Time to end the funeral insurance rip-off: a Consumer Strategy for a fairer deal

Consumers are increasingly keen to plan financially for all significant life events, including the first thing that happens when they die—their funeral. This means there is now a market for funeral plans, and as with all plans, it's important for consumers to understand what's on offer, and what the right plan is for them.

A "funeral plan'' can refer to a number of different types of products, each with their own particular benefits and traps:

- pre-paid funerals;
- funeral bonds;
- funeral insurance; and
- funeral expenses policies.

Research published by the Australian Securities and Investments Commission (ASIC) in 2012 found that people rarely shop around for the funeral product that's best suited for them—they simply buy the first one they come across, or what they see marketed on TV or through other media. It means consumers may be spending thousands of dollars without fully understanding the full range of options open to them, when perhaps the most simple and cost effective option is simply to open a savings account to save for a funeral. ASIC recently published a guide for consumers outlining the pros and cons of each kind of funeral product available, to assist consumers to make these kinds of decisions.

Funeral insurance has been singled out as a problematic product because it is difficult for consumers to assess the real value of the product, including the value of the offer being made. Premiums can be very expensive and a policy may pay out an amount significantly less than the total amount paid over the insured period, which may be years or decades. Marketing and promotion often doesn't disclose the true cost of the product, or warn about the steep price rises that sometimes apply as the policy holder ages. Commonly, the promotion of some funeral products target anxieties—the fear of outliving one's savings, the fear of being a financial burden on loved ones, or the fear of losing one's financial independence. Particular groups within the community, such as the elderly and Aboriginal communities, are key markets for these products. Action is needed to ensure consumers better understand the choice of products on the market and help them avoid being financially exploited.

This strategy identifies steps the insurance industry, regulators, governments and consumers can take to reduce the likelihood of financial exploitation from funeral insurance.

1. Premiums should be fixed for the duration of the policy

Funeral insurance premiums can rise as the policyholder ages. Yet, as policyholders age, their income and capacity to pay their premiums can decline—often dramatically. This practice effectively traps consumers, who may have already paid thousands of dollars, into keeping up an insurance policy they can no longer afford. Not all consumers seem aware that some plans increase in price over time.

In July 2013, ASIC's concerns about the advertising of funeral insurance resulted in some insurers changing to a fixed pricing structure,[1] and other recent changes such as not requiring premiums be paid past an age threshold will make this product less detrimental to ageing consumers. We'd like to see the pricing of all funeral insurance fixed from the outset.

Insurers should be required to offer consumers already covered the opportunity to move from a stepped policy to a capped policy, without any loss or penalty for doing so—and funds already paid to be applied to that policy.

2. Full disclosure of estimated total costs of a policy

Insurance businesses provide insurance products based on the profile of their customer base, and could readily provide an estimate of how much the policy being offered will likely cost potential customers. Accordingly, a key fact sheet that states the price, key conditions, and an approximation of total costs to the consumer should be mandated. The My Longevity website could assist with calculations. Total cost disclosure is now common in other industries, such as telecommunications, as it is acknowledged that consumers can be swayed by low per month rates and fail to calculate the overall cost, impacting decision-making. If consumers are to make a choice in their own best interests, they need to be able to compare the costs of the various options available, such as funeral bonds and pre-paid funerals, which commonly have set costs. Allowing consumers to have an estimated total figure they can expect to pay will ultimately allow them to make an informed decision to buy a product that suits their needs.

3. Extend allowable policy arrears periods

When a funeral insurance policy falls into arrears, consumers are only allowed 28 days in arrears before an insurer can cancel their policy.[2] Canstar's comparison guide to funeral insurance indicates[3] that few have a hardship policy or other means of suspending policy payments. Coupled with the decreasing affordability of the product over time, and the fact that this product can only be claimed for a one-off event, stronger protections are needed for those who are unable to pay regular premiums for a period of time. We'd also like to see greater flexibility where a policy has lapsed, and consumers to be offered the chance to repay any arrears over time in order to retain their cover and be eligible to claim.

4. Encourage the introduction of capped insurance products

ASIC's research showed that consumers have a general awareness of funeral products, but commonly choose the first policy they seek a quote on without shopping around for the product best suited to their needs. Whilst some products require no further premiums be paid past the sum insured amount, or become a nominal amount (or zero) after a certain age, others can result in a consumer paying total premiums far greater than the amount they are insured for. Capped insurance products mean that consumers don't pay more than they will be entitled to claim for, and should be more readily distinguishable from other insurance policies that allow consumers to spend far greater amounts than that they're insured for.

5. Publish up-to-date information about funerals costs

The Australian Funeral Directors Association's (AFDA) public guidance about the cost of funerals is poor. Its website states 'the answer could be almost limitless'.[4] Despite this, AFDA is quoted in other publications giving approximate costs. AFDA is therefore well placed to help consumers seeking to understand what the costs are in planning for the event. We'd like to see AFDA use the information provided by its members to assist consumers to understand what kind of costs a funeral might incur to allow them to decide how much they need to set aside for their funeral and how they might choose to pay for it.

6. Minimise policy exclusions

Consumers have complained about unexpected exclusions affecting an ability to make a claim. For example, insurance policies usually have a period of 12 to 24 months before a claim can be made for natural death, or for higher coverage to take effect. Money for a funeral is needed quickly after a death and insurers will understand that this is a difficult time for grieving relatives. Having industry-wide standard practices that minimise the number of allowable exclusions is a useful way of ensuring consumer expectations and fairness can be achieved.

7. Improve reporting on policy attrition

Funeral insurance is still a relatively new product in the marketplace, but the structure of the product—payments made over a long time for a one-off event, where premium costs can rise sharply when the consumer's ability to afford it dramatically drops, and so on—mean there is a potential for consumers to drop out before using the cover. Insurers should be required to report annually on the number of funeral policies in existence and the number of lapsed policies where the beneficiary will no longer be eligible to make a claim.

8. Superannuation funds and life insurers should prominently advise consumers about coverage for funerals

Many consumers remain unaware that they may be entitled to life insurance as part of their membership of a superannuation fund. Life cover in super can entitle family members to a payment at the time of a person's death which could be used to pay for funeral expenses. Making consumers aware of this is important to ensure they do not pay two premiums unnecessarily. A related problem is that life insurance claims can take time, when money is needed quickly after a death to pay for a funeral. The superannuation and insurance industries will understand that this is a difficult time for grieving relatives, and should work together to ensure that advance payments for funerals can be made. These industries also have an obligation to proactively and effectively inform their members and policy holders about their existing cover to assist with decision making when considering additional insurance.

9. Improve compliance with advertising prohibitions of mis-selling and deceptive conduct

Funeral insurance advertising is often emotionally charged, and appeals to viewers to buy this product to avoid burdening their family with the financial costs of a funeral. Daytime television advertising seems to be a key marketing avenue for funeral insurers who, despite guidance in ASIC's Regulatory Guide on Advertising Financial Products and Advice Services, remains highly emotive and relies heavily on invoking a sense of fear in potential customers. Tactics include quotes for low policy prices available only to a limited group of consumers. Others, such as likening the cost of a policy to the cost of a coffee, highlights the current cost of a product in an easily relatable fashion without offering similar prominence to the way premium costs rise sharply over time and what the true cost of the product will be over an average timeframe. ASIC has various options for action, including a market survey to ensure funeral insurance marketing is consistent with the spirit of the guideline and even legal action if appropriate. Where misconduct is found, remedies should include requiring the business to contact consumers who may have been affected with an offer a full refund.

Funeral products that target Aboriginal consumers should be a high priority for an investigation into mis-selling. It appears that it is not made clear to consumers that they may not receive the full value of the dollar figure on the policy documentation—only the cost of funeral (and related expenses), which will usually go straight to the funeral parlour and not to the family. It is also not clear how many consumers understand and are told about the offer to pay funeral related expenses (like wake costs or travel costs). Literacy issues, combined with products that use on exclusions and fine print in their marketing material and selling tactics, mean that Aboriginal consumers are at risk of being taken advantage by sellers of funeral products.

10. Help older Australians understand the product

Getting clear, helpful information to consumers at the time they need it is an ongoing challenge. Some advocates and seniors groups have begun to raise awareness about the problems with funeral insurance in their publications. Providing objective analysis about products, alternatives and where to get help if someone has purchased a bad funeral insurance product is an essential service that advocacy groups can provide.

11. Promote alternatives

One simple alternative to funeral insurance is to open a dedicated savings fund for the inevitable event. This could be enabled and promoted by banks and other institutions which could create tailored accounts based on the needs of the consumer with easy regular, occasional or one-off payment options. There are also opportunities for community organisations and the finance industry to work together to create fit for purpose products. One good example is Saver Plus, created by ANZ and the Brotherhood of St Laurence to help families save for educational expenses.

Low income families may also be entitled to a bereavement payment from the Department of Human Services, and others may be entitled to funding through the Department of Veterans Affairs, their union, or their state or territory government. The availability of these funds should be communicated to eligible parties.

12. Improve disclosure and warnings

Governments, industry and regulators have suggested improved disclosure for funeral insurance products so that consumers are aware of key features and are able to make fair assessments. This could be in the form of key fact sheets (as will soon be required for home building insurance), that clearly warn about the pitfalls or risks associated with products, and alternatives that might be available. Associated warnings need to be included in advertising to offset aggressive advertising tactics. Insurer websites should be required to provide a link to ASIC's Money Smart website.

13. End the insurance industry exemption on unfair terms

Unfair terms in insurance contracts affect the way claims are processed, handled and refused, resulting in significant stress, delay and unfairness to consumers. Insurance contracts are currently the only type of consumer contract excluded from national unfair contract terms protections under the new Australian Consumer Law. The Federal Government has announced its intention to extend unfair contract term protections to general insurance, but has excluded life insurance (which includes funeral insurance). There is no reason for this ongoing exclusion, and unfair contract term protections should be extended to all insurance contracts.

[1] ASIC acts to improve consumer understanding of funeral insurance: http://www.asic.gov.au/asic/asic.nsf/byheadline/13-152MR+ASIC+acts+to+improve+consumer+understanding+of+funeral+insurance?openDocument

[2] The vast majority of funeral plans are life insurance policies. Section 210 of the Life Insurance Act 1995 allows a life insurance to be cancelled for non-payment after 28 days where notice of cancellation was given in writing, advising this to be the case and setting out the amount and date due. General insurance policies regulated under Section 59 of the Insurance Contracts Act (1984) allows a policy to lapse if 20 business days written notice is given to the consumer; this specifically excludes policies that can be forfeited under the Life Insurance Act.

[3] See http://www.canstar.com.au/funeral-insurance/compare-funeral-cover-policies/.

[4] See http://www.afda.org.au/faq/general-information#item-8.