Is the prepaid funeral planning market working well for consumers?

in partnership with

Fairer Finance

Dignity
WITH DISTINCTION

Contents

Foreword

By James Daley, Managing Director, Fairer Finance

I first got to know the funeral industry last year when my mother died. Making all the arrangements was complicated, and I found it hard to be sure if I was getting a good deal.

As well as funeral director costs, there were doctors' fees, crematorium fees, minister fees – and decisions to make about which coffin and how many flowers we wanted.

When I wrote about my experience, I received numerous emails from funeral directors and others in the industry – acknowledging the bad practice in the market as well as pointing me to examples of firms that were honest and transparent.

While most funeral directors carry out their duties with care and sensitivity, very few are transparent about their prices and costs until enquiries are made over the phone or in person – making it hard for consumers to make informed decisions. At the worst end of the market, businesses are exploiting customers at a time when they are at their most vulnerable.

Such confusions are sadly not limited to the at-need funeral market. The same problems also face consumers looking to pay for their funeral before they die by buying a prepaid funeral plan. In these cases, clarity and transparency are all the more important, as the customer is not around to measure delivery of their plan against the expectations they had when they bought it.

When Dignity approached us to dig deeper into the prepaid funeral planning market, it presented the perfect opportunity to try and raise the profile of these issues – and hopefully use our research as a catalyst to get them fixed.

Dignity agreed to give us editorial freedom on this report, and allow criticism of its own practices. Without those assurances, we would not have been willing to work in partnership with a provider that has such a clear interest in the market.

Sadly, our report has uncovered a litany of problems in the sector - both in terms of conduct and consumer protection. Although prepaid funeral plans often look and feel like insurance products, they remain unregulated – and the sector lacks the scrutiny and safety net that other financial sectors have. Prepaid funeral plans are generally sold to, and bought by, a vulnerable customer set. And the market is growing at a rapid rate.

This is a perfect storm which could lead to considerable consumer detriment if government and regulators do not step in soon.

It's important to say that we found good practice too. The Co-op, Dignity & Perfect Choice stood apart from the rest as doing more to promote transparency and fair value for consumers. But even these companies work within a sector that lacks the necessary safety nets and consumer protections that, in our view, are essential for a market such as this.

Dignity and Fairer Finance will be sending this report to the Treasury, the Competition & Markets Authority, the Information Commissioner's Office – as well as the Financial Conduct Authority – and will look to work with those agencies to improve outcomes for consumers of these products.

Prepaid funeral plans are important products for which there will inevitably be ever greater demand over the next decade. We hope this report can be a catalyst that creates a fair and sustainable market – both for consumers and the firms that serve them.

Foreword

By Simon Cox, Head of Insight & External Affairs, Dignity

A funeral plan is, in most cases, the most effective way to plan and pay for a funeral. However, the stark reality is that without a step change in both providers' sales practices and regulatory enforcement, a very important market is in real danger of bringing itself into disrepute and working poorly for consumers.

Dignity commissioned the research that forms the basis for this policy response paper because it had become clear that the scale of unscrupulous sales practices was significant and growing. In addition, Dignity suspected that consumers found it difficult to differentiate between the type of plans available. Many were not alert to the key risks that would have been explicitly called out in a regulated financial services environment. We believe that without change this will lead to an increased level of poor customer outcomes.

By commissioning Fairer Finance to review our research, and the market, with clear recommendations as to how outcomes can be improved for consumers, we hope we can demonstrate our commitment to improving standards across the whole funeral sector.

The findings of this report make clear there is significant variation in quality and standards across the funeral plan sector, both in relation to the quality of the products being sold (notably what they include), and the sales and marketing practices used to sell them. It is clear that some providers are selling quality products in an appropriate manner, whereas others are not adopting these same standards.

Funeral Plans are complex in terms of what the product consists of, the risks that are present, and the language and terminology used. The research demonstrated that customers do not understand these risks, and as a sector we need to improve this position through the introduction of appropriate risk warnings, and greater communication around financial shortfalls. Dignity has invited Fairer Finance to work with us to help improve how we communicate with customers and to improve clarity and transparency in areas where this is needed.

A funeral plan looks and feels like a financial services product, has 1.2 million plan holders (more if you include those operating outside of the self-regulatory regime) and has funds under management of £2bn+, yet it is not regulated like a financial services product. What is more alarming is the vast majority (75%) of surveyed plan holders think that it is regulated.

As a supportive member of the Funeral Planning Authority (FPA), Dignity is committed to improving standards and quality across the whole sector. The funeral planning market is an example of where a strengthened system of regulation would be beneficial for both the sector and consumers, something Dignity would welcome

We see the benefits of strong regulation across the many partner organisations we work with who are regulated by the Financial Conduct Authority (FCA), and who demand the same stringent standards regardless of whether a product falls outside FCA regulation.

The sector is evolving into a two-tier market; those committed to offering quality products and services, versus those willing to "sell at all costs", without strong governance or worry about fair customer outcomes. We believe a governance gap is responsible for an explosion of online and telesales organisations who have moved on from PPI and accident claims management into funeral plans. Our worry is that this situation is not sustainable, and before too long poor practice will result in one or two struggling to fulfil their obligations, leaving the rest of the sector to deal with the debris.

We recognise the FPA is limited by both resource and remit to more actively police the sector, but has nevertheless made improvements in terms of re-constituting its supervisory board so it is genuinely independent of the plan providers. We also understand that the FPA have made the FCA aware of poor practice in the sector, but that this has not always been acted upon.

As Fairer Finance recommend, a body with sufficient resource, infrastructure and statutory powers to pro-actively monitor and robustly regulate the sector is essential to improve standards and protect consumers from poor practice. We are less concerned about whether regulation is forthcoming through the FCA or a significantly empowered FPA.

In particular Dignity would advocate the following approach:

1. The Funeral Plan regulator should have (statutory) powers to police and enforce good practice.
2. All plan providers should be compelled to obtain a license to trade via the regulator.
3. Sector-wide acceptance of Treating Customers Fairly (TCF) principles and financial promotion rules, with the aim of delivering the six customer outcomes which the FCA expects TCF to achieve.
4. Clear declaration of ties and affiliation rather than sites that purport to be comparison sites.
5. Greater oversight from the Information Commissioners Office to eliminate breaches of Data Protection and Privacy and Electronic Communications Regulations.

This report sets out evidence that everybody with an interest in the market should take note of. Dignity looks forward to working with the rest of the industry, regulators, government and consumer bodies to understand how these recommendations can be taken forward.

Executive Summary

Over 200,000 prepaid funeral plans are now sold each year in the UK with the market growing at a rapid rate. Consumers purchase these products to cover the cost of their future funeral, locking in today's prices. With inflation in the funeral sector running well above CPI and RPI, prepaid plans can be a great investment.

But while all funeral plans cover the cost of the funeral director – which is generally the largest cost of arranging a funeral – many don't cover all of the other costs.

Unfortunately, these shortcomings are often not made apparent by the funeral plan providers and their distributors when they are selling the plans. And many consumers buy under the mistaken belief that there will be nothing more for their family to pay.

There is also a lack of consumer protection in this market. Although funeral plans have similar attributes to insurance products, they are not regulated by the FCA. While some providers have signed up to voluntary oversight by the Funeral Planning Authority (FPA), this organisation is struggling to keep on top of the growing number of conduct issues.

The combination of a fast growing market fuelled by high pressure sales to a potentially vulnerable customer base are creating a perfect storm. Customers are in danger of being let down when their plan is claimed on – with some funeral plan providers already passing on extra costs to the families. And there is a bigger risk that client money is not always being adequately looked after. Without intervention, we may yet see a Farepak style collapse in this market, which leaves thousands of customers out of pocket.

Market analysis

Fairer Finance carried out an analysis of the market, and also interpreted research carried out by an independent agency, Matter Communications. A number of failings were identified:

Lack of clarity Product limitations are rarely made clear. The cost of a funeral often exceeds the cover offered by these plans, but few providers are forthcoming about this point. There can be additional costs for customers who move home, but these are rarely disclosed clearly. Cancellation fees are very high

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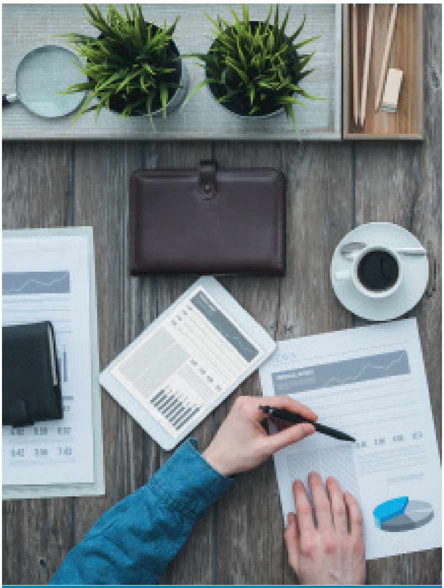
Mismatch of customer expectations Matter's research demonstrated that consumers tend not to understand what is and isn't covered by their plan. Customers buying these plans are often elderly and more vulnerable. Crucially, they are not around to check whether the product met their expectations when a claim is made.

High pressure sales The research indicated signs of high pressure sales activity within the sector. As many as 6 million people over the age of 50 are estimated to have been marketed to by funeral plan companies – with a subset of this group subject to aggressive telephone marketing or in-home visits. At their worst, some of the intermediaries in the market have employed "Boiler Room" sales tactics. Sales operatives – especially third party intermediaries – were often loose with the facts around the safety of client money.



Safety of consumer money There is very poor transparency around what happens to customer money. While all money must be placed in a trust, or a whole of life policy, few providers are explicit about funding levels and where the money is invested. Few providers reveal how much money they take from the funds. Some models present a considerable risk that consumers could be left out of pocket in the event that a provider were to go bust.

Lack of consumer protection The industry is subject only to voluntary regulation by a body that until recently was governed by executives from all the major providers. Some providers are not part of this voluntary regulation scheme. Third party sales firms are not even subject to voluntary regulation. Consumers do not have access to an Ombudsman service in the event that their complaints are not resolved satisfactorily.

Solving the problem

Given the rapid growth of this market, potentially vulnerable customer base, and poor conduct, Fairer Finance believes the prepaid funeral plan market is in urgent need of greater regulation.

This report outlines three options:

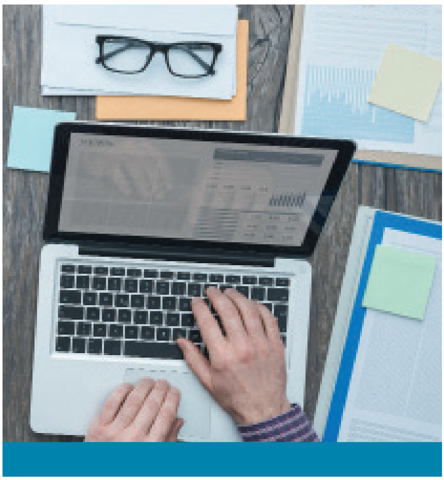
1. Introduce enhanced voluntary regulation and ensure better FCA support.
2. Transform the current voluntary regulator into a statutory regulator.
3. Bring the prepaid funeral plan sector under full FCA regulation.

Fairer Finance recommends option 3. We believe that the most effective and expedient way to clean up this market would be to bring it under the remit of the FCA.

About this research

Dignity, one of the largest funeral plan providers, commissioned Fairer Finance to analyse the market and make policy recommendations as to how to improve consumer outcomes. Fairer Finance was given full editorial control of the report, including the right to criticise the conduct of Dignity.

Matter Communications, an independent research agency, was also commissioned to carry out some analysis of the sales techniques and of consumer understanding in the products being sold. Fairer Finance analysed and interpreted the Matter research as part of this report.



Background

Prepaid funeral plans offer consumers the chance to put money towards the cost of their funeral before they die. An ageing population, combined with a concern over the rising cost of funerals, has seen these plans rapidly grow in popularity over the past few years.

The Funeral Planning Authority (FPA) is the non-statutory body that oversees most of the market. It reports that sales of prepaid plans grew more than 350% between 2006 and 2016 - with more than 210,000 plans sold last year. In 2006, annual sales stood at just 46,340[1].

Over the same period, the cost of paying for a funeral has also risen sharply. The Sunlife Cost of Dying Report 2016 put the average cost of a funeral at £3,897, an increase of 103% since 2004. This doesn't include the cost of a wake or other 'send-off' requirements[2].

If costs continued to rise at the same rate, the average funeral (without 'send-off' costs) would set consumers back around £4,779 by 2021[3].

How do prepaid plans work?

There are nine main providers of prepaid funeral plans operating in the UK, with each one offering a number of different levels of cover. The most basic policies will typically pay for the funeral director's costs and the cost of a coffin and a hearse. They will usually also make a contribution to other third party costs, such as the cost of cremation, doctors' and minister fees.

But there is considerable variation between the features of the packages offered by different providers. Some offer more comprehensive plans than others.

The more expensive packages tend to offer enhanced benefits, such as a higher standard of coffin. They also tend to provide extra limousines to transport the family to and from the service.

But there are also a wide range of costs associated with funerals that are never covered. These include the cost of buying a grave plot, headstone, flowers, and the cost of the wake.

Plans which include an allowance to pay some of these costs may allow the customer to put extra money aside for these as well.

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Types of funeral plans

There are two main types of funeral plans.

Guaranteed plans make a promise to cover specific costs relating to a funeral – typically funeral directors' costs, as well as some or all of the disbursements. Dignity and Co-op both offer these types of plans.

Contribution plans promise to cover the costs of the funeral director, but they only include a contribution to disbursements. So they leave greater uncertainty as to whether the full costs of the funeral will be covered.

There are also direct cremation plans which cover more basic costs such as collection of the deceased, doctor's fees, and the cost of cremation. There is no funeral service included with this type of plan.

The nine main providers are:

- Avalon
- Co-operative Funeralcare
- Dignity
- From50 (Golden Leaves)
- Golden Charter
- Open Prepaid Funeral Plans
- Perfect Choice
- Pride Planning
- Safe Hands

The two largest players in the UK funeral market are Co-op and Dignity. Both own an extensive network of funeral directors. Co-op's 2016 report indicates it owns around 1,000[4] funeral homes. Dignity owns approximately 800[5].

The prepaid plans offered by these providers are effectively an advance purchase of services that their core business provides – locking in today's prices for the customer.

Other providers in the market act more as intermediaries, arranging customers' funerals through a network of third parties. They generate their income through administration fees, and sometimes excess investment returns from the trust that their customers' money is placed into.

How are funeral plans bought and sold?

Most funeral plans are sold through partnerships with bigger brands, or by direct marketing to consumers or by funeral directors themselves.

Co-op plans, for example, are marketed throughout the significant network of the Co-op group. Dignity, meanwhile, has partnerships with organisations such as Age UK and the Post Office.

The Hanley, Scottish and Monmouthshire Building Societies sell Golden Charter funeral plans.

Some other groups engage in a large amount of direct marketing – via post, over the phone as well as door to door.

There is also a large number of third party sales firms selling plans to consumers.

The cost of a funeral

The table on the next page illustrates the potential cost of paying for different aspects of a funeral separately.

These costs have been compiled using several sources, including price lists and industry indices.

Prices of each component vary widely across the UK, so it is difficult to pin down an exact average cost. The cost also depends greatly on the wishes of the person who has died, and their family.

The religion of the deceased may also affect funeral service fees. It may also affect the cost of a burial plot if they wish to be buried in specific consecrated grounds. Optional extras, for example a horse-drawn carriage or expensive flowers, will also add additional cost.

The cost of a burial funeral is generally far more expensive than a cremation funeral.

TOTAL COST OF A CREMATION FUNERAL: £4,202 to £6,996

TOTAL COST OF A BURIAL FUNERAL: £4,408 to £14,076

ITEM	COST
Core costs	
Moving deceased to Chapel of Rest	£99[6]
Hearse & Chauffeur	£315[7]
Coffin	£275 to £1500+[8]
Minister or Officiant fee	£148[9]
Funeral Director's professional fees	£1,000 to £1,500[10]
Cremation costs	
Cremation fee	£660[11]
Cremation urn	£200[12]
Ash plot	£450[13]
Doctor's fees (not payable in Scotland)	£164[14]
Burial costs	
Interment fee (gravedigging and backfilling for a single depth grave)	£150 to £1,734[15]
Burial plot cost	£280 to £5,000+[16]
Stone memorial	£800 to £1200+[17]
Optional costs	
Embalming	£136 to £165[18]
Limousine & Chauffeur	£305[19]
Flowers	£151[20]
Order of service sheets	£72[21]
Church service	£98 to £149[22]
Catering	£397[23]

For the purposes of these estimations we have assumed that the average funeral is led by a minister or officiant, and will include a wake. However, actual costs are likely to vary widely due to the wishes of each individual. The geographical location of a funeral can also affect the cost by thousands of pounds.

The SunLife Cost of Dying Report 2016 suggests that the average cost of a funeral in the UK is around £3,900. The cost of a send-off is nearly £2,000[24].

So the average cost of a funeral including a wake, order sheets, flowers and a memorial – among other elements – is around £5,900.

One of the largest differentials in price for burial funerals is the cost of a grave plot.

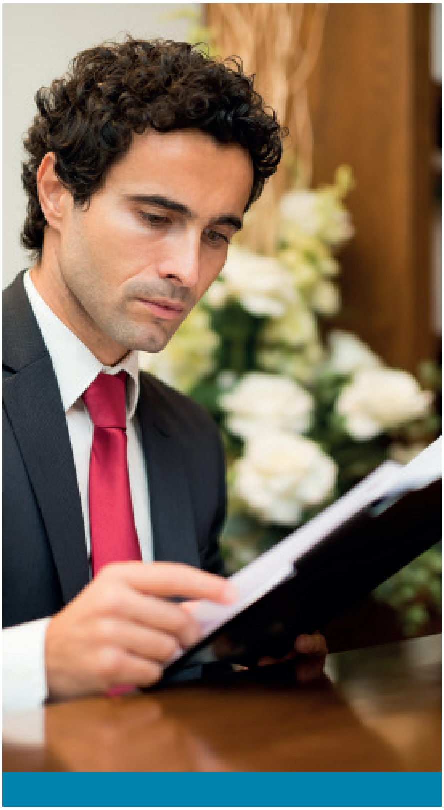
A two-person plot in Belfast can cost as little as £280, whereas in the London Borough of Enfield this would cost £4,950. And if the deceased wasn't a local resident, a premium in the thousands can be levied. Interment fees can be much more expensive if you secure exclusive right of burial for the plot. Surcharges may also be levied for the burial of larger 'American style' coffins.

There may be other fees charged by local councils or private cemeteries such as administration fees, or for copies of a grave deed.

Clearly, the cost of a funeral is not straightforward. However, it is useful to compare the costs set out on the previous page with the cost of prepaid funeral plans – which include some, but not all, of these services and provisions.

Prepaid plans tend to cost between £3,000 and £4,000 and can be an excellent way of protecting against a rise in the core costs. Most plans, however, leave families carrying some of the costs of the funeral. In the worst cases, families can be left paying for a significant shortfall.

This may not be clear to a person taking out a plan. Marketing communications from many providers focus on what is covered, and not what is omitted.



Consumer protection

To consumers, many funeral plans will look and feel like insurance products, though there are important differences in the way that they work. However, the sector is not regulated by the Financial Conduct Authority or any other statutory regulator.

There is a regulatory exemption under the Financial Services & Markets Act (Regulated Activities) Order 2001 (RAO) for funeral plan providers which place customers' money into either a trust or a whole of life insurance policy[25].

All prepaid funeral plan providers do one of these two things, which secures their exemption from regulation by the FCA.

The industry's exemption from regulation gives customers significantly less protection and rights when buying a funeral plan, compared to purchasing other regulated financial products.

Customers have no statutory right to escalate their complaints to an out-of-court redress scheme, such as the Financial Ombudsman Service. There is also no safety net– such as the Financial Services Compensation Scheme (FSCS) – to protect consumers if a funeral plan provider, or one of their main suppliers, went out of business.

Voluntary regulation

The funeral planning market has a voluntary regulation scheme, run by an organisation called the Funeral Planning Authority (FPA). There is nothing to compel providers to operate under the FPA's oversight – although most large funeral plan providers have signed up.

The FPA was set up by two funeral planning trade bodies – the National Association of Prepaid Funeral Plan Providers and the Funeral Planning Council – in negotiation with HM Treasury and the Financial Services Authority. These two trade bodies became the guarantors of the FPA, which was originally a company limited by guarantee.

It has a set of Rules and a Code of Practice which companies must abide by to remain registered. Its Compliance Committee tests providers on an annual basis, ensuring that they meet its standards.

It also offers a legally binding independent alternative dispute resolution service for customers who have unresolved complaints about providers.

Although many large plan providers now operate under voluntary FPA regulations, it has limited scope for enforcement. Being struck off its register really only poses risks to reputation, not the viability of a business. And it only has the ability to fine members up to £5,000. Since its inception in 2002, it has not issued a single fine.

The FPA also has limited resources to police conduct amongst those who are its members. And until recently, senior executives from most of the main funeral plan providers sat on the board of the FPA. This undermined its ability to be a truly independent voluntary regulator.

The current CEO of the FPA told us that a number of changes are underway at the FPA to improve its ability to regulate effectively. New independent board members have recently been appointed, replacing industry representatives who previously sat on the board. Fees for regulated organisations have been doubled to provide more resources to aid proactive regulation.

Market Analysis

The funeral market is complex – and is one that many consumers have had no experience of when they come to buy a prepaid funeral plan.

It's especially important that consumers are helped to understand what they are buying. The nature of the product means that they won't be around to judge whether it met expectations once a claim has been made.

Our research identified a number of product features that are not explained well to customers. And the research carried out by Matter confirmed that there was widespread confusion amongst potential customers when it came to looking at the detail of these plans.

Funeral director's costs

The main cost of a funeral is the funeral director. When customers take out a plan, they may nominate a preferred funeral director. In most cases their money will be allocated for use by, and paid out to, that director at the time of need.

Funeral director's costs may vary greatly depending on their location. So moving to a more expensive area could actually mean that the plan needs 'topping up' to cover this increased cost.

With Dignity and Co-operative Funeralcare, it is a relatively straightforward process if a customer moves home after taking out a plan. They can simply allocate them to the nearest funeral director in the new neighbourhood.

Some providers, such as Perfect Choice (Ecclesiastical Funeral Plans), From50 (Golden Leaves) and Pride Planning say there may be additional costs if customers move home. But they don't go into specifics – largely because this depends on the actual cost of funeral director's services in the new area.

Safe Hands allows the transfer of plans to a new area at no extra charge. It can do this because it arranges a funeral in the customer's local area after the customer's death, rather than allocating a director at the point of sale.

While Safe Hands' policy initially sounds attractive, it can actually cause problems. A funeral director in a more expensive part of the UK may not be able to make the funeral profitable at the proposed cost. They may have to make compromises in the quality of the funeral delivered. Or they might have to ask for more money from the customer or their next of kin. Or they may even refuse the plan altogether.

Consumers interviewed by Matter expected plans to be portable. They did not expect that a plan could be rejected, or that there may be additional costs to cover after moving home.

Even where this is explained, the risk is often not made clear. For example, Open's brochure says that "your Open Plan is completely portable; you may nominate another funeral director in the UK [if you move home]."

"I'd want to choose my funeral director before I pay my money so I get what I want."

However, under the heading **'Is my proposed funeral director guaranteed to accept my plan?'** in the same brochure, it delivers a more nuanced message.

"In almost every circumstance the answer is yes [your plan is portable], however [costs] can vary quite substantially across the UK. Your proposed funeral director can raise the issue of plan prices with us directly and we will endeavour [to solve the problem]. Rest assured you will not be liable for any additional costs or charges unless you agree to them."

So while it is possible to move a plan between directors, the costs may not actually be fully covered.

Most prepaid funeral plan providers appoint a funeral director at the time the plan is purchased. However, several providers take out significant fees and commissions at the outset, running the risk of not having enough to pay the funeral provider when the customer dies.

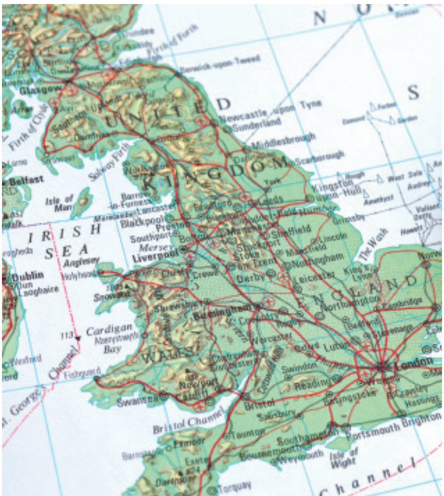
In these cases, we have also heard of funeral companies going back to the relatives of the deceased asking for them to top up their plan, so they can afford to pay the funeral director.

> “I wouldn’t expect to pay more – I’ve paid for the plan.”

Matter’s research clearly showed that consumers did not expect that there could be more to pay. Comments included:

“I’d want to choose my funeral director before I pay my money so I get what I want.”

“I wouldn’t expect to pay more – I’ve paid for the plan.”



Geographical issues

Plans are sold at one fixed price across the whole UK. Disbursement allowances are also the same, no matter where a customer lives when they buy their plan.

But funeral expenses tend to be higher in the South of the UK and lower in the North and in Northern Ireland.

If a customer lives in, or moves to, a more expensive area of the UK, their disbursement allowance may not be enough to cover these costs.

In most cases, customers can pay extra money into their plan to try to ensure that disbursement costs are fully covered.

But they probably won’t expect to have to do this. The risk that disbursements may cost more than the value of the allowance due to geographical differences is not well communicated.

Product features

Most providers offer a range of plans - limiting certain benefits for cheaper plans.

While product features are normally made reasonably clear, exclusions and risks are often less prominent. Some are only made apparent in terms and conditions. And some key exclusions and risks are not clear at all.

Customers may reasonably believe that certain services are included where they are not. For example, they might think a plan includes the cost of flowers, or the wake.

There is no suggestion that funeral plans should have to cover all potential services that could come under the umbrella of 'funeral costs'. But what is important is that exclusions and risks are clearly flagged.

Key risks and exclusions

Contribution plans provide a fixed amount of money to cover the cost of disbursements. But the risk that these allowances may not cover the full cost of disbursements is often not made clear.

Disbursement allowances have a set value. But in most cases these increase in line with either the Consumer Price Index (CPI) or the Retail Price Index (RPI). Some increase in line with the investment performance of the underlying fund.

If disbursement costs rose faster than CPI or RPI, a customer's next of kin may still have costs to pay.

This is a significant risk to take into account. Funeral costs rose by 5.5% from 2015 to 2016[26]. In April 2016, the 12-month rate of RPI stood at 1.3% and CPI at 0.3%[27].

Figures from Sunlife's Cost of Dying Reports and Royal London's National Funeral Cost Indices from 2007 to 2016 indicate that the cost of disbursements has increased by an annual average of 7.6% (including doctor's fees) over this period. When doctor's fees are excluded from the calculation, the average annual rate of increase was 8.1%.

This rate of increase is likely to vary in the future, but it's a good indicator of the significant price rises occurring each year in the sector.

A plan with a £1,200 disbursement allowance that rose in line with CPI over that ten-year period would provide £1,513. If it rose in line with RPI, that figure would be £1,595.

CPI and RPI have been relatively low over the past decade, meaning low growth for disbursement allowances on the whole. If disbursement costs continued to increase at a rate of 7.6% each year, there would be an average shortfall of £984 for a CPI-linked plan, and £901 for an RPI-linked plan after 10 years.

Plans are often sold on the basis that funeral costs are rising rapidly, and a plan can lock in at least some of today's prices. But those selling the plans also often fail to highlight the risk that an index-linked plan will not necessarily provide enough growth to cover the increased cost of a funeral at the time of need.

Matter's research shows that 42% of existing contribution plan holders spoken to believed that all costs would be covered by the plan, and that their family would have nothing to pay. Another 21% of these people simply didn't know.

Variation in disbursement allowances

Dignity and Safe Hands offer the largest burial disbursement allowance on the market. This is set at £1,200. Dignity's cremation plan is fully guaranteed, but its burial plans are contribution plans.

Golden Charter and From50 give customers the lowest standard allowance, set at £940. Some 'budget' plans also offer lower allowances than these.

Provider	Price of mid-range plan	Disbursement allowance
Co-operative	£3,650	Guaranteed plan – covers all costs bar burial plot
Dignity	£3,749	£1,200 for burials (Cremation funeral costs are guaranteed)
Safe Hands	£3,595	£1,200
Perfect Choice	£3,865	£1,150
Open PrePaid Funeral Plans	£3,745	£1,100
Pride Planning	£3,895	£1,100
Avalon Funeral Plans	£3,945	£1,000
From50 (Golden Leaves)	£3,460	£940
Golden Charter	£3,650	£940

Prices relate to mid-range plans that include one limousine. Prices correct as of 3 July 2017.

The cost of a mid-range prepaid funeral plan varies quite widely, but disbursement allowances don't seem to relate to the cost of a plan. For example, Open's mid-range plan costs £3,745 and provides an allowance of £1,100, but Avalon's mid-range plan costs £200 more while providing £100 less for disbursements.

Golden Charter charges £3,650 for its mid-range plan, but only provides a £940 disbursement allowance.

It makes no contractual promise that this allowance will increase over time, although one adviser told us that it is 'reviewed' regularly.

Few providers are clear about the risk of a shortfall with contribution plans. Avalon, for example, only surfaces the risk in its website's FAQ sections – and even then, the language it uses is technical:

"If the plan is fully paid, the plan will cover the Funeral Directors Fees & Services in full. If the actual disbursements paid via your nominated Funeral Director are less than pre-determined limit plus the annual uplifts in CPI, the disbursements will also be covered. If the actual disbursements paid via your nominated Funeral Director are more than pre-determined limit plus the annual uplifts in CPI your next of kin will be asked to pay the difference between the two amounts."

In its terms and conditions, Avalon goes into more detail. But again, the language is not accessible.

Doctor's fees

Doctor's fees are no longer payable in Scotland due to legislative changes. There are similar legal changes being considered in the rest of the UK. But as things stand, consumers in England, Wales and Northern Ireland must pay £164 in doctor's fees before a cremation can take place.

Dignity has already removed provision to cover these fees from its plans – including its guaranteed cremation plan. Some contribution plan providers have also lowered the amount that they contribute to third party costs to reflect the change in Scotland. However, outside of Scotland, families or personal representatives must still cover doctor fees for cremations. So families may find themselves caught out by providers changing their cover before fees have been eliminated nationally.

Burial funerals

Disbursements for a burial funeral (including the cost of a burial plot) amounted to an average of £1,785 during 2016[28]. Therefore even the most generous allowances in the market are unlikely to provide enough money at the time of need to cover these costs.

This risk should be made very apparent to customers before they purchase a plan.

Co-operative Funeralcare is an exception of sorts, as it guarantees to cover burial costs. This keeps things simple in terms of customer knowledge, as they don't need to consider whether a disbursement allowance is enough to cover the services on offer. However, it does not cover the cost of a grave plot, or include money that might be used towards the cost of a headstone or memorial.

> "It's contradictory – it only covers up to a certain amount. I would have expected most third party fees to be included."

The plot is by far the most expensive element of a burial funeral in most cases. And it's not always possible to buy a burial plot prior to death – particularly in urban areas with high populations. So Co-operative's burial plans could still leave a customer's next of kin with a large bill to pay. The exclusion of a grave plot is drawn out on its website, but it could be far more prominent.

'Guaranteed' inclusion of costs

The word 'guaranteed' is freely used throughout the prepaid funeral plan market. For example, the main headline on Open's website reads: "100% guaranteed funeral plans with the Open promise."

Consumers who looked at marketing brochures during Matter's hall tests took these promises to mean that all costs were covered by the funeral plans.

Many were surprised when they realised that most 'guarantees' only extend to some of the costs.

"It should cover third party costs too, that guarantee. It's misleading, not fair."

"It's contradictory – it only covers up to a certain amount. I would have expected most third party fees to be included."

"[You're] going to end paying more out.

The guarantee has no value – it's not worth anything."

"I don't trust them – saying one thing, doing another."

Where plans guarantee to include one set of costs but not another, it is easy to see how the result is customer confusion. These details need to be carefully picked apart for customers so that they understand the risks of these products.

Embalming

Co-operative Funeralcare includes an embalming service as part of all of its 'Set' plans. It is the only provider to include this as standard.

Other providers state that they will 'hygienically prepare' the deceased. This could easily be misinterpreted as being the same thing as embalming.

And customers may simply believe that it is included in all plans, as it is a fairly common procedure after death. Not all providers make the exclusion very obvious.

Chapel of rest

Customers may assume that their families will be able to visit them in a chapel of rest following their death. But this is not actually the case with all providers at all plan levels.

It could cause considerable distress to their family if they expected this to be possible, but it is not. So this exclusion also needs to be made very clear.

Burial plots

Matter's hall tests found that consumers generally knew that burial plots are expensive and therefore didn't expect them to be covered by funeral plans.

However, there is certainly no harm in flagging the exclusion. It could be an expensive misunderstanding if a person wished to be buried but didn't set aside funds for the purchase of a burial plot.

Cooling-off periods

Funeral plans represent a significant financial outlay, so it's important that customers have a reasonable time during which they can change their mind and receive a full refund. This is called a 'cooling-off' period.

All major prepaid funeral plan providers offer a cooling-off period. These range from 14 days (Pride Planning) to 90 days (Post Office) in length.

Prepaid funeral plans share some

similarities with protection products such as life insurance. In the FCA Handbook, under ICOBS 7.1.1(1) [R][29], regulated protection policies must have a mandatory minimum 30 day cooling-off period.

But as funeral plans are not regulated by the FCA, they are not subject to the same standards. Businesses regulated by the FPA must offer a cooling-off period, but the minimum requirement set by the authority is only 14 days.

Open has a 30 day cooling-off period, and offers a 100% money-back guarantee within 12 months. Matter found that, after the first read, some consumers believed this meant they had the right to cancel if they changed their mind within 12 months.

However, customers can only benefit from this guarantee if they find "a better performing plan based on financial return and administrative costs." When taken through the small print, consumers often failed to notice this detail, and so were confused when they found out the real meaning of the money-back guarantee.

"See 100% – [they] put it in bold so that's what you read. Proves you should read the fine print."

"I don't understand that fund growth stuff.

"See 100% – [they] put it in bold so that's what you read. Proves you should read the fine print"

[It's] too much"

"Is that inflation?"

"Talking percentages, that throws me"

Is customer money safe?

All money paid into a prepaid funeral plan must be either placed in trust or a whole of life insurance fund.

If the plan providers uses a whole of life fund, customer money is typically handed to a single asset manager and invested. The asset manager takes fees for the management of the assets directly out of the pooled funds.

Plan providers take their fees from the initial premiums, so will not touch the money paid out at the end. Their mandate with their asset managers ensures that there should be a minimum agreed amount available to pay the funeral director. This should also include some investment growth or at least an inflationary uplift.

If a provider was to go bust, the funds in the whole of life plan would remain intact, and could be transferred to another provider. However, there would need to be adequate funds per plan in the pot for another provider to want to take these on. If poor investment decisions had been made, or too much money had been taken out of the plans before it was put into the life fund, there remains a chance that customers would be left to pick up some of the shortfall.

Both the Co-op and Perfect Choice keep their funds in a whole of life fund run by the insurance group Royal London. Both maintain that customer money would be protected by the Financial Services Compensation Scheme if Royal London were to go bust and leave a shortfall in the fund. However, the FCA has stated that it does not believe this would be the case.

If money is held in a trust, it is invested according to the orders of a board of trustees. Multiple asset managers may be used to manage the assets.

Fees are also typically taken by the plan provider upfront, but some providers also take additional payments from their trusts if there have been excess returns.

In both models, there is a lack of transparency around how much providers are taking, and whether the trusts or life policies are adequately funded.

Few plan providers publish details of their funding position. Dignity and Golden Charter publish an annual report for their trusts, but these do not include details of the actuarial valuation. Actuarial assumptions have a significant impact on a trust's funding levels. Both Dignity and Golden Charter claim their trusts are in surplus. But there is no way for consumers or external stakeholders to independently verify this.

Dignity's trust annual report is not published on its funeral plan site. Instead, customers must call for a copy.

Some providers offer even less information about their trusts. Industry representatives suggest that some trusts have in the past – or are currently – running a deficit. This means that there may be insufficient assets to meet the liabilities of paying for customers' funerals.

This raises concerns about what would happen if a provider, whose trust was in deficit, goes bust.

The likely outcome is that consumers would carry the cost of any shortfall.

Administration fees

Prepaid funeral plan providers take a cut of customers' payments in the form of an administration fee. This is how they cover their expenses and make a profit from selling this type of product. Plan providers may also pay significant commissions to third parties who sell their products.

There is little transparency around how much these fees and commission are. Perfect Choice takes just £160 per plan, whereas some companies are taking out well over £1,000 in fees and commissions.

Perfect Choice told us that as well as its £160 admin fee, it allows funeral directors to add a small additional administration fee when they sell a plan. This may be in the region of an additional £40. As it runs a life insurance based model, it takes no further fees for running its plans – unlike some trust providers who take a cut of investment growth as well.

Dignity pays all customer money into a trust, after which a payment is immediately made back to Dignity to cover the costs of selling and administering the plans. It's not clear how much this is. But as Dignity owns its own funeral directors, it is effectively only taking advance payment on money that will be paid out to it in due course.

Co-op also refused to tell us how much it takes as an admin fee, claiming that this was commercially sensitive. But again, this is less of a concern for customers, as they are only taking advance payment on a sum that they will ultimately receive in full at a later date.

The picture is more complicated with trust based providers who don't own their own funeral directors. Taking too much money out at the start of the plan could mean there is not enough left to provide the services when the customer dies.

Golden Charter confirmed to us that it takes its £249 administration fee[30] upfront before money is paid into the trust. It may be taken in full from a lump sum payment, or taken from the deposit of monthly instalments, plus any remaining balance from subsequent instalments. Open, which charges £195[31], also confirmed to us that it takes its fee at the time the plan is bought.

Although Golden Charter and Open are more forthcoming with their fees than other providers, none of these figures are surfaced well for customers during the purchase process.

Golden Charter attaches funeral directors to the plans at the time they are sold, but does not guarantee how much will be paid when the customer dies. It told us that its fund value is independently calculated each year, after which it works out what can be paid for each funeral based on the trust's value.

Several people in the industry told us that in cases where trusts do not have enough money to compensate the funeral director, next of kin are asked to pay the difference. This would be contrary to the plan holder's wishes, but by this stage, they are not around to complain.

In other cases, funeral directors accept the plan at a very low price. But this is simply a transfer of value away from the funeral director to the plan provider, with the customer potentially losing out as a result of a funeral director deciding to take short cuts due to the low fee they have received.

The greatest worry in this sector is that a funeral plan providers' trust may not be able to meet its obligations. There is no safety net – such as the Financial Services Compensation Scheme – to protect consumers if the worst happens.

Some providers refused to talk about the details of how and when payments are made from their trusts. Others did not respond to our requests for information.

Taking the fee up front is not bad practice in itself – it is a necessity to ensure the viability of certain business models. But we believe customers should be getting a clearer view of where their money is going, and what the funding status is of each firm's trusts.

Cancellation fees

It is not unreasonable for a company to charge a cancellation fee in order to cover its fair and reasonable costs.

Acquisition and marketing costs in this sector are relatively high, but many providers are charging cancellation fees that we believe are punitive.

In the FCA's handbook, under ICOBS 7.2.2 [R][32], cancellation fees for insurance products should not be viewed as an opportunity to penalise customers. Funeral plan providers are exempt from this rule, which may be reflected in their high cancellation fees.

Provider	Cancellation fee
Age UK	£95
Perfect Choice	£160 + any additional admin fee charged by funeral director
Golden Charter	£249
Co-operative Funeralcare	£250
Open Prepaid Funeral Plans	£345
Avalon Funeral Plans	£395
Dignity	£395
Safe Hands	£495
Pride Planning	20% of plan cost
From50 (Golden Leaves)	20% of plan cost

Fixed fees

Safe Hands charges £495 for cancelling a plan. Some consumers interviewed by Matter felt that this was very high.

“Nearly £500 – I know [Safe Hands has to] make money but it seems extreme.”

While Safe Hands charges the most, Dignity and Avalon both set a high fee of £395. Age UK, which sells Dignity plans, has a cancellation fee of only £95.

A number of consumers responded negatively to Open PrePaid Funeral Plans’ cancellation fee. The overall charge for cancelling is £345, which is actually cheaper than most of its competitors.

But Open presents the charge as two separate fees: a £195 administration fee and a £150 cancellation fee[33]. This confused some consumers in Matter’s hall tests. They felt it was disingenuous for the fee to be presented in this way.

“On the brochure it says if you cancel you get all the money back. Now it’s £195 and £150. I [thought] that I got all my money back.”

We were unable to find a cancellation fee for a Perfect Choice funeral plan online. A Fairer Finance researcher called Perfect Choice as part of a mystery shopping exercise. Our researcher was told that the fee would depend on the funeral director assigned to the plan.

Perfect Choice later explained that this is because they charge £160 as a management fee, which would be a component of the overall fee retained. However, it lets funeral directors set its own fee to add to this to cover costs. So the cancellation fee may be higher than £160 but it cannot be defined at a top level. This is not ideal - as consumers are not able to understand the cost of cancellation until they have committed to a plan.

Percentage-based fees

From50 (Golden Leaves) and Pride Planning both charge 20% of the cost of the plan held by a customer as a cancellation fee.

With From50’s most expensive plan, which costs £3,710, this would be £742[34]. Even its cheapest plan (a direct cremation plan) would cost £349 to cancel based on a full purchase price of £1,745[35].

The potential cost is less clear to consumers because it is expressed as a percentage, but it could be very high.

Cancellation without a refund

Pride Planning will not refund any money to a customer if they cancel outside of the cooling-off period. It has a cooling-off period of only 14 days. Its terms and conditions indicate that if a customer cancels outside of this period, it will not refund the customer any money[36].

A customer's next of kin may decide to use money from the plan towards funeral costs after all. In this case, a cancellation fee of 20% plus any administrative costs will be taken from the sum before it is paid out to the nominated funeral director. This is what the wording is referencing when it says the 'Net Balance of the Trust'.

Or, if the customer receives a state-assisted funeral, the money will be paid out to their estate – after Pride Planning has taken its cancellation fee.

> "11. Cancelling Your Plan
>
> 11.1 You have the right to cancel Your Plan, with no obligation, within 14 days of the Start Date and receive a full refund of all monies paid.
>
> 11.2 If You decide to cancel Your Plan more than 14 days from the Start Date, please inform Us in writing at Our Head Office[.] Any payments made will be retained in the Trust with no surrender value until the time of need, when upon claiming We will either:
>
> 11.2.1 Pay your nominated Funeral Director the Net Balance of the Trust as a contribution towards funeral costs or:
>
> 11.2.1 In the event of a state assisted funeral the Net Balance of the Trust be paid to your estate, in which case, We will have no further obligation to fulfil Your Plan.
>
> 11.4 If You cancel Your Plan We will have no further obligation to fulfil Your Plan."

We don't believe this is good practice. Funeral plans cost thousands of pounds, and it seems unreasonable for a company to hold onto customer's money after the plan is cancelled.

When paying for a Golden Charter plan by low cost instalments, customers can't cancel funeral plans after 12 months[37].

Its terms and conditions say that cancellation may occur during the first 12 months. But after this point the plan will stay in place and no refunds are available.

The text in its brochure reads:

"LOW COST INSTALMENT OPTION ONLY

11.3 ... You may cancel your Funeral Plan after such 30 day period as long as you do so within 12 months of your Funeral Plan becoming effective (Section 12.2) and we will charge a cancellation fee of £249. This sum will be deducted from the sums to be refunded. You cannot cancel your Funeral Plan after such 12 month period and no refund will be paid to you."

Cancelling fixed monthly payment plans

Fixed monthly payment plans are backed by a whole of life policy. Customers pay a fixed amount each month until they die or reach the age of 90. No refund is provided if the plan is cancelled.

This is not unfair in itself, as it is in line with the way the underlying insurance policy works. But it is a significant risk. Customers should be made fully aware when selecting this type of payment plan that this is the case. In some cases, they are not.

A number of consumers told Matter they did not feel that this was very fair, and some expected to be refunded at least a portion of their money.

"That's a problem if you told your family everything is taken care of then it's not. They've wriggled out of it."

"No matter what you pay, you should get [the amount you paid] back minus cancellation fee."

It was not clear to everyone that fixed monthly payments are insurance based.

"That's a problem if you told your family everything is taken care of then it's not. They've wriggled out of it."

Complaints handling

Customers can make complaints to funeral plan providers. But customers are buying a product which delivers services after their own death.

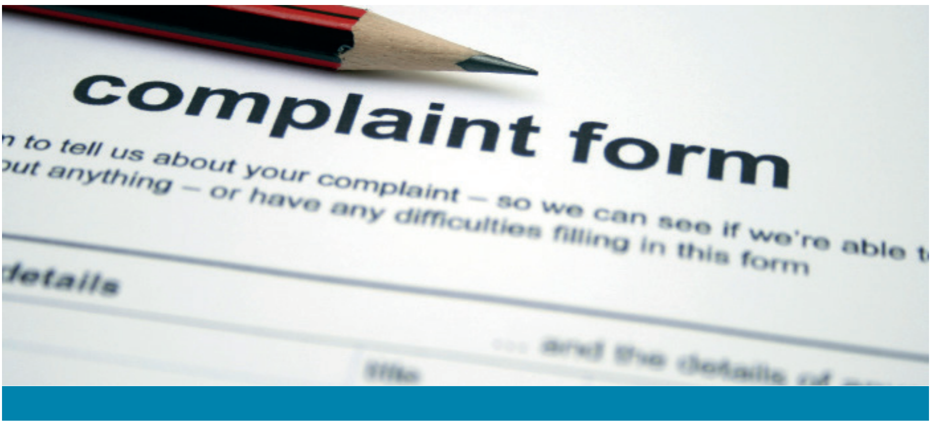
The gaps between their expectations and the reality of the product may not be apparent to their next of kin.

Customers have no statutory right to out-of-court redress when they buy a prepaid funeral plan. The Financial Ombudsman Service and Ombudsman Services both confirmed to Fairer Finance that they would not be able to handle a complaint about a prepaid funeral plan.

The FPA offers an independent arbitration facility. Its decisions are binding on providers[38]. But not all providers operate under the FPA's regulations. And as the customer is likely to be deceased when problems arise, not many complaints make it to this point.

Next of kin who are faced with problems relating to a deceased relative's funeral plan may be unsure how to proceed.

In life insurance, terms and conditions should make beneficiaries' right to complain clear under ICOBS 6.3.1(R)(2)(11). In some cases, this is extended to include other people where the insurer feels comfortable that that person has the right to act on behalf of the deceased.



This is not made clear by prepaid funeral plan providers – although in theory the deceased's personal representative should be able to register a complaint on their behalf.

Ultimately, however, the emotional stress of the circumstances makes it less likely that next of kin will try to register a complaint. They may not wish to prioritise actions that will cause them further stress after their loved one's death.

Sales practices

A large number of lead generation and comparison websites have sprung up in the funeral plan sector over the past few years.

These sites tend to position themselves as independent comparison services.

However, Matter's mystery shopping uncovered strong preferences amongst third party firms to push customers towards a specific provider's plans.

Matter compiled a list of 50 websites that it found in a single day. This was a time-limited study – with more time, more sites may well have been found. The list of websites can be seen in Appendix B.

Each of these sites was contacted using the form provided, using 10 different customer scenarios. In most of these scenarios, the 'customer' was aged 65+.

Telephone operatives who contacted mystery shoppers using the details supplied to lead-collection websites compounded the appearance of being comparison services.

- *"We're like the 'Go Compare' service for the funeral planning market."*
- *"We look across the market to give you the best plan – like Compare The Market.'"*
- *"I've put all that in for you and what's coming up is a company called Safe Hands."*

The table below illustrates how many times a particular provider was recommended

Provider	Number of recommendations
Safe Hands	21
Pride Planning	5
Avalon	4
Golden Leaves	3
Dignity	3

by a sales operative, out of the 36 forms which gained a response.

Some companies, such as Avalon, clearly identified themselves at the start of the call and indicated that they were selling just one product.

In other cases, operatives appeared to have a strong 'preference' for one brand. Matter's findings suggest that in the majority of these cases, this is because they were in fact just selling one product. But they were not being clear on this.

When pushed for alternatives, operatives would supply prices for other providers, but the quotes were invariably higher than the quote for their preferred provider.

It should be noted that not all operatives engaged in this practice. One of the responses who recommended Dignity, for example, was a broker – and various others made their positions and commercial relationships very clear.

However, there were a significant number of operatives looking to push forward a sale regardless of customer's needs – which we discuss in more detail later in this section.

Lead generation websites and data protection rules

Some lead generation sites collect data using a form which has a button labelled 'Get my quote' – or similar. They will then, in smaller text underneath, state that customers are agreeing to be contacted by telephone or email.

Under data protection law, such contact often requires the customer's specific consent. This must be knowingly and freely given, as well as being clear and specific. The ICO suggests[39] the "clearest way to obtain consent is to ask the customer to tick an opt-in box confirming they are happy to receive... marketing calls, faxes, texts or emails."

A button labelled 'Get my quote' implies that the following screen will produce a quote, particularly in the context of comparison sites for other financial products. But it actually passes on customer details to other companies. Including 'consent' wording underneath the button, but not a clear opt-in/opt-out, may not satisfy the criteria of being 'clear and specific'.

While this is a grey area for the time being, the General Data Protection Regulation comes into force in May 2018. This will give greater clarity and specificity on data consent practices, as well as outlining opt-in and out-out practices which are and are not permitted.

Who is being contacted by sales firms?

Matter carried out a nationally representative telephone survey of 1,001 adults aged 50 or over with polling firm Ipsos MORI [See Appendix A for details].

The primary objective of the survey was to gauge the number of people contacted by funeral plan providers. The secondary objective was to understand the tone and frequency of communication.

Around 26% had been contacted by funeral plan providers in the last 12 months. This equates to roughly six million individuals nationwide (based on Office of National Statistics data).

The results showed that after an initial contact, a significant proportion of people received a follow up via another media.

- Of those contacted initially by post, 31% also received a phone call, and 19% also received an email.
- Of those contacted initially by telephone, 53% also received post, and 18% also received an email.
- Of those initially receiving email, around 39% also received a phone call and 71% also received post.

Only around 8% of adults who report having been contacted by a funeral plan provider in the last 12 months stated that they had bought a funeral plan when they were first contacted.

Contact medium	% of sample contacted in this way*
Telephone	41%
Post	71%
Email	19%
Home visit	4%

* Sample size: 256

Some consumers were less satisfied than others with the first communication received and felt they provided varying levels of detail.

Among those who had been contacted by a funeral plan provider in the past 12 months, only 50% felt that the contact they received had provided detailed information about the product they were being offered. Only 30% agreed that all their questions were answered. Around a third felt they were being pushed to take out a plan.

Follow up activity was quite extensive, (with 49% being contacted two or more times) and considered by many to not be useful (with 63% agreeing that the contact was not useful) .

59% of those who were contacted by phone in the last 12 months, and didn't initially buy a plan, said that they were contacted again. 50% of these surveyed participants reported that they were contacted again by post, 72% by phone. 49% said they were contacted two or more times, and 18% four or more times.

Of those who were re-contacted again, 63% felt the communication was not useful, and just over 4 in 10 (42%) felt 'hassled' by the additional communications. 46% agreed that they were being pushed to take out a plan when contacted again.

The sample of consumers who experienced in-home sales was too small to be statistically significant. But the fact that plans are being sold in this way raises concerns in an unregulated market where products are being sold to elderly and potentially vulnerable customers.

Misrepresentation during prepaid funeral plan sales

Many operatives appeared to give Matter's mystery shoppers misleading information to drive the sale forward. It's worth saying the plan providers themselves may not have been aware of the tactics being used by these third parties.

Further, not all intermediaries misled consumers. Some, such as Over 50s Choices and Secure Funeral Solutions were more open about the details of the plans they were selling.

It wouldn't be appropriate for sales

operatives to give personalised advice to customers without suitable qualifications. But customers should be able to rely on them to provide accurate information, including details of all relevant risks and exclusions associated with the product.

Instead, operatives seemed to push mystery shoppers towards a specific provider. This was often done using the claim that all funeral plans are the same, and the only difference is in the price.

"They all offer same services - you've got the Co-op, GC, Avalon, Age UK - absolutely no differences in the services they provide - they all use the same funeral directors - only difference is the name of the company and how much they charge for the services."

This is an inaccurate assertion. There are some important differences in services provided across the industry.

This explanation fails to take these into account, and takes advantage of consumers' lack of knowledge of the funeral market. It also doesn't reveal the gaps between disbursement allowances on the market.

> "...there will never be anything further to pay for those left behind..."

'Guaranteed' funeral costs

Matter found that sales processes tended to focus on the 'guarantee' for funeral director services. They would claim that this guaranteed that relatives would not have to bear any extra costs at the time of the funeral. The term 'inflation proof' was also used.

- *"It includes everything from start to finish."*
- *"With Safe Hands you can look at locking that cost down and freezing it so it becomes inflation proof at £3,355"*
- *"Pride Planning is fully guaranteed – you'll never pay another penny."*
- *"Due to inflation every year, because of an increase in running costs – they've priced in for you – they make the plan inflation proof. Absolutely covered on that."*

This misrepresents the nature of the product. Funeral director costs are guaranteed within the cost of the plan. But there is a risk that any disbursement allowance may not cover all other expenses at the time of the funeral.

"Safe Hands guarantee that no matter how long plan holders live, or however expensive the funeral is when they pass away, there will never be anything further to pay for those left behind, towards funeral director fees and services. So you've got that security."

The language strongly suggests that there are no costs left to cover. While the operative says that "funeral director fees and services" are covered, the term 'services' is vague enough to operate as a 'get-out'. They are clouding the risk surrounding disbursement costs.

As we have mentioned, there is a strong possibility that the cost of disbursements could rise faster than any increase in the disbursement allowance.

However, salespeople tended to play down this risk. They suggest that in the vast majority of circumstances, it will always be more than enough.

"There will be no surprises. The only time there may be a problem, if the £1,200 is insufficient, your representatives will have to pay the difference. But they do it as a national average to be safe, that's why there's that £250 - it's a safety net just in case. It's been very rare that anyone has had to pay that."

In this example, the operative said that £950 was the cost of disbursement allowances in 2017. So there was £250 'spare' to cover any unexpected costs.

As we have discussed earlier in the report, the disbursement allowance may not cover all costs, particularly in the case of a burial funeral.

Customers' location and moving home

One operative selling Pride Planning plans asked to take a note of the caller's postcode, saying that they had "very good deals in [the caller's] area." Given that there's a fixed price for plans across the UK, this is misleading.

Meanwhile, sales operatives selling Safe Hands plans made it sound as if the provider operates in the customer's local area.

This is misleading. Safe Hands buys funeral services from a funeral director in the customer's area at the time of need. It doesn't provide these services itself, so doesn't actually 'operate in' their local area.

"There are a few coming up, but there is one and they have the best plan for you. And the best thing is this company do operate in your area, which I think is really fantastic."

Moving home may mean that the cost of a funeral is more expensive than initially expected, due to price differences across the UK. Safe Hands allows customers to change their address without charge, as it allocates a funeral director at the time of need rather than when the plan is bought.

"Because your funeral director is not nominated until time of death, just notify Safe Hands of your new address and they'll look at the ones in your area - won't cost you a penny extra. You can move 20 times, it doesn't cost you anything. Circumstances change"

However, this may result in a shortfall of funding for the funeral if the customer moves to a more expensive area.

There is also no guarantee that a funeral director would want to take on the plan at the time of need.

Without an agreement at the time of sale, they may later be unable or unwilling to perform the required services for the sum being offered.

Operatives spoken to did not spend time communicating this significant risk effectively to mystery shoppers.

Trust funds

Operatives made much of the fact money is not held by the funeral provider. This is to customers' advantage in that firms do not have direct access to their money. But salespeople promised things that they couldn't know for sure.

Operatives selling Safe Hands plans suggested that (depending on the operative) the value of the fund was anywhere between £12.5m and £100m. In one instance, these figures formed the basis of a further claim that there was already a surplus in excess of the liabilities of the fund, and therefore the plan would definitely beat inflation and deliver a funeral at no extra cost.

Another operative explaining the details of Safe Hands' trust fund said:

"[The fund is] operated and managed by trustees – with award-winning solicitors – [at] one of the best global investment funds. So the money grows to what it needs to… and the fund is regulated by the FCA – so [there is] extra security"

These statements are misleading and aim to provide a sense of security which is not necessarily justified. There is no extra security with any trust fund over any other trust fund. Trusts are managed by UK fund managers, which must be authorised and regulated by the FCA, so are all subject to the same regulations.

The law firm used to set up the trust has no relevance to the stability or growth of the fund's assets. Safe Hands' trust is managed by UBS. And UBS cannot predict or guarantee future returns on investment – no one can.

Investment has inherent risks and it is possible that the value of the trust fund could fall over time. This is not made clear by a single provider, but what it amounts to is a risk that in the future, a fund may not have enough cash to pay out for all existing plans. As there is no FSCS protection, this could be a cause for concern for consumers.

Cancellation fees

Operatives were open about cancellation fees, but claimed that plans are rarely, if ever, cancelled.

Whether or not this is true, it's not appropriate for salespeople to suggest that the product suits everyone and therefore cancellation shouldn't be on the customer's mind.

"What we provide is a 21 day, 100% money back guarantee, any money paid at that point is refunded – could be your deposit and potentially the first payment. If you cancel after that, there is a fee of £495 as with all providers, because a lot of time has been spent on it. To be honest nobody cancels after two years, you've made the decision, better to stick with it and you want to make sure those costs aren't borne by the family."

High-pressure sales tactics

Matter's research uncovered some aggressive tactics employed by salespeople. These tactics can place unnecessary pressure on consumers to come to a snap purchase decision.

But funeral plans cost thousands of pounds. Very few sales operatives indicated that they understood this was a lot of money to most customers. And few indicated that they understood how vital it was that customers end up with the funeral they want, or the plan that suits them the best.

Customers should be able to take all the time they need to investigate products and come to an informed decision.

The customer asks for more information

Requesting a paper information pack slows down the sales process. To avoid this, salespeople tended to offer to send an email with the details instead. Some would even say that the customer would have to buy the plan before a pack could be sent out.

"The only way we'll be able to do that, with the way we work, is to secure this cost at £3,355 for you. Then we can send out a full welcome pack out to you with all the plan details on, so you can show it to your husband."

The customer wants to speak to a family member first

When callers told operatives that they would like to discuss the plan with their spouse or child, some operatives pushed very hard to close the sale.

"Can you make this decision now? Do you have to wait for Tim to come back? I'm here until 6.30 tonight. We have a discount on at the moment £100 each, valid till 12 Friday. If you are going to do it – best just to get on and do it. No benefit to leaving it."

Others used the prospect of increasing funeral costs in order to worry customers into making a quick purchase.

"You may find that your daughter says she doesn't want to talk about it… [and says that she'll] help you deal with it when the time comes. What that won't do then is freeze the cost. My concern is worrying about these price increases - you've done everything you can to sort this out - but I'm worried about these increases"

One mystery shopping scenario involved a customer whose husband had suffered a stroke. When the shopper said she would need to discuss the purchase with him, the operator asked:

"Is your husband still compos mentis after the stroke? Can he still make his own decisions? What do you think he'll say?"

This showed little humanity, or compassion, for the customer's situation.

The customer says "no thanks"

Pressure was also heaped on callers if they said no, or weren't sure.

One said: *"What are you not sure about? OK – It's a strange one, I've never heard people back out for that reason – that you're not sure... It's like going to DFS and buying a sofa. At the end of the day, we're all guaranteed a funeral... If it's not the right thing though, we're in no way pushy. And in no way, shape, or form, I'm going to push you to do it, if you feel [it's] not right for you and your partner..."*

Cold calling

The MORI poll did not ask the sample if they were cold contacted. It asked "if they were contacted" by a funeral plan provider, which may suggest contact was cold.

A number of parties Fairer Finance spoke to were concerned about cold calling practices in the funeral plan market.

The issue of potentially vulnerable customers was often raised – these people may find it difficult to put down the phone when being put under pressure. Given the responses from operatives, it seems unlikely that they are adequately trained to respond to this, or to act with appropriate empathy or sensitivity.

Operatives also want to arrange home visits

During Fairer Finance's research, we tried to retrieve a brochure from Avalon Funeral Plans. We needed to enter a phone number on its website in exchange for a download link. Avalon called us almost immediately after we provided this number.

Our researcher told Avalon that they were collecting information for a relative rather than looking to buy on the spot. They asked for more information about pricing, as we were finding it hard to locate Avalon's price list.

The operative tried to arrange a home consultation for the 'relative', saying that it would not be possible to give even an indicative quote before this. Our researcher suggested that this could take place over the phone, which the operator said would not be possible – and again pushed the idea of a home visit.

The phone number we provided received

several silent calls from Avalon Funeral Plans in the following days. When a non-silent call did come through, our researcher asked for the number to be taken off the marketing list. The operative made an attempt to keep the call going after this request.

We were concerned in this case that a desire to get a 'foot in the door' is restricting customers' ability to retrieve even basic information over the phone. We eventually found Avalon's price list, which was part of its brochure – but not available on its website.

There are many reasons why a relative may need to be involved in the arrangement of a funeral plan, including the potential vulnerability of the person who the plan is for. But Avalon's operatives had a clear objective to arrange home visits and have a consultant meet them face-to-face.

Matter reports that it had more success than Fairer Finance in obtaining quotes over the phone from Avalon.

Is commission driving bad practices?

High-pressure sales and misrepresentation of products identified by this report are likely to be driven by the commission received by operatives for making a sale.

In some areas of regulated financial services, commission amounts must be revealed to customers. And we believe the funeral plan market should have to disclose these as well.

Customers probably aren't aware that a significant amount of money they have paid for a plan is not actually being used towards the cost of their funeral.

How much commission is being paid?

From50 (Golden Leaves) offers up to £500 per plan to associates of APS Legal or Simply Legal who sell its trust-backed plans. Or £400 where they sell fixed monthly payment plans[40]. These are legal firms specialising in will-writing, probate and later life planning. So they are well-positioned to cross-sell funeral plans.

Fairer Finance has seen commission for plan sales set as high as £800. We have also seen offers of £500 per plan with a 'no clawback' clause. This means that even if a customer cancels outside of the cooling-off period, the seller keeps all commission.

Usually this would be returned proportionally ('clawed back') to the plan provider. With a 'no clawback' arrangement, trust assets could be diminished in an unsustainable manner following any significant number of cancelled plans. It also encourages advisers to sell plans at all costs – as they have no fear of losing revenue if the customer later decides the product is unsuitable and backs out.

An advert for a Telesales Advisor at Golden Charter offered a basic salary of £17,245 plus uncapped commission of £30 per sale. The advert stated that the right person should be on track to earn £27,000 annually. To achieve that, they'd need to make around 325 sales each year.

Another job advert for a telesales position with Befunerals.co.uk (a third party selling Safe Hands plans) offered a basic annual salary of £15,000 to £17,000. But the successful applicant who maximised sales could, according to the advert, earn over £2,000 per month in commission alone.

Pressure to sell as many plans as possible to maximise commission is unlikely to encourage sales behaviour which focuses on consumer needs. This is particularly concerning when salespeople are contacting elderly and potentially vulnerable customers.

The overall impact of fees

Due to the opaque pricing structures in the prepaid plan market, it is often difficult for customers to tell where their money is ending up. They cannot tell how much is being used to pay administration and commission fees.

In February 2017, a blog piece posted by the Good Funeral Guide claimed that providers are taking between £785 and £1,500 from plan payments in overall fees.

It points out that the end result of large deductions is that funeral directors may reject a plan. This is because accepting and arranging the funeral after all the deductions could be unsustainable for their own business.

"We were told this week about a funeral director [asked by a plan provider] to carry out a funeral for a plan holder who had just died.

"The plan holder had paid £3,595 for their funeral. It included all the traditional aspects of a funeral, [professional assistance, caring for the deceased, a coffin, chapel visits, hearse, limousine and disbursements allowance].

"So far so what, you might think. £3,595.00 sounds about OK… ?

"Well, the amount that the funeral director was offered for undertaking this funeral was actually £2,445.00.

"And, of that £2,445.00, £1,100.00 was allocated for the third party costs. In fact, the third party costs totalled just under £1,200.00.

"So the funeral director, the one actually doing the funeral, was effectively invited to do so for £1,245.00. That's just £145 more than the £1,100.00 that had whistled out of the original payment to persons unknown in administration fees and commission payments.

"The funeral director concerned politely declined the offer. They couldn't make the sums add up."

Good Funeral Guides operates its own prepaid funeral plan in partnership with Open PrePaid Funerals Ltd. It says that it takes £195 as an administration fee for this plan and no other deductions.

The market is evidently not working well where funeral directors cannot provide funerals after plan firms have taken their cut of customers' money.

Regulation in the prepaid funeral plan industry

Consumers believe that the FCA regulates the sector

Matter's post-sale research revealed that 73% of contribution plan holders and 76% of guaranteed plan holders believed that the funeral plan sector is regulated by the FCA.

Of the 25% of people who did not think it was already regulated, 77% thought it should be.

These beliefs point to the fact that consumers expect certain protections when buying financial products. In the case of the prepaid funeral planning market, these expectations are not being met – but consumers are largely not aware of this.

'Pick your own' regulation

In lieu of an official regulatory body, the FPA has emerged as the foremost voluntary regulator. A number of major funeral plan providers are regulated by the FPA. These include Co-operative Funeralcare, Golden Charter, Dignity and From50 (Golden Leaves).

The FPA has a limited number of enforcement powers. It can issue reprimands, and fine regulated businesses up to £5,000 – although it has not in practice ever issued any fines. It can also order companies to take steps to remedy problems which it identifies.

It does also have the ability to strike companies off its register. However, struck off companies could still do business in the prepaid funeral plan market, regardless of this.

Not all providers operate under voluntary FPA regulation.

Open Prepaid Funeral Plans is not a member of the FPA. It holds an endorsement from the Good Funeral Guide (GFG). GFG provides a prepaid funeral plan in partnership with Open Prepaid Funeral Plans[41].

Safe Hands is the only prepaid funeral plan provider which is a member of the National Federation of Funeral Directors (NFFD)[42]. The NFFD positions itself as a trade body rather than a regulator. It has its own Code of Conduct which is much less comprehensive than the FPA's Rules and Code of Practice.

Code of conduct requirements of each body are compared in the table below.

	NFFD	FPA
There are clear obligations when handling customer money, including the monitoring and auditing of trusts	N	Y
Marketing material must enable consumers to make an informed decision	N	Y
This body sets out disciplinary and enforcement procedures for members in breach of the rules	N	Y
This body provides an independent arbitration service	N	Y
There is a minimum cooling-off period during which customers can change their mind and receive a full refund	N	Y, 14 days
Regulated businesses must make fees and charges clear	Y	Y
Costs which may not be covered by the funeral plan must be made clear	N	Y

It is unlikely that a customer would be aware of the differences between the two schemes when looking for a funeral plan.

FPA structure and funding

The FPA is a Community Interest Company[43] consisting of a small team and a board. Until recently, the board was comprised mostly of the executives of the industry's leading providers, casting doubts about its independence.

However, the FPA recently replaced board members with interests in the industry with independent non-executive directors.

Companies regulated by the FPA re-register annually and pay a fixed fee to do so. They also pass on £4 from each plan they sell to the FPA to fund its work. This has recently been increased from £2 per plan.

Are providers following the rules?

Given the limited resources of the FPA, it seems unlikely that it is capable of proactive monitoring and taking necessary action to prevent or mitigate problems caused by breaches.

It seems equally unlikely that all breaches are possible to monitor or deal with, notwithstanding the best faith of those operating these schemes. While it is a small market, the FPA's team is not large either – though it is currently looking to expand its staffing resources.

Regulatory breaches

We encountered a number of situations in which providers appeared to be in breach of the FPA's voluntary regulation system.

Under the FPA Code of Practice 3.1, 3.2 and 3.8, providers must set out, in writing, the "type and cost of funerals and other services" provided by the plan.

They must also set out any costs which may not be met by the funeral plan, and the other terms and conditions which apply to the plan.

As we have discussed, providers are not always providing this information clearly. Co-operative Funeralcare, Golden Charter and Dignity are, in our view, the best at disclosing exclusions, but still have work to do. Others fall short of an acceptable mark.

FPA Code of Practice 3.1 requires companies to set out the cost for potential customers in writing. Avalon refused to supply even an indicative price to us on the telephone before trying to arrange a home visit.

We struggled to find a price list for Avalon, as it does not show prices on its website. While this is retrievable 'in writing', contact details must be exchanged for a brochure. This goes against transparent practice and the spirit, if not technically the letter, of the code.

We also had to ask for a copy of its terms and conditions via a contact form, as this document is not available online. This is to customers' detriment. Full terms should be made available prior to purchase for any customer who has questions about the product.

Clause 2.1 of the code states that all marketing and advertising must be "in good taste". Perfect Choice Funeral Plans (Ecclesiastical Planning Services) has some material on its blog that is arguably in breach of this rule. For example, it has one piece titled 'Revealed: the most shocking celebrity deaths of the last five years'[44]. And another titled 'Iconic film death scenes'[45].

These seem inappropriate for a provider who is supposed to act in a "sensitive [and] dignified" manner at all times under clause 1.1.

The NFFD requires members to provide "all customers with an itemised price list, and to display this price list in a prominent place at all times." Safe Hands simply shows headline prices on its product pages. A link is provided for customers to find the value of its disbursement allowance.

We would interpret 'itemised' as being more detailed than this. An 'itemised' price list would show all costs, including administration fees and commission payments. These should be clearly separated from the headline cost. This is not what Safe Hands is supplying.

Lack of regulation for third party sales firms

The FPA regulates prepaid funeral plan providers. It does not regulate third party sales firms.

These firms therefore operate with no regulatory oversight, although some (eg Befunerals[46]) display the NFFD Fair Price Charter logo on their websites. This charter relates to pricing only, not product quality or sales practices.

These firms sell other companies' products, and therefore don't directly set prices. So this 'endorsement' doesn't mean much when displayed on a third party sales site.

The mystery shopping carried out for this report has revealed that third party sales operatives in general are putting huge pressure on consumers to buy prepaid funeral plans.

They are misleading customers on 'guaranteed' costs, and not taking adequate measures to ensure that product features and risks are properly understood. They are driven by the prospect of commission, at the cost of clarity for consumers.

Governance of trust funds

Customer money from funeral plan sales may be paid into a trust fund or whole of life insurance contract.

Where customer money is held on trust, the Regulated Activities Order sets out the following criteria[47] to qualify for exemption from regulation:

- The trust must be established by a written instrument.
- More than half of the trustees must be unconnected with the provider.
- An independent, authorised fund manager may be appointed to manage trust assets.
- Annual accounts must be prepared – and must be audited – to assess the assets and liabilities of the trust each year.
- Assets and liabilities of the trust must, at least once every three years, be calculated and verified by an actuary who is a Fellow of the Institute of Actuaries or the Faculty of Actuaries

Any business selling prepaid funeral plans without adhering to these rules would not qualify for exemption under the RAO. It would therefore be carrying out non-authorised financial business. It is within the FCA's remit to take enforcement action against the business.

The FPA's CEO told us that when the FPA sees something it believes is in contravention of the RAO, it will refer it to the FCA. It is up to the FCA from that point to decide what, if any, action to take.

Given the relatively small size of the funeral plan industry, compared to larger financial markets, such activity may fall beneath the FCA's radar. It has issued a warning to consumers about one funeral firm referred to it by the FPA[48].

It also issued warnings in 2012 about two trading names of a firm run by the same funeral director. The firm was selling funeral plans without abiding by the exemption rules. He was later prosecuted and pleaded guilty to fraud and theft[49].

However, the FCA confirmed to us that it hasn't taken formal enforcement action against any plan providers which have been found to be non-compliant with the RAO exemption.

Trustees

More than half of a fund's trustees must be independent for the RAO to apply. However, there are questions over how effective this measure is – and what scrutiny there is over the independence of the Trustees.

In theory, monitoring the governance of the trusts falls to the FCA, as it has a duty to ensure that unregulated business is not taking place.

Even if less than half of the trustees work for the plan provider, these trustees may have more control and influence over the direction of the trust due to their employment. Other trustees may not have as much control.

This could mean that payments are authorised that would not have been in a situation where all trustees were genuinely independent.

We heard concerns from within the industry that some trust funds follow high-risk investment strategies. Fund managers should generally be seeking to cover the rising cost of funeral care, but if directed otherwise they may be taking on an inappropriate level of risk. The trustees are responsible for such activity, as they instruct the fund manager.

Can plan providers benefit from trust investments?

If a trust is valued and an actuary agrees with the trustees that there are genuine surpluses held on trust, plan providers may receive payments from the trust.

The trustees should ensure, in these cases, that there is still enough money to meet the liabilities of the trust. But it may not be clear to customers that this can happen.

Since money customers pay in is invested, there is a reasonable question over why the plan provider, and not the beneficiaries of the trust (funeral directors), should benefit from any returns on investment above and beyond the necessary level of funding to cover plans.

Golden Charter explained to us that any sum agreed to be paid from the trust by its trustees is not directly related to any surplus. Trustees are able to annually negotiate and agree to support the ongoing administration costs of Golden Charter Ltd – which is funded from capital growth of the trust. This currently equates to approximately £50 per plan.

It stressed that the ultimate beneficiaries of the trust are the independent funeral directors it works with to deliver customer funerals. When funding is sufficiently high, the amount paid to funeral directors may be higher than originally planned.

However, unlike other plan providers, there is no contractual obligation for Golden Charter to increase disbursement allowances over time. This increases the risk that the allowance will not cover all costs at the time of need.

No safety net

The FSCS is not involved in the funeral plan market and would provide no compensation if a funeral plan provider went out of business. The trust fund is a separate entity, not forming part of that business' assets. Customer money would not be at risk, and would still be available at the time of need.

However, in practical terms there would be many issues. It is unclear how funerals would be carried out without a plan provider to bridge the gap between money held on trust and funeral directors. An agreement between the trustees and a different plan provider may be possible to arrange, but it's uncertain how this might come about.

A secondary issue is that there are no rules as to how the money in the trusts is invested. Industry sources suggested that some trusts had invested in their own businesses, while others had opted for high risk investment strategies. There is also the potential of fraud, however unlikely this might be.

It is possible that a situation would arise where the assets held on trust would not meet the associated liabilities. There is no compensation scheme in place to meet consumer need should this occur. So plan holders' families may have to make up the shortfall in such circumstances.

There is no requirement to publicly release a report on the value of trust funds, and few providers do so.

Conclusions and recommendations

Conclusions

The funeral planning market is not always working well for consumers. Though funeral plans can serve a very important purpose, their exact benefits, risks and limitations are not always well described by providers.

As Dignity and Co-op own their own network of funeral directors, some of the concerns around safety of customer money and delivery of service are less pressing. Perfect Choice also showed us enough to reassure us that its customers' interests are protected. However, there are still areas in which these companies could improve their communication and disclosure practices.

Smaller providers are of more concern, with some failing to provide adequate information to reassure consumers that they are operating in a responsible manner.

There are serious concerns that one or two providers are taking out too much money from their trusts, in commission and administration fees. This could result in a deficit. These firms are generating sales through intermediaries using high pressure sales tactics.

Sales operatives

Matter's research indicates that consumers are often left with a false impression of what their plan covers.

Consumers are not being made aware of exclusions and key risks of prepaid funeral plans, either over the phone or in printed marketing materials.

This would be unacceptable in any market, but it is of particular concern where salespeople are regularly coming into contact with elderly and potentially vulnerable people.

Regulation

The FPA has done its best to improve the market. However, we are not completely confident that in its current form, it has the necessary resources to prevent breaches or take enforcement action where they occur.

In any case, providers can choose not to apply for FPA oversight. They may sign up to an alternative scheme with less stringent rules – or operate with no oversight at all. Meanwhile, third party sales firms are operating with no direct oversight whatsoever.

The FCA has some responsibility to ensure providers in this market are meeting the rules laid down by the RAO. We don't believe it has been effectively dispatching its responsibilities.

Meanwhile, many activities and materials used by the prepaid funeral planning market would be in breach of many of the FCA's principles of business. They would fail to live up to the six outcomes expected under its 'Treating Customers Fairly' approach.

Firms would also be in breach of ICOBS rules (found in the FCA handbook) surrounding financial promotions. One of the key expectations of these rules is that where information is provided to a customer, it should be "clear, fair and not misleading".

The FCA says[50] that "all firms must be able to show consistently that fair treatment of customers is at the heart of their business model". We believe that some prepaid funeral plan firms would find it hard to prove this to be the case today.

Recommendations

We believe urgent action is required to address the problems in the prepaid funeral plan sector. Prepaid funeral plans are an important product for which demand will continue to grow – which is why regulators and government must waste no time in acting.

There is a perfect storm brewing – a combination of bad conduct and lack of transparency, matched with a vulnerable customer set and rapidly growing sales. The outcome cannot be good for consumers.

Below, we have listed three potential options which could lead to better outcomes in the market.

Option 1: Improved voluntary regulation with FCA support

The FPA could improve its rulebook and enhance its powers, so that it can fully enforce its decisions. It needs to regulate third party sales firms, or take action against providers whose sales partners are acting inappropriately.

To act effectively, it would need to continue increasing its funding levels. This money would be used to pay for a larger team, and the associated expenses of monitoring and enforcing an enhanced rulebook.

Firms would need to be required to prominently disclose risks, exclusions and commission payments. And the FPA would need to show its willingness to act against conduct breaches where it found them.

The FCA would also need to play its part in keeping an eye on the market for potential failures to adhere to the RAO. This would include a more active dialogue with the FPA – and clear follow up on any failures that it raised.

Option 2: Statutory regulation led by FPA

A second option is that the FPA becomes the statutory regulator for the funeral planning market. It would regulate both plan providers and third party sales firms.

It would further develop its rulebook to bring more stringent regulation to the sector, particularly in relation to sales practices. Importantly, it would have the power to take adequate enforcement action against companies which fail to abide by regulation, or undertake unregulated business.

Firms would be required to prominently disclose risks, exclusions and commission payments.

To act effectively, it would need to continue increasing its funding levels. This money would be used to pay for a larger team, and the cost of monitoring and enforcing an enhanced rulebook.

Consideration would also need to be given to creation of a safety net - similar to the Financial Services Compensation Scheme - to ensure customer money is adequately protected.

Option 3: Statutory FCA regulation

A third option is that HM Treasury removes the regulatory exemption surrounding the funeral planning market. It has the power to do this under the Financial Services and Markets Act 2000.

The outcome would be that the funeral planning market would be regulated by the FCA. A deferment period would be appropriate. Providers should be given a fair period of time to ensure that they are in a position to be fully compliant when regulation comes into force.

The FCA would monitor the market and enforce against breaches of its Handbook.

Some alterations and additions to the Handbook may be necessary to accommodate for differences between prepaid funeral plans and other financial products. But the principles and framework set out by the FCA Handbook could largely be applied to prepaid funeral plan providers.

Firms would be fully subject to FCA rules, including the need to prominently disclose risks, and exclusions, and intermediaries would also be required to disclose commission payments.

Funeral plan customers would also have recourse to the Financial Ombudsman Service and the industry would be integrated within the Financial Services Compensation Scheme.

Fairer Finance's recommendation

The FCA has the necessary framework and enforcement powers in place to introduce acceptable standards in the funeral market.

Fairer Finance therefore believes the third of these options to be the most suitable.

It involves the least amount of work in terms of regulatory preparation, as most of the necessary requirements are already in place in the FCA Handbook.

We believe this is preferable to enhancing the FPA. The FPA has struggled to keep on top of a sector which has been increasingly riddled with bad practice as it has rapidly grown.

Culturally, the FPA has also been too close to the companies that it regulates.

We believe the involvement of a large and powerful established regulator such as the FCA would immediately change industry behaviour.

We appreciate that FCA regulation would result in increased compliance costs for firms. However, it is clear from the size of commission payments and, more broadly, the size of margins in the funeral sector, that there is room for businesses to carry some or all of these costs while still remaining sustainable.

Better transparency and competition in this sector should provide some downward pressure on the runaway inflation that has persisted in the funeral plan market over the past decade.

Whoever regulates the sector, we believe there needs to be a considerable overhaul of trust governance.

Trusts should be forced to make annual reports public – and these should include details of all money paid into and taken out of the trusts.

Investment strategies should be subject to stricter rules. Trusts should be required to maintain “living wills”, outlining plans for the smooth transition of funds if the plan provider was to go bust.

The appointment of trustees should be subject to greater scrutiny, and minutes of trust meetings should be made public.

Work should also begin to include funeral plans within the boundaries of the FSCS. With good governance of the trusts, there is every chance that such protection would never need to be called upon.

Third party sales firms also need to be brought into the regulatory loop. That could happen through an appointed representative model, as is used in the insurance sector. But much closer monitoring of these firm’s sales practices needs to take place.

Amongst prepaid funeral plan providers, there needs to be minimum training and professional development requirements for all staff. Tighter rules need to be introduced on the incentive structures for individual sales staff. The more credible firms already have these safeguards in place, but there is no statutory requirement to do this.

We believe the wheels for these changes should be put into motion urgently, as it will take some years to reach completion.

About this research

Matter Communications

Matter Communications is an independent research company. It was commissioned by Dignity Funeral Plans to investigate sales practices in the funeral plan marketplace.

It investigated the number of customers engaged by prepaid funeral plan providers, and consumer opinion of the communications received.

It also looked at online funeral plan advertising, with a specific focus on the emergence of lead generation websites which purport to be funeral plan comparison sites.

Matter then undertook mystery shopping exercises to examine the sales call process, looking at how calls are handled and what kind of information is being given to consumers. This aspect of the research also aimed to ascertain the extent of ‘aggressive’ telemarketing within the current market.

It supervised hall tests. During these sessions, consumers were shown funeral plan product literature, to gauge understanding of the plan across a set of key product risks. The objective was to see how well consumers understood the products and limitations of the products from this literature.

Finally, it surveyed consumers who owned funeral plans to investigate their understanding of the product they had bought. 500 interviews were conducted, with 250 contribution plan holders and 250 guaranteed plan holders. All individuals had bought their plan more than 3 months prior to interview.

Fairer Finance

Fairer Finance was commissioned by Dignity Funeral Plans to compile this report as a response to Matter Comunication's research findings.

Fairer Finance is an independent consumer group campaigning for change in the financial services sector. Although Dignity paid for this research, Fairer Finance retained editorial independence, including a right to criticise any bad practice by Dignity. Dignity was not granted editorial approval.

The primary objective of this report is to investigate whether this market is working well for consumers.

To do this, we analysed and responded to Matter's findings, and conducted our own independent research including an extensive review of existing product structures. We looked specifically at potentially onerous product features such as exclusions and cancellation fees.

We contacted and engaged with all major prepaid plan providers to gather information about how their products work. We also conducted further research including interviews with key industry stakeholders to gather further information and views on the market.

This report examines sales practices, including how product features are communicated to customers, as well as current data gathering and consent practices.

It looks at the fees and charges levied in connection with funeral plans, and the appropriateness of existing cooling-off periods.

Finally, it looks at the current regulatory environment of the funeral plans marketplace and discusses the potential benefits of introducing an official regulator.

Appendix A – Details of MORI research

Research was carried out among a nationally representative sample of adults in Great Britain on Ipsos MORI's telephone omnibus service using random digit dialling. Fieldwork was conducted between 27th April and 7th May 2017 across two waves. Questions were filtered to 1,001 adults aged 50+ and data have been weighted to the known population profile for this audience.

Within the survey, participants who reported having been contacted by a funeral plan provider were asked to provide the name of the company there were contacted by. Those who could recall a company they were contacted by were then asked a series of questions about their experiences with the company they named first.

Of the 1,001 adults, 241 reported having been contacted by a funeral plan provider in the last 12 months. Among these, 96 report being contacted by phone, 172 by post and 45 by email.

92 of these were able to recall the name of a company they had been contacted by.

138 did not take out a plan after being first contacted by the company they named. Of these, 59 reported being contacted again. Of the 1,001 adults, 57 reported being contacted by phone in the last 12 months. They also didn't initially buy a plan and said that they were contacted again.

Where base sizes for sub-groups are lower than 100, data should be interpreted with caution and provide indicative results and the margins of error that surround the results is high

For more detail on the MORI research, visit https://www.ipsos.com/sites/default/files/2017-06/ipsos-mori-matter-communications-funeral-plan-providers-tables.pdf.

Appendix B – List of comparison websites visited

	over50choices Ltd
	funeral-plans.saveonlife.uk
No response	prepaid.funeralplanselect.com/Funeral/30-Second-Quote
No response	plan.funeralplanselect.com
	funeral-plans-comparison.co.uk/Funeral/Plans
	whichfuneralplans.com
	comparefuneralplansuk.co.uk
No response	edenfuneralplans.co.uk/compare-the-market
	comparefuneralplans.org.uk/
	prepaidfuneralplans.co.uk
Website not working	funeral-plan-quotes.co.uk
	prepaidfuneralplansuk.co.uk
Website not working	funeralplanningtoday.co.uk
	moneymatchmaker.com
	funeralcomparison.co.uk
No response	compare-funeral-plans.co.uk
	arrangemyfuneral.co.uk
	topfuneralcover.co.uk
	funeralpaid.co.uk/po-funeral-plans
	funeralpaid.co.uk
	quotefuneralplans.co.uk
	yourfuneralcovered.co.uk
	funeralplantoday.co.uk
No response	funeralplansquotes.co.uk

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	yourfuneralcovered.co.uk
	trustedfuneralplans.co.uk
	findgreatquotes.com
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