

Consumer Duty Price and Value Assessment



Document Name	Asset Finance in the form of a Hire Purchase or Finance Lease
Date of Assessment	26/04/2023
Product Owner/Assessor	Jon Maycock, Commercial Director
Reviewer(s) and Approver(s)	Jennifer Bodey, Director of Compliance & Conduct Risk Propel Commercial Management Committee
Product Provides Fair Value?	Yes – see section 5 below
If "No" to the above, what immediate actions are being taken?	N/A
Any further/follow-up actions	N/A

1. Fair value for vulnerable customers

1.1 Vulnerable customers in the target market

In respect of distribution and product sales, vulnerable customers may include customers who have limited financial experience, whose first language is not English, or who have a mental capacity limitation may have difficulty in fully understanding the product, its risks and benefits, and making informed purchasing decisions. During the lifetime of the product, the above customer groups may continue to be at risk of not receiving the full benefits of using the product or incurring extra costs.

In addition, customers who experience a temporary or permanent change in their circumstances (including loss of employment, incapacity, bereavement or other) may also be at risk.

1.2 Impact of vulnerability on product use/benefits

A lack of customer understanding may affect the ability to make informed purchasing decisions and to fully appreciate the product's risks and benefits. This issue could persist throughout the agreement's term concerning the product's use.

Customers whose circumstances change, including financial difficulty, may face negative outcomes if they miss or delay payments.

1.3 What mitigants are in place

Propel has taken several measures to reduce these risks by:

- Providing external support information on its website and email footers
- Appointing Vulnerable Customer Champions within the business to support liaising with vulnerable customers
- Monitoring risks through its Vulnerable Customer Policy and internal monitoring processes
- Training all staff in identifying characteristics of vulnerability
- Implementing vulnerability assessment matrices like TEXAS

1.4 Are vulnerable customers less likely to receive fair value?

Vulnerable customers, by the nature of the issues they face, are at increased risk of not receiving best value when it comes to financial services products.

While the Hire Purchase (HP) and Finance Lease products that Propel offers are relatively straightforward, some vulnerable customers may find it challenging to understand certain aspects of the deal structure, such as balloon payments. This can affect their ability to make a fully informed choice.

Propel Finance is committed to implementing all reasonable and proportionate measures to support vulnerable customers throughout the customer journey. With the measures described above, Propel considers that the risks to vulnerable customers are appropriately managed and that they are not materially less likely to receive fair value. Propel continuously monitors outcomes for vulnerable customers, so it can address any signs of harm and lack of fair value.

2. Costs to Customers / Pricing

2.1 Standard Costs

2.1.1 Standard financial costs

Interest

Interest is calculated and applied daily to the outstanding balance under the agreement. The interest rate is fixed for the duration of the agreement. Typically, the range is between 5% and 20% APR depending on the distribution channel and Propel's assessment of the security of the underlying asset. Propel can agree exceptions to this range subject to internal escalation and sign-off in line within our governance arrangements.

Fees

Propel's fees are documented in the Terms of Business which are published on the Propel website and also provided to customers in advance of the agreement.

Administration Fee: The customer is required to pay an Administration Fee at the beginning of the agreement. The fee can vary, depending on the channel, partner or product. For complex transactions, Propel reserves the right to increase this fee beyond the published typical range to cover any exceptional transaction costs. Should that be required, Propel will present the costs clearly to the customer in advance of the agreement.

Option to purchase fee (HP agreements only): A standard 'option to purchase fee' is payable should the customer wish to own the asset at the end of the agreement. The amount is outlined in Propel's Terms of Business and presented clearly to the customer in advance of the agreement.

Annual service fee (Lease agreements only): An annual service fee is charged.

Late payment fee: There is no late payment interest applied to delinquent accounts. Late fees are capped at £60 per deal (for both regulated and unregulated agreements). A termination fee also applies should it be necessary to terminate the agreement.

Asset insurance costs: Customers must maintain and insure the asset at all times, and they are responsible for the associated costs, as stated in Propel's customer agreement terms and conditions. For unregulated agreements, if the customer does not provide proof of adequate insurance, Propel may use a third-party provider to insure the assets and pass the fee onto the customer. Propel will determine the fee based on the asset class and inform the customer before applying it. This gives the customer the option to find alternative insurance if they wish to do so.

Propel reviews its pricing & charging structures regularly; and reserves the right to amend these at its discretion.

2.1.2 Standard non-financial costs

Propel's application process is straightforward. It is completed on behalf of the customer, either by Propel or its distribution partner. Typically, customers need to provide additional information such as accounts and proof of identity to enable their application to be assessed.

Customer data provided both during and after the application process will be used in the ways set out in Propel's Privacy Policy. Part of the application process involves undertaking a hard search at credit referencing agencies. This will leave an entry on the customer's credit file.

2.1.3 Communication of Costs

Propel's systems generate cost information in a standardised format, enabling distribution partners to present those costs to the customer.

Customers receive pre-contract information, including a breakdown of costs, presented clearly for their consideration before entering into a contract.

The contract includes a transparent cost breakdown, and pre-contract information may be given at the same time as the contract. This ensures that the customer has a clear understanding of the costs at two different stages before signing.

2.1.4 Use of risk-based or tiered pricing

Propel determines its pricing by considering credit risk, asset risk, and transaction size. These factors may vary based on the applicable distribution channel.

In respect of asset and credit risk, the cost of the risk is reflected in customer pricing and in relation to the transaction size. Propel spans a wide range of deal sizes and remains competitive in the marketplace.

Propel applies standard costs and charges to the typical range of transaction sizes. However, for transactions below the minimum deal size, higher interest rates are charged to cover the proportionally higher operating costs associated with smaller transactions. While these rates are typically higher than larger transactions, they are not dependent on the customer size or sector. Propel ensures fair value by providing fast access to finance with minimal customer administration time required.

2.2 Contingent Costs

2.2.1 Discretionary non-default costs

Discretionary costs are specified in Propel's Terms of Business, which are available on its website and communicated to customers before their agreement.

They include:

- An administration fee charged upon setting up the customer agreement
- An annual lease service fee (Lease agreements only) charged on the anniversary of the lease agreement to cover the cost of servicing the agreement
- An invoice payment fee charged for agreements paid by invoice rather than direct debit. This is set at a percentage of the invoice value to cover the cost of manually processing such invoices
- A novation fee which is charged if Propel is asked to transfer the agreement to a new hirer
- An option to purchase fee (Hire Purchase (HP) agreements only) is charged at the end of the natural term of the agreement, typically with the last instalment payment

2.2.2 Costs in the case of default

Default costs are outlined in Propel's Terms of Business, which are available on its website and communicated to customers before their agreement.

They include:

- A late payment fee which is charged to reflect the associated administration associated with failure to make a scheduled payment
- A termination fee which is charged when Propel is obliged to terminate an agreement due to non-payment
- A debt collection fee which is charged when Propel is required to employ an agent to collect monies on its behalf or to arrange repossession of its goods

2.2.3 Communication of Costs

Standard costs are included in Propel's Terms of Business, which are published on Propel's website and made available to customers in advance of any agreement.

2.2.4 Determination of costs

Propel's pricing model follows the industry standard. The pricing matrix is based on the customer's credit risk profile and asset type to determine the level of security, associated risk and size of the lend.

Propel's Pricing Committee periodically reviews and agrees fees and charges.

2.2.5 Control on overall costs

Propel applies a cap to the customer interest rate. This is typically up to 20% but may be 30% for smaller transactions. On an extraordinary basis, Propel may approve higher interest charges.

2.3 Cost Reductions

2.3.1 Cost reducing factors

Customers choosing longer repayment terms will typically pay more in total because the amount of capital outstanding to Propel reduces more slowly.

Regulated Hire Purchase

Customers have a statutory right of full or partial early settlement.

Full settlement - Customer must pay the outstanding balance less any rebate for early settlement. The customer is entitled to a rebate for early settlement calculated by a prescribed formula.

Partial settlement – Customer may make one or more payments in partial early settlement. Outstanding capital will be reduced by the amount paid and any rebate for early settlement.

A customer has the right to hand back an asset back as part of a voluntary termination at any point before the final repayment under the agreement is due, provided they have paid 50% of the total amount repayable (including interest and fees). The customer will have no additional liability apart from the return of the goods.

Unregulated Hire Purchase

Propel allows customers to settle unregulated HP agreements early and receive a rebate on future interest due, which lowers the total cost to the customer.

2.4 Total Price

2.4.1 Expected Total Price

The expected total price is documented clearly at the outset to all customers, with all Propel's agreements stating the fixed amount of each repayment and the total number of repayments due under the agreement, along with any applicable fees.

Typically, the expected total price payable by customers equals 100% of the total cost of the underlying asset(s) being financed (less any deposit payment or initial rental), plus interest and fees.

Interest

- Propel interest rates are fixed for the duration of the customer's agreement
- Typically, the interest rate range is between 5% and 20% APR, depending on the distribution channel and Propel's assessment of the security provided by the underlying asset

Fees

- A document fee is payable. The amount is determined by channel, partner or pricing matrix. For unregulated customers and larger more complex transactions, fees may exceed these parameters to reflect other costs such as valuation or bespoke legal work.
- HP product: standard option to purchase fee
- Lease product: annual service fee

2.4.2 Defaulting Customers

Propel does not apply late payment interest to Regulated Customers who are in arrears. We do however charge a late payment fee of up to £60 per agreement to cover the administration costs of contacting such customers and helping bring their accounts up to date. For clarity, this late payment charge may be applied at each instance of a customer falling into arrears.

Where a customer is unable to continue to make the contractual payments on their account, Propel reserve the right to terminate the agreement, charge an administration fee of £50 and repossess the leased equipment.

There may be other non-financial costs associated with these circumstances, including adverse data reported to Credit Reference Agencies (CRAs) and, in limited cases, consequences of legal proceedings to enforce the debt.

Propel takes steps to ensure that customers in arrears are not charged an excessive and unreasonable overall cost for the product. This includes implementing mitigation measures as documented in its collections, Write-off and default & Default Policies.

2.4.3 Vulnerable Customers

Propel does not apply any differentiation for Vulnerable Customers with the costs calculated as above.

Propel supports all identified Vulnerable Customers in line with its Vulnerable Customers Policy.

3. Investment and operating costs

3.1 Investment costs

Propel offers well established products in a mature market, with limited new product development.

Any developments, service improvements and reviews that Propel makes are aimed at increasing the efficiency and competitiveness of its product, rather than adding additional costs to serve customers.

3.2 Operating costs

Propel has a clearly defined fee structure that covers the upfront cost of onboarding a customer agreement, as well as any costs during the agreement and when it is closed. The fees have been calculated based on an analysis of the average time and resources required in each area.

4. Market Comparison

4.1 Market Position

Propel operates in a competitive & established market, with proven demand and a significant range of choices of products & providers available to consumers.

4.2 Pricing, features and benefits of comparable competitor products

Propel's products are market standard, competitively priced and provide comparable benefits to competitors who operate in a similar target market.

5. Assessment Outcome and Rationale

5.1 Assessment Outcome

Propel considers that its products, as designed and distributed, offer fair price and value to customers.

5.2 Assessment Rationale

Propel's assessment is based on several key factors, including:

- Offering fixed rate finance with predictable monthly payments
- Providing market-standard products at a fair price
- Having a simple application process with quick decision-making, usually within 4 to 38 hours
- Providing customer service following the agreement through a dedicated account manager and customer service team, which is highly regarded in the market

6. Associated Documentation and Evidence

To complete this assessment, Propel considered the following evidence:

- Assessments of products and distribution channels
- Documented policies for credit underwriting, complaints handling and vulnerable customers
- Governance and oversight structure that includes monitoring customer interactions, distribution partners and product performance

Get in touch

For more details

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