



## INFORMATION FOR DISTRIBUTERS

### Assessing Fair Price and Value for our customers

#### Background

Advantage Finance serves the “non-prime” segment of car financing. The customer base that we serve is considered higher risk, in that they have previously experienced credit problems that include CCJs, defaults, arrears or previous bad debts. For those customers, a car is not a luxury, it is a necessity for being able to go to work, care for people, or for simply being able to live their lives. Servicing this customer base is a necessity for the British economy, and the cost of servicing this client base, is naturally higher, in that lenders must be able to provide very high levels of flexibility in forbearance measures.

In terms of customer acquisition strategy, whilst Advantage Finance is the “manufacturer” of the hire purchase product, almost all our business is transacted via car and finance brokers or dealers. These brokers and dealers are considered “Distributers” of our product.

These brokers create panels of numerous lenders who are competing against each other for high volumes of credit opportunities. Brokers recommend the lender to the customer based on “best rate outcome” – this means that a customer using this channel should automatically get the best rate and value to them, based on their own specific credit history and profile.

The price and value set by Advantage is aimed at a balance between providing high levels of customer support to a high-risk customer segment, and the need to be financially sustainable in such a highly competitive and price sensitive environment.

The following is our assessment of our hire purchase product in terms of Fair Price & Value.

#### Product name: Hire Purchase

#### Information Sheet produced:

#### Products & Services Outcome and Fair Price & Value Outcome – Information for distributors of the Product

This summary document is being provided to you to fulfil our responsibilities under PRIN 2A.4.15R and PRIN 2A.3.12 R (2).

It is designed to support you to comply with your responsibilities under PRIN 2A.3.16 R and PRIN 2A.4.16 R. Please note that you are ultimately responsible for meeting your obligations under ‘The Consumer Duty’.

This information is intended for intermediary use only and should not be provided to customers.

## 1. Summary of our assessment

We have assessed that:

- Our hire purchase product range continues to meet the needs, characteristics, and objectives of customers in the identified target market.
- The intended distribution strategy remains appropriate for the target market.
- The Product provides fair value to customers in the target market (i.e. the total benefits are proportionate to total costs).

This assessment does not include any fees, charges or other costs you require the customer to pay to you for any products or services you provide that are separate or in addition to the product or services we provide. You are responsible under the Consumer Duty for assessing those products or services. If you believe that the customer is not receiving fair value in respect of these products or services, you must inform us.

## 2. Product characteristics & benefits

The products are designed to meet the needs of the target group, which are to finance a vehicle for day-to-day use. The product features and criteria are designed to support these needs.

- Simple regulated hire purchase agreement
- Funds the fair value of the vehicle at a fixed interest rate over a fixed term.
- Fixed repayments are collected monthly via direct debit
- No final balloon amount and no mileage restrictions
- Usership of the asset sits fully with the customer, whilst ownership sits with the lender until the final payment is made, at which point the asset is owned by the customer after they pay the “option to purchase fee”.
- Terms and conditions of this standard regulated product are set out clearly under the Consumer Credit Act

## 3. Target market assessment and distribution strategy

This target market assessment matrix segments the target customers for the Product, recognising their different needs to enable you to tailor the services you provide when you distribute the Product.

<b>Customer Circumstances</b>	<b>Distribution Strategy</b>	<b>Customer Needs &amp; Objectives</b>
Non-prime customers with previous credit issues with need for a vehicle	Brokers and Dealers where panels of lenders compete for customer sales based on “best rate outcome”	To obtain finance for a vehicle necessary for basic living conditions
Existing and previous Advantage Customers with previous credit issues with a need for a vehicle	Direct via Advantage Sales team	To obtain finance for a vehicle necessary for basic living conditions

Non-prime customers with previous credit issues with need for a vehicle	Internet based comparison websites where panels of lenders compete for customer sales based on “best rate outcome”	To obtain finance for a vehicle necessary for basic living conditions
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**Our customers can therefore be satisfied that where our offer of finance is taken up, that because of the highly price sensitive nature of lending panel-based pricing, Advantage has been able to offer the best deal for the customers individual circumstances.**

The Product is not designed for customers who:

- Have a strong credit profile and history.
- Want finance for new or nearly new cars, with lend amounts over £20,000
- Are retired or without sufficient income to satisfy their credit obligations
- Are under 22 years of age
- Who cannot afford the monthly financial commitments

#### 4. Customers with characteristics of vulnerability

The Product is designed for non-prime customers who have experienced previous credit problems that restrict their access to mainstream lenders, but now have the financial capacity to service their debts - which is likely to include some customers with characteristics of vulnerability or who will experience vulnerability over time.

These vulnerabilities could include one of more of the following...

Health	Life events	Resilience	Capability
Physical disability	Caring responsibilities	Low or erratic income	Low knowledge or confidence in managing financial matters
Severe or long-term illness	Bereavement	Over indebtedness	Poor literacy or numeracy skills
Hearing or visual impairments	Income shock	Low savings	Low English language skills
Poor mental health	Relationship breakdown	Low emotional resilience	Poor or non-existent digital skills
Low mental capacity or cognitive disabilities	ex-offenders, care leavers, refugees	Lack of support structure	Learning impairments
Addiction	Domestic abuse		Little or no access to help and support

Our Intermediaries (brokers and dealers) will continue to comply with our obligations to ensure that we collectively treat customers in vulnerable circumstances fairly.

## 5. Our assessment of value

We have developed a comprehensive and robust assessment process which evaluates several aspects of our business to determine the value of our hire purchase product.

This analysis is called NCR – Net Cash Return and it informs our pricing approach to risk-based pricing. In simple terms the higher the risk, the higher the price and vice versa. We categorise customer risk across 5 tiers of business – A to E and aim to achieve the same financial return for each tier of business based on the costs of managing different types of customer and at the same time are competitive for our target market - so that customers get the best rate for their risk profile. A is our highest Tier of business with customer with the highest credit score, as assessed by our own highly sophisticated scoring system. Conversely, E is the lowest acceptable score category. Our pricing reflects the risk category of each product

This analysis is also used to ascertain whether the Product delivers fair value for customers, as it breaks down all the different cost variables that would be applied to each account, and those costs would need to be recovered from interest income through the contract.

Those costs include (but not limited to) the following:

- Cost of money
- Distribution costs including commission costs
- Marketing and Internal Sales costs
- Credit Referencing
- Scorecard support and analysis
- Affordability calculations and analysis
- Underwriting and pay-out administration
- Digital signature
- Booking and welcoming
- Contract administration including communications
- Customer Services including complaints resolution
- Forbearance support
- Vulnerable Customer support
- Repossession and Voluntary Termination support
- Vehicle Disposal
- Legal Services
- First Line Risk Compliance
- Second Line Risk Compliance
- Training
- Enterprise Risk Management
- Financial Crime Management
- Money Laundering Oversight
- Data Protection
- Business Intelligence
- Accounting
- IT Development, support and innovation
- Infrastructure, security and buildings
- Health and Safety
- Audit and Oversight
- Human Resources
- Executive Management

The outcomes of the assessment process are presented to the Senior Managers or Board of Directors of Advantage Finance at least quarterly, allowing for challenge and further investigation before we sign-off the outcomes and share the summary of our assessment.

Our current fair value assessment has considered all the above in coming to our conclusion regarding fair value to our customers.

### Results of our assessment

The total costs recovered via the interest generated by our customer contracts is on average 65.3% of the loan amount, across each of our Tiers of business. As the average actual contract length is 40 months, our financial margin is 11% per annum, or 8% pa return based on the average contracted average term of 52 months.

We believe this is necessary to achieve the financial resilience required by the regulator for our non-bank owned, specialist lending market. This level of return also satisfies the shareholders of our company.

As a PLC, our results are highly scrutinised by external auditors as well as the investment and analyst communities.

### **Our assessment therefore concludes that:**

- **the Product continues to meet the needs, characteristics and objectives of customers in the identified target market.**
- **the distribution strategy remains appropriate for the target market**
- **the Product continues to deliver fair price & value for customers in the target market**