

Target Market

SMF Hire Purchase Product



To support our introducers to offer our products to the right customer segments, SMF (“we”) have created this target market document that will help you to understand who this product is targeted at and where it may not be suitable for some of your customers.

It is your responsibility under the Consumer Duty to ensure you fully understand this product and the target market it has been designed for and only offer to that sector of your customer base.

Product

Hire Purchase (HP) Agreement

This product is designed to support the purchase of a vehicle with the intention of owning the vehicle outright at the end of the loan agreement. This product is not suitable for customers who are requiring a vehicle for a short period or are looking to change vehicles on a regular basis or who are not looking to own the vehicle at the end of the hire period.

Although this is a single product, we have different loan amounts and customer rates depending on the risk cohort they fall into.

There are two main customer specific rules that will differentiate the specific offer made to an applicant.

1. Rate of the agreement is based on a scorecard linked to credit risk criteria. No influence can be made to change this rate from an introducer, the scorecard determines the risk and the subsequent rate offered to customers.
2. The loan amount will change depending on the customer affordability. Some other rules like customer age can impact the loan amount we offer to a customer.

Vehicle types

The main audience for our products is customers who have a vehicle need in their day to day lives, as such the core vehicles we finance are practical for their daily needs. We do not finance prestige or luxury vehicles as we see this outside of our appetite.

Customer

Our target customer is in the Near-prime segment which we define as customers with some historic adverse credit or limited credit histories, who are able to show some stability in their finances to be able to fund responsibly and support the customers current needs. Our product is not suitable for prime customers or customers with significant current financial difficulties, which we manage through score cut-offs.

We make our lending decisions based on a risk grade score that are designed to fit within our target segment, with our credit score being built on both market data and our historic customer data. To make sure we keep within our target segment we have both a higher and lower score cut-off, meaning if a customer scores above our higher limit, our analysis predicts they are likely to be able to get a better product offer in the market so we will decline to offer our product to that customer.

Product characteristics & vulnerability

This product is designed to meet the need of our target customers, these are likely to include some customers with characteristics of vulnerability. It is your responsibility to identify customers who may show characteristics of vulnerability and inform SMF as part of the application process to allow our lending decision and communications to take into account these characteristics.

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Characteristics of vulnerability could include:

- Language barrier (English not first language)
- Historic adverse credit
- Lack of financial understanding

In the example of language barrier, SMF may add an additional approval step to speak to the customer directly to make sure they fully understand the agreement, the key financial numbers, and their liabilities within the agreement.

As our target market is customers in what we define as the near-prime sector, we assess customer taking into account their previous credit history including recency of credit and credit repayment, and to help support any potential financial shocks, we include a financial buffer over and above their disposable income calculation.

A more detailed breakdown of the customer and product rules can be found in the Introducer Guide which supports this document.

Introducer commitment

SMF only work with introducers who work with panel of lenders. With our target segment, we know potential applicants may get a better product offering from other lenders that target a prime customer. It is important for our introducers to offer products fit for the customers' needs, SMF will also review all our introducers on a regular basis to confirm we only receive applications that fit within our target market.

As part of our regular introducer reviews, we will further review not only adherence to our policies and our introducer agreement, but we will review key metrics to help to monitor we are delivering good customer outcomes to our customers. We monitor areas including product mix, asset (SQ) complaints, conversion rates, processing times and any feedback on customer interactions, to help identify adherence to this product.

Our assessment of value

As part of the design of our product, SMF have a robust assessment process which analyses a wide range of characteristics through market data and our internal customer data to determine the product is fit for the customer sector we are targeting. This is reviewed regularly as part of the SMF governance process.

Our fair value assessment includes the following five key metrics:

Metric:	Summary:
Design & processing	Cost of building this product and the processing of applicants, including systems, third party data, distribution and underwriting requirements to analyse customers suitability for this product
Borrowing	Costs associated with external funding requirements to support the offering of this product to applicants
Service delivery	Costs of managing customers through the life of the agreement including collections, complaints, and general customer services
Product performance	Costs and losses associated with arrears and potential non-payment of loan agreements, fraud, loss of assets
Customer demographics	The interest rate of the product takes into account the above metrics and the demographics of our target customer as detailed in this document

SMF have signed off through the relevant governance process that this product is suitable for the target sector highlighted in this document.

If you require any further information about this product, please contact your account manager.