FINANCING INSURANCE PRODUCTS – REGULATION GUIDE FOR AUTOPROTECT AR NETWORK

The Financial Conduct Authority rules state that a customer must be given the following information in pre contract information (in a timely manner):

1. **Price information**
   - The cost of the insurance policy
   - The total cost of the policy with retail premium finance
   - The difference between the policy cost with and without premium funding finance (in order that the additional cost is clear and transparent to the customer)

2. **Statement (if relevant)**
   - A description / explanation that the use of a retail premium finance arrangement will be more expensive for the customer compared to paying for the customer up front
   - Details of any difference between the term of the policy and the term of the premium finance

IMPORTANT NOTE: When using Premium Credit (as arranged through agreement with AutoProtect), the interest rate for funding is 0% APR. As there is no detriment / cost to the customer for choosing to fund premium in this manner, it is exempt from the above rules.

However, when adding the cost of insurance policies to a vehicle finance agreement, the customer will pay interest at the prevailing rate of the finance agreement and therefore the above rules should be followed. We recognise that this is not the simplest rule to follow in process due to the varied placement of insurance on finance agreement by lenders. However, the rule exists to ensure the best interests of the customer are met and not following it is a regulatory breach.

Solutions to this are shown below, they are not in a priority or recommended order but are provided to demonstrate the options depending on scale of requirement, again noting that some lenders do not allow insurance products to be funded.

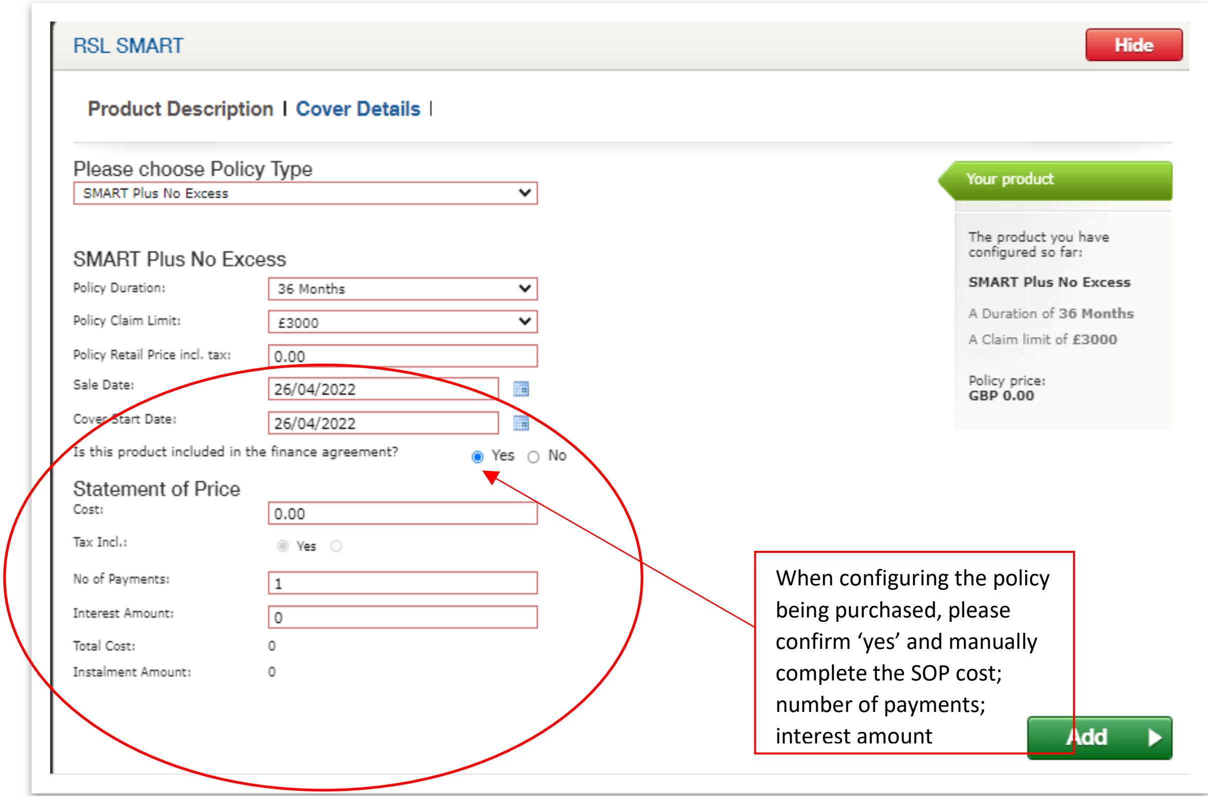
Potential solutions and audit explanation:

1. **Reduce deposit and pay upfront -** Where there the customer has available equity / cash to pay for the products ensure this is used and the finance deposit reduced accordingly. This must be clear on invoice that the customer has paid for the insurance products up front.

2. **Stop the funding of insurance products on finance agreements –** where this is done at scale currently, please be aware that this may not be in the best interest of customers who would choose to protect themselves with these products but require affordability option over as longer period.

3. **Use Premium Credit –** as a 0% APR option for customers, this is exempt from the rule and requirements in statement of price are already covered in process. This option can help increase penetration by offering an affordable option to customers. However, there is an added cost to the net price of each product. If you don't currently have this option available, and would like more information, please contact your AutoProtect Account Manager.

4. **AutoProcess Statement of Price calculation** – Where insurance products are funded on a finance agreement, the rules can be followed by ensuring that the interest payable on each insurance product is added to the statement of price on AutoProcess:



Calculation of interest amount

Due to the varied interest rates and additional costs and residual values which contribute to overall APR, a manual calculation is required.

1. If only one product is purchased and it is shown on a second schedule within the finance agreement, the interest detailed will be correct on the finance agreement.
2. If multiple products are sold and included on a second schedule, because the interest is typically shown as a total collated figure, a calculation is needed to allocate the relevant amount of interest to the insurance product or products, as follows:-

   Example

   GAP £300 (£300/£700 = 42.9% of total premium)
   SMART £400 (£400/£700 = 57.1% of total premium)
   Total £700

   Total interest over full term £120
   Allocation of interest by product
   GAP £120 (total interest amount) x 42.9% **= £51.48**
   SMART £120 (total interest amount) x 57.1% **= £68.52**

Alternative calculation methods

1. Use the funders quote system and produce a set of quotes
   - Vehicle finance
   - Vehicle finance amount + GAP Premium (identify increase in interest)
   - Vehicle finance amount + SMART Premium (identify increase in interest)
2. If the flat rate of interest for the finance agreement is known, use the following calculation

   Insurance product Premium £399 / Flat rate of interest 5%

   £399 x 5% = £19.95 (this is one year of interest) / £19.95 ÷ 12 = £1.66 (this is one months interest)

   Multiply interest by relevant term of policy i.e.

   £19.95 x 3 = **£59.85** (this is the interest on the insurance product premium for a 36 month/ 3 year term)

Please ensure a process is agreed and cascaded through your sales team with controls to monitor adherence