

**Product information
relating to Personal
Contract Purchase**



What is Consumer Duty?

The Financial Conduct Authority (FCA) has introduced the Consumer Duty which sets a higher standard of consumer protection across financial services and requires firms to put their customers' first. Further information on the Consumer Duty can be found on the [FCA website](#).

Why are we sharing the below information with you?

The Consumer Duty requires us, as a manufacturer, to share product and value information with you, as a distributor, to enable you to meet your own obligations under the Consumer Duty. This information is intended for your use only and should not be provided to customers or any other third parties.

Who are manufacturers and distributors?

The Consumer Duty sets out different requirements for firms who manufacture and distribute products.

Manufacturer: Firms that create, develop, design, issue, manages, carries out, operate, or underwrite a product or service, i.e., for Personal Contract Purchase this is **us, Close Brothers Motor Finance (CBMF)**.

Distributor: Firms that offer, sell, recommend, advise on, propose, arranges, deals, or provide a product or service, i.e., for Personal Contract Purchase this is **you, the credit broker, including Motor dealers and finance brokers**.

What is our approach to product governance?

Product governance arrangements are in place to ensure we deliver good outcomes for customers. Product governance arrangements include regular product reviews and Fair Value Assessments to ensure products are fit for purpose, designed to meet the needs of the customers for whom they are intended and represent fair value.

During product reviews (for products in-scope of Consumer Duty) the following elements are considered:

- The target market and how the product is designed to meet the needs of the target market, including vulnerable customers,
- distribution arrangements,
- Fair Value Assessment,
- consumer understanding obligations,
- consumer support obligations,
- how we are monitoring customer outcomes,
- marketing and financial promotions,
- post-sale customer experience and exit barriers,
- use of third-party debt collection agencies,
- macro and regulatory environment and complaints.

When completing the Fair Value Assessment, we consider:

- The target market,
- distribution strategy,
- product benefits and limitations,
- how customers with vulnerable characteristics are able to make use of the product benefits,
- complaints,
- monetary costs,
- non-monetary costs,
- and commercial factors.

Do we (the manufacturer) require information from you (the distributor)?

We may contact you as a distributor to request information to support our product review process. Information requests may include sales information and the results of distribution arrangement reviews.¹

If you have any questions about the content of this document, who should you contact?

Please email consumerduty.faq@closebrothers.com promptly.

1.0 Product characteristics

Name of product	Personal Contract Purchase (PCP)
Date of latest product review	01/04/2023
Date of next product review and value assessment	01/01/2024
Is this product intended to be sold as part of a package?²	No

Ref	Product Information	Description
1.1	Product nature³	The PCP product is a motor finance product that is secured against a vehicle of the customers choosing. It requires a customer to pay a deposit, and the remaining amount borrowed is split into fixed monthly instalments. A final “balloon” payment based on the vehicles future value must be made at the end of the term if the customer chooses to purchase the vehicle.
1.2	Product benefits⁴	There are two principal benefits to this product; 1. Product gives the customer flexibility at the end of the term to hand back or part exchange or pay balloon payment to secure ownership. 2. Customers benefit from a lower monthly payment because a large proportion of the amount owed, is deferred to the end of the term in the form of a balloon payment. This balloon payment is calculated based on a proportion of the predicted value of the vehicle at the end of the term (known as the Guaranteed Minimum Future Value, GMFV). This is only payable if the customer wants to secure ownership at the end of the term rather than hand back or part exchange the vehicle.
1.3	Product limitations⁵	The limitations of this product are: 1. Mileage: PCP product customer selects an agreed mileage that they will not exceed throughout the term of the agreement. If this amount is exceeded the customer will be subject to the “excess mileage charge” if they exercise their right to hand back the vehicle.

¹ PRIN 2A.3.18R

² PRIN 2A.4.7R (2)

³ PRIN 2A.3.16R (1)

⁴ PRIN 2A.4.16R (2a)

⁵ PRIN 2A.4.8R (2)

Ref	Product Information	Description
1.3	Product limitations ⁵	<ol style="list-style-type: none"> 2. Vehicle condition standards: the customer is subject to charges to reflect the damage to the vehicle outside of “normal and wear and tear”. 3. A customer will be charged if the amount of a single payment in respect of early settlement exceeds £8,000 or the total of early settlements exceeds £8,000 in any 12-month period. This charge will be the lower of. <ol style="list-style-type: none"> (i) 1% of the amount repaid early where the remaining term of the agreement is more than one year, or 0.5% of the amount repaid early, where the remaining term is equal to or less than one year, and (ii) the total amount of interest that would have been paid by the customer under the agreement from the date payment is made to the end of the agreement 4. The vehicle cannot be used as a taxi. 5. The customer cannot abandon, sell, gift, or transfer the ownership of the vehicle to a third party. 6. The vehicle cannot be removed from the UK without Close Brothers Motor Finance’s consent. The vehicle cannot be sold or used as a security (e.g. for a logbook loan).
1.4	Summary of overall fees and charges ⁶	<p>The PCP product includes a standard acceptance fee that applies to all customers.</p> <p>There are a number of other fees/charges that will only be applied in certain circumstances during the term of the agreement (for example missed payment, excess mileage, wear & tear, option to purchase fees).</p> <ul style="list-style-type: none"> • Option to purchase Fee • GMFV • Excess Mileage Fee • End of term wear and tear • Plate Change Fee • Missed Payment • Arrears Letter Fee • Notice of default fee • House Visit Fee • Late Payment Interest <p>All fees/charges are found to be justified based on cost to serve and comparison with fees charges across similar other Close Brothers Motor Finance (CBMF) products (Conditional Sale) or competitor offerings.</p>
1.5	Summary of how the product represents fair value ⁷	<p>A detailed review of costs, pricing and product nature, benefits and limitations has concluded that the PCP product provides fair value to customers, and the amount customers pay is reasonable relative to the benefits/service they receive.</p> <p>Customers with characteristics of vulnerability make up a small proportion of the PCP customer base, these customers are at increased risk of harm as they may have difficulty understanding product terms/documentation however, appropriate processes are in place to support those customers where needed. As a result, CBMF has concluded that PCP also offers fair value to vulnerable customers.</p> <p>One element of the annual product review includes updates to some customer communications to support customer understanding. A key area of focus has been on ensuring the product nature, benefits, limitations and the associated costs and pricing are clear and enable customers to make a timely and informed decision.</p>

⁵ PRIN 2A.4.8R (2)

⁶ PRIN 2A.4.15 R

⁷ PRIN 2A.4.15 R

Ref	Product Information	Description
1.5	Summary of how the product represents fair value ⁷	<p>The product pricing is based on the credit risk of the customer and in consideration of the customers' ability to sustainably repay. Credit brokers do not set the price and instead are paid a fixed commission. Remuneration paid is proportionate to the work involved by the credit broker. As a result of the Fair Value Assessment, the business has not found evidence that the pricing structure could lead to foreseeable harm.</p> <p>Considering the costs to CBMF, customers incurring all fees related to this product are still able to realise benefits and are receiving fair value.</p>

2.0 Target market

Ref	Product Information	Description
2.1	Characteristics, objectives and needs of the target market ⁸	<p>The Target Market</p> <p>A retail customer, which includes natural persons, sole traders, and partnerships of two or three people, aged 18 or over, who would like to purchase a vehicle using finance and spread the cost over a fixed monthly period, up to 48 months, benefitting from lower monthly payments than other finance options and who:</p> <ol style="list-style-type: none"> would like flexibility at the end of the agreement (to part exchange, hand back or purchase the vehicle but knowing this will include payment of a balloon payment) and know their expected mileage over the term of the agreement. <p>Characteristics/needs of a potential customer could include:</p> <ul style="list-style-type: none"> Younger customers who are borrowing for the first time as well as more experienced borrowers Customers with limited disposable income (albeit sufficient to meet affordability criteria) who would benefit from lower monthly payments as well as those with more disposable income Customers that require flexibility in owning the vehicle Customers who have a range of ability to understand the product and therefore may require additional support from the credit broker <p>Not the Target Market:</p> <p>Customers who fall outside the target market are:</p> <ol style="list-style-type: none"> Customers who intend to own the vehicle at the end of the agreement but do not want to be responsible for paying a balloon payment: this product may not be the most suitable option because it includes an enhanced balloon payment that is to be paid in order to secure ownership. Customers who are unsure of their expected mileage over the duration of the agreement: a key limitation of the product is a charge to customers exceeding the agreed mileage limit at the end of the term. Customers who fail to meet the affordability criteria CBMF operate and/or fall outside of the credit appetite for the product Customers who are unemployed or under the age of 18 Customers who would prefer a finance product that is not secured against the vehicle Customers who prefer to pay for the vehicle using means other than PCP finance Customers who are a Limited company

⁷ PRIN 2A.4.15 R

⁸ PRIN 2A.3.16R (2)

3.0 Vulnerable customers

Ref	Product Information	Description
3.1	<p>Needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability⁹</p> <p>You (distributors) are required to identify potential vulnerability and share this information with Close Brothers Motor Finance (manufacturer)</p>	<p>Customers with characteristics of vulnerability are within the target market. Vulnerable customers are able to benefit from the PCP product in the same way as non-vulnerable customers. The options at the end of the agreement available to those customers are the same and in no way impacted by vulnerability.</p> <p>Vulnerable customers have different characteristics to non-vulnerable customers and may require additional support. As a result, they are handled by a specialist team with additional training on how to support vulnerable customers cases to ensure they continue to receive good customer outcomes.</p> <p>In FY22 (Aug 2021 – July 2022), the proportion of customers with characteristics of vulnerability represented 1.9% of active customers that held the PCP product. Types of vulnerability include health, life events, resilience, and capability.</p> <p>The assessment determined that customers with characteristics of vulnerability received the same level of value as non-vulnerable customers. If you identify that a customer may have a potential vulnerability, then you should notify CBMF when submitting the customers application.</p>

4.0 Distribution

Ref	Product Information	Description
4.1	<p>Product distribution strategy¹⁰</p>	<p>The distributor, a third-party credit broker (including a motor dealer or finance Broker) distributes the PCP product to customers who are purchasing a vehicle. The credit broker introduces the customer to the PCP product, with the customers ownership aims and requirements being established during the sales process.</p> <p>The credit broker seeks to understand if the customer would like to buy the vehicle, how they intend to use the vehicle, and their vehicle change cycle to match the product to the customers finance needs.</p> <p>The credit broker provides sufficient information for the customer to make an informed choice about whether the product meets their needs. Where a customer chooses to proceed with the PCP product, the credit broker is responsible for the pre-contractual disclosures and arranging for the customer to review and sign the credit agreement.</p> <p>The product is not sold on an advised basis.</p> <p>CBMF has literature available for a credit broker to ensure they understand the products provided, as well as information and product videos on the website for a credit broker to access to aid their explanations of the products.</p> <p>An Account Manager is assigned to every credit broker and is responsible for ensuring they fully understand the products offered and sales process requirements and providing support where credit brokers do not demonstrate a good understanding and/or where they have questions about the product. Where CBMF identify that the product is being sold to customers outside of the target market then the credit broker would be contacted and educated further.</p> <p>CBMF has intermediary oversight processes in place in order to determine that third party credit brokers are acting to deliver good customer outcomes, this includes the review of intermediaries that trigger against set Key Risk Indicators (KRIs) and the completion of site-based reviews and intermediary questionnaires in order to identify concerns that require addressing.</p> <p>CBMF attempts to call all PCP customers in what is known as a welcome call. One of the purposes of the call is to validate the accuracy of the data in the application and correct any discrepancies and customer misunderstanding.</p>

⁹ PRIN 2A.3.16R (3) and PRIN 2A.4.16R (2b)

¹⁰ PRIN 2A.3.16R (4)

4.0 Distribution

Ref	Product Information	Description
4.1	Product distribution strategy ¹⁰	<p>CBMF has in place additional system controls to prevent negative target customers for applying for PCP. These include restrictions of products based on customer type (e.g. customers that are not subject to regulation will not be presented with a PCP finance option). CBMF also complete credit checks and affordability assessments on all applicants to ensure the product is not offered to those outside of the target market.</p> <p>All distributors have to be authorised and regulated by the FCA to act as a credit broker. This is a prerequisite for being permitted to introduce CBMF products to their retail customers.</p> <p>Third party credit brokers do not set the price the customer receives, this is set by Close Brothers Motor Finance.</p>
4.2	Interaction between the price paid and the extent and quality of any services provided by the distributor and whether the impact that the distribution arrangements (including remuneration) would result in the product ceasing to provide fair value. ¹¹	<p>Distributing partners are paid a fixed commission percentage on each new motor finance agreement introduced through them as agreed in the terms of business agreement. Commission is a fixed percentage of the amount financed by the customer for their new vehicle. Commission is intended to represent the cost of that distributor in proposing the loan on CBMF systems, training, resourcing staff in their business to complete the application, sign-up process, and an appropriate level of profit.</p> <p>CBMF also sources new finance agreements through finance brokers. Finance brokers typically act as an intermediary between the originating dealer and CBMF to broker finance for the dealer. CBMF pay the broker a commission for the new agreement. The commission paid to the broker is to meet their operating costs and an appropriate level of profit.</p> <p>Actual distributor commission is commercially sensitive data so no external data is available for comparison with other similar products on the market.</p> <p>The credit broker level of commission is detailed in the terms of business agreement.</p>

For information only - summary of manufacturer and distributor information sharing obligations

Note: this is a summary only. You should ensure that you have read and understood the rules and how they apply to you.

Manufacturer obligations (Close Brothers)	Distributor obligations (You)
<p>Must provide adequate information in good time to enable distributors to meet their own obligations.¹²</p> <p>The information shared will include information regarding the product and the product approval process.¹³</p>	<p>Must obtain sufficient, adequate, and reliable product information from the manufacturer to:</p> <ol style="list-style-type: none"> (1) Understand the characteristics of the product (2) Understand the identified target market (3) Consider the needs, characteristics, and objectives of any retail customers in the target market with characteristics of vulnerability (4) Identify the intended distribution strategy for the product, and, (5) Ensure the product is distributed in accordance with the needs, characteristics, and objectives of the target market.¹⁴ <p>Must regularly review the distribution arrangements to verify that it is only distributing the product to the intended target market¹⁵</p> <p>If an issue is identified following a review, a distributor must make appropriate amendments to the product distribution arrangements and where harm has been identified, take appropriate action to mitigate the situation and prevent any further harm. Distributors must also promptly inform all relevant persons in the distribution chain, including Close Brothers Motor Finance, about any action taken.¹⁶</p>

¹⁰ PRIN 2A.3.16R (4)

¹⁴ PRIN 2A.3.16R

¹¹ PRIN 2A.4.16R (2c)

¹⁵ PRIN 2A.3.19R

¹² PRIN 2A.3.12R (2)

¹⁶ PRIN 2A.3.20R

¹³ PRIN 2A.3.12R (3)

Manufacturer obligations (Close Brothers)	Distributor obligations (You)
<p>Must provide adequate information in good time to enable distributors to meet their own obligations.¹²</p> <p>The information shared will include information regarding the product and the product approval process.¹³</p>	<p>To support product reviews carried out by manufacturers, distributors must, upon request, provide manufacturers with relevant information including, where appropriate, sales information and information on the regular reviews of the product distribution arrangements.¹⁷</p>
<p>Must ensure that firms distributing the product have all necessary information to understand the value that the product is intended to provide to a retail customer.¹⁸</p>	<p>Must not distribute a product unless its distribution arrangements are consistent with the product providing fair value to retail customers.¹⁹</p> <p>Obtain enough information from the manufacturer to understand the outcome of the value assessment and in particular identify:</p> <ol style="list-style-type: none"> (1) The benefits the product is intended to provide to a retail customer (2) The characteristics, objectives and needs of the target market (3) The interaction between the price paid by the retail customer and the extent and quality of any services provided by the distributor, and, (4) Whether the impact that the distribution arrangements (including any remuneration) would result in the product ceasing to provide fair value to retail customers²⁰ <p>A firm which distributes products to other distributors must ensure that all information relevant to the value assessment is passed to the distributor at the end of the distribution chain.²¹</p> <p>Where a distributor identifies that the product no longer provides fair value, whether that is due to aspects of the product or the distribution arrangements, it must take appropriate action to inform any relevant manufacturers and other distributors in the chain promptly about any concerns they have and any action the distributor is taking.²²</p>



The information contained in this Product Information is commercially sensitive and confidential, and is the property of Close Brothers Limited. It must be held strictly in confidence by the recipient. No copy is to be made without the prior written permission of Close Brothers Limited. The recipient may only disclose the information contained in this document to its regulatory or legal advisers, or as required by law or for the purposes of meeting its regulatory obligations. The recipient is responsible for ensuring that the information contained herein is treated in strict confidence and is not disclosed to any third party, otherwise than as set out above.

¹² PRIN 2A.3.12R (2)

¹⁹ PRIN 2A.4.16R (1)

¹³ PRIN 2A.3.12R (3)

²⁰ PRIN 2A.4.16R (2)

¹⁷ PRIN 2A.3.18R

²¹ PRIN 2A.4.18R (2)

¹⁸ PRIN 2A.4.15R

²² PRIN 2A.4.27R