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# CONSULTATION DOCUMENT: CHANGES TO TECHNICAL ACTUARIAL STANDARD 400 : Funeral Plan Trusts



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# 1 Introduction

1.1 The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting transparency and integrity in business. It issues and maintains technical actuarial standards for actuarial work in the UK. The Institute and Faculty of Actuaries (IFoA) requires its members to comply with standards issued by the FRC for technical actuarial work.

## Background

1.2. The Funeral Plans TAS was first published in February 2011 effective from October 2011<sup>1</sup> following a consultation issued in August 2010. Legislation requires an actuary to value the trust every 3<sup>2</sup> years and the purpose of the Funeral Plans TAS was to ensure that those providing Funeral Plan Trusts (which have been exempt from FCA supervision) can rely on the actuarial information they receive.

1.3. In December 2016, when the revised TASs were published, the Funeral Plans TAS was renamed TAS400. The major change was to allow for the new plainer style of communication of the TASs and also that TAS100 picked up some matters previously covered within the old Funeral Plans TAS. Additionally, a requirement<sup>3</sup> was introduced to enable users to understand the sensitivity of the current financial position and the potential future development of the financial position of the funeral plan trust to:

- risks arising from closure of the funeral plan trust to new business;
- risks arising from differences between the nature, term and characteristics of the liability cash flows and the nature, term and characteristics of the cash flows from the assets of the funeral plan trust; and
- all other material risks.

## Purpose and audience

1.4 The funeral plan market continues to grow and to evolve. In response to perceived risk of customer detriment, HM Treasury have conducted a review and concluded that all funeral plan trusts should be regulated by the Financial Conduct Authority (FCA). This will take effect within the next few years. In the meantime, the Funeral Planning Authority (FPA) have amended their Rules and have introduced the requirement for an Annual Asset Adequacy Report. This requires the funeral plan provider to assess the security of the Funeral Plan Trust.

1.5 The purpose of this public consultation is to seek views on the changes we propose to make to TAS400 in these circumstances.

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<sup>1</sup> In 2011 publication was under the name [Funeral Plans TAS](#) published by the Board for Actuarial Standards. It was renamed TAS400 as part of the overall revision of the TASs with effect from April 2017.

<sup>2</sup> While legislation requires an actuarial valuation every third year the Funeral Planning Authority Rules (to which 95% of Funeral Plan Trust providers adhere) require an annual valuation.

<sup>3</sup> [TAS400 Paragraph 12](#)

- 1.6 We set out the rationale for the proposed changes in this paper. We also include an impact assessment and a list of questions. The annex of this consultation contains the exposure draft of the proposed standard
- 1.7 Our consultation has been written for those carrying out or reviewing technical actuarial work on funeral plan trusts, and for those who rely on such technical actuarial work.
- 1.8 The FRC's Actuarial Council has provided advice to the FRC in the development of the proposals in this consultation. In addition, various stakeholders have provided valuable input during its preparation. We are grateful to all those who provided input to us.
- 1.9 We welcome responses from interested parties.

## 2 The Current Regime

- 2.1 There are two main types of funeral plan – insurance backed plans and Funeral Plan Trusts (FPTs). The essence of both types of plan is that money paid into the plan is designated towards the cost of providing a funeral for the plan owner.
- 2.2 Additionally, there are certain life insurance products which are advertised as funeral plans but are only relatively low cover life insurance for older applicants. These “guaranteed over 50” plans do not designate the proceeds towards a funeral and the monies are paid out to the beneficiaries.
- 2.3 The Funeral Planning Authority (FPA) “regulates providers of pre-paid funeral plans in the UK.” It was “set up by the industry in 2002 to drive up standards, by creating a strict set of Rules and a Code of Practice which providers must comply with to achieve FPA registered status.”<sup>4</sup>
- 2.4 Insured plans are regulated by the Financial Conduct Authority (FCA) whereas FPTs are exempt. Membership of the FPA is voluntary but approximately 95% of all Funeral Plan Trusts are FPA members. Membership of the FPA currently comprises 27 providers. We understand that very approximately 20 actuaries do actuarial work for Funeral Plan Trusts.

### Scope of Application of TAS400

- 2.5 Funeral Plan Trusts were first introduced in 2001<sup>5</sup>. The number of plans that exist undrawn<sup>6</sup> has increased steadily from 409,579 at the end of 2005 to 1,385,900 at the end of 2018<sup>7</sup>. In recent years the net growth in undrawn plans has been close to 100,000 plans per year. This is a marketplace that continues to show strong growth.
- 2.6 TAS400 applies only to actuarial work performed on Funeral Plan Trusts.
- 2.7 The role of the actuary to funeral plans has been limited to performing the actuarial valuation (annually or triennially). The ability of the actuary to influence operational matters of the provider (for example, the terms on which new business is sold) is normally limited or non-existent. Similarly, the ability of TAS400 to protect customers is limited to the influence and work of the actuary.

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<sup>4</sup> [Funeral Planning Authority website](#)

<sup>5</sup> The definition of a Funeral Plan Trust is one that is defined in Article 59 and complies with Article 60.(1)(b) of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001

<sup>6</sup> An undrawn plan is one in which monies have not yet been withdrawn to pay for the funeral.

<sup>7</sup> [Funeral Planning Authority website](#)

## 3 The Changing Landscape

### Consultation by HM Treasury (HMT)

3.1 Following concerns about the risk of consumer detriment in the pre-paid funeral plan market, the government launched a call for evidence on the regulation of the sector in June 2018. Responses noted customer detriment at point of sale where

- high pressure tactics were noted
- customers were misled to expect a higher level of disbursements being covered than is the case
- poor disclosure was made on commissions
- comparison websites did not include the full market but did not make this clear.

Responses also highlighted

- poor communication on existing plans
- high front-end costs and therefore loss on early exit
- lack of standardised cooling off periods.

3.2 HMT then issued a consultation in June 2019<sup>8</sup> based on the responses received in which it proposed removing the exemption so that all funeral plan providers would be regulated by the FCA.

3.3 Once legislation has been passed there will be a further 18 months transition before FPTs need to be registered with the FCA. This means that it is likely to be two years or more before supervision of FPTs has migrated to the FCA.

3.4 The FRC supports the decision to move authorisation of FPTs to the FCA which is a regulator with statutory powers and has responsibilities and processes in place to protect the interests of customers.

### Transition Period Risks

3.5 The Treasury consultation acknowledges that there will be a cost to FPT providers of transitioning to FCA authorisation. Some providers may not be able to transition, and some may choose not to do so. In these circumstances there is an increased risk to customer detriment as the provider may engage in a strategy to maximise withdrawal of funds from the FPT before the end of the transition period.

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<sup>8</sup> The consultation closed on 25<sup>th</sup> August 2019 and HMT is currently considering the responses



QUESTION 1: We have not proposed any changes to TAS 400 to reflect the risk of providers not transferring to FCA authorisation as we consider it the realm of management and not actuarial in nature. Do you agree or do you think that we should be making changes to TAS 400 to address this risk? If so, please specify what insertions you think we need to make.

### Changes to FPA Rules

- 3.6 Notwithstanding that FPTs will be moving to FCA supervision within a medium time period, the FPA have amended their rules with effect from 1<sup>st</sup> January 2020. In August 2018 the FPA consulted on various proposed rule amendments including
- introducing a set of explicit high-level principles that underpin the rules
  - clarification and governance strengthening and
  - an annual Asset Adequacy Report.

It is the last of these items that might require amendment to be made to TAS400.

QUESTION 2: Do we need to amend TAS400 for any risks other than for the Asset Adequacy Report? If you feel that changes are required, please indicate what changes we should make to TAS400.

### Asset Adequacy Report (AAR)

- 3.7 Paragraph 5.7.6 of the revised FPA Rules (effective 1 January 2020) states:

*“A Registered Provider must provide the Authority by 31 March each year with a report (Asset Adequacy Report) that confirms the adequacy of assets to provide the funeral on the assumption that the Registered Provider failed at either the previous calendar year or financial year end. The report should include reference to at least the following:*

- *The type and value of assets available at the calendar year or financial year end, including details of how the assets have been valued.*
- *The value of future instalment payments at the valuation date.*
- *Arrangements in place for funerals to be carried out and their legal enforceability if the Registered Provider ceased to be a provider of funeral plans.*
- *The Registered Provider’s view of the wholesale cost that would have to be paid on a wholesale basis to deliver the of funerals to be provided under the plans taking account of the plan type, guarantees, geography and other factors that the Registered Providers consider relevant (the “wholesale cost”).*
- *The relationship between assets and the wholesale cost at the valuation date taking account of the legal position.*
- *If a material deficit exists between assets available and the wholesale cost or the report identifies other material risks an explanation of how and when that position will be remedied.”*

- 3.8 While there is no requirement to engage an actuary to produce this report our view is that this process involves core actuarial skills and customers are likely to be

better protected if an actuary is involved in the assessment. Appendix 2 to the Rules is explicit that the purpose of the report is to ensure “that at any point in time if a provider were to cease to trade that there are adequate assets available to ensure that customers receive the funeral they have purchased when it is needed.” In these circumstances it is important that FPTs are advised by appropriately experienced persons. Although the AAR is the responsibility of the provider, and not the actuary, we anticipate that many providers will engage an actuary to assist with this exercise. For the first time, a “valuation<sup>9</sup>” must take account of trading status of the provider. The actuarial valuations previously have assessed assets and liabilities solely of the trust itself and on the assumption that the trust and provider are both continuing entities. The AAR considers the position when the provider has ceased to trade.

- 3.10 Further, if a deficit exists assuming the provider ceases to trade, the report must present a plan to restore solvency in a way that is acceptable to the FPA.
- 3.11 Where actuaries consider that they do not have the data required or the skill sets to assess the trading status of the provider they may have to rely on the assessment made by others in this regard. Where this is the case it is important that communications to the FPT make clear what is the opinion of the actuary and what they have relied on others for.
- 3.12 Similarly, the actuary may have to rely on the assessment of the trustees or of the provider concerning the wholesale cost of funerals and the ability (and costs) to collect future customer payments when the provider has ceased trading.
- 3.13 The FPA Rules refer to a “material deficit” being the trigger for a deficit repair plan but does not define what level of deficit is material.

QUESTION 3:	Do you think that we need to make changes to TAS400 to reflect the Asset Adequacy Report or is the current version of TAS100 sufficient without requiring changes to TAS400?
QUESTION 4:	Should the actuary be expected to comment on whether the deficit is “material” or is it reasonable for the actuary to rely on the view of the trustees in this regard?
QUESTION 5:	Do you agree that it is important for the FPT to be made aware of those items where the actuary has relied on the opinions of others?
QUESTION 6:	Should the actuary have to comment on the reasonableness and supporting evidence for the third-party opinions relied upon to provide their actuarial opinion?

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<sup>9</sup> The AAR compares the value of assets with the value of liabilities and is therefore analogous to a valuation.

## 4 Changes proposed to TAS400

- 4.1 Once all FPTs are regulated by the FCA it may be that further changes are required to TAS400. However, during the transition period the FPA Rules will continue to apply to the vast majority of FPTs that are regulated by the FPA. As such, we are consulting on whether an amendment to TAS400 is needed in this transition period to reflect changes in the FPA rules.
- 4.2 As noted earlier the only change we have proposed to TAS400 following the changes to the FPA Rules is that relating to the Asset Adequacy Report. We acknowledge that the Rules do not require an actuary to provide the report. However, we believe, that many responsible FPTs will choose to involve their actuary in the production of the AAR and that this will help to protect customers.
- 4.3 Accordingly, the Exposure Draft contains three new paragraphs relating to the AAR. The first new paragraph specifies that when an actuary is involved in the production of the AAR, that actuary has a responsibility to ensure that the AAR is in line with the FPA Rules effective from January 2020<sup>10</sup>. The requirements of the FPA Rules contain:
- i) Realistic estimates of the anticipated costs that will fall on the funeral plan trust (and therefore will have to be met by trust customers) assuming the provider is no longer available to meet the costs<sup>11</sup>
  - ii) Consideration of the value of future contributions to be collected (and the costs of collecting them assuming the Provider is no longer operating)
  - iii) Consideration of the extent to which the current arrangements for future funerals would remain in place if the provider ceases to trade. This will require the actuary to consider the extent to which the wholesale funeral arrangements are independent of the Provider.
- 4.4 The paragraphs we propose to insert into TAS400 are as follows:

### ***“Asset Adequacy Report***

12. *When an actuary participates in the production of the Asset Adequacy Report, that report shall be consistent with the requirements of paragraph 5.7.6 and Appendix 2 of the Rules of the Funeral Planning Authority effective from 1st January 2020 and shall state the assumptions that the actuary has made for this purpose. The actuary shall also state how the key assumptions used for the AAR have been varied from those used in the ongoing trust valuation.*
13. *Where the actuary relies on the opinion of a third party for any aspect of the Asset Adequacy Report, communications shall state the reasonableness and supporting evidence for the third-party estimate and those matters on which the actuary has relied.*

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<sup>10</sup> [Funeral Planning Authority website](#)

<sup>11</sup> This may involve recognising differences in pricing for the funerals compared to the ongoing position and assessment of what residual funds may be available from the provider.

14. *Where the **funeral plan trust** has a deficit for the purposes of the Asset Adequacy Report, **communications** shall comment on the suitability of the trustees' plan for eliminating the deficit over an appropriate time period and state that period."*

4.5 In paragraph 14 we propose to specify that the time period over which the deficit is to be eliminated must be "appropriate". This goes further than simply requiring the actuary to state the period after which the deficit has been eliminated. The implication is that the actuary must be satisfied that the period over which the deficit is being eliminated is appropriate given the demographics and other specifics of the funeral plan trust and of the financial position of the provider.

#### **Effective date of changes**

4.6 We have proposed an effective date for the changes to TAS400 of 1 December 2020, although we encourage early adoption. This implementation date assumes that the only changes to be made to TAS400 are those set out in paragraph 4.4 above. In these circumstances the main effect of the changes is to clarify to the actuary that the period for deficit repair must be "appropriate" and to require disclosure of sources relied upon. Therefore, the proposed changes will not cause any change requirements to process or systems beyond those imposed by the changes to the FPA Rules.

4.7 The consultation closes on 30 April and we therefore plan to publish the final version by August. We believe that the short consultation period should not cause any difficulty for providers or actuaries, given the number of actuaries engaged in this work. Given the transitional period and given that the Asset Adequacy Report is already required we believe that it is more beneficial to implement quickly in this manner.

4.8 However, if responses to this consultation suggest that we need to make further amendments to TAS400 we may delay implementation by an appropriate period.

QUESTION 7: Given the anticipated, but not guaranteed, timescale before all Funeral Plan Trusts come under FCA authorisation and regulation, do you agree that we should make changes to TAS400 this year rather than waiting for the FCA regime to become effective?

QUESTION 8: Do you agree with the proposed wording to be inserted into TAS400 as paragraphs 12, 13 and 14?

QUESTION 9: Do you agree that the actuary should be required to comment on the suitability of a deficit repair plan?

QUESTION 10: Should the actuary be required to provide an analysis of the difference in costs between calculations based on the AAR assumptions and those used for the ongoing valuation?

QUESTION 11: Do you agree with our timescales for implementation?

# 5 Impact Assessment

## Introduction

5.1 In this section we consider the impact of the proposed changes to TAS400 and consider both the benefits and costs.

## Benefits

5.2 There are approximately 1.5 million undrawn funeral plan trusts in the UK<sup>12</sup>.

5.3 The average cost of a funeral is approximately £4,000<sup>13</sup>.

5.4 This means that the entire market is estimated at around £6 billion although as the population ages we should expect the size of the market to increase. The nature of the product is such that it provides security to people for when they are at their most vulnerable.

5.5 In this regard the Asset Adequacy Report is intended to provide assurance to customers that they can rely on their provider to be able to meet its promised obligations.

5.6 The FPA rules effective from 1 January 2020 require providers to produce the Asset Adequacy Report annually. However, it does not specify that an actuary is required to perform the calculations, nor does it specify exactly how the calculations should be done (recognising the various business models that exists within different providers).

5.7 The purpose of the changes to TAS400 is to ensure that when an actuary is involved in the Asset Adequacy Report it provides a sounder base for reliance on the report.

5.8 Given the impending transition of the authorisation of all funeral plan trusts to the FCA we have kept changes to TAS400 to a minimum in the knowledge that further amendments may be required once that transition is complete.

5.9 From a practitioner perspective, the benefits from these changes is to support practitioners in their application of TAS 400 in this area of work.

## Costs

5.10 We have made minimal changes to TAS400 and therefore we expect any impact to be minimal. We estimate that the initial costs to review internal processes and to provide training on any amendments to be less than £20,000<sup>14</sup>.

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<sup>12</sup> [FPA statistics](#) show 1.420 million plans at half year 2019 of providers who are members of the FPA. This is estimated to represent 95% of all funeral plan trusts.

<sup>13</sup> [Royal London National Funeral Cost Index Report 2019](#)

<sup>14</sup> Estimated as 20 actuaries each spending 2-3 hours to read the revised TAS400 and to respond to the consultation and allowing a generous loading for unanticipated transition costs.

5.11 While we acknowledge that the Asset Adequacy Report calculations may impose significant extra cost, these emerge from the changes to the Funeral Planning Authority Rules. The changes to TAS400 mirror that rule change and therefore are not the source of extra cost. We estimate that the ongoing extra costs due to the changes to TAS400 will be minimal.

QUESTION 12: Do you agree with our impact assessment? Please give reasons for your response.

QUESTION 13: Do you have any other comments on our proposals?

## 6 Invitation to comment

### Questions

- 6.1 The FRC invites the views of those stakeholders and other parties who wish to comment on the content of this document. We would welcome responses to the questions below. Please provide reasons for your response and provide an alternative approach where you disagree with our proposals.
- 1 We have not proposed any changes to TAS 400 to reflect the risk of providers not transferring to FCA authorisation as we consider it the realm of management and not actuarial in nature. Do you agree or do you think that we should be making changes to TAS 400 to address this risk? If so, please specify what insertions you think we need to make.
  - 2 Do we need to amend TAS400 for any risks other than for the Asset Adequacy Report? If you feel that changes are required, please indicate what changes we should make to TAS400.
  - 3 Do you think that we need to make changes to TAS400 to reflect the Asset Adequacy Report or is the current version of TAS100 sufficient without requiring changes to TAS400?
  - 4 Should the actuary be expected to comment on whether the deficit is “material” or is it reasonable for the actuary to rely on the view of the trustees in this regard?
  - 5 Do you agree that it is important for the FPT to be made aware of those items where the actuary has relied on the opinions of others?
  - 6 Should the actuary have to comment on the reasonableness and supporting evidence for the third-party opinions relied upon to provide their actuarial opinion?
  - 7 Given the anticipated, but not guaranteed, timescale before all Funeral Plan Trusts come under FCA authorisation and regulation, do you agree that we should make changes to TAS400 this year rather than waiting for the FCA regime to become effective?
  - 8 Do you agree with the proposed wording to be inserted into TAS400 as paragraphs 12,13 and 14?
  - 9 Do you agree that the actuary should be required to comment on the suitability of a deficit repair plan?
  - 10 Should the actuary be required to provide an analysis of the difference in costs between calculations based on the AAR assumptions and those used for the ongoing valuation?
  - 11 Do you agree with our timescales for implementation?
  - 12 Do you agree with our impact assessment? Please give reasons for your response.
  - 13 Do you have any other comments on our proposals?

## Responses

- 6.2 A template for responses is included on the FRC website.
- 6.3 Comments should be sent electronically to [TAS400@frc.org.uk](mailto:TAS400@frc.org.uk). Comments may also be sent in hard copy form to:

The Actuarial Policy Team  
Financial Reporting Council  
8th Floor  
125 London Wall  
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- 6.4 Comments should reach the FRC by **11 May 2020**.
- 6.5 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004). The FRC will process any personal data in accordance with the DPA. Information on the FRC's privacy policies are available at <http://www.frc.org.uk>.
- 6.6 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an email message will not be regarded as a request for non-disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore, only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.
- 6.7 We aim to publish non-confidential responses on our website within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.



Annex 1 EXPOSURE DRAFT

Annex 2 EXPOSURE DRAFT WITH TRACKED CHANGES

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