



Member of the Broadstone Group

# Funeral plan trust Solvency Assessment Report

2023 analysis

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## Executive Summary

The purpose of this report is to analyse and summarise the content of the Solvency Assessment Report (SAR) of 18 pre-paid trust based funeral plan providers, covering 38 trusts, that the FCA has authorised, and also to make recommendations, particularly regarding regulatory compliance, SAR readability, and consistency.

### FCA regulation

Since 29 July 2022 pre-paid funeral plans have been regulated by the FCA under the Funeral Plan Conduct of Business sourcebook (FPCOB), and those backed by a trust are required to publish their annual SAR on their website. The FCA authorised more than a third of UK pre-paid funeral plan providers, covering at least 87% of plans.

Out of 71 funeral plan providers that existed before the regulation took effect:

- 28 were authorised by the FCA, with 87% of plans covered, including a new provider in March 2023. 18 of these are trust based
- 23 transferred to another provider such as Dignity due to the additional costs of the new regulations
- 10 went into liquidation or administration (Safe Hands, Empathy, One Life, Pride Planning, Prosperous Life, Silver Clouds, Fox Milton, Ready4Retirement, Rest Assured, Not For Profit)
- 1 is refunding (Eternal Peace)
- 9 have not been authorised and have an unknown status, and we believe 3 are applying as new providers.



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## Confidential SAR survey in July, actuarial guidance, and SAR requirements

OAC conducted a confidential SAR survey and shared results with participants in early July 2022, while some SARs were still in development. We were pleased with the quality of most SARs and hope that the OAC recommendations continue to improve consistency in the future. We highlighted actuarial guidance requiring clear communication in a way that is appropriate to the users while containing the appropriate level of information.

Survey participants agreed for us to share their findings with the Financial Reporting Council (FRC) as they reviewed Technical Actuarial Standard (TAS) 400 for funeral plan trusts, and the FRC incorporated OAC's recommendations in their [February 2023 exposure draft](#), expanding it to also cover insurance based pre-paid funeral plans, and adding guidance for SARs to be clear and appropriate to the intended audience.

The FRC also encouraged practitioners to engage collectively to develop tools to support consistent reporting and communication, in particular terminology. We have been proactively engaging with practitioners in a collaborative group setting and are well set up to lead in this area. We are happy to continue doing this and to lead further group discussions in this area.

The Institute and Faculty of Actuaries (IFoA) are also updating Actuarial Profession Standard (APS) Z1 for the new regulations and published their [exposure draft in February 2023](#). However, it has not been expanded to cover insurance based pre-paid funeral plans, and we believe this is necessary. The benefit of the pre-paid funeral plan to the customer is the provision of a funeral and not a pre-determined value, and so the standards should be the same across all plans.

The SAR requirements and TAS guidance are summarised in the following table. Specific SAR content, format, terminology, and level of detail to disclose has not been covered in the requirements and existing guidance, although TAS 400 is being updated.

**Table 1: SAR content requirements and guidance**

Source	FPCOB	TAS 400 and TAS 100: Principles for Technical Actuarial Work
	(also requires compliance with relevant actuarial professional and technical standards, guidance, and codes)	
Financial position	<ul style="list-style-type: none"> <li>Valuation of assets and liabilities on a best estimate basis</li> <li>Solvency level (ratio of assets to liabilities)</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of change from previous valuation</li> <li>Projection of annual liability cash flows for an appropriate number of years</li> </ul>
Data	By payment method (single, regular paid-up, regular in payment): <ul style="list-style-type: none"> <li>Number of plans</li> <li>Total and average plan value</li> <li>Break-down of assets by asset class</li> </ul>	<ul style="list-style-type: none"> <li>Data used</li> <li>Source of data</li> <li>Adjustments if insufficient or unreliable</li> <li>Checks and controls</li> <li>Data uncertainty and limitations</li> </ul>
Methodology		<ul style="list-style-type: none"> <li>Risks and uncertainty taken into account</li> <li>Allowance for discretionary benefits</li> <li>Derivation of liability from liability cash flows</li> <li>Measurement used for asset values</li> <li>Controls, tests, and limitations</li> </ul>
Assumptions	Assumptions used	<ul style="list-style-type: none"> <li>Derivation of material assumptions</li> <li>Differences from previous valuation</li> <li>Judgement</li> </ul>
Stress and scenario testing		<ul style="list-style-type: none"> <li>Financial position sensitivities to material risks</li> </ul>

Other applicable actuarial guidance includes:

- [IFoA Actuarial Professional Standard \(“APS”\) X2](#) for peer review
- [APS Z1](#) for UK trust-based pre-paid funeral plans
- [IFoA Risk alert for transitional risks for UK trust-based pre-paid funeral plans](#)
- [IFoA Guide for Actuaries on UK Trust-Based Pre-Paid Funeral Plans](#), and
- [IFoA Actuaries’ Code](#).

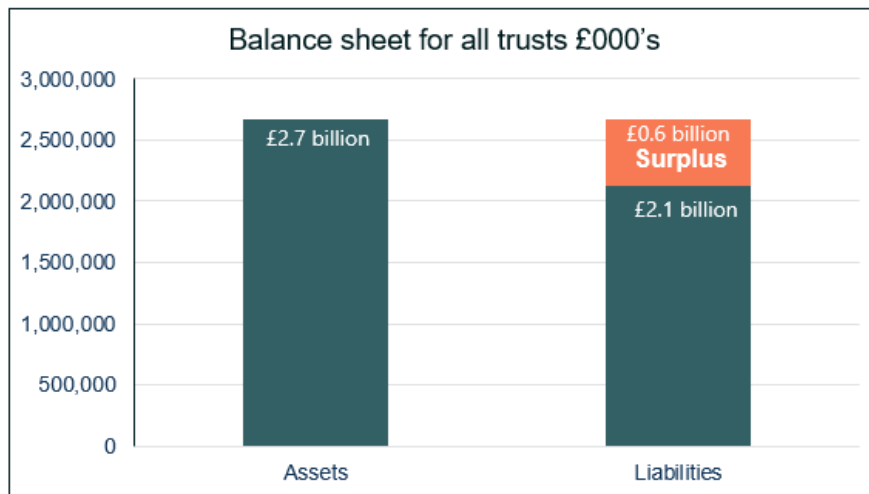
## SAR analysis

This report analyses the data and summarises the content of the SARs of 18 pre-paid trust based funeral plan providers, covering 38 trusts, that the FCA has authorised. This report also makes recommendations, particularly regarding regulatory compliance, SAR readability, and consistency.

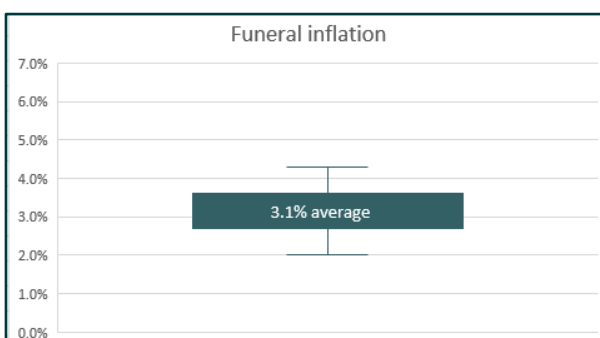
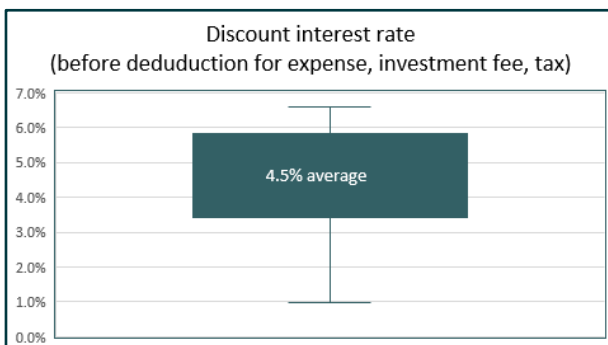
### Data analysis

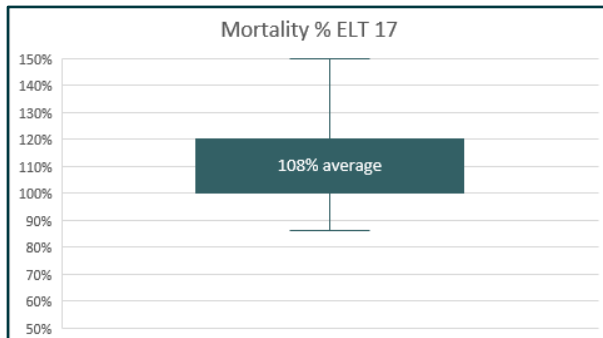
We reviewed all of the available SARs from internet searches between July and November 2022 in detail. We reviewed updates up to May 2023 and found comparable SAR content.

In total there are about 900k plans covered by all of the trusts, and the trust balance sheets have overall solvency of 127% as follows.



The average discount interest rate, funeral inflation rate, and mortality rate used and 25<sup>th</sup>-75<sup>th</sup> percentile ranges are as follows.





## Recommendations

Our recommendations based on the outcome of the survey, along with illustrative examples of good practices, are as follows.

### Follow the regulation: website

We recommend that the SAR be published on the provider's home webpage and that there are no barriers to customers finding it. Eight out of the 18 providers published their SAR on their website by November 2022 and were easy to find and obtain. Seven were difficult to find (for example, the SAR could not be found on the home webpage of the provider, and some could only be found on the separate trust website). Three did not provide their SAR or it could not be found, even after making contact with the provider to obtain it. The remainder of this survey is based on the 15 that were found.

*Illustrative example of good practice: The SAR is found on the provider's home page website at [crystalcremations.co.uk](https://www.crystalcremations.co.uk):*

https://www.crystalcremations.co.uk

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### Follow the regulation: disclosures

Of the 15 providers, the number that disclosed the content required by the regulation were:

- 14: Actuary's name (a qualified actuary is required by the FCA regulation to provide the SAR)
- 11: Break down of plans in force by single and regular instalments
- 9: Cancellation assumption (of the others that didn't, some are open to new business)
- 9: Addressee of the report is the funeral plan provider (instead of trustees)
- 8: Amount deducted from the trust
- 1: Assumption for the funeral plan cost at valuation



*Illustrative examples of good practice: disclosure of the breakdown of plans, cancellation assumption, and deductions:*

A breakdown of the current plans by method of payment is

	Number
Single Payment	28,304
Instalments – Paid in Full	10,733
Instalments - Partly Paid	5,545
<b>Total</b>	<b>44,582</b>

**Average Cancellation rates** 3.6% p.a. after year 1 reducing  
to 0.4% p.a. after year 12

Over the year the following deductions were made against the Trust :-

Overheads including all professional fees	£344,700
Investment Management Fees	£369,900
Taxation	£1,862,900

### SARs clear and appropriate to intended audience

We recommend that the SAR be plain-speaking and as short as possible so that the customer can absorb the information they need, in line with the Principle 6 of the Actuaries' Code (Communication) and TAS 100 which require actuaries to communicate clearly and in a way that is appropriate to the users while containing the appropriate level of information. Detail, such as the method used to derive the best estimate assumptions, should be in a separate report that is not published on the provider website. This separate report can be referred to in the SAR for completeness.

One of the funeral plans has a separate SAR for each trust of between 13 and 16 pages each including ample white space for readability and using plain language and an executive summary at the beginning, and this seems about right (although consideration should be given to combining the trusts into one or two reports if possible). I authored the SAR for another of the funeral plans that is eight pages long, covering 14 trusts, is plain-speaking, and includes an executive summary at the beginning, and this also feels appropriate given the intended audience for this public document. We recommend that this approach is adopted widely going



forward to adhere to the FCA requirements as well as TAS 100, TAS 400, and the Actuaries' Code for communication.

Of the remaining SARs, in our opinion, one should be lengthened to disclose the required information, and the remaining 12 should be reduced in length where this would aid readability. These lengthy SARs can be somewhat repetitive and include a level of detail that we consider is inappropriate for the average reader.

Only four of the 15 providers gave the best estimate (not prudent) solvency position and did not refer to old (Regulated Activities Order) regulatory requirements.

The following are examples from the 12 lengthy SARs.

- The longest report excluding appendices is 23 pages long
- Four of the SARs do not provide any details of the solvency of the scheme until late in the report, in pages 8-14
- Some reports leave the summary to the end and do not summarise at the beginning of the SAR
- Information around the basis being used is sometimes confused, showing both best estimate and prudent assumptions and making it difficult for the user to determine which basis to focus on
- Some of the reports analysed refer to old (RAO) regulatory requirements and FPA which is no longer in existence. This might suggest they are based on previous reporting templates and have not been updated appropriately for the new regime
- Whilst these reports are technical in nature it is necessary to try to avoid using jargon or unclear language such as:
  - “interpretation of requirements”
  - “subcontracted liabilities to funeral service providers”
  - “The chosen assumptions incorporate a degree of margins for prudence but overall the assumptions still reflect a best estimate basis.”
- There are examples where it is unclear who the report is aimed at (the provider, or the trustees) and there is little recognition that this same report is intended to be read by current or potential policyholders.

*Illustrative examples of good practice: SARs are brief, use plain language, and provide solvency early in the report (note the second example is from a SAR that I authored):*

The market value of the Trust's assets as at 24 September 2021 has been calculated to be £656 million (including £78 million for the discounted value of outstanding instalments for existing plans). The best-estimate liabilities of the Trust were calculated to be £479 million, which results in:

**A surplus** - i.e. assets less ongoing liabilities - of **£177 million**

**A solvency level** (as defined by the FCA) of **137%**

Solvency Assessment Report as at 30 September 2021	
Prepared by Erika Parker FIA FSA Consultant Actuary	
25 April 2022	
Actuarial Governance, risk & compliance Redress calculations Software Progress with confidence	
 <span style="float: right;">Funeral Services Limited Solvency Assessment Report as at 30 September 2021</span>	
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## Consistent terminology and practice

Across different providers, different terminology was used for the same concept, for example “analysis of change” vs. “reconciliation of results”, and “experience analysis” vs. “inter valuation experience”. Projected future premiums are sometimes treated as assets and sometimes as negative liabilities. OAC are happy to facilitate discussions to help derive consistent terminology and practice to be used across providers.

## Trust information

10 of the 15 SARs include a summary of the trust deeds, one includes the source of asset value (i.e., accumulation of past premiums less claims), and eight include a description of expense agreements if any. Eight include the investment strategy / target asset mix. One includes the actuary’s assessment of any potential trustee conflict of interest, which we propose would be of

interest to the users. We recommend that this information be included in all SARs where applicable. Three funeral plan providers include more than one trust, with two keeping each trust's SAR separate and the other one combining this information into one SAR.

## Data

Nine of the 15 SARs include the list of data relied upon and nine include a statement on whether reasonableness checks were performed on the data. We recommend that these are included. Other information, such as a summary of any data adjustments made, was mainly excluded from the SARs, and this is probably proportionate.

## Assumptions and methodology

Several SARs have included a nil assumption for future cancellation rates, some with justification based on low historic rates. We recommend that the nil assumption either be justified, or future cancellations are modelled going forward (for example, where this is sensitive for new plans that have recently started to sell business).

12 of the 15 SARs include the list of cash flow types discounted, and 10 include an explanation of non-funeral benefits such as cancellation. We recommend that these are included. Most have used a flat discount interest rate based on duration. Consideration should be given to varying the discount rate by duration using a curve rather than a flat rate, especially where there is a wide spread of ages and potential durations. Most did not include the source for assumptions such as the inflation rate and this is probably proportionate for the audience, provided sensitivities to results are included, and that the source is provided in a supplemental report.

## Stress and scenario testing

14 of the 15 SARs include a list the major risks to solvency, and 12 include the sensitivities for the discount interest rate or inflation rate, and we recommend these be included. None provide stochastic scenarios, which given the small size of the individual pre-paid funeral plan trusts, is probably proportionate.

Few SARs include information about a climate or pandemic scenario, and this could be acceptable for now as the FCA has not released climate change guidance, although this is worth consideration given the attention from the PRA to this topic.

## Other misc. content

12 providers have included a statement of peer review and professional standards adhered to, which is encouraging.

In accordance with TAS 100 section 5.6, the actuary should indicate any material changes or events that are known to have occurred to the data or other information on which the work is based, from the valuation date to the date of the report. Therefore during periods of rapidly changing economic conditions, as experienced recently, it would be appropriate to reflect the expected impact of those changes in the results. This approach was taken in the SAR OAC produced for one of our clients, and I would recommend that there will be circumstances where it would be appropriate for such an assessment to be included in the SAR.

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