PLANNING AHEAD

FOR THE FUNERAL PLAN SECTOR

As the funeral sector awaits the outcome of the HM Treasury consultation on regulation of the funeral plan sector, plan providers share how they are planning ahead for regulation and urge funeral directors to exercise caution in choosing a high-quality funeral planning partner.

There remain mixed views about the prospect of a move from self-regulation to government regulation. Some parts of sector have confirmed that they would welcome statutory regulation by the Financial Conduct Authority, others prefer a different option, through a mechanism such as the strengthening of the Funeral Planning Authority with statutory powers. All agree that change will have its upsides and downsides.

Funeral Director Monthly spoke to Golden Leaves and Ecclesiastical/ Perfect Choice to gauge their views on what the future might hold and what funeral plan providers and funeral directors should be thinking about.

GOLDEN LEAVES

> REGULATION MUST PROTECT THE CONSUMER BUT NOT REDUCE CHOICE OR DISTORT THE MARKET

"Almost every company and interested party has absolutely no idea what any new proposed regulation will look like – in fact, I'm sure that the FCA are no clearer either at the moment," says Barry Floyd, Managing Director of funeral plan provider Golden Leaves. "Whatever it is, though, one must expect that it will be more onerous and expensive than the current regime."

Mr Floyd believes that any new framework must achieve the core, fundamental goals that regulation is intended to: protecting the consumer whilst not reducing choice or increasing cost for consumers and not destroying competition or innovation in the market.

However, he continues: "It is also extremely important that regulation doesn't force the consumer to abandon their preferred route to purchasing the product and force them to behave in a fashion that they do not wish to – this will also depress the market's opportunities and potentially force consumers towards alternative products."

Barry Floyd is frustrated at how internal industry discord has affected public confidence. "The funeral sector has spent many months publicly arguing amongst itself over pricing, whilst telling consumer groups and politicians that funeral plans should only be purchased via the funeral home and that funeral planning companies were operating in a way that was less than credible.

"Add to this the CMA investigation into funeral companies and crematoria over-inflated pricing and the HMT Treasury consultation into funeral plans, and we have systematically engineered a lack of credibility in the sector coupled with a lack consumer confidence.

"This lack of confidence has been all pervasive, and as a consequence we have seen the funeral plan market experiencing significant slowing of its expansion over the last three years.

What is needed is period of positive media coverage to restore consumer and reseller confidence in funeral plans and credibility to the sector as a whole – something which the market has been swiftly haemorrhaging over recent years."

With regulation on the horizon, Barry emphasises the work Golden Leaves has done to demonstrate the highest possible standards of operation. "We believe that the Golden Leaves brand is a stand-out example of quality and professionalism in the sector and that we are well prepared for increased regulation.

In line with our core principles, Golden Leaves has always endeavoured to go further than the market in terms of consumer protection and compliance. As such, over the last two years, we have implemented robust demonstrable third party governance procedures and strict compliance programmes, that we believe will dovetail into any statutory regime that arrives.

"We have also been extremely busy formalising and professionalising our systems, IT and operational processes and will be officially accredited with a BSI business excellence standard ISO9001 2015 kitemark award by the time any regulatory announcement is made by the Treasury.

"This confirms that all of our business operations have been running as close to that of a directly FCA regulated business for quite some time now. This puts us in a solid position to make any additional changes that a directly regulated market and its new rule book may require."

ECCLESIASTICAL/ PERFECT CHOICE

> “THE SECTOR NEEDS TO GET READY TO OPERATE IN A REGULATED ENVIRONMENT”

“Whilst FCA-led regulation may seem to be a logical outcome for some, we have concerns around the lack of a suitable set of rules for funeral planning products,” says Chris Clark, Managing Director of Ecclesiastical Planning Services. “Unless one is developed, there is a risk that funeral plans will be shoe-horned into another rulebook.

“For example, if the rules used for FCA-regulated investment products are applied to funeral plans, funeral directors could find complying with the regulations very onerous, making it difficult for them to arrange plans in their funeral homes. We also believe that, because the funeral plan market is small in comparison with that of other financial products, the FCA’s risk-based approach to regulation could mean that funeral plans are given lighter touch supervision.

“In the meantime, we are seeing the Funeral Planning Authority (FPA) continue to raise its game by steadily (if perhaps a little gently) tightening standards for its registered plan providers. However, there is only so far that the FPA can go as a voluntary regulator. It risks losing members and failing to attract new ones if the registration requirements are deemed by plan providers to be too onerous. Without plan providers being FPA-registered, a proportion of the market is operating without any oversight whatsoever. This is a difficult balance to get right, unless the FPA becomes the statutory funeral plan regulator in its own right. This way forward has some advantages, not least because the FPA would have all of its resources fully focused on the funeral plan market, whereas the FCA regulates a wide range of products.

“Strengthening the FPA as a regulator by continuing to tighten the rules and making registration mandatory would, in our view, be a positive step. In the short term, we believe that there is value in the profession campaigning to encourage the public to only buy plans that are backed by an FPA-registered plan provider.”

Chris also revealed his concerns that some funeral plan providers are not getting their house in order ahead of regulation – and that this may come back to haunt them in the future.

“As we await the outcome the Treasury consultation, there are few signs that the poor practices highlighted in recent months are being eliminated, or even reducing. For example, we are still seeing misleading advertising whereby plan providers are claiming that certain funeral directors will service the plan, when this may not be the case, and some of the charges levied by plan providers are often undisclosed and sometimes excessive. These are just two examples of the poor practices that most of us believe should be consigned to history.

“The lack of financial transparency in the funeral plan market is also troubling. Surely, plan providers should be letting their customers know how much is being taken from their payment to meet various costs and fees? Imagine if I were to suggest to Ecclesiastical’s Board of Directors that we should only disclose part of the charges that we deduct from a funeral plan payment, I would be replaced before I had the chance to offer an explanation!

“If standards do not improve, there is an increasing risk that a future regulator will review historic practices and decide that a retrospective review of funeral plan sales is needed. This action could be taken to establish if consumers have been misled by plan providers and are entitled to compensation. Retrospective reviews have been undertaken in other areas of the financial services sector, generating negative publicity for both providers and the market generally.

“On a more positive note, we should recognise that there are funeral plan businesses that are operating responsibly and proactively looking for ways to further improve their business models, in anticipation of statutory regulation. The reality is that many of the requirements of a strong regulator also represent good practice for businesses. The lack of clarity around the future regulatory landscape should not deter plan providers that are committed to the profession in the long term from preparing to operate in a regulated environment.

“As part of an FCA-regulated financial services group, Ecclesiastical Planning Services is in a strong position as much of the governance for operating our funeral plan business in a regulated market is already in place. The pre-payment funds for every one of the funeral plans Ecclesiastical has set up are held in guaranteed whole-of-life assurance policies, an investment vehicle that is already regulated by the FCA. This arrangement is subject to strict solvency monitoring and consumer protection. In our view, the fact that the alternative trust fund method of holding pre-payment funds is not subject to regulation represents a major gap in the current regulatory landscape.”

Ecclesiastical PLANNING SERVICES

Perfect Choice FUNERAL PLANS

CHOOSING A FUNERAL PLANNING PARTNER

Irrespective of whether the plans are sold in the funeral home, or by a funeral plan company directly, the selection process that funeral firms should go through when selecting a funeral planning partner must be thorough and robust.

Choosing a partner well can play a crucial part in forcing the funeral plan market to cut out any bad practice and ensure there are no nasty surprises down the line.

Here are some key points to consider when choosing a funeral plan partner which offer a superior partnership style and market-leading, guaranteed plan products.

About the business

1. Your plan partner must have an exemplary history and heritage – but also longevity. They need to be a brand that both you and your client can trust will still be there when required, at the time of maturity.

2. The plan provider should have a governance structure with a consumer protection focus and superior internal compliance, systems and processes.

3. They should offer excellent marketing and in-the-field training and support.

4. They should be clear over the pricing of products and what they include.

5. The NAFD recommends that they should also be registered with the Funeral Planning Authority.

About their plan products

1. The plan provider should have fully funded and prudently managed Trusts or Insurance mechanisms, that return excellent rates on maturing plans.

2. The firm should be able to demonstrate how it is anticipating and planning for statutory regulation.

3. You should be comfortable that the firm's agency agreements will not leave you held commercially to ransom with penalty charges or unexpected deductions from plans you have sold.

4. The firm should be able to demonstrate how they will support you with sales in the funeral home, and/or with allocated plan sales to grow your market share outside of the funeral home.

5. The firm should be willing to commit to informing you that a plan has been allocated with your name, as nominated funeral director, at the time of purchase.