Funeral finances and investment

It's a challenging time for many people. More than six million people on Universal Credit, joblessness on the rise, an increase in county court judgments and an expected surge in council tax debt all suggest that the costs of an unexpected funeral may be even harder to meet than before for those on limited financial means. For funeral firms, this means the risk of clients defaulting on payments leaving them with debt. For funeral firms themselves, which may be looking to invest to develop their business, it's also a challenging time in terms of securing financial support for capital investment.

However, help is at hand and, this month, *Funeral Director Monthly* caught up with two firms that work in the financial sector to get their thoughts on what funeral firms can do to help themselves, and their clients, at this challenging time.

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Debbie Mynott, Client Relationship Manager at The Debt Recovery Bureau - which can recover debt on behalf of funeral firms - said that, whilst they were aware of the number of deaths as a result of the pandemic, they had not seen that reflected in new cases of funeral debt.

She said that only around 20% of the cases they deal with had seen reduced or missed payments for funeral plans from people who had been financially hit by the pandemic.

However, with a time lag before cases are referred to them of, on average, six months to a year, Ms Mynott noted that funeral directors may be too busy at the moment dealing with the pandemic to follow up late payers or refer them for debt collection: "There will no doubt be a significant increase in non-payment of funeral debt over the coming year and beyond."

One thing funeral directors should watch out for is what she called the "ostrich" effect, a tendency by people to ignore debt because they cannot cope with it - or there being more pressing things that require the money instead, such as housing, heating or feeding the family.

Here, she said, communication was critical. "I would always advise that they remain in contact with their creditors. Let them know what is happening and try to arrange an affordable payment plan."

Debbie added: "There are a number of other solutions available if debt continues to rise, including approaching a debt management company which will review income and expenditure, take over discussions with creditors, negotiate a payment plan and ensure agreed payments are made."

If the debt does not reduce, or continues to rise, further solutions include a debt relief order (DRO), an individual voluntary arrangement (IVA) or bankruptcy. These are considered last resort steps as they have varying effects upon credit records and may mean people cannot have a bank account with a debit card or borrow money for a significant period of time.

A DRO can only be used by those who owe less than £20,000 and have assets of less than £1,000. Creditors are not able to pursue their outstanding payments during the 12 months of a DRO and, at the end of the period, the debt is written off.

An IVA formalises an agreement between debtor and creditors which allows the former to pay what they can afford towards their debts. An insolvency practitioner (IP) will administer the IVA and ensure that all creditors are paid on a pro-rata basis from any funds received.

Bankruptcy lasts for one year and can be seen as a good way to make a 'fresh start'. However, the bankruptcy remains on a person's credit history for six years. The costs for personal bankruptcy are higher than for an IVA. Assets owned by the debtor, which are not needed for everyday living, may be sold and the income generated paid to their creditors.

FUNERAL SAFE

Everyone we have worked with has continued to act professionally and in the best interests of the families they are caring for.

Andrew Byres, Chief Operating Officer for Funeral Safe, which provides "simple, accessible and affordable finance" for covering funeral costs, said that clients had become "more financially prudent" in the current climate and that now, more than ever, the company had to ensure it was being "flexible and understanding".

"People are thinking 'will they have an income in three or six months' time?' 'Shall I hang on to my savings instead of making that purchase?' For Funeral Safe, we have had to ensure we can support our clients through thick and thin, to ensure that we are flexible and understanding when clients do fall into financial hardship.

"We would take this approach anyway, but it is all the more evident because of COVID and the unexpected nature of the income shock."

As financiers, Mr Byres also has advice for companies that may be looking for finance because they are forced to expand their businesses or increase their costs due to upcoming regulatory requirements or responding to COVID-19.

"Spend a very long time on your business model," he said. "Expansion is very nice, but expansion for expansion sake can lead to disaster. If you have a very solid base to build from, a very clear direction and a model you are certain of then you will find financing it much, much easier.

"Finance companies such as ourselves will not only look at the figures when it comes to finance, but the overall vision and ability for the firm to achieve that vision."

He added that it was important that funeral firms were understanding of the financial pressure their clients faced coming out of the pandemic and had a range of ways they could pay. "You probably will have no idea what potential hardships they are facing. A person's finances are a very personal thing, and they are unlikely to tell you if they need assistance. Let them know that you have multiple ways to pay and allow the client to choose which one is best suited to them."

Mr Byres added that staff at Funeral Safe had done an "amazing job" during the last 10 months. "While the pandemic has changed most peoples' lives for the foreseeable future, for us the change is small and manageable. I have not seen my team in person for nearly a year, but they all still do an amazing job from their kitchens or living rooms.

"The funeral sector has shown itself to be both resilient and effective at managing enforced change whilst still meeting the expectation of families.

"We work with over 2,500 individual funeral homes and, throughout the past 12 months, I can honestly say that everyone we have worked with has continued to act professionally and in the best interests of the families they are caring for. So for that I say thank you. You have our admiration."

The Debt Recovery Bureau's key steps to take with stubborn or elusive debtors

1. **Information.** Make sure that you acquire as much information as possible about your customer's circumstances when the booking is made for the funeral.
2. **Contracts.** Make sure that your contract is fit for purpose. Is it robust with the appropriate clauses? It is important to develop a contract that lays out, in simple terms, payment dates and the consequences of the non-payment of your invoice within the stipulated timescale. If your business is conducted with consumers, you do not have an automatic legal right to add interest and collection fees but you can do this as long as they are 'reasonable' and they are specified in your terms and conditions.
3. **Invoice your customers.** This may sound like a case of 'stating the obvious', but it is surprising how many businesses do not invoice promptly. People are not going to pay you unless they know what they are paying for, how much it costs and when payment needs to be made by.
4. **Payments.** Making it easy for your customers to make a payment will increase your cash flow and reduce late payments. Make sure your invoices state the payment methods that you accept.
5. **Credit control process.** Set up a clear credit control process to deal with late payers. Your process might include:-
   - a statement sent just before an invoice is due to remind people that payment is expected;
   - a letter once payment is overdue to remind your customer of your terms and ask for payment by return;
   - another statement at 30 days overdue;
   - followed by a phone call;
   - and then a final '7 day letter' when you have reached the end of your process.

   In addition, record all customer interaction – this can be as simple as an activity checklist. Every time a task is completed, or there is interaction with the customer, you have a record on hand. It also makes it easier for you to gather all the information for a debt collection agency if you need to pass the debt on at any stage.
6. **Implement your new processes and procedures.** Ensure that these are implemented and that all relevant members of staff know how to use them - and do so. Making the process simple, with clear instructions and providing easy access to the relevant files, will ensure this runs smoothly.
7. **Monitor.** As, with any new process, there are often teething problems, it is worth monitoring the process to ensure that it is working effectively. It should help to streamline your interactions with late payers and not be an additional burden or unwieldy to use.
8. **Debt recovery.** It is important to know when to pass your case over to a debt collection agency that is expert at recovering outstanding payments from your customers. There is direct correlation between the age of a debt and the likelihood that the debt can be recovered.