execution and also explore financial incentives that could be offered to a customer as part of a green equity release loan. This development work is expected to continue beyond the end of the GHFA discovery phase.

The original total project cost was £175,224 and the Department for Energy Security and Net Zero (DESNZ) grant contribution was £87,612. At the time of writing the total project cost is not yet determined, but is estimated to be under the original budget limit.

1.2 Key barriers and findings

The project has identified three key sets of barriers faced by consumers that a green equity release loan may help to overcome. These are barriers of confidence, barriers of knowledge, and wider economic and value for money considerations.

The confidence gap refers to what views about what difference an individual can make and what improvements are best to do in their home in the given financial circumstances. We identify a need to give customers the confidence and comfort to make their decision to act now and provide reassurance they won't regret their decision.

This lack of confidence is underpinned by a lack of knowledge. Energy efficiency upgrades can represent unanswered questions, mixed feedback and confusion around the cost of different methods and their financial payback. A level of knowledge is required to be able to comfortably make an informed decision regarding energy efficiency measures. While existing information is available regarding measures, often this information is hard to find and/or conflicting. This inhibits retirees the ability to take action.

Third, we identify broader economic and value for money considerations. While high energy costs have brought concerns about energy costs to the fore, high inflation has significantly raised the cost of energy efficiency upgrades while higher interest rates over the last 18 months have reduced the attractiveness of debt funding across all loan types. These concerns are at the front of consumers' minds and will likely weigh on demand for debt funded energy efficiency upgrades.

Our research suggests that several remedies to the confidence and knowledge gaps are possible. We find that pairing an equity release loan with measures designed to remedy these issues could be helpful. Measures that tested well include a warranty on the construction work with dispute resolution service and a property assessment with advice on which improvements would have the greatest impact. Knowledge gaps were also evident among financial advisors, who are the typical gateway to equity release products. They expressed concerns about making the wrong decision or giving the wrong advice, but lacked knowledge about what external organisations they could point their clients to for advice.

Interestingly, the over 55 cohort also felt that financial firms were not a main source of advice for home energy efficiency upgrades. Instead, they reported they would typically look to government guidance, as well as independent experts and energy firms for information on the topic.

This suggests that while financial firms such as equity release lenders may have a role in disseminating information, they are ill suited to be a primary source. A key conclusion from the work is that pairing with "end-to-end" energy efficiency upgrade firms, ones that provide both advice on what to install and support the borrower in delivery, may instead be a good path to tackling knowledge and confidence barriers.

Economic barriers were found to be more difficult for a single firm or product to overcome and appear to require wider action. Unsurprisingly our testing found that financial incentives, from the lender or the installer, were attractive to prospective borrowers. However, our modelling suggests that, at least for an equity release provider, it may be difficult for financial firms to provide large discounts to consumers. Interestingly, the most popular measure reported by respondents was better signposting to government financial support. Several of the "end-to-end" energy efficiency upgrade firms we spoke to could provide such advice. A fairly high share of consumers also reported expecting government support to pay for home energy efficiency upgrades when they came around to doing so.

But our research suggests that in reality such support – especially in England – may be limited.

Still, the overall research outcomes provided some surprisingly positive outcomes. Most notably, the level of openness to home energy efficiency improvements reported among over 55s was surprisingly high – an outcome perhaps contrary to the polarising media environment.

1.3 Reflections on the research

Overall, Aviva is grateful to have been included in the GHFA discovery phase. We would like to thank the staff at DESNZ and PwC for their role in managing the project.

This research will provide Aviva, and the wider equity release industry, with evidence and direction on how best to build a green equity release loan. Further benefits have been the inclusion of equity release lenders within the still-developing green loan ecosystem, generating new connections within the wider industry and with DESNZ. For Aviva itself, the project has accelerated its work on development of a green loan and generated useful insights that will aid decision making in the future.

Evidence Report

2. Product introduction

2.1 Introduction to a prospective green equity release loan

Aviva is one of the market leading equity release providers in the UK. The purpose of Aviva's GHFA project was to explore customer and financial advisor opinions of a prospective green equity release mortgage product, for the purpose of performing energy efficiency upgrades to customers' homes.

The proposed product would utilise the existing equity release proposition as a means of funding upgrades. On top of that, the product would include features designed to break down existing behavioural barriers to making the upgrades which we have identified. These included:

- Consumers not knowing what upgrades to install.
- Consumers not understanding the financial impact of upgrades.
- Consumers not knowing who to go to for advice.
- Consumers lacking confidence about what suppliers they can trust.

Our project explored the possible routes to providing an end-to-end solution via a partnership with external firms. This would integrate Financial Advisers, Aviva's existing equity release lending business, and an external partner for property upgrade advice and delivery.

All existing individual level energy efficiency and low carbon heating measures would be included in this proposition – limited by the extent of customer demand. For example heat pumps, solar panels, cavity wall insulation or improved heating controls.

The target audience would be over 55 year old homeowners. This reflects the potential target demographic of the finance product. The product is limited to over 55s as this is typically the youngest age at which equity release can be economically provided by the lender. It would also be limited to those with sufficient housing equity – homeowners who own outright or have paid off nearly all of their mortgage.

The estimated cost of the energy efficiency product itself would be determined by the individuals' choice of upgrade. This would be determined by the external market price for that product at the time. The interest rate for the lending product would be the prevailing equity release interest rate available to the customer at the time, which would depend on individual circumstances such as their age.

As part of the project, we considered the possibility of providing further financial incentives to customers in the form of either reduced interest rates or a cashback deal. If Aviva chooses to pursue such a product in the future, we expect that some financial incentive is possible. The calculation of such an exact size of discount is dependent on how much of the energy efficiency upgrade price is capitalised in the value of the house. It will also be dependent on market and economic conditions at the time.

2.2 How a green equity release loan may incentivise action

Our research suggests that consumers don't know how to pay for energy efficiency upgrades.

Those without sufficient savings are typically unable to pay for changes to their home themselves. The equity release product would provide a means of financing energy efficiency upgrades with no out of pocket loan repayments during the lifetime of the borrower. This would enable upgrades among some equity rich but cash poor households who might otherwise struggle to do so.

We identified knowledge gaps and confidence gaps as barriers to action among households. This is where households lack information to make the right choices and where they face uncertainty about installers and the execution of the work.

The product and service investigated by Aviva would seek to address these barriers. Potential remedies to this include the following, and our work suggest that this would typically need be provided by an external partner:

- Providing support and guidance on how to utilise existing government grant schemes.
- A warranty on the construction work with a dispute resolution service.
- A property assessment which would tell the customer which improvements would have the greatest impact and suitability of that work given their financial circumstances.
- A discount on the work itself by using suppliers affiliated with the loan provider.
- A guide detailing the financial savings made from each improvement, for an average property similar to my own.
- An end-to-end support service from a representative who could follow my case through from beginning to end.
- Referrals to trusted contractors who can undertake the upgrades.
- Reduced rates on a green loan, compared to a "vanilla" financial product
- Education packs or resources to read on energy efficiency and the types of improvements possible.

3. General scoping research and other activities

3.1 Research Methodology

The core activity of the GHFA project was research to understand the attitudes of the UK's current and near-future cohort of retirees toward energy-efficient home improvements. There were three key research questions:

- **Demand:** What is the level of demand among older homeowners, who might be open to equity release loans, and the extent of appeal for using equity release to make energy efficiency improvements?

- **Attitudes:** What are FA attitudes towards energy efficiency upgrades and how they can support greener future choices by retirees?

- **Barriers:** What are the barriers that may underly reluctance? How can Aviva and the government overcome these?

The research was split into three main stages and was conducted by Brand Potential – an external market research organisation commissioned by Aviva to do the work. The initial stage of qualitative research involved in-depth interviews from financial advisors, many with varied backgrounds in terms of client base, affluence of client base and advise concerning energy efficiency.

Brand Potential carried out 4 x1hr Aviva stakeholder interviews to capture their interest and perceived value of the product for retirees and Aviva, in addition to their views regarding potential drivers and barriers to change.

Brand Potential also gathered the perspective of FAs who have recommended and provided equity release in the past. Interviewees were provided by Aviva, who maintains relationships with these organisations, and were chosen based on their ability to represent a wide range of FA interests. The interviewees were also diverse on a regional basis - i.e. 3 in the South, 3 in the Midlands and 3 in the North for a total of 9 x 1hr online interviews.

Brand Potential also conducted 2 x 1hr expert interviews, with representatives from Energy Savings Trust and Warmworks. The Energy Savings Trust offer grants and loans to retirees in Scotland and Wales. These interviews were aimed to provide a sense of perspective and source of knowledge on current attitudes of retires and making energy efficiency changes.

The second stage of qualitative research involved 20 in-depth qualitative interviews of retirees aimed to uncover the variety of distinct viewpoints that people held. These in-depth interviews were carried out to understand individual circumstances and points of view on Equity Release, eco topics and the new proposition for a green equity release product. In-depth interviews were conducted online or within the retiree's home with their consent.

To ensure that only relevant voices were heard, the retirees were pre-screened to ensure none were out-right rejectors of equity release or rejectors of Aviva. To ensure relevancy to Equity Release, all had to be home-owners and at least half had to use an FA. There was a distribution of respondents across the North, Midlands and South of the UK.

Included within our sample, were a further 8 offspring of the target audience, who had at least one parent in retirement. Children of retirees are often involved in key decision making and influence attitudes and opinions on issues like the environment. It was for this justification they were included in our research. This also allowed us to ascertain a perspective of retiree's that are perhaps harder to reach and are less likely to be signed up to research panels.

In our Quantitative stage, we spoke to 2886 respondents, representing the 11.2m households in the UK who have someone aged 55+ in the home. We refer to these respondents as "retirees", although 1 in 4 of our respondents still worked full time. Not all respondents were eligible for the full questionnaire and were screened out early in the questionnaire process. Of these 2886 respondents, 1 in 4 did not own their own homes. A further 12.5% of this group were not eligible for our survey on the grounds of not having a house with enough value (minimum £100k) or enough equity in their home (minimum 50% owned), or their house was built from 2015 onwards, which would categorise it as highly efficient already.

In total, n=808 "retirees" were eligible to complete our extended survey based on having at least some interest in the above, representing 3.1m households. These make up the main sample. The wider sample, including screened out respondents, was used to form measures of "market size".

Aviva staff were actively involved in the research design throughout the process. We also reviewed the qualitative and quantitative research throughout the process and had access to the raw research output via spreadsheets of the quantitative research and videos of qualitative customer interviews.

Further to the research conducted by Brand Potential, Aviva staff also entered discussions with a number of relevant external parties as part of its product development process. This included separate discussions with external experts. Aviva also entered discussions with four external companies who provide "end-to-end" green retrofit solutions. These discussions were used to better understand the range of potential advice and retrofit solutions that were available and were also used to explore the challenges that would emerge from their use.

3.2 Novel features of an equity release lending product

As a funding source, Equity Release would potentially compete with ordinary mortgages secured on homes (house purchase credit and re-mortgaging). As a source of funding, we would also potentially compete with unsecured bank funding.

However, Equity Release is a unique product in that the loan does not need to be repaid during its term. Rather, the original amount borrowed plus rolled up interest is typically only due after the borrower dies or enters long term care. This differentiates it from other forms of finance, as it is suitable for those who are equity rich via their home but have less cash in later life – especially during retirement.

As a result, Equity Release is a source of credit for some kinds of older borrowers who may not be eligible for alternative mortgage or unsecured finance.

There are a number of equity release providers in the UK, and Aviva competes within this market. However, to our knowledge there is no provider who is currently bundling support services for home energy efficiency upgrade, including an "end to end" service.

3.3 Summary of research findings on funding, barriers and solutions

Our research asked the question to respondents "How do you plan/would you expect to pay for EEHI (Energy Efficient Home Improvements)?" The responses suggest that, among the over 55 year old demographic, customers expect to finance home energy efficiency upgrades primarily via their own savings. In our sample, 69% reported they would expect to fund upgrades this way. A much smaller subgroup also expected "someone else to pay for these improvements, such as the council or a company".

Beyond personal savings, the second largest response from our sample about how to pay for the upgrades was government grants or schemes. 34% of respondents reported "I may be eligible for a government grant or scheme" – indicating a fairly widespread expectation for government support in the future among the cohort.

Smaller proportions of respondents reported that they expected to use some kind of loan finance to fund home energy efficiency upgrades. 15% of respondents explicitly reported expecting to use equity release or "using the equity of my home and reinvesting this money". 15% reported that they expected to use their pension pot and 12% reported expecting to use a loan from a bank or other financial institution.

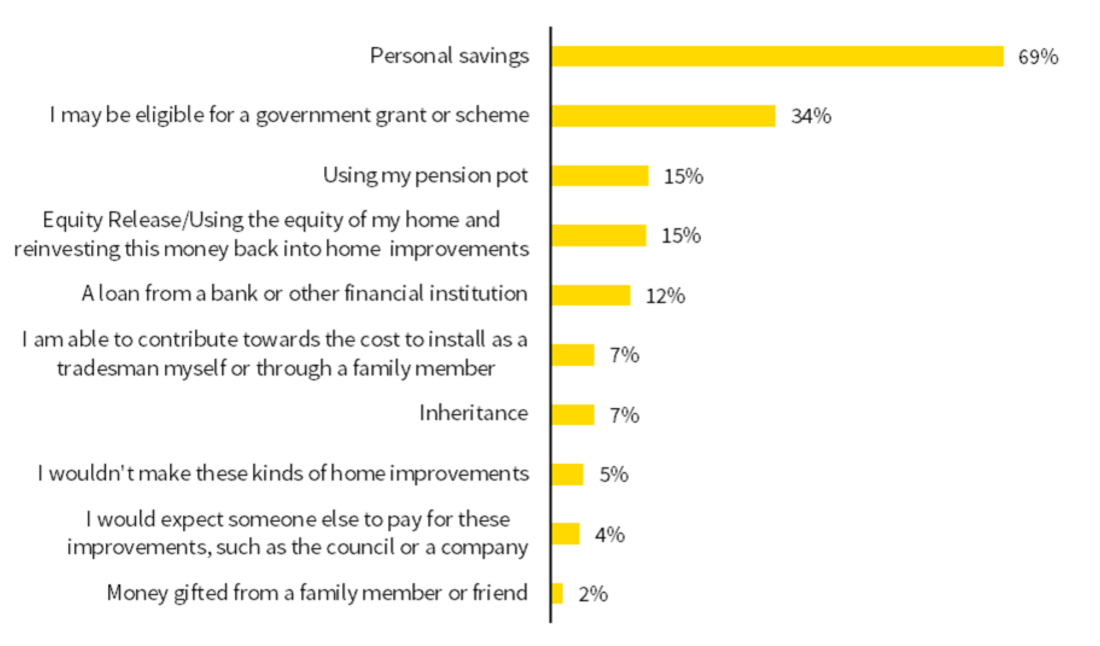
A minor 7% of respondents expected to use their inheritance.

Value for money considerations were found to be a key barrier to home retrofit in general. This is likely to influence the decisions of consumers when choosing how to fund their home energy efficiency improvements.

Several questions we asked indicated the importance of these financial concerns. When asked what was discouraging people from making energy efficiency upgrades, the number one answer, with a 37% response rate, was “the amount I would save doesn’t justify the initial outlay of the cost of the improvements.” We also identified well-known and long-standing barriers to equity release as a product in our questionnaire responses. For example, the single largest barrier to disinterest in equity release was “I am concerned about the long-term consequences, including compound interest” (31%) and “equity release would mean I have less inheritance to pass on to my family” (30%).

Chart 1: How Respondents’ Plan To Pay For Energy Efficiency Upgrades

Could you tell us how you would pay for home improvements to improve the energy efficiency of your home?



Source: Aviva GHFA Research

Some of the barriers to equity release are likely to apply to other forms of loan finance. For example, the fourth largest response to equity release barriers was “I just wanted to enjoy retirement without any additional financial burdens or stress” (26%). High interest rates were also a key concern raised by respondents, with 25% stating that “current interest rates are too high”.

As part of the research, we also tested a number of incentives, advice or support consumers would value when looking for retrofit financing solutions. Responses to this question can be summarised into three main categories:

- The economics and value for money.
- Tackling confidence gaps.

- Tackling knowledge gaps.

Of the various incentives that we tested with consumers in the quantitative research, three of the top five responses were product features that tackled economics and value for money (options 1, 3 and 5 in below list). The further two most popular responses tackled a confidence gap (2) and knowledge gap (4).

- Support and guidance on how to utilise existing government grant schemes (29%).
- A warranty on the construction work with dispute resolution service (29%).
- A cashback offer to partly cover the cost of making an energy efficiency upgrade (28%).
- A property assessment […], telling me which improvements would have the greatest impact and suitability for my financial circumstances (27%).
- A discount on the work itself by using suppliers affiliated with the loan provider (25%).

These responses tied in somewhat well with our findings on the “key drivers” that would motivate customers to make home energy efficiency improvements in the first place. To this question, respondents ranked economic drivers first (“saving money on my household energy bills”, 50%).

It was notable however, that home comfort drivers came in a close second. Respondents were also heavily motivated by measures that would “make my home warmer” (40%) and make my home more comfortable for me in later life (30%). In an environment of high inflation and high interest rates, which have negatively impacted the economic case for home energy retrofit, this may be a useful insight. It suggests that uptake in energy efficiency upgrades may be improved by leading on comfort (“warm home”) aspects of making the improvements.

For an equity release product, the main initial point of contact between a customer and loan provider happens when they speak to a financial advisor. We have identified this point as when to engage a customer on the option of green upgrades. This is likely to happen via the financial advisor, who may provide a customer with initial materials and information.

3.4 Key lessons on the size and scope of the market

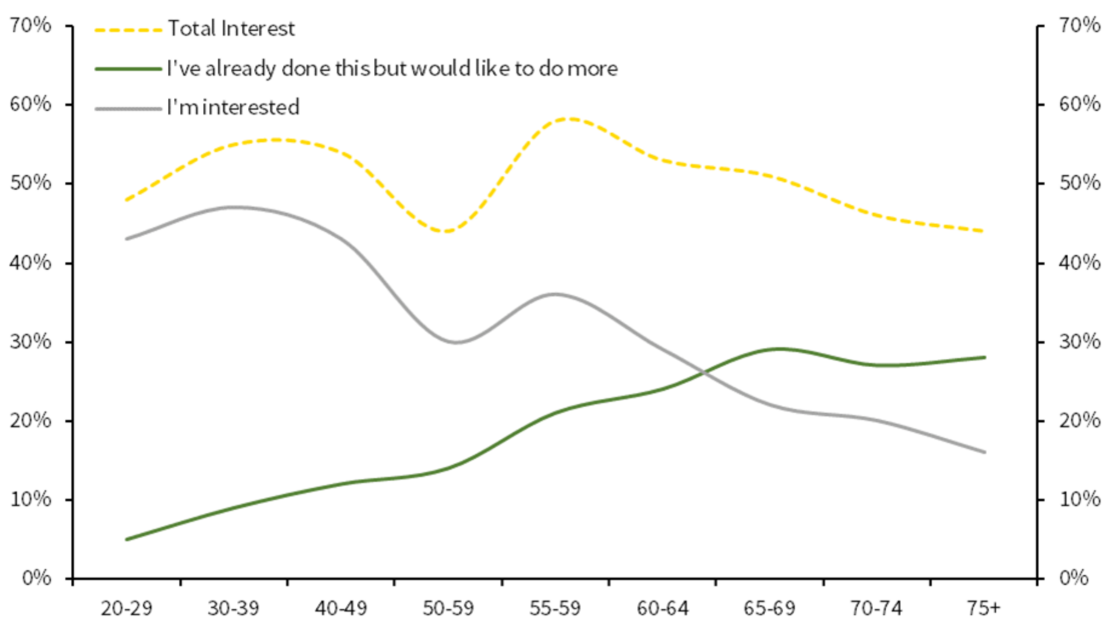
It is clear from the findings of this research that generally, retirees are open to the idea of making energy efficient improvements to their homes. Despite the polarising viewpoint of energy efficiency in the news and media, a consistent and key finding running through the research was that the core issue of energy efficiency is not a polarising issue amongst retirees.

Around half of retirees (and future retirees) are actively interested in making energy efficient improvements to their home. This interest peaks between the age of 30-50 and

55-64. Still, there appears to be a fairly high active interest among over 55s to making energy efficiency upgrades which is maintained into older age.

Chart 2: Respondents' General Interest in Energy Efficiency Upgrades

Could you tell us how interested you are in making home energy efficiency upgrades?



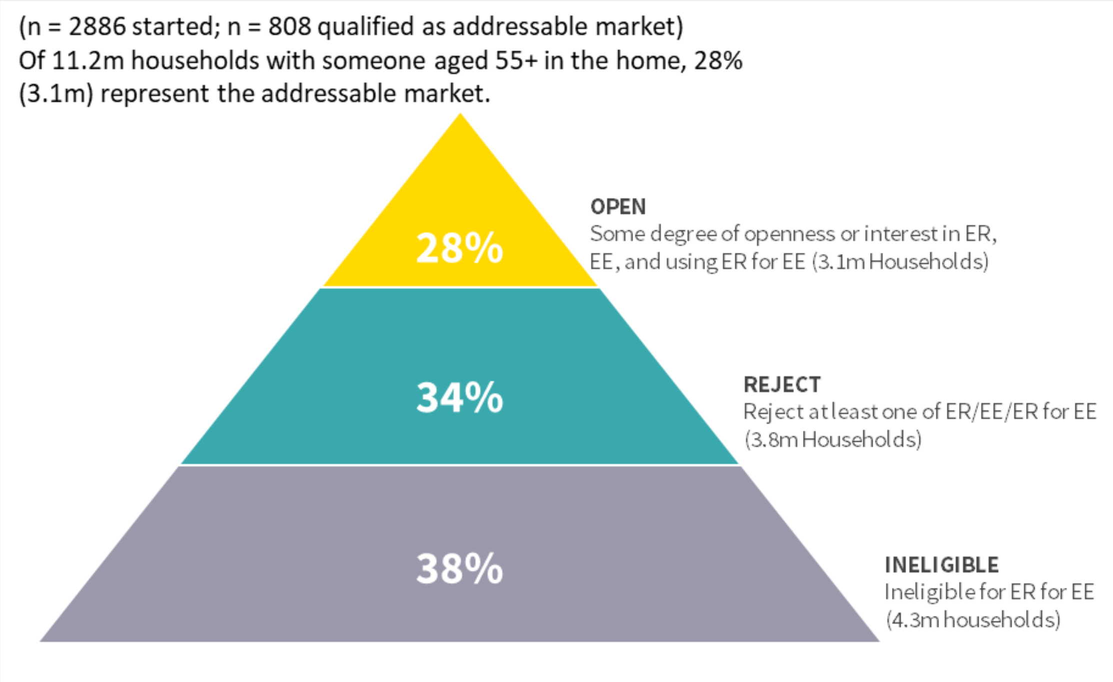
Source: Aviva GHFA Research

Interest in equity release however is lower and is limited by a few factors. Firstly, general interest in equity release is lower due to concerns around long term consequences such as compound interest, the impact of reduced inheritance for the borrowers' family and a general disinterest given the respondents' circumstances. It is worth noting that some of the concerns are misconceptions about the product, such as concerns around having to deal with additional debt – as the loan is not repaid during the borrowers' lifetime. Secondly, equity release is not a suitable form of finance for all. For example, while the regulatory environment is evolving, homeowners with existing substantial savings will typically not be eligible for equity release.

The research conducted by Brand Potential suggests that around 28% of all households with someone aged 55+ in the home represents the addressable market. This equates to around 3.1 million homes in the UK.

However, given the high degree of interest in energy efficiency but lower interest in equity release among the target demographic, a pragmatic initial approach would be to approach prospective customers who have already expressed interest in an equity release via their FA more generally, and present them with a green solution that bolts on to their existing plans.

Chart 3: Market Sizing Estimates for Green Equity Release



Source: Aviva GHFA Research

3.4.1 Customer profiling

As part of our research, we segmented the customer research into three key groups – “The Mass”, “The Engaged” and “The Conscious”.

The ‘Mass’

The first is the largest, making up half of our eligible retirees (52% - around 1.6m households), and therefore representing the ‘mass’ opinion of this demographic. They are also closely aligned with the 3.8m households who rejected the concept of Equity Release and/or Green Homes, and who did not continue with our survey. This group are less interested in Green Homes and would need more education and ‘pushing’ in order to convince them to make these changes. They represent the ‘Funding Gap’ – the group who could be compelled to take action but are not able to afford it on their own. The group who have felt the Cost of Living crisis most keenly, and feel the pressure of making it through the month, making it through the winter.

The ‘Engaged’

The second group represents 36% of our eligible retirees (1.1m households), and they are particularly interested in making Green Homes improvements. They are also interested in using Equity Release to do this, though for some, their savings would likely be high enough that they would not justify taking out an Equity Release product. This group are of particular interest as they are the more ready to take action and include the more proactive retirees who have already done research and have a good idea of what they want to do. For this group it is about addressing the more pressing needs – how do I actually go about this.

The 'Conscious'

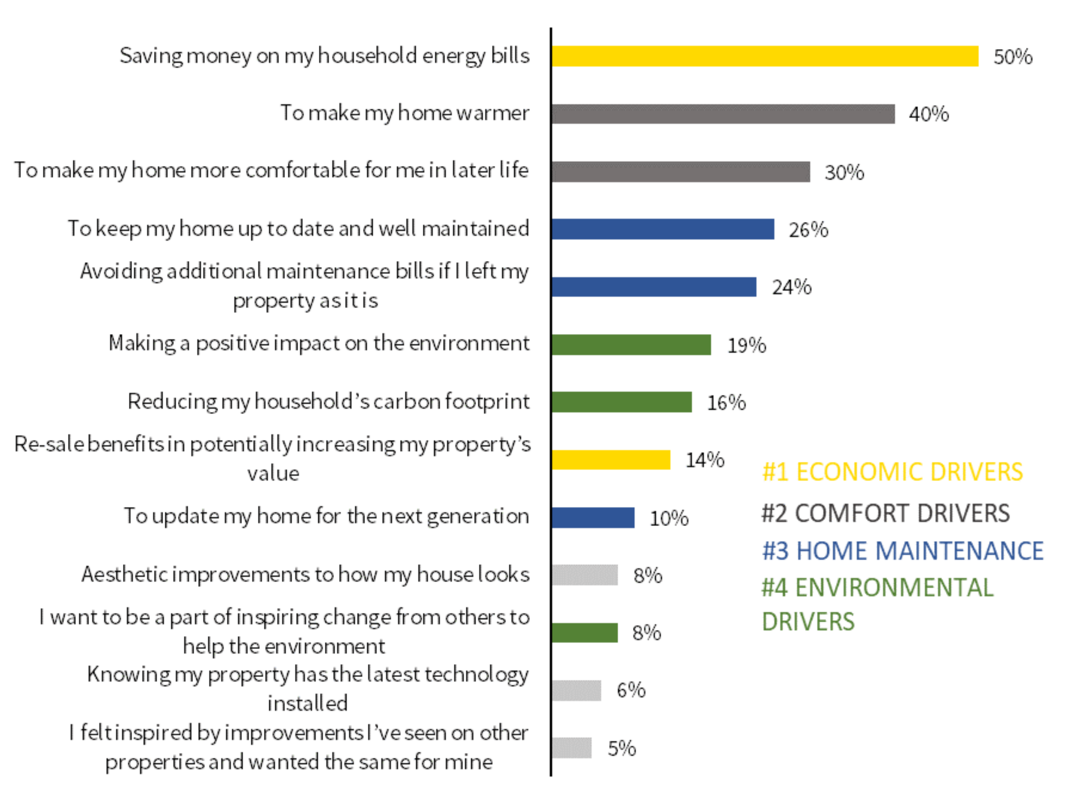
The third group is a small group (12% of eligible retirees, just less than 400,000 households) who have an interest in Green Homes but have enough money to make the changes themselves without the need for an Equity Release product, or particularly Government incentives – though they may need incentives to justify spending their money on this rather than something else. This group are affluent, with a large house, of roughly 500k equity, and on average £100k in savings. They typically have few financial concerns or dependents, and many are over the age of 70. While this group are not of interest to the Equity Release market, they can be inspired to make Energy Efficient upgrades to their home (which are typically EPC C, average efficiency).

3.4.2 Customer motivations

Motivations for making energy efficiency upgrades among our target demographic can be split into four categories. Economic drivers, comfort drivers, home maintenance and environmental drivers. As presented below, economic drivers ranked first among customers – specifically a desire to save money on household energy bills. Comfort drivers ranked a close second, with consumers both seeking home comfort now and a sense of preparedness for later life also. Respondents also reported home maintenance.

Chart 4: Respondents' Motivations For Energy Efficiency Upgrades

In regard to making energy efficient improvements to your home, could you tell us how important you find each of the below benefits?

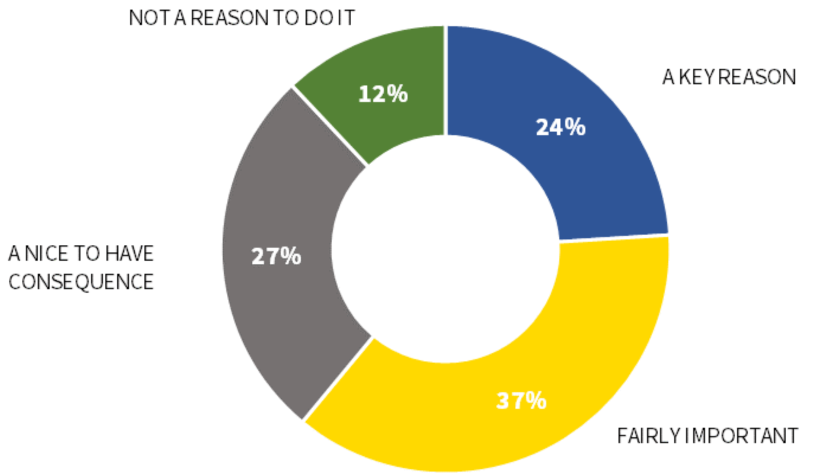


Source: Aviva GHFA Research

Around a quarter of retirees say the environment is a key reason for making these upgrades ("Reducing carbon footprint", "Making a positive impact on the environment" or "Being a part of inspiring change in others to help the environment".) 10% put one of these statements as their top reason to make these changes. That said, even those who do not see it as a key reason, do see it as a valid reason. Overall, almost 90% of retirees see it as, at least, a nice reason to make the changes - perhaps higher than we would expect from this older generation.

Chart 5: Importance of the Environment in Decision Making

In regard to making energy efficient improvements to your home, could you tell us how important making a positive impact on the environment is to you?



Source: Aviva GHFA Research

3.4.3 Cost of Living Crisis & Impacts

The cost of living crisis has arisen due to a period of high inflation in the UK. External reports suggest that the cost of energy efficiency upgrades have risen significantly in response, which is likely to negatively affect the value for money of these upgrades. Furthermore, interest rates have risen in response to high inflation, which have negatively impacted the maximum available loan amounts for equity release lending and also reduced its attractiveness to consumers (alongside other loan products).

However, increased energy costs have at least, in part, offset some of these effects. Higher energy costs will have acted to improve the financial returns on some energy efficiency upgrades. High energy costs have also focused the attention of consumers towards energy efficiency as a means of reducing household bills.

4. Relationship and partnership building

4.1 Overview of activities

Aviva's GHFA team has developed its energy efficiency knowledge base and established relationships with external parties during the course of the project. Externally, the GHFA project team engaged with experts including the Energy Saving Trust (EST) and Scottish Government. A policy advisor from the EST was also interviewed by Brand Potential as an energy saving expert, and the EST provided expert support during the GHFA project.

Aviva also engaged with several "one stop shop" providers, who provide "end to end" solutions for home retrofit advice and installation. These relationships were primarily set up due to the network of suppliers and contacts that Aviva gained by "being on the radar" – via its place in the GHFA project.

More widely, Aviva has been independently building expertise in energy efficiency via its wider work on emissions reporting. The equity release business has been measuring the carbon emissions of its mortgage book via residential property EPCs since 2021.

Relationships have been built via mutual contact between Aviva and external organisations. Via contacts with other "one stop shop" providers, Aviva learned about the kinds of offerings on the market and how they might support a future equity release product. Through these conversations the GHFA team at Aviva has also learned about potential problems that may arise by using these providers. External contacts in turn learned more about equity release and how it might be used to fund a "one-stop-shop" platform.

4.2 Knowledge sharing with the research partner

Knowledge sharing during the project has primarily been between Aviva and the research partner Brand Potential. Aviva met Brand Potential on a weekly basis and guided their work throughout the research phase. Brand potential regularly presented the findings of their quantitative and qualitative field research. Aviva and Brand Potential attended several face-to-face workshops together to discuss the outcomes of the research.

Aviva has had access to all research materials by Brand Potential throughout the research process.

4.3 Future knowledge development

Aviva does not expect to be directly providing technical green home upgrade specific information to a customer as part of any loan product. We would expect this to be done by any green retrofit organisation we partner with in the future.

However, one area where more knowledge is needed from a lender perspective is in the suitability of upgrades to individual homes. We identified an issue whereas an equity release lender we need to be confident that upgrades will not negatively impact the future house price of the property and increasing the risk that the loan will not be repaid in full. This is an area where more knowledge and understanding will need to be developed.

5. Finance product research

5.1 Suitability of equity release

The existing release product is already suitable as a means of funding a green equity release product. As part of the research project, we tested consumers' responses to different "nudges" or incentives that a green equity release product could bolt on to the existing proposition.

5.2 Finance product research

Our research pointed to what non-finance related product features would be the most attractive to customers, and how these features will need to be incorporated into the end-to-end advice process used in the equity release market. We also investigated some financial issues during the course of the pilot, relating to incentives and value for money.

We investigated discounts on the interest rate that could be offered on the "green" part of the loan only – as a means to incentivise loan take up. The outcome of the work suggested that offering a somewhat lower interest rate was possible. However the size of discount is limited fundamentally by the underlying cost of funding for the business. For example, any discount would be unable to offset the large rise in interest rates seen over the last 18 months.

The availability of discounts we explored would, in part, be predicated on the assumption that the value of the energy efficiency upgrade would be capitalised in the house price and drive a subsequent reduction in risk for the loan. However, we have found there to be a lack of high-quality evidence that spending on improvements in energy performance will led to commensurate increases in house value. As a result, this incentive at present would be hard to justify.

5.3 Regulatory Considerations

The existing release product is already suitable as a means of funding a green equity release product. We are already regulated by the Financial Conduct Authority (FCA) and customers can already use our product to fund green upgrades should they choose to do so. Any future green loan development would sit within our existing customer and regulatory framework and would need to be considered separately at that time.

6. Advice/information research

Our research identified a confidence gap and knowledge gap facing customers, which a green equity release loan would likely need to tackle.

6.1 Confidence gap

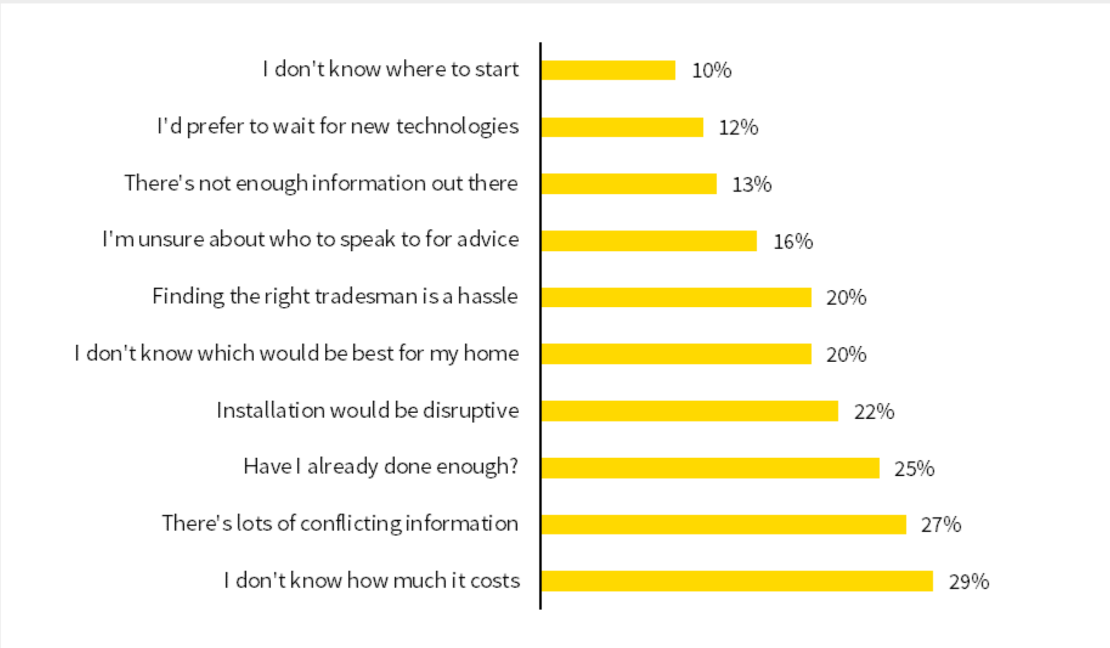
Despite the upward trajectory in openness and appeal of energy efficiency, inertia characterises UK retiree homeowners. This is driven by a lack of urgency, knowledge, confidence and ability to take action despite inherent openness.

One of the strongest under-currents of this inertia is a confidence gap, referring specifically to what difference an individual can make and what improvements are best to do in their home in the given financial circumstances.

There is a need to give customers the confidence and comfort to make their decision to act now and provide reassurance they won't regret their decision. This isn't just a role for just the equity release industry, but also a need for the building industry and government to provide a united, cohesive reassurance narrative.

Chart 6: Reported Barriers To Making Energy Efficient Upgrades

In regard to making energy efficient changes to your home, which of the following may prevent you from doing so?



Source: Aviva GHFA Research

6.2 The Knowledge Gap

The lack of confidence is underpinned by a lack of knowledge. Energy efficiency upgrades can represent an open land of unanswered questions, mixed feedback and confusion around the cost of different methods and their financial payback.

A level of knowledge is required to be able to comfortably make an informed decision regarding energy efficiency measures. While existing information is available regarding measures, often this information is hard to find and/or conflicting. This inhibits retirees the ability to take action.

The knowledge gap also extends to financial advisors, who would benefit from training and education.

There was a united sentiment amongst financial advisors in the fear of making the wrong decision and giving the wrong advice. In a situation where retirees are looking for expert guidance on how to use their finances and access funding sources, financial advisors lack the confidence to advise. Our research suggested that advisors would benefit from access to external resources to both inform themselves, and point interested customers towards.

FAs highlighted they would need further clarification on how a green equity release product would work, in what circumstances it should be recommended and the benefits and potential consequences to retirees.

6.3 Information Resources

Our research examined views about the information resources available to consumers, and their level of trust of different sources. The desire for information/clarity/support unites retirees, no matter how interested (or less interested) they are to EEHI. Even those who are more interested in energy efficiency were still concerned about cost, installation and conflicting information.

Aviva, as a trusted financial services provider, is in a strong position to provide knowledge and guidance on EEHI. However, the Government's role is also pivotal in addressing the Knowledge and Confidence gap. In order to find information and advice about energy efficient home improvements, Government Resources were particularly trusted amongst the next wave of retirees who were 10% more likely to trust Government Resources vs. the degree of trust they felt their parents had in Government Resources.

TOP TRUSTED RESOURCES
Government Resources
My own online research (e.g. Google articles)
Experts/ specialist companies
Published Research/ documents from verified sources
Information from energy providers

Our research also highlighted the children of older homeowners as being important influences on energy efficiency decisions.

More broadly however, we found the onus would be on multiple stakeholder groups (the government, the media, academia, the financial services and advice industry) to plug broader confidence and knowledge gaps. However, in order to avoid further adding to a conflicting and confusing narrative, there is a more fundamental need to build a more constructive and united story around energy efficiency that helps tap into, foster and unlock the almost universal openness in the retiree population.

6.4 Integrating advice with a green equity release product

As mentioned previously, our research suggests that consumers see a lack of information as a barrier to making green upgrades to the home. The work did not explicitly consider how the advice and information should be integrated with the finance product.

However, we did find that the information source is important. The survey responses suggest that while Aviva is considered a trusted source of information in general, consumers do not expect to find information about energy efficiency upgrades from financial firms directly. Rather, they most trust government sources, experts / specialist companies, published research or documents from verified sources and information from energy providers. So, while financial firms may be well placed to be a conduit, the source should be from other organisations.

Consumers expect energy efficiency information to come from sources outside the financial services industry. This suggests that financial industry self-built energy efficiency tools may be less successful than tools built by specialist financial firms or the government.

The study identified externally provided “one stop shops” as a way of overcoming retirees concerns around conflicting information, finding and trusting tradesmen, knowing which improvements are appropriate. We found it would also be likely to enhance take up of a green equity release mortgage by offering the support and guidance which was listed as the top trigger for action.

Our conversations with external parties also suggests that many external "one stop shop" firms already provide some kind of financial advice for consumers. Some of the features of such one stop shops tested fairly well in our research.

One challenge we identified was our ability to test the quality of information provided by “one stop shops”. It may be difficult for a financial services firm like Aviva to verify whether the upgrade advice provided by such firms was appropriate. This can make it difficult for a financial services firm to decide whether such a tool would provide good customer outcomes and therefore appropriate to recommend. This is an essential part of our product development process.

7. Verification of energy efficiency upgrades

Our project identified verification as a key problem but did not explore this question in detail.

From our wider experience of providing equity release loans against homes in need of “essential repairs”, the process of verification and quality assurance of physical work done to a property can be cumbersome and expensive.

Some of the external advice and retrofit firms we spoke to could provide installation verification as part of their process. In developing a product, a good solution may be for a financial services provider to have this verification handled by a third-party assessor or installer.

8. Marketing related research

8.1 Key findings

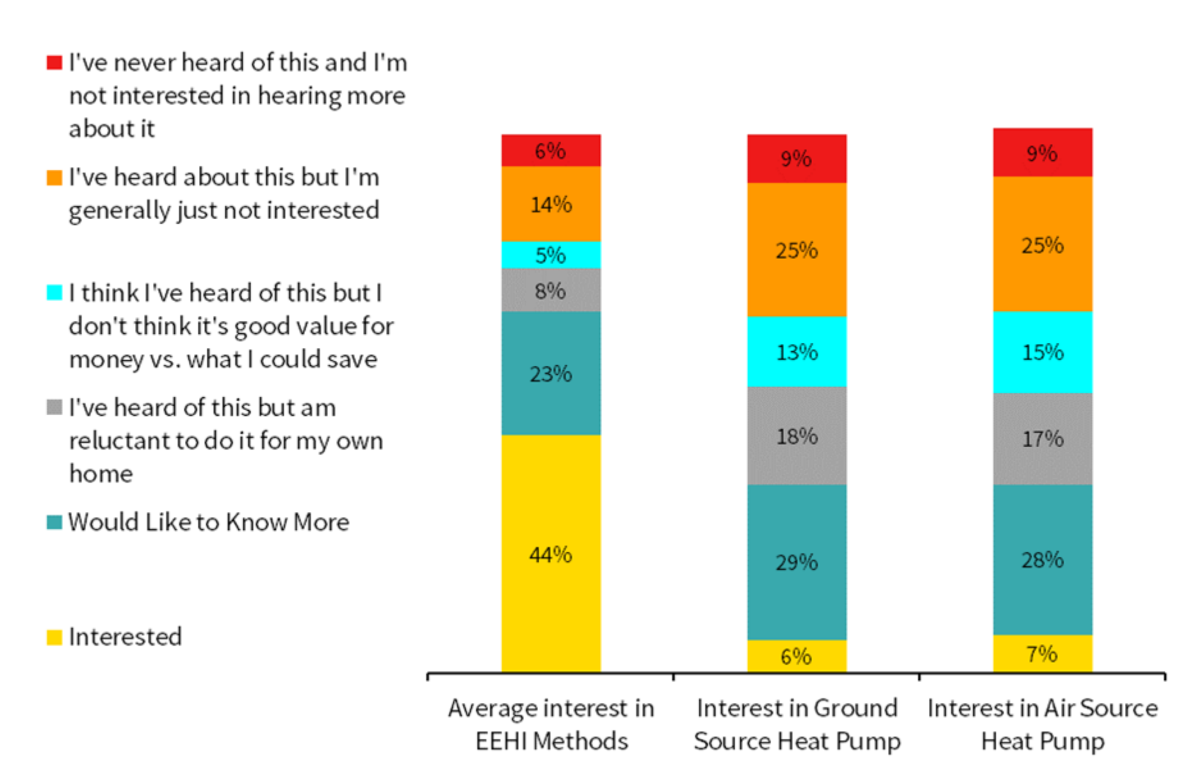
Our research provided some interesting insight into what messages might resonate better with consumers, given the underlying motivations for wanting to make home energy efficiency upgrades.

As previously mentioned, respondents ranked their motivations as economic drivers first, comfort drivers second, home maintenance third and environmental drivers fourth. This suggests that home energy efficiency products should primarily target value for money and home comfort as the primary benefits of making changes. Home maintenance and environmental drivers, while important, were unlikely to be the driving motivation for the “mass market” of prospective customers.

Furthermore, our research identified that certain upgrades did not resonate well with consumers. Heat pumps were particularly unpopular within the target demographic (see below). This points to the need to consider the role that heat pumps – and the information and media coverage surrounding them - are playing in the overall story for Green Homes. In the short term, this may mean promoting other methods across a green loan initiative. In the longer term, there may need be a re-education about the process, costs and benefits associated with Heat Pumps.

Chart 7: Respondents' Views on Heat Pumps vs Other Measures

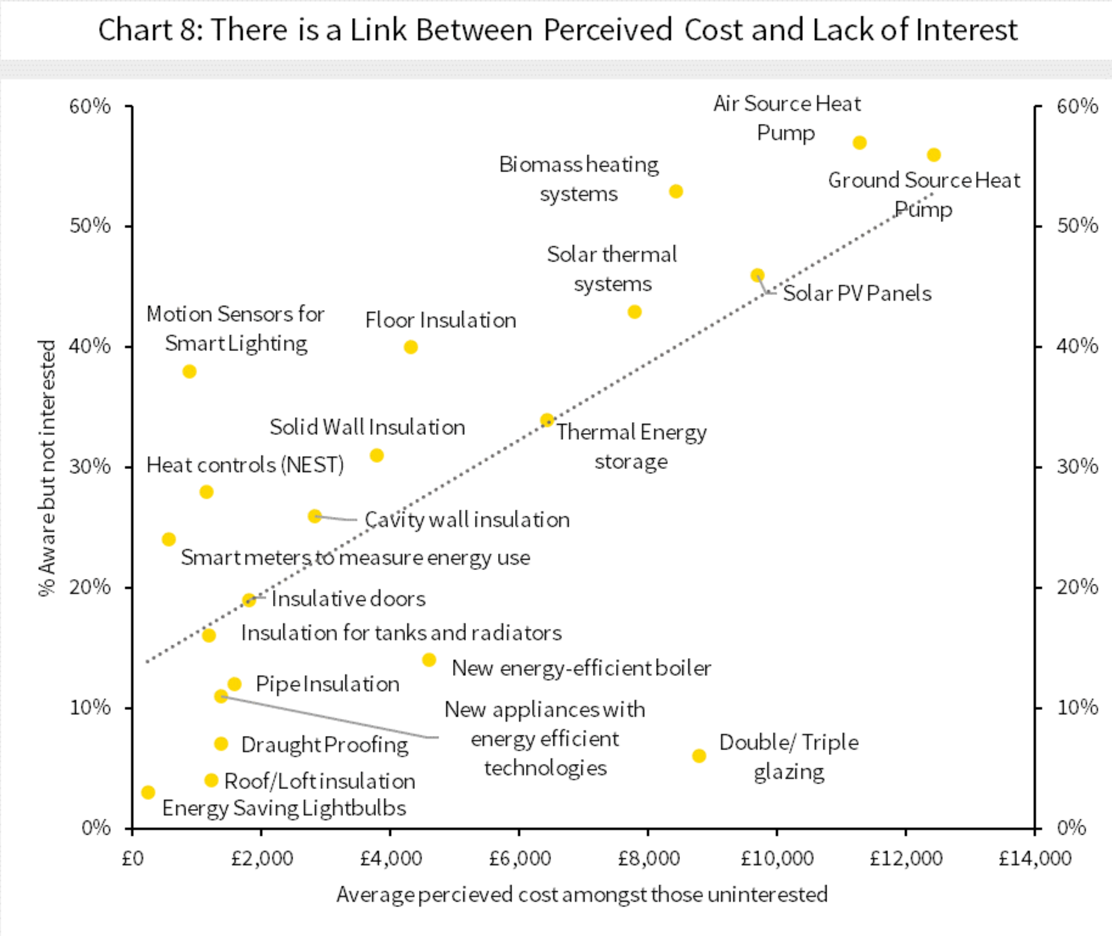
How interested are you in the following methods of improving your home's energy efficiency?



Source: Aviva GHFA Research

More broadly, there was a link between customers' perceived cost of making an upgrade and a lack of interest in that upgrade. This highlights the fact that economic concerns were a key barrier to interest among the target audience.

A key outcome of our research was that government resources, experts, published research from verified sources and information from energy providers ranked highly for what sources respondents trusted. Information from financial firms such as insurance companies or banks ranked comparatively lower. This has important implications for the use of sources or partnerships in marketing materials for a green loan.



Source: Aviva GHFA Research

9. Future plans for green home finance

9.1 Lessons learned and the implications for future projects

The discovery phase has confirmed that equity release is a suitable, potential solution for customers to fund EEHI solutions.

The research has also provided Aviva with insights which will be essential to informing the development – particularly the design and marketing – of any future green equity release loan. Looking more broadly, a white paper outlining the research findings has been produced and will be shared with industry via the Equity Release council. This is so our research outcomes can be shared more widely.

The research conducted in the Discovery Phase has highlighted the need for energy efficiency information and advice to be attached to green equity release proposition. This includes information on what EEHIs will be suitable, and how these may impact: the customers' energy bills, home comfort impacts, the value of their property and the climate. Furthermore, there is a real need to give customers confidence that they are making the right choices when they proceed with the desired improvements.

Overall, we believe there is a significant cohort who would benefit from financing such improvements through the use of an equity release mortgage. But to unlock this we are likely to need to build a support process for customers around the equity release product. This may include the provision of financial advice, access to appropriate information and organisations (especially with regards to the installations of EEHIs).

These are not gaps which Aviva (and other equity release providers), or financial advisers, will be able to fill without broader support from others in the energy efficiency space. The GHFA has been useful however, in putting Aviva in touch with other participants and a wider green retrofit ecosystem such as Vibrant Energy, Retrogreen and Snugg among others, who may already be able to provide this expertise.

Issues around gaps in EEHI knowledge are a key issue and this also applies to financial advisers. As the need for independent financial advice is a key requirement for equity release, and the GHFA research has identified FA concerns about their role in the sale of such a product. The research will help Aviva (and other equity release providers) target these concerns and adapt a product to address these FA needs.

Furthermore, we also identified an issue where, as an equity release lender, we need to be confident that upgrades will not negatively impact the future property value. This is also an area where more knowledge and understanding will need to be developed. A lender may require suitable warranties to be given as part of the installation process. Requiring such guarantees is new to the equity release process and will require further investigation.

Through the research, customers have flagged that financial incentives may be required to nudge them into making EEHIs. Equity Release providers should consider the possibility of providing such financial incentives to customers such as reduced interest rates or cashback deals. However, the precise calculation of any discount will depend on how such improvements impact house values, as well as the economic environment at the time a loan is launched.

9.2 Conclusions on next steps

There is a fairly clear path to the knowledge and confidence gaps identified in our research to being tackled as part of a green equity release product.

The GHFA research has identified consumers' drivers and motivations for equity release, as well as information about what incentives appear to be more appealing to consumers. This information is valuable for product design and will inform a green equity release proposition in the future. We have also considered some of the many "one stop shop" providers that appear to be proliferating in the marketplace. We believe that further work is required from us to validate which provider(s) may be appropriate to work with, and what further adjustments may be needed to ensure the customer offering is fit for purpose.

The economic barriers we have identified appear to be more challenging. As our research highlights, value for money is a key motivating factor behind our target demographics' decision making. While higher energy costs have raised the need for greater energy efficiency, payback periods are long term calculations and future energy costs are uncertain. Higher interest rates and higher construction costs are likely to have decreased the attractiveness of debt funded EEHI upgrades.

This issue cannot be addressed by industry alone. Large scale uptake may require significant improvements to the value for money proposition, beyond what is possible from lenders.

Possible paths that may achieve this include a lower interest rate environment, a mechanism to lower interest rates on green loans, substantial home energy efficiency upgrade price discounts for households, or new government grants for households to be used in conjunction with privately sourced debt funding. This list is not exhaustive.

Further to this, we believe the UK is lacking high quality evidence demonstrating the impact of energy efficiency upgrades on home value. This evidence would be useful for lenders looking to price discounts for green loans, as we would expect higher home value to feed through to a reduction in loan risk. Future successful development of a green loan may also require improvements to the certification framework for installers.