Flock Limited: Fair Value Assessment
Premium Finance: Close Brothers

This Fair Value Assessment (FVA) has been conducted in accordance with the Financial Conduct Authority's (FCA) Product Governance rules (PROD 4) and the Insurance Conduct of Business Sourcebook (ICOBS). It covers our Premium Credit offering manufactured by Close Brothers.

This combined assessment reflects the shared core product structure and capacity provider for both segments. However, where relevant, we provide segment-specific analysis to ensure a comprehensive evaluation of fair value.

1. Product Information

- Product Name: Commercial Lines product-Running Account Credit Agreement
- Manufacturer: **Close Brothers**
- Distributor: Flock Ltd
- Date of Assessment: 19/03/2025
- Review Frequency: Quarterly

2. Product Summary

- The product is designed as a running account where after a successful application, Close Brothers Premium Finance ("CBPF") pays Flock directly to finance the customer's insurance premium and the customer then repays this amount plus interest over the agreed term to CBPF.
- **New Policy Bind Process:** The premium finance process begins with informing the customer or broker about available financing options, including rates, deposit requirements, and the need for financial documentation. Financial statements or alternative forecasts are collected before binding, ensuring compliance with finance house requirements. A 20% deposit invoice is issued to the customer, while an internal invoice for the remaining 80% is created for reconciliation. The finance application, including customer details and financials, is submitted to the finance house, which then sends documentation for the customer to sign, establishing direct debit details. Finance monitors any follow-up requests and ensures timely signing. Once the first instalment is paid, the premium is released to Flock within 28 to 45 days, and reconciliation is completed. If the customer fails to pay or provide necessary information, the process is cancelled, instalments are refunded, and the deposit is retained to cover time on risk.
- **MTA Process:** The MTA process begins with Finance generating an MTA invoice as part of the standard process, occurring every 30 days or as required. Once issued, the invoice is submitted to the finance house via its portal. If the MTA amount is high enough to trigger additional checks, Finance liaises with the premium finance house and coordinates any required information with the broker or customer. After approval, the finance house releases the associated funds within 28 to 45 days, depending on the provider. Finally, Finance reconciles the released premium against the policy to ensure accuracy.
- **Cancellation Process - Pre-Funds Released:** If a customer misses an instalment payment, the premium finance facility and Credit Control register the failure, giving the customer 30 days to make the payment. A second payment attempt is made by the finance house after 10 days, with Finance monitoring the outcome. Seven days before the final deadline, Flock issues a Notice of Cancellation (NOC) to the customer. If payment is still not received by day 30, the finance house

marks the contract as "Not Taken Up," returning any collected funds to the customer. Flock then calculates the cancellation, deducting the appropriate amount from the deposit before refunding any remaining balance.

- **Cancellation Process - Post Funds Released:** If a customer misses an instalment payment, the finance house and Credit Control register the failure, triggering a 30-day window for the customer to make payment. A second payment attempt occurs 10 days later, monitored by Finance through daily examination of the Close Brothers portal as part of credit control checks. If the payment remains outstanding, Flock issues a NOC seven days before the final deadline. On day 30, the finance house makes a final payment attempt. If unsuccessful, the finance house calculates the cancellation value and requests payment from Flock. Flock then returns the premium to the finance house to finalise the cancellation process.
- For detailed process walkthrough, please refer to the Notion Page (for POG only - to be removed before publishing FVA in the website)

3. What customer need does the product satisfy

- The Premium Finance Product allows customers in the target market to spread the costs of an underlying annual General Insurance product.

4. Target Market Statement

The following describes the characteristics of the target market for this product;

- Purchasers of Flocks Commercial Motor insurance products, including Sole traders and partnerships of less than 4 partners bound to Admiral who require finance to spread the cost of their General Insurance product, which is needed for business purposes, and has pro rata or short rate cancellation terms and: a. do not want to pay for the premium in a lump sum payment; and/or b. do not have access to: cash to pay the premium in fullLess experienced customers who are borrowing for the first time as well as more experienced borrowers
- Customers who have a range of ability to understand the Premium Finance Product and therefore may require additional support from the credit broker

Not the Target Market:

Customers outside the Commercial Lines Premium Finance target market are:

- Those who do not need/want finance to facilitate the payment of their General Insurance product premiums, and can pay for it in one lump sum payment.
- Those that would generally have access to 0% finance; credit cards with a lower APR than the Premium Finance Product; other low or interest free borrowing.
- Those who wish to spread the cost over less than 3 months or more than 12 months.
- Customers wishing to borrow an amount so low that it triggers the “minimum credit charge”.
- Customers wishing to finance any type of insurance that falls outside of the General Insurance pricing definition (and therefore is more than 12 months in length).

5. **What are the product limitations?**

- Product is provided via Flocks broker network and linked to an underlying insurance product.
- Funds are advanced to Flock not the customer.
- The Premium Finance Product makes the cost of General Insurance products more expensive.
- If the customer cancels their General Insurance policy and there is a shortfall between the amount owed on the CBPF credit agreement and the amount refunded from the insurer the customer is liable for and must pay the shortfall.
- If the customer wishes to settle the Premium Finance Product early - the customer will not receive an interest rebate should they exercise their right to repay early, either in part, or in full.
- If the customer cancels their General Insurance product and there is no value in the General Insurance product so no refund is provided to CBPF to clear the outstanding debt.

6. **Customers for whom the product is not appropriate.**

- Customers outside the UK.
- Customers who are under 18.
- Customers who have been bankrupt or have no access to credit.
- Customers who do not have a UK bank account.
- Customers who cannot afford the monthly payments.
- Customers who are not purchasing a linked motor fleet product.

7. **Vulnerable Customers**

- Customers with characteristics of vulnerability are within the target market. The objectives of those customers are consistent with those of non-vulnerable customers. Vulnerable customers can benefit from the product in the same way as non-vulnerable customers.

- The broker is required to assess whether an applicant may be vulnerable and promptly inform lock if a Borrower is considered to be a vulnerable consumer as defined by the FCA, so that the MGA can inform Close and Close may provide the Borrower with such reasonable arrangements and/or assistance that may be necessary to facilitate him/her in his/her dealings with Close in accordance with the Applicable Laws;

8. **What is Flock's role in the distribution of the products**

- Obtain appropriate information from Close Brothers as manufacturer so that Flock has the necessary understanding of the products or services it distributes.
- Understand the characteristics of the product or service
- Understand the identified target market
- Consider the needs, characteristics and objectives of any customers with characteristics of vulnerability
- Identify the intended distribution strategy
- Ensure the product or service will be distributed in accordance with the needs, characteristics and objectives of the target market

9. What are manufacturer and distributor sharing obligations?

- Close Brothers must provide adequate information in good time to enable distributors to meet their own obligations.
- Flock must obtain sufficient, adequate, and reliable product information from the manufacturer.
- Flock must, upon request, provide relevant information, including, where appropriate, sales information, information on cancellations, and information on the regular reviews of their distribution in a timely manner.

10. Value Assessment

- The Premium Finance Product provides customers with the benefit of being able to spread the cost of their General Insurance product. This benefit is significant to customers who cannot afford or do not wish to pay for insurance in one lump sum payment and will support monthly budget planning.
- Customers with characteristics of vulnerability are in the target market and any increased risk of foreseeable harm is mitigated by the bespoke processes implemented by Close to support those customers.
- The minimum level of interest to be charged to the customer (which reflects the cost of funds, bad debt provisioning, distribution and operating costs and an appropriate level of profit of the Premium Finance Product) is set by CBPF (known as the "Net Rate").
- Flock has the ability to determine their commission (payable by the customer) (known as the "Broker Commission") and CBPF has in place controls, price monitoring and customer outcome monitoring to manage the final price charged to customers (known as the "Gross Rate") (together the "CBPF Pricing Model").
- There is a range in Gross Rate chargeable for the Premium Finance Product. A primary reason for this range is the variance in costs incurred by us in the setup and administration of the Premium Finance Product. Other reasons include:

  1. the cost to serve particular customer types

  2. previous payment performance of customers

  The total potential cost of the Premium Finance Product, including contingent fees are explained to customers at two further stages of the customer journey so that customers can make an informed choice about whether this product meets their financial objectives:

    - As part of pre-contract credit information explaining the cost of borrowing, fees, and terms of the Premium Finance Product.
    - Post application, as part of the Premium Finance Product "Welcome Pack' which includes a copy of the credit agreement for signature. CBPF charge a Default Fee in the event of default. If the default is not remedied by the customer within the required timeframe, the credit agreement for the Premium Finance Product may then be cancelled, and a further Cancellation Fee charged. Where the cancellation of the credit agreement is due to missed payments, the Default Fee is waived. We will continue to review the fair value of the full range of Gross Rates, in line with target market segments, and will be in contact with Brokers where we believe there is a conflict with our assessment.

The CBPF Pricing Model will be subject to an annual Fair Value Assessment review and CBPF maintains absolute discretion to set the maximum level of the Gross Rate payable by the customer (Net Rate + Broker Commission) and to amend this as needed from time to time.

The current rates have been summarised as follows:

- Net Rate: 4.1%
- Gross Rate: 4.5% - 5.5%
- Broker Commission: 0.4% - 1.4%

11. Action taken to ensure the product represents Fair Value to the end customer?

- Reviewed the total value chain for the customer.
- Flock have set a premium finance rate in accordance with Flock's pricing policy and deliver fair price and value outcomes.
- We have satisfied ourselves that our remuneration is commensurate with the value and the cost of the services provided as a distributor of this product.
- We have considered carefully the work done in distributing premium finance, both operationally through staff costs (sales calls, payment queries and finance reconciliations) and systems costs.
- We will notify Close Brothers if there are any concerns around the total Fair Value Assessment when all elements are considered. These could include the total APR paid, the level of fees or commission, or where small premiums lead to higher APRs.
- We will ensure that the product meets the needs of the underlying customer and ensure that all disclosures about benefits, costs, risks, and limitations, including the fact that premium finance makes insurance more expensive, are in place in line with regulatory requirements that allow the customers to make informed decisions about whether the product meets their needs when choosing instalment finance.

12. Regulatory Compliance

This FVA has been conducted in compliance with:

- FCA PROD 4 rules on product governance
- ICOBS requirements for insurance product information and fair value
- The Insurance Distribution Directive (IDD)

We confirm that this product:

- Meets the needs, objectives, and characteristics of the target markets
- Offers fair value to customers within the identified target markets
- Is distributed through appropriate channels to reach the target markets

13. Conflicts of Interest

Potential conflicts of interest are managed consistently across both segments:

- Premium Finance: Close Brothers is the option, but brokers can use their own facilities.

14. Comparison Assessment

Our Research suggests premium finance rates for UK commercial fleet insurance typically range from 3.5% to 7.0% per annum, varying by provider and customer creditworthiness.

It seems likely that rates are influenced by market conditions, such as the Bank of England's base rate of 4.5% as of March 2025. The evidence leans toward rates being charged by Flock and Close Brothers “Gross rate” being competitive, but exact figures depend on individual agreements and are not publicly disclosed by most providers.

15. Fair Value Conclusion

As a result, Flock has concluded that the Premium Finance Product offers fair value to vulnerable customers as they receive the equivalent value and benefits as non-vulnerable customers.

16. Ongoing Monitoring and Review

We commit to:

- Conducting quarterly reviews of product performance for both segments
- Monitoring key indicators (default ratio, complaints rate, cancellation rate)
- Annual review of this FVA
- Ad-hoc reviews triggered by significant market changes or regulatory updates

Analysis of Premium Finance Rates for UK Commercial Fleet Insurance

Research into premium finance rates reveals a lack of publicly disclosed, standardized rates, as these are often tailored to individual customers based on creditworthiness, policy size, and negotiation. Historical data and industry reports suggest that for personal insurance, rates can range from 10% to 20% per annum, but for commercial insurance, particularly for large fleets, rates tend to be lower, typically between 3.5% and 7.0% per annum.

To estimate rates for specific providers, we examined companies known for offering premium finance in the UK, such as Premium Credit, Close Brothers Premium Finance, Direct Premium Finance, Bexhill UK Funding, and Keys Premium Finance. These companies are authorized and regulated by the Financial Conduct Authority (FCA), ensuring compliance with UK financial regulations.

Historical data indicates that rates were typically pegged to 1-year LIBOR plus a spread of approximately 180 basis points (1.8%).