

## **SUBMISSION BY THE CO-OPERATIVE GROUP**

### **Response to the CMA's Statement of Scope in relation to the Funerals Market Study**

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#### **1 Introduction**

- 1.1 The Co-operative Group (the Co-op) is one of the world's largest consumer co-operatives with interests across food, funerals, insurance, legal services and an online electrical store. We're member-owned, with over 4 million members, and have a clear purpose of championing a better way of doing business. Our Co-op Funeral and Life Planning business provided approximately 100,000 at-need funerals in 2017, and, as at 2017, we had 1,079 funeral homes in our estate. Our aim is to provide good value products and services at an affordable price. We believe in being transparent and fair in our dealings with our members and clients.
- 1.2 The decision of the Competition and Market Authority (CMA) to launch a funerals market study is welcome and timely. We look forward to working with the CMA during the course of its review. We welcome any steps that protect consumers and help families access high standards of funeral care. People come to funeral directors at a difficult time in their lives – it's our responsibility to make sure that they receive a high quality, personal service which is also fair and transparent.
- 1.3 The CMA's market study comes at a time of significant change in the funerals sector. Competition can be seen at work as we and others respond to new consumer demands and to each other in innovative and progressive ways. We also recognise that periods of change need to be navigated with care and in the interests of consumers.
- 1.4 We're concerned that, by entirely excluding pre-need funerals from the scope of the study, the CMA will not gain a good understanding of the commercial drivers for funeral directors. To form a complete picture of the business activities of a funeral director, we believe that the CMA should look at how funeral directors compete to attract redemptions of pre-need plans, as well as decision-making by consumers in relation to redemptions. An at-need funeral is arranged at a stressful time for families – immediately after the death of a loved one. In contrast, a pre-paid plan is typically a considered purchase and it is therefore an important channel for transparency of service and pricing (including affordability).
- 1.5 We agree that crematoria are able to, and do, exercise market power and that crematoria fees are excessively high for a number of reasons, including that there are high barriers to entry (which we discuss in section 3 below). We also believe that the CMA should look at the extent to which crematoria market power is a driver for crematoria pricing.

## 2 Pricing and transparency of at-need funerals

### Relevance of pre-need funeral plans to competition in the funerals sector

- 2.1 Consumer demands and expectations in the funeral sector are changing in the following ways:
- (a) consumers increasingly have different expectations of what they want from a funeral. There's a shift towards funerals becoming a celebration of life rather than the historical focus on mourning;
  - (b) consumers want to make an informed choice about their own funeral (both in terms of the arrangements and managing costs) and to take the worry away from their loved ones by buying a pre-need plan;
  - (c) how consumers buy funerals, with increased online engagement being important; and
  - (d) consumers expect greater transparency on quality of service.
- 2.2 We believe choice, transparency and giving consumers more control are key, as well as providing high standards of care. We've responded to these changing expectations in the following ways, and we have plans to do more:
- (a) we've seen a growth in sales of our pre-need funeral plans and customised products as consumer expectations have changed;
  - (b) we've always offered a fully-guaranteed pre-paid funeral proposition<sup>1</sup> and we're investing in our offering by making our website simpler to navigate;
  - (c) we also provide our new and unique Co-op Commitment to clients who choose to pay in instalments over 2 to 25 years. We'll deliver the services included in a client's plan if they die after 12 months of commencing their plan but before all instalments have been paid, with no more for their family to pay<sup>2</sup>;
  - (d) we've also built an end-to-end digital platform to improve our quality of service and customer experience; and
  - (e) in May 2018, we introduced a Cremation Without Ceremony option under our own brand (so that our clients are clear about who they're contracting with). This is available both online and in our network of funeral homes, offering an affordable option for consumers who don't want a funeral service.
- 2.3 As the pre-need sector is growing, redemptions of pre-need funeral plans are a material and growing proportion of the activities of a funeral director. Given that pre-need plans are

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<sup>1</sup> Co-op pre-need funeral plans involving a burial do not include the purchase of a grave. This is made clear in Co-op's brochures and on its website. However, all other third party disbursements are covered without a cap or expectation of contribution.

<sup>2</sup> The terms and conditions for this are included on our website: <https://www.co-operativefuneralcare.co.uk/terms-and-conditions/>.

generally redeemed with the funeral director which sold the relevant plan, funeral directors are changing their strategies to respond and compete effectively.

- 2.4 There are different approaches that a funeral director may take to make sure it continues to perform a sufficient number of funerals:
- a) the sale of its own plans;
  - b) commercial agreements with, or marketing to, third party plan providers; and
  - c) marketing directly to potential clients where there's a pre-need plan in place.
- 2.5 We believe that to form a complete picture of the business activities of a funeral director, the CMA needs to look at:
- (a) how funeral directors compete to attract redemptions of pre-need plans; and
  - (b) decision-making by consumers when they redeem pre-need plans.

#### Low barriers to entry

- 2.6 The barriers to entering the at-need funerals sector are low. There are no licensing requirements for funeral directors and the sector is largely unregulated. The low barriers to entry have led to increased competition over the last five years as over 500 new funeral directors (many of whom are small and medium sized independent operators) have entered and gained market share. Independent funeral directors are important operators in the market – over 60% of at-need funerals were conducted by independent funeral directors in 2017.
- 2.7 Increased competition means that there are more options available for consumers to choose from. This has driven price competition between funeral directors and Co-op has sought to respond by providing lower-cost options for consumers. We're aware that other funeral directors have also responded by reducing prices.
- 2.8 However, we're concerned that the quality of service provided to consumers and standard of care for the deceased is very inconsistent across the industry, which is preventing consumers from receiving all of the potential benefits of the increased competition. Differing care and quality standards are often not clear to consumers who take at face value the quality of service and standard of care in a trusted profession.
- 2.9 High quality of service and standards of care are of primary importance to us and our clients. We recognise that there are a number of different ways that minimum standards for quality and care can be achieved. Scotland has recently introduced a regulatory framework, which will result in the introduction of a statutory inspector of funeral directors and regulations governing the funeral profession. We support regulation which ensures high quality of service and standards of care for our clients and would encourage the CMA to track these developments and consider how they might apply in England and Wales.

### How funeral directors compete

- 2.10 The way that funeral directors compete to attract clients is evolving gradually. Online engagement and quality of choice are increasingly important. Consumers are also gradually moving away from choosing a funeral director based purely on location or word of mouth recommendation (for example, from their doctor or faith leader). The key factor in choosing a funeral director is that they are known to the family (through having used them before). Reputation in the community also remains key.

#### *Location*

- 2.11 From a consumer perspective, location has typically been a key driver of choice when selecting a funeral director. While location is still very important, this is very gradually changing as online engagement increases and other quality considerations become more important.

#### *Quality of service and standard of care*

- 2.12 In addition to location, consumers generally prefer a funeral home that is already known to the family or that's recommended to them. This is connected with the perceived quality of service and standard of care that is offered by the funeral home.
- 2.13 Quality is fundamental to our business and the trust of our clients in the service and care we provide. It's important to make the entire process of arranging a funeral easier and clearer for our clients and their families. We do this in three key ways:
- a) explaining the options available and the costs of each to our clients, which increases transparency so that they can properly assess their options and understand what they're paying for;
  - b) providing high quality of service at every stage of the process (from the client's first contact with us, to the service the client receives from us following the funeral); and
  - c) providing high standards of care for the client's loved one while in our care.
- 2.14 We know society today finds death a difficult subject to talk about. This can lead to questions not being asked and a significant gap in understanding about the actual care and service that may be being provided<sup>3</sup>. In these circumstances, it's difficult for consumers to assess differences between funeral directors, particularly in relation to the standard of care provided. Standards of care for the deceased are very important but differences in these standards may not be clear to the client even after the funeral has taken place.
- 2.15 We've increased transparency in the funerals sector, both online and in funeral homes. We provide transparent up-front pricing and make clear what is included within our funeral options. Our printed brochures and website make clear what products and services are included with each of our funeral options, what optional extras are available and what services are excluded and provided by third parties at additional cost. We've developed online

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<sup>3</sup> We're taking steps to address this and are currently conducting a survey to understand the barriers to these conversations - <https://g4-emea.yougov.com/vkRmQqWKhdtxHq>. We've received over 30,000 responses.

comparison tables to assist our clients (both for our at-need funerals<sup>4</sup> and our pre-need plans<sup>5</sup>). We're in the process of publishing online our full price list for all elements of, and options for, our at-need funerals. We've also re-trained all colleagues on our funeral options and pricing so that our clients receive appropriate guidance when they arrange a funeral with us.

- 2.16 However, this level of transparency is not always achieved across the industry. This makes it difficult for consumers to compare packages across funeral directors and to understand if they're getting value for money and receiving the quality of service that they expect.
- 2.17 For example, it may not be clear what products and services come as standard, what are optional extras, what cheaper options may be available and what third party costs are excluded. Some services may be sub-contracted to third parties without this being made clear to the client, which makes it difficult for clients to assess the quality of service they'll get and the standard of care their loved one will receive.
- 2.18 Additionally, many funeral businesses carry a brand that suggests it's family-owned, with a strong presence within the local area, but they are in fact owned by a larger business which acquired them. Equally, few funeral directors offer all products and services under one brand, from direct to cremation to traditional full service funerals. This means that consumers aren't always clear about who they're dealing with and can't be sure that they will receive the quality of service and standard of care they'd expect.
- 2.19 At the Co-op, we've moved to use our own brand on all products across all propositions in all channels. We're coming to the end of a 3 year programme to change the fascia of our funeral homes to make it clear that they're owned by us (which will complete by the end of this year), so there's no risk of confusion about who the client is dealing with and the quality of service and standard of care they can expect to (and will) receive from us<sup>6</sup>.

#### *Price and value for money*

- 2.20 We've taken a number of key steps to improve funeral affordability for clients, including:
- (a) the introduction in July 2016 of our Simple funeral option, our most affordable funeral package at a fixed price of £1,995 in England and Wales and we've kept the price at the same level since its introduction, except to reduce the price in Scotland to £1,675<sup>7</sup>;
  - (b) the introduction of our Cremation Without Ceremony option in May 2018, which at £1,395 (and £1,230 in Scotland) offers an even more affordable option for families and is also well suited to clients who don't want to have a funeral service;
  - (c) the re-launch of our child funeral policy, which extends the age up to 18 for which we'll provide our funeral services free of charge, providing additional funding support for thousands of bereaved families across the UK;

<sup>4</sup> <https://www.co-operativefuneralcare.co.uk/arranging-a-funeral/funeral-choices/compare-funeral-choices/>.

<sup>5</sup> <https://www.co-operativefuneralcare.co.uk/pre-paid-funeral-plans/compare-funeral-plans/set-cremation-plan/>

<sup>6</sup> This makes our ownership more prominent than the plaques we have always had on our homes.

<sup>7</sup> This supports industry calls for a review of Funeral Fund payments to better meet needs of the bereaved.

- (d) driving a growing market in pre-paid funeral plans. This allows consumers to make an informed choice about their own funeral (in terms of both the arrangements and the amount spent) through a funeral plan that's fully guaranteed by us<sup>8</sup>. We take on the risk of prices (including those of third parties) increasing once the plan has been agreed, not the client, and we do not have a cap on contribution towards third party disbursements. Our pre-paid plans include our Co-op Commitment for clients who choose to pay in instalments over 2 to 25 years. We have a strong investment vehicle in order to ensure we can meet our obligations under our pre-paid plans; and
  - (e) the introduction of new lower payment options for funeral plans, making it more accessible and affordable for families to budget gradually for funeral costs.
- 2.21 We were the first funeral director to sign the new Fair Funerals pledge<sup>9</sup> to tackle funeral poverty. We've committed to:
- a) recognise that funerals can be expensive and many people struggle with the cost;
  - b) help people to find funerals that are within their means; and
  - c) be open about our most affordable options, including third party costs, at initial conversation, within our price lists and on our website<sup>10</sup>.
- 2.22 Our Traditional and Classic funeral options, which were introduced in July 2017, provide clients with more customisable packages and additional services. They were designed to take the complexity out of arranging a funeral and simplify it for a client. Bringing together all the cost elements and presenting them to the client allows them to make an informed choice early on in the arrangement process. They can then be tailored to meet individual needs with clear price options. Clients don't have to wait until after the many different elements of a funeral have been decided on to find out the total cost. This enables the client to choose the funeral elements they value and can afford.
- 2.23 We offer a range of funerals and funeral plans at different price points. All are designed to ensure that every client understands what they're paying for and that they receive a caring and quality service which offers value for money.
- 2.24 We note the CMA's observations on rising funeral fees. We believe these are, at least in part, attributable to the following factors:
- (a) rising cremation costs (see section 3 below);
  - (b) rising burial costs due to factors (including a lack of space);
  - (c) rising officiant costs (i.e. church costs, fees for officiants); and
  - (d) delays caused by: i) limited time slots for burials<sup>11</sup> and cremations (including limited evening or weekend slots; ii) limited availability of officiants; iii) limited availability of

<sup>8</sup> This excludes the purchase of a burial space.

<sup>9</sup> <http://fairfuneralscampaign.org.uk/content/fair-funerals-pledge>.

<sup>10</sup> We are in the process of publishing our price lists on our website and these will be available shortly.

coroners to carry out autopsies, which are required in an increasing number of cases; and iv) the requirement for a second death certificate before cremation.

### *Looking ahead*

- 2.25 We consider that we and some other funeral directors across the industry have responded well to the challenge of innovating in order to create affordable funeral options for consumers. We've introduced the Co-op's Simple Funeral and Cremation Without Ceremony. Other funeral directors, including Dignity, have reduced the price of their funerals and funeral plans in response to the increased competition in the sector.
- 2.26 For the reasons set out above, our view is that consumers would benefit from increased transparency in relation to funeral options and pricing. This can be achieved in a number of different ways:
- (a) Lack of standards for care and quality of service are beginning to be addressed through new regulation in Scotland. Scottish funeral directors will soon operate under a new regulatory framework and this will result in the introduction of a statutory inspector of funeral directors and regulations governing the funeral profession. Our view is that this is a positive development that should be followed closely to determine whether equivalent regulation should be introduced in England and Wales.
  - (b) Scotland has also removed the requirement for a second death certificate before a cremation can take place, which enables consumers to arrange a cremation sooner. We can see why they've done so and, again, we recommend that the CMA should track this development.
- 2.27 The CMA has queried whether price comparison websites could effectively assist consumers in comparing the funeral options across different funeral directors. We recognise that price comparison websites may be beneficial to consumers when comparing the price of certain products, such as commodity products, where price is the key driver of choice and the underlying product is simple and relatively standardised. However, in their current form, they do not adequately capture or communicate to consumers the variation in quality standards discussed above, which are a key driver of choice for funerals, where consumers are arranging a unique one-off event. This means that comparisons of packages and options of different funeral directors that aren't necessarily 'like for like' and risks undermining the ability of consumers to make an informed choice.

## **3 Crematoria**

- 3.1 We don't own any crematoria and therefore we deal with crematoria as an intermediary for our clients. We've provided our view as a funeral director and intermediary.
- 3.2 Approximately 80% of funerals that take place nationally are by cremation, rather than burial (although statistics vary by local area), so this is a very important issue for consumers.

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<sup>11</sup> This is partly as a consequence of there being insufficient numbers of grave diggers and there being the same number of slots in summer and winter, despite higher death rates in winter.

- 3.3 Under the current system, crematoria are controlled by local authorities and a small number of private firms which own crematoria and burial grounds, and there's little prospect of that changing. As such, our view is that crematoria do have market power.
- 3.4 We consider that crematoria fees are high and, in our experience, non-negotiable. We don't apply any margin when we pass on these fees as disbursements to our clients.
- 3.5 There are a number of factors which are driving these high fees, in particular:
- (a) high barriers to entering and expanding in the crematoria market, particularly due to strict regulations and land-use planning restrictions in relation to distances that crematoria must be from dwellings (many of which are historic and not flexible enough to allow for potential innovative in the sector), as well as the high upfront costs of opening new crematoria;
  - (b) high operating costs for crematoria (as a result of high energy costs, maintenance costs and rising regulatory compliance costs);
  - (c) high operating costs for cemeteries, which can be set off against crematoria fees by the owner;
  - (d) cuts in public spending which mean that local authorities need to make up for budget deficits through higher fees;
  - (e) many crematoria do not operate efficiently (for example, they're often capacity constrained, have limited hours of operation, use inefficient processes and offer limited slots which are not consumer focussed (for example, there are significantly higher fees for weekend slots). This is particularly so during winter months when death rates are higher;
  - (f) for funeral directors who also own crematoria, the downward pressure on funeral pricing can be set off against crematoria fees by the owner; and
  - (g) differential pricing for local authority residents and non-residents, with non-residents paying significantly higher fees than residents.
- 3.6 Each of these issues indicate a lack of competitive pressure on operators due to high barriers to entry. This has also resulted in a great degree of variation in the quality of crematoria facilities across the sector.

This could be addressed by relaxing historic regulatory and land-use planning restrictions which limit entry into the sector (for example, the requirement for crematoria to be a minimum distance from dwellings) so that there are lower barriers to entry, expansion, innovation and increasing capacity.

## 4 Conclusion

- 4.1 The funeral sector is going through significant change as consumer demands evolve and funeral directors respond to those changes and to each other. To a great extent, competition can be seen to be working effectively and for the benefit of consumers. However, there's an





important role for the CMA in finding the balance between fostering competition and innovation in the sector while ensuring that consumers are able to make informed choices and are appropriately protected at a stressful and emotional time in their lives. In that sense, Scotland has been ahead of England and Wales in regulating to protect consumers and we think that is the right direction of travel.

- 4.2 Quality is a key driver for consumers choosing a funeral. There's scope for improvements in transparency across the sector so consumers are clearer about what level of quality and care they're paying for – there may be different means to achieve this. We've taken a number of steps to improve what we do and will continue to do so.
- 4.3 Crematoria currently operate inefficiently, expensively and with limited innovation to meet changing demand. High barriers to entry and expansion mean there is little scope for that to change as a result of pressure from consumers, funeral directors, or competitors. However, the historic planning and regulatory regime, designed for a different age, may be one element that can be addressed and should be looked at carefully by the CMA.
- 4.4 We look forward to further engagement with the CMA in relation to these issues.

**28 June 2018**