# Target market determination

# Product: Domestic premium funding

**Date of this TMD**

This Target Market Determination (**TMD**) is made on, and takes effect from, 5th October 2021.

**The purpose of a TMD**

A TMD seeks to help consumers obtain appropriate financial products. In it, the issuer considers the design of the financial product concerned (including its key attributes) and determines the appropriate target market for the product – that is, the class of consumers for whom the product would likely be consistent with their likely objectives, financial situation and needs[1].

A TMD also specifies the conditions and restrictions on distribution of the product that make it likely that the consumers who acquire the product are in the appropriate target market[2].

**Issuer**

This TMD is issued by Principal Finance Pty Ltd ABN 49 008 081 712, ACL 391746 and Premium Funding Pty Ltd ABN 34 057 306 171 as subsidiaries of PF BidCo Pty Ltd ABN 35 646 214 262 trading as Arteva Funding (together **we, our, us**).

**Product concerned**

This TMD applies to our domestic premium funding loan product (**the product**).

**Application of this TMD**

Domestic premium funding means funding of premiums for "personal lines insurance", that is, insurance taken out for personal, domestic or household purposes. The main classes of such insurance are home building insurance, hobby farm insurance, strata insurance, contents insurance, personal liability insurance[3], life insurance, sickness and accident insurance, disability insurance, personal valuables insurance, travel insurance and insurance of a vehicle, boat or other asset used for personal rather than business use.

However, TMDs are not required for credit facilities under the terms of which the credit is, or must be, applied wholly or predominantly for business purposes[4]. Accordingly, this TMD will not apply where more than 50% of the credit provided is to be applied to pay premiums for insurance taken out for business purposes[5].

This TMD also does not apply if the credit provided plus fees and charges exceeds $500,000[6].

**Limitations of this TMD**

This TMD assesses the suitability of the product for its intended market. That assessment is of necessity very general in nature. Accordingly, this TMD does not make an assessment of the product's suitability for any consumer in particular, or taking into account such a consumer's particular circumstances.

This TMD is not intended to provide financial advice. Consumers should consult their broker or financial advisor when making a decision about acquiring the product.

This TMD is not a disclosure statement, not does it explain or summarise the product's terms and conditions. Consumers should refer to the credit contract's terms and conditions when making a decision about the product.

This TMD does not form part of the credit contract, nor does it affect or change a consumer's contractual relationship with us in any way. As to that relationship, refer to the terms and conditions of the credit contract.

**The class of consumers that comprises the target market for the product**

The target market for the product is consumers who wish to pay an insurance premium for a personal lines insurance policy in instalments rather than a single up-front payment.

No consumers within the target market are excluded on the basis that they would not receive any benefit from the product, or that the product is not suitable for them[7]. For example, because the product is a basic loan product, there are no consumers who lose benefit under it because of their individual circumstances, or who are acquiring a risk investment product that is inappropriate for their risk tolerance level[8]. Also, as explained below, the product remains beneficial even for consumers with modest financial means.

However, consumers who wish to obtain a loan to fund the premiums for two or more policies, some of which are taken out for business purposes, are, by definition, excluded from the target market if more than 50% of the credit provided is to be applied to pay premiums for business-purposes insurance[9].

**The product and its key attributes**

The product is a simple loan repayable in instalments, generally 10 or 12 equal monthly instalments, being a loan to a consumer to pay a premium (or premiums) for a personal lines insurance policy (or policies) [10].

That design cannot be usurped, as the loan cannot be diverted to paying anything other than a premium because, by the credit contract's terms, the loan moneys must be paid to the consumer's insurance broker, or to the relevant insurer, for the purpose of paying the premiums funded.

We consider there is nothing unfair, unsuitable or onerous in any attribute of the credit contract, whether it be the proposed credit charges to be applied (which vary within a range dependent on credit risk), the terms and conditions, or the contract's readability or understandability. The loan is generally a modest amount, and the contract duration is typically also short in time length (10-12 months) [11], the payments are generally evenly spread, and there is no large final payment to be made[12].

Indeed, by law[13] there is a non-recourse condition enshrined in the credit contract and applicable to most consumers[14], and which states that the consumer has no liability to make any further payments if the insurance policy is cancelled. This condition operates to the clear advantage of the consumer concerned, as it means that we cannot pursue the consumer for any shortfall arising after policy cancellation.

**The likely objectives, financial situation, and needs of the target market**

*Objectives*

The product has been designed for consumers who wish to pay an insurance premium (or premiums) for a personal lines insurance policy (or policies) in instalments rather than a single up-front payment. The consumer's likely objective in acquiring the product is therefore obvious, namely to defer the payment of premium that would otherwise have to be paid immediately in full. The characteristics of the product plainly match that objective.

*Financial situation*

The financial situation of consumers of the product will vary, but more than likely they will have reasonable means. That is because, given the nature of the main classes of personal lines insurance listed above, they will be owners of their own home or hobby farm, a strata corporation or a strata unit owner, undertaking travel likely to be of significant cost, or the owners of contents, valuables or recreational vehicles or assets. Those taking out life insurance and income protection lines (such as sickness and accident insurance and disability insurance) are also likely to be self-employed persons of means.

The fiscal reasons for consumers electing to pay a premium in instalments will also likely vary. A consumer may simply desire to apply available funds to other wants. On occasion, a consumer's financial position may mean they are not able to pay a premium in full immediately, or that it will be a burden or hardship for them to pay it in full immediately.

The most likely reason, however, is not the consumer's financial situation, rather the simple convenience, and the aid to budgeting, that is gained by spreading an expense over smaller periodic instalments.

*Needs*

Insurance is generally[15] beneficial to a consumer. Spending on most insurances is not discretionary spending, it is now generally regarded as a "necessity". The product thus assists a consumer to meet their needs in that respect.

Even where a consumer must pay in instalments by reason of their financial situation, it is noted that the only alternative to instalment payment is not to take out the insurance at all. Using premium funding, the consumer can elect to relieve themselves of the burden of immediate payment, yet still meet the need to be insured against the often drastic financial consequences of insured events. Premium funding is, in that sense, beneficial lending.

Likely about half million products have been issued by us in the last 10 years. That significant number tends to demonstrate that the product fulfils a well-founded need for it by consumers in the target market[16].

**Consistency between the target market and the product**

We assess that the product, including its key attributes, as described above, has been designed in a way that is likely to be consistent with the likely objectives, financial situation and needs, as identified above, of consumers in the target market, as identified above, and for whom the product is intended.

In particular, we so assess based on our experience of issuing the product for almost 30 years[17]. In that time, there may have been consumer complaints (or contested debt collection claims) where a consumer has alleged that monies are not owed, or that consent was not given for an agent to acquire the product or for an account to be debited, or otherwise in respect of the administration of the product once issued, but there has never been any material complaint that it was of no or little utility or benefit to a consumer, or operated to the disadvantage of a consumer, or was otherwise not appropriate to the likely objectives, financial situation or needs of a consumer.

**Distribution of the product**

*Distributors*

Distributors of the product are legally obliged to take reasonable steps that will result in, or are reasonably likely to result in, distribution of the product being consistent with this TMD[18].

The product is only distributed by us through insurers (either direct or through their underwriting agencies), being APRA regulated entities, or (as is much more likely) through insurance brokers, being AFSL licensees or their authorised representatives[19]. The clients of, and the services offered by, such distributors are consistent with the target market for the product[20].

There is no facility for a person to obtain the product, either direct from us, or otherwise than above. Accordingly, the distribution method tends to make it certain that the product is distributed consistently with this TMD, and is only distributed to consumers in the target market[21].

*Distribution conditions*

The product must only be distributed by distributors who are previously authorised by us in writing to do so.

Distributors must use reasonable endeavours to only distribute the product to consumers in the target market identified above, and in circumstances where the product is likely to be consistent with the likely objectives, financial situation and needs of the target market as identified above.

Distributors must also use reasonable endeavours to not distribute the product to any consumer –

1. who is not a person desiring the product to assist them to pay an insurance premium
2. who is under the age of 18 years
3. having suspected poor creditworthiness, or known to have bad debts or poor financial means
4. suspected of providing misleading or fictitious premium funding application details or
5. suspected of other or previous fraudulent activity, whether relating to premium funding or not.

All applications for the product must be made via the relevant online application portal or payment gateway[22].

We assess that these distribution conditions are appropriate, and will make it likely that the consumers who acquire the product will be in the target market for whom the product has been designed.

**Reviewing this TMD**

We will conduct an initial review of this TMD one year after it takes effect. That review must be completed by the last business day of October 2022[23].

We will then conduct periodic reviews, and which must be completed no less than every 4 years after the completion of each previous review[24].

We consider that more frequent reviews are unnecessary as, based on our experience of issuing the product for almost 30 years, the risk of the product offending the design and distribution laws is extremely low. Other factors in this assessment apart from our long-term extensive experience in issuing the product, are that the product is a simple loan product, it is not a risk investment, and we have issued it for many years through a proven and reliable distribution network[25].

We will also review this TMD in the event of certain "review triggers", namely –

1. Any material change we propose to make to the design or distribution of the product.
2. Any circumstance that materially changes a factor as taken into account in this TMD.
3. Any change in laws or Government policy impacting design and distribution obligations.
4. Any occurrence of a "significant dealing" as defined under the next heading.
5. Any serious non-compliance with this TMD.
6. Any notification, feedback or complaint (whether from a distributor, consumer or other person), or any other circumstance, which suggests –
    a. the distribution conditions in this TMD are inadequate
    b. the product has been distributed outside the target market as identified above or
    c. the product, including its key attributes, may be (or may have become) inconsistent with the likely objectives, financial situation and needs of the target market as identified above.
7. Any other event or circumstances which suggest this TMD or any of its contents may be inadequate or no longer appropriate or in need of change.
8. Any request from ASIC that we review this TMD.

Where a review trigger has occurred, this TMD must be reviewed within 10 business days.

Where any circumstance has occurred that would reasonably suggest that this TMD is no longer appropriate then, from as soon as practicable, but no later than 10 business days, after we become aware of that, we must not distribute the product unless and until we have reviewed this TMD and also, if the review determines this TMD is no longer appropriate, we have made a new TMD for the product which complies with s.994B[26].

Our Compliance Officer is responsible to carry out any periodic or other review.

He or she must go through this TMD in detail, and make sure it is effective, up-to-date, relevant and robust[27].

Should it appear necessary or desirable, he or she will amend this TMD, and re-issue the amended version.

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Also, should it appear necessary to him or her, he or she may also recommend that we cease offering the product, or cease to distribute it through any particular distributor.

**Monitoring and reporting**

We will continuously monitor that the product is distributed in accordance with this TMD.

All distributors must report in writing to us promptly, and in any case within 10 business days, any complaint relating to the product[28], and also any "significant dealing" in respect of the product[29], which we define as –

a. any non-compliance with the distribution conditions set out above
b. any dealing in the product which is not consistent with this TMD[30]
c. any complaint as aforesaid which relates to the design and/or distribution of the product, or
d. any other event which may suggest any inadequacy in, or any ineffectiveness of, this TMD.

Such reports must include the substance of the complaint, non-compliance, dealing or other event in question, and should also include any other general feedback relating to the product and its performance[31].

Based on our experience of distributing the product for almost 30 years, we do not anticipate any significant dealing of the kind listed, nor do we anticipate many complaints. Therefore, no specific reporting period (or minimum number of occurrences for a report) have been fixed, rather all distributors must report every single such occurrence to us immediately it occurs and, in any event, within 10 business days[32].

If we become aware of a "significant dealing" as defined above in respect of the product, being one that is not consistent with this TMD, we will report it in writing to ASIC as soon as practicable, and in any case within 10 business days, after becoming so aware[33].

**Record keeping**

We will collect and keep complete and accurate records of our decisions (and the reasons for them, and the information relied on) in relation to formulating and reviewing this TMD, and in relation to review triggers[34].

Distributors are also legally obliged[35] to keep records of certain information in relation to the product, namely –

a. the steps the distributor has taken to ensure that its distribution of the product is consistent with this TMD
b. any information that the distributor is required to report to us as set out under the preceding heading (including the number of complaints the distributor receives in relation to the product) and
c. the dates on which the distributor reported to us any of the above.

The records referred to under this heading must be kept for up to seven years[36].

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[1]*Regulatory Guide 274: Product design and distribution obligations*, Australian Securities and Investments Commission, December 2020, para. RG 274.8, <https://download.asic.gov.au/media/5886971/rg274-published-11-december-2020.pdf>. References herein to "RG" with a number are to paragraph numbers of Regulatory Guide 274.

[2]RG 274.9.

[3]Personal liability insurance is rarely a standalone policy, rather it will usually be bundled with property insurance.

[4]*Corporations Act 2001*, s.994B(3)(f), <http://classic.austlii.edu.au/au/legis/cth/consol_act/ca2001172/>, and Corporations Regulations 2001, reg.7.8A.20(9)(b), <http://classic.austlii.edu.au/au/legis/cth/consol_reg/cr2001281/>. Unless otherwise stated, references herein to sections and regulation numbers are to sections of that Act and regulation numbers of those Regulations respectively.

[5]*Regulatory Guide 203: Do I need a credit licence?*, Australian Securities and Investments Commission, October 2017, paras. RG 203.20-203.21, <https://download.asic.gov.au/media/5807183/rg203-published-12-october-2017-20201001.pdf>.

[6]A TMD only applies to a "retail client" as defined in s.761G. One element of the definition is that the price of the product supplied including fees and charges must not exceed a threshold amount, currently $500,000. See s.761G(7)(a) and reg.7.1.18 (price of investment-based financial products) and reg.7.1.19 (value of investment-based financial products). See *also Regulatory Guide 121: Doing financial services business in Australia*, Australian Securities and Investments Commission, July 2013, para. RG 121.29(a), <https://download.asic.gov.au/media/3336163/rg121-published-25-august-2015.pdf>.

[7]In particular, there is no differentiation based on a consumer's life stage: refer to RG 274.75. Nor is there any need to differentiate. For example, adults of all ages own homes with contents, and have attendant insurance needs.

[8]Refer to RG 274.85.

[9]This is the effect of the "target market" being defined in s.994A as comprising a "class" of "retail clients". A consumer as described remains a "retail client" as defined (unless s.761G(7) regarding high value financial products, high worth individuals,

professional investors and certain business-purposes financial products applies), but as no TMD is required in respect of the relevant financial product, such a consumer falls out of the "class" of "retail clients" comprising a "target market".

[10]A single loan may be for premiums payable for a number of policies.

[11]Thus avoiding the "particular consideration" identified in RG 274.91.

[12]Refer to RG 274.77.

[13]Each operating subsidiary has an exemption under s.6(14) of the National Credit Code (being Schedule 1 to the *National Consumer Credit Protection Act 2009*, <http://classic.austlii.edu.au/au/legis/cth/consol_act/nccpa2009377/>, namely, ASIC Instrument [10-1009] in the case of Principal Finance Pty Ltd, and ASIC Instrument [10-1266] in the case of Premium Funding Pty Ltd. They operate to exclude the application of the Code when a "consumer", defined in s.5 of the *National Consumer Credit Protection Act 2009* as a natural person or a strata corporation (in turn defined in s.204 of the Code), obtains a premium funding loan wholly or predominantly for personal, domestic or household purposes. If a policy is cancelled, the exemptions require that the consumer will have no liability to make further payments under either the policy, or the credit contract.

[14]There is not a direct overlap between a "retail client" obtaining a premium funding loan wholly, or 50% or more, for non-business purposes, and a "consumer" under the National Credit Code (see the preceding footnote) obtaining a loan wholly or predominantly for the like purposes. In particular, "retail clients" can include companies, trusts and other entities.

[15]We do not fund vehicle warranty or add-on insurances, having by board resolution resolved not to do so some years ago.

[16]Refer to RG 274.144.

[17]RG 274.78 states that "data and outcomes from previously issued products of a similar nature … should drive an issuer's determination of whether a product feature or attribute affects the product's appropriateness for a target market …"

[18]S.994E(3).

[19]In arranging for a person to apply for the product (s.766C(1)), these persons are "dealing" in the product, and hence engaging in "retail product distribution conduct" (S.994C(1)) in relation to the product.

[20]Refer to RG 274.88, Table 3, 3rd dot point.

[21]S.994B(8)(a), and RG 274.143.

[22]These are the only distribution "channels" available. Refer to RG 274.177(b).

[23]Since this TMD is "made" (that is, effectively issued – see s.1371) on 5th October 2021, the maximum period for the purposes of s.994B(5)(e) is 12 months and 26 days.

[24]Refer to the requirements of s.994B(5)(f).

[25]Refer to RG 274.110.

[26]Refer to the requirements of s.994C(3).

[27]The review must also be conducted in accord with ASIC's expectations in RG 274.154-RG 274.156 so far as applicable.

[28]S.994F(4) and RG 274.217–RG 274.218.

[29]Distributors should note that they are legally obliged to do so under s.994F(6).

[30]S.994F(6) and RG 274.211–RG 274.215.

[31]Refer to RG 274.118.

[32]In other words, the reporting period for the purposes of s.994B(5)(g) is a maximum of 10 business days.

[33]S.994G. The information that ASIC anticipates will be reported to it is set out in RG 274.162, Table 5.

[34]S.994F(1).

[35]S.994F(2)–(3).

[36]S.1101C.

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