Target Market Determination

Mechanical Breakdown Warranty 5000 (MBW 5000) Insurance with optional Tyre & Wheel Insurance

September 2021

What's Inside?

What is a Target Market Determination (TMD)?

A Target Market Determination is a document prepared by Assetinsure Pty Ltd ("Assetinsure"), an Australian general insurance company, that describes the circumstances and needs of consumers for whom our product is intended, as well as those for whom the product is not intended.

A TMD is a new legal requirement that applies to certain retail products sold from 5 October 2021.

This TMD is for our product *Mechanical Breakdown Warranty 5000 Insurance* ("MBW 5000"), distributed through Authorised Representatives of Australian Warranty Network Pty Ltd, trading as AWN Insurance ("AWN"). AWN is acting as Assetinsure's distribution agent.

There are a number of sections to this TMD, each of which is designed to help you understand:

- the legal and regulatory environment in which our products are sold;
- why the product could be relevant to helping you manage financial risk;
- whether you are likely to be inside or outside of our target market;
- some of the questions we need to ask, to help both us and you discern whether our products are right for you;
- our need to continually re-evaluate whether our TMD is appropriate by analysing the data we collect from you; and
- the specific employees of Assetinsure that are responsible for ensuring the TMD remains appropriate for the products we issue.

Not all "extended warranty" products are created equal

In this TMD, we also describe in some detail, the different types of "extended warranty" products that might be made available to you at any selling agent when you purchase a used vehicle, including the products we offer.

Many consumers may not be aware of the significant differences between the various types of "extended warranty" products that might be offered to you at any given time by a selling agent, and these differences are driven by:

- the product issuer (and the government bodies they are, or are not, regulated by);
- the level of coverage provided by the product (i.e., what mechanical repairs are, or are not, covered);

noting also that there has been a lot of negative publicity surrounding these products over the past 5 years or so.

However, as this TMD aims to make clear, not all "extended warranty" products are created equal.

This document aims to provide you with sufficient information to discern whether our product (or some other type of product, or indeed, no product at all) is suitable for you to purchase alongside the purchase of a motor vehicle.

Regulatory and Legal Information

This Target Market Determination (TMD) document has been prepared for the purpose of compliance with the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019.

This TMD document is also intended to comply with the requirements of ASIC[1]'s Regulatory Guide 274, issued on 11 December 2020.

A TMD must be prepared for every product being issued.

Who are we?

Assetinsure Pty Ltd (Assetinsure) is an APRA-authorised general insurance product issuer and holds Australian Financial Services Licence (AFSL) number 488403 with authorisation to issue general insurance products to retail consumers.

Assetinsure provides automotive insurance products for retail consumers purchasing motor vehicles through approved selling agents (i.e., vehicle dealerships and finance brokerages).

[1] ASIC = Australian Securities and Investments Commission, a financial regulator

1. What is Mechanical Breakdown Warranty Insurance?

1.1 Manufacturer Warranties

All vehicles sold new in Australia come with a mandatory manufacturer warranty. The length of the manufacturer warranty varies across manufacturers (and even across models produced by the same manufacturer) but, as of September 2021, most vehicle manufacturers offer a manufacturer warranty on their new vehicles that expires after 5 years or (at least) 100,000 kilometres, whichever occurs first. Some manufacturers go above and beyond these parameters (e.g., 5 years/unlimited kms, 7 years/150,000 kms, etc.) but a few prestige brand manufacturers still provide lesser coverage (e.g., 3 years/100,000 kms). In general, manufacturer warranties provide coverage for all mechanical and electrical components except serviceable items such as oil filters, brake pads and tyres.

1.2 Australian Consumer Law

In addition to coverage under the manufacturer warranty, consumers of new vehicles also have protection against mechanical and electrical breakdowns under the Australian Consumer Law (ACL). Furthermore, both the Australian Securities and Investments Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) have repeatedly sought to underline the fact that the existence of a manufacturer warranty does not reduce or replace a consumer's rights under the ACL (or vice versa). In the case of manufacturers who offer manufacturer warranties of length less than 5 years, consumers' rights under the ACL may be significant before the vehicle is 5 years old.

However, the ACL is less explicit about what coverage is actually provided in the way of consumer guarantees, and for what period of time and/or mileage, but with most vehicle manufacturers now having lengthened their manufacturer warranty to 5 years in Australia (which is a longer duration than for the same vehicles sold new in most other developed countries), it seems unlikely to us that a vehicle that is outside of the manufacturer warranty and more than 4-5 years old will have significant remaining coverage under the ACL.

1.3 Extended Warranties

After a vehicle reaches 4-5 years of age and/or the manufacturer warranty expires, in our view, it no longer has significant coverage for ongoing mechanical and electrical failures under the ACL. However, it is possible to purchase an extended warranty for a used vehicle, provided the vehicle meets certain conditions, primarily as to age and mileage.

The market for extended warranty products in Australia is complex. There are many different products, many different issuers, and not all extended warranty products are created equal. Some products are significantly better than others, and some present lesser value.

Product Issuer

In our view, the entity that issues the extended warranty matters a lot when it comes to overall product quality in the eyes of consumers.

There are three main types of extended warranty product issuer in Australia

a) a general insurance company regulated by both the Australian Prudential Regulation Authority (APRA) *and* ASIC
b) a non-insurance entity with an Australian Financial Services Licence (AFSL) regulated by ASIC (but not APRA) issuing products on their own paper
c) Neither (a) nor (b), typically a vehicle dealership issuing Service Contracts on their own unlicensed paper, but not regulated by either APRA or ASIC

In our view, the quality of an extended warranty product is related strongly to both

- The Issuer's <u>willingness to pay</u> valid claims (and their willingness to offer appropriate dispute resolution services in the event of a disagreement)
- The Issuer's financial <u>ability to pay</u> valid claims (i.e., the Issuer has clear evidence of a strong financial position)

Willingness to pay

General insurers and other non-insurance AFSL holders are both regulated by ASIC and, under ASIC's rules, must offer consumers two-tiered dispute resolution:

i. Internal Dispute Resolution (IDR) - this is a process whereby a consumer, who is not happy with the original decision made by the AFSL holder's staff, can escalate the matter with a more senior and independent person (or committee), internal to the AFSL holder, to formally review the original decision or action the consumer is not happy with.
ii. External Dispute Resolution (EDR) - if a consumer is not happy with the decision made through IDR then they have the option, at no cost to the consumer, of escalating to EDR. All AFSL holders must be members of the EDR scheme run by the Australian Financial Complaints Authority (AFCA). AFCA is an independent government body that provides EDR services specifically for financial products. AFCA's decisions are binding on the AFSL holder.

AFSL holders are incentivised strongly to resolve matters via IDR because the costs to the AFSL holder of an AFCA hearing are significant, and often in excess of any disputed amount. ASIC provides specific regulatory guidance in relation to IDR (and EDR) in their Regulatory Guide RG 165 - available on the ASIC website.

However, AFCA costs consumers nothing and consumers always have the right to proceed to EDR with AFCA if they are not satisfied with the IDR outcome, although AFCA may reject access to EDR if a ruling in favour of the consumer is deemed highly unlikely on the available evidence.

As a result, AFSL holders can be expected to be far more willing to settle disputes via IDR than non-AFSL holders because if the matter proceeds to EDR with AFCA it is a significant cost for the AFSL holder.

Non-AFSL holders (e.g., vehicle dealerships issuing products on their own paper) do not participate in an industry consistent, bespoke and independent EDR scheme that has been designed specifically to deal with disputes arising from their products and so there is no significant redress for the issuer if any unregulated IDR process rejects a consumer's complaint or issue. In these circumstances, consumers are inevitably faced with pursuing the matter through the court system if they wish to take it further (and the cost and time of doing this will be a barrier for many).

Ability to pay

General insurers regulated by APRA must continually demonstrate a very high level of financial strength as a condition of their ongoing insurance licence. All APRA-regulated insurers must hold capital for unforeseen events that is sufficient to ensure their probability of insolvency is much less than 0.5% (i.e., a 1 in 200-year event) over the next 12 months. This is an ongoing mandatory requirement under regulation by APRA.

Such stringent capital requirements are not enforceable for either non-insurance AFSL holders (although ASIC will require reasonable evidence of financial strength) or for unregulated issuers.

In consideration of the above facts, insurance policies are the highest quality extended warranty product, all else equal, because of the dual regulatory requirements of both APRA and ASIC that ensure both the willingness and the ability to pay valid claims.

Only an APRA-regulated insurance company can issue an insurance policy to a consumer in Australia.

Product Grade

There are, in broad terms, three (3) major grades of extended warranty products:

- Exclusion Warranty (generally only offered by APRA-regulated insurers).
- Inclusion Warranty (can be offered by different types of Issuers).
- Discretionary Warranty (generally not offered by APRA-regulated insurers).

In our view, it is also important that any consumer understands the differences between these 3 broad grades of extended warranty and the consequences of choosing one product grade over another.

1.3.1 Exclusion Warranty

These are, in general, the highest quality warranty products. Every mechanical and electrical component is covered except those listed out as excluded.

The excluded components list will, in general, be:

- Relatively short (i.e., only a relatively small number of components will not be covered, and these excluded items are largely consumable components such as oil filters, brake pads and tyres); *and*
- Similar, if not identical, to the excluded components under the corresponding manufacturer warranty for the vehicle.

Manufacturer Warranties are themselves exclusion warranty coverage and an Assetinsure "MBW Market Value" exclusion warranty effectively extends the manufacturer warranty for a further period (measured in years and/or an odometer limit, whichever is reached first) with no decrease in coverage.

Other sub-grades of exclusion warranty may be formed by applying individual claim caps:

- e.g., an exclusion warranty with a per claim cap of $5,000 - we call this "MBW 5000".
- e.g., an exclusion warranty with a per claim cap of $3,000 - we call this "MBW 3000".

In general, exclusion warranty products are typically only issued by APRA-regulated general insurers, not by vehicle dealerships or other non-insurance entities.

1.3.2 Inclusion Warranty

These are, in general, of lower quality than exclusion warranty products, but may still be of acceptable quality in the case of an older, higher mileage vehicle, provided the consumer has a reasonable understanding of what they are and are not covered for.

With inclusion warranty, only those components listed out as being covered are included. Anything not listed as included is excluded by implication.

The main issue with inclusion warranties is that the list of included, covered components may appear deceptively long and give the impression of comprehensive coverage. However, modern vehicles are complex machines and consist of a great many mechanical and electrical components, and the excluded components (which will, in general, not be listed out explicitly in policy documentation) will inevitably include many components that are potentially subject to failure.

Nevertheless, so long as consumers understand that inclusion warranties provide some protection, but are by no means comprehensive, then the product may suit consumers who are only looking for a partial reduction in the risk of unexpected repair bills.

If an inclusion warranty product is issued by an APRA-regulated insurer then the consumer will enjoy all the same advantages that exclusion insurance warranty provides by virtue of having an insurer as the product issuer (as above, the willingness *and* ability to pay claims).

Unregulated Issuers

Issuers who are not regulated by either APRA or ASIC (e.g., vehicle dealerships) can issue extended warranty on their own paper.

When unregulated issuers issue an unregulated product, it is most often referred to as a Service Contract. In terms of coverage, most Service Contracts are likely to be a form of inclusion warranty. Service Contracts are deemed, under section 763E of the Corporations Act (2001), as an "incidental product" sold with the main purchase (i.e., the used vehicle) and are therefore exempt from regulation by ASIC under the ASIC Act (2001).

While the coverage under a Service Contract may appear, *prima facie,* to be the same as for inclusion insurance warranty, there might also be some associated limitations or restrictions to be aware of. including

- no access to sanctioned IDR or EDR processes – so if your claim or other complaint is rejected, you have limited recourse to taking matters further
- no insight into the financial strength of the issuer and the likelihood it will stay in business and continue to be able to pay claims
- no sanctioned cancellation and premium refund process
- little or no "cooling off" rights
- the consumer is tied to servicing their vehicle at an outlet of the issuer's choosing (and possibly more regularly than manufacturer requirements)

1.3.3 Discretionary Warranty

The term "discretionary" means the issuer is not obliged to pay eligible claims as they have the discretion to either deny or reduce claims, even if they are valid claims.

Most discretionary warranty products fall into two distinct categories

- Discretionary Risk Products (DRPs) - only sold by non-insurance AFSL holders (who are regulated by ASIC)
- Other discretionary products - the issuers of these products are not regulated by either ASIC or APRA[2]

DRPs

DRPs are most often sold by a specialist warranty business that does not have an insurance licence but does have an AFSL. Non-Insurance AFSL holders are not regulated by APRA, but they are regulated by ASIC - and this makes a significant and positive difference relative to unregulated issuers.

Being regulated by ASIC means a business selling DRPs has to meet reasonable standards in terms of the products and services it provides to consumers, and a business selling DRPs must also provide IDR and EDR services comparable to those provided by APRA-regulated insurers. In particular, and importantly, a business selling DRPs under their AFSL must be a member of the AFCA scheme, which provides EDR services for AFSL holders and consumers. DRPs are likely to be reasonable products but they are still discretionary in nature - valid claims are not guaranteed to be paid.

However, if a valid claim is rejected, the DRP consumer still has the right to lodge a dispute with the EDR service (AFCA) and, if found in the consumer's favour, this is binding on the AFSL holder.

Other discretionary products

While most Service Contracts are "inclusion" warranties, some products may still be discretionary in nature, and it may be difficult to discern the discretionary nature of the warranty from any product wording provided with the warranty.

However, it may also be the case that recently introduced Unfair Contract Terms (UCT) legislation has effectively removed unregulated discretionary Service Contracts from the Australian extended warranty market.

[2] Service Contracts are generally subject to an exemption from compliance with the ASIC Act (2001) under section 763E of the Corporations Act (2001).

1.4 What types of extended warranty does Assetinsure offer?

Assetinsure only offers exclusion insurance warranty, the highest quality type of extended warranty.

Assetinsure's extended warranty product offerings are:

- "MBW Market Value" (i.e., a continuation of the same level of coverage as under the manufacturer warranty).
- "MBW 5000" (i.e., the same as MBW Market Value except there is a cap on individual claims of **$5,000** including GST).
- "MBW 3000" (i.e., the same as MBW 5000 except there is a cap on individual claims of **$3,000** including GST).

Newer, lower mileage used vehicles are eligible for MBW Market Value coverage.

As the vehicle ages and the mileage increases, the lower sub-grades of cover (i.e., MBW 5000 and MBW 3000) start to apply. This helps keep the cost of the warranty in proportion with the declining value of an ageing vehicle (whose risk of warranty claims is also increasing with age and mileage).

This TMD document only deals with Assetinsure's "MBW 5000" product.

Separate TMD documents deal with Assetinsure's "MBW Market Value" and MBW 3000" products.

1.5 What is Tyre and Wheel Insurance?

Tyre and Wheel Insurance (TWI) is an optional extra cover that can be included within a MBW Insurance policy purchase.

TWI provides insurance for punctured and/or damaged tyres, and structurally damaged wheels caused by road and driving hazards.

However, TWI does not provide coverage for:

- purely cosmetic damage (e.g., scuffing of wheels and/or tyres on a kerb); and
- tyres that simply wear out; the tyre must be road-legal at the time of any claim.

All TWI policy terms are for 12 months only (but the TWI policy is annually renewable).

The consumer can continue to renew their TWI policy indefinitely (i.e., beyond the term of the MBW policy if desired).

TWI provides:

- Unlimited puncture repair claims per year.
- Up to 4 tyre replacements per year; up to $500 per tyre.
- Up to 2 repairs (or replacements) to wheels per year; up to $1,500 per wheel.

Replacement tyres will, in general, be the same dimensions as those insured under the TWI policy and any replacement wheels will be as closely matched to the original wheels as possible.

1.6 Risk rating

All Assetinsure's automotive insurance products are risk rated, including MBW and TWI. Risk rating means that premium rates are proportional to the expected claims cost risk for any given policy. In turn, risk rating means that low-cost risks do not cross-subsidise high-cost risks. Risk rating results in "fair" premiums for every consumer.

A pricing regime where all consumers pay the same or similar premium, regardless of risk, is termed "community rated". Community rating means low-cost risks cross-subsidise high-cost risks. In many cases, this results in "unfair" outcomes, with low-risk consumers often getting very little, if any, value from a community rated product.

1.6.1 MBW premium rates

Assetinsure's MBW premium rates increase as/by:

- The starting odometer increases (i.e., higher mileage vehicles get charged more, all else equal).
- The more complex, luxurious and/or high performance the vehicle is, the more MBW premium is charged, all else equal.
- The term of the policy increases (i.e., the longer the term of the policy, the higher the MBW premium, all else equal).
- The Make of the vehicle (e.g., Japanese and Korean brands are charged lower premiums than other brands, all else equal, whereas US and European brands tend to be charged higher premiums, all else equal).

In addition, 4WD vehicles are charged higher MBW premiums compared to 2WD vehicles, all else equal.

What this means is that any consumer purchasing a higher mileage, higher performance, large European vehicle with 4WD will pay a significantly higher MBW premium than for a lower mileage, smaller 2WD Japanese/Korean vehicle, as befits the expected MBW claims costs associated with each vehicle.

1.6.2 TWI premium rates

Assetinsure's TWI premium rates increase as/by:

- The Aspect Ratio (i.e., "profile") of the tyre decreases (i.e., lower profile tyres, which are more readily damaged, and therefore also more readily lead to structural damage to wheels, are charged higher TWI premiums, all else equal).
- The Width (mm) of the tyre increases (i.e., wider tyres cost more to replace so are charged higher TWI premiums).

In addition, self-supporting tyres (i.e., "run-flat") are charged more than ordinary tyres because they are especially prone to damage, and they are also more expensive relative to an ordinary tyre of the same profile and width.

What this means is that any consumer purchasing a vehicle that has narrow, high profile, ordinary tyres (e.g., a small Toyota) will pay significantly less for the TWI option than a consumer purchasing a vehicle with low-profile, wide, run-flat tyres (e.g., a large BMW), as befits the expected TWI claims costs associated with the different tyres.

Note that tyre dimensions are generally embossed on the side wall of any given tyre, and they will most likely be in the following format:

www / aa R dd

www = tyre width (in mm)
aa = Aspect Ratio (% of tyre width)
dd = wheel diameter (in inches)

e.g., A tyre rated as **225 / 45 R17** has a width of 225mm, an aspect ratio of 45% and a wheel size of 17 inches. "R" = radial.

2. What is a Target Market Determination?

2.1 In general

A Target Market Determination (TMD) is a document that describes clearly (and in some detail):

- The class of retail customer the retail product is intended for, and the "negative market"; that is, who the product is not intended for.
- Any conditions or restrictions on distribution of the retail product.
- Any events or other triggers that would suggest the TMD is no longer appropriate.
- The various types of information needed to enable the person who made the TMD to identify promptly whether a review of the TMD is required.
- The maximum period that can elapse between a TMD and any subsequent review of the TMD to ensure it remains appropriate.
- A specified reporting period (e.g., quarterly) that reports on the numbers of complaints about the product in the reporting period.
- The positions within the product issuer (i.e., insurer) that are responsible for reporting TMD related information to the person(s) who made the TMD.

A product issuer must also make its TMD available to the public free of charge and keep records of the decisions made in relation to changes to the TMD document.

In general, a TMD should focus on the following aspects:

- customer type and characteristics;
- customer needs and objectives; and
- customer risk profile.

Under new legislation, a TMD must be made available by the issuer for every product they issue. If there is no TMD for a product then it must not be issued.

2.2 Assetinsure "MBW Market Value" product specifically

2.2.1 Intended Market

Vehicle-related

The intended market for Assetinsure's "MBW 5000" extended warranty insurance product are those Australian consumers who are purchasing a used vehicle from an Authorised Selling Agent that satisfies <u>all</u> the following criteria;

i. the vehicle was first registered new in Australia (i.e., is not a "grey import");
ii. on the date of sale of the used vehicle, the used vehicle is now either;
   a. outside of the Manufacturer Warranty that was included with the sale of the vehicle when it was new; or
   b. within 12 months and/or 10,000 kms of the expiry of the Manufacturer Warranty coverage.
iii. on the date of sale of the used vehicle, the used vehicle is <u>at least 4 years old, but not more than 12 years old;</u>
iv. on the date of sale of the used vehicle, the total distance travelled since new is <u>more than 120,000 kms but not more than 160,000 kms;</u>
v. the original Price When New (according to Glass's Guide data) is <u>not more than $160k;</u>
vi. the vehicle is for private use only (i.e., not for commercial gain or business use, including taxi, ridesharing, tool of trade and courier);
vii. any vehicle not branded under marques listed in **Appendix A** to this TMD (i.e., exotic, discontinued, low volume)

Glass's Guide is an automotive data reference publication that is relied upon by many participants in the automotive and insurance industries. Vehicle attributes and specifications are available in granular detail using Glass's National Vehicle Identification Code (NVIC), which identifies every version, of every vehicle, on Australian roads (provided the vehicle is not a "grey import").

Assetinsure's MBW products provide coverage that commences immediately following the later of:

- the expiry of the selling agent's 90-day/5,000 km's Statutory Warranty;
- the expiry of the Manufacturer Warranty;

and concludes after a further 12, 24 or 36 months (depending on the policy term chosen by the consumer, in conjunction with an assessment of their needs).

In our view, Assetinsure's "MBW 5000" product provides coverage for repairs that are unlikely to be guaranteed under the Australian Consumer Law (ACL) and therefore the risk of any overlapping protection or guarantee the consumer might otherwise be entitled to under the ACL is expected to be insignificant.

Consumer-related

The target consumer for the "MBW 5000" product is a person who requires;

- a high level of certainty of coverage of unexpected vehicle repairs not guaranteed under any other consumer rights and a level of coverage almost comparable to a continuation of the original manufacturer warranty; and
- a high level of certainty related to the cost of unexpected vehicle repairs (i.e., the MBW policy premium only, as no policy excesses apply) for a specified period (i.e., the policy term);
- access to a no-cost, industry consistent, bespoke IDR process (and EDR through AFCA) as opposed to the high-cost court system.

A highly certain cost of unexpected repairs means the consumer can budget more accurately for the cost of unexpected repairs (i.e., via a monthly premium instalment plan or by factoring in the cost of the upfront premium into the overall vehicle purchase, depending on their preference for funding the MBW premium).

However, the consumer purchasing MBW 5000 also accepts that, given the age and mileage of their vehicle (up to 12 years old and more than 120,000 kms since new), and to keep the premium commensurate with the older vehicle value, there is a $5k[3] cap on any individual MBW claim, which may not provide full coverage in all situations.

On such occasions, there may be a need for a co-contribution from the consumer towards the full repair cost. However, the $5k claim cap will typically be around 3-4 times the average MBW claim size, so those occasions where the claim size exceeds the $5k cap are expected to be relatively rare.

On the other hand, the consumer can also be reasonably assured that they are unlikely to be able to obtain a repair of the same quality at a lower cost at any other professional repairer. The expertise and knowledge of the MBW claim team in identifying networks of repairers who provide the most cost-effective repairs, without compromising on quality of repair, is one of the implicit benefits of Assetinsure's MBW 5000 product. Keeping claim costs under control also ensures significant premium rate increases are unnecessary.

Servicing Requirement

The target consumer is also someone who is prepared to incur the cost of complying with the manufacturer's ongoing, regular vehicle servicing requirements, as a condition of the MBW policy. The target consumer understands that failure to maintain the vehicle in accordance with the manufacturer's requirements as to age, mileage and serviceable items will jeopardise the coverage provided under the MBW policy (and the consumer will be required to sign off on that understanding as a condition of purchase of the MBW policy). This regular maintenance must be undertaken by a qualified and certified automotive professional.

The term "unexpected vehicle repairs" refers to those that would have been covered under the manufacturer's warranty and that will continue to be covered under Assetinsure's MBW product. Unexpected vehicle repairs do not include normal fair wear and tear, servicing, and maintenance items such as oil and oil filters, brake pads, tyres, and other serviceable items, as per the manufacturer warranty.

TWI option

TWI cover can be added to any MBW policy at the option of the consumer.

However, TWI is not available on a stand-alone basis (other than via ongoing renewal). TWI cover is suitable for any consumer that wants to reduce the risk of unexpected tyre and wheel repair costs. Unexpected tyre and wheel repair costs are not otherwise part of MBW policy coverage (nor are they covered under a Manufacturer Warranty).

To get coverage for damage to tyres and wheels the consumer must select the TWI option during the sales process.

Repairs to tyres and wheels are, in general, lower cost and therefore expected to occur below the policy excess for a comprehensive motor insurance policy.

This means there is little or no overlap between coverage under the TWI option and any comprehensive motor insurance policy. TWI has no policy excess and making TWI claims does not affect future TWI premiums on any future renewal (unless the tyre/wheel size changes).

2.2.2 The "Negative" Market

MBW Market Value is not available and/or not suitable for, and is not intended for;

Vehicle-related

- any vehicle not first registered as new in Australia (i.e., a "grey import");
- any vehicle branded under marques listed in **Appendix A** to this TMD (i.e., exotic, discontinued, low volume);
- any vehicle sold by any party other than an authorised selling Agent approved by Assetinsure for distribution of the MBW product;
- any used vehicle that still has significant unexpired cover under the Manufacturer Warranty (see also 2.2.1 above);
- any used vehicle that is less than 4 years old or more than 12 years old;
- any used vehicle that has less than 120,001 kms or more than 160,000 kms on the odometer as at the date of sale of the used vehicle;
- any vehicle that has a Glass's Guide New Price greater than $160k;
- any vehicle that is expected to be used for business or commercial gain purposes, including taxi, ridesharing, tool of trade, and courier services.

---

[3] including GST

Consumer-related

- a consumer who is unconcerned by the unpredictable nature of unexpected vehicle repair costs (perhaps by virtue of being in a strong financial position);
- a consumer who has already arranged any other form of extended warranty coverage for the vehicle;
- a consumer that is not prepared to service the vehicle regularly in accordance with the manufacturer's ongoing requirements (as to time/mileage intervals between servicing and the nature of servicing required at each point in the life of the vehicle);
- a consumer that intends to undertake servicing of their own vehicle and to not use the services of a qualified and certified automotive professional; and
- a consumer who intends to travel extremely high annual mileage that would likely lead to breaching the 250,000 km limit early in the policy term (i.e., the chosen policy term should reasonably reflect the likelihood of breaching the 250,000 km limit late in the chosen term, if at all).

Note that a vehicle insured at the limits of eligibility under the longest policy term (i.e., a 36-month policy on a vehicle with an initial odometer reading of 160,000 kms) would still be able to travel an average of 30,000 kms per annum for 3 years before breaching the 250,000 kms odometer limit.

3. Conditions and restrictions on distribution of the MBW product

3.1 MBW policy must be sold through an authorised Selling Agent

A key condition of the distribution is that any Assetinsure MBW policy can only be sold through an authorised selling agent that is acting as a Corporate Authorised Representative (CAR) of our distribution partner. The authorised selling agent must comply with all terms and conditions of the CAR Agreement with our distribution partner (which in turn meets the requirements of the DDO legislation).

Assetinsure's MBW products must be sold under the General Advice Model provisions of the Corporations Act (2001) with the accompanying General Advice Warning to consumers. The General Advice Warning simply means the advice given by the CAR is not tailored to the consumer's specific circumstances; it is general in nature only.

The vehicle *and* the consumer must satisfy <u>all</u> the TMD criteria set out in section 2.2.1 above and must <u>not</u> satisfy <u>any</u> of the criteria in section 2.2.2 above.

3.2 MBW product specific conditions

3.2.1 Refunds and Transfers

The consumer must be told of the need to advise our distribution partner (or Assetinsure) if they sell their vehicle before the expiry of the MBW policy term so that they can be offered the appropriate partial MBW premium refund for any unused policy exposure. The premium refund at any time will be based on the number of complete months remaining in the original policy term, using the "Rule of 78". Examples of premium refund calculations and the refund formula are shown in the Product Disclosure Statement. Alternatively, the unexpired portion of the MBW policy can be transferred to the new owner, after payment of a transfer fee ($75).

The new owner is then covered by the original MBW policy until it expires.

3.2.2 Consumer sign off on key policy conditions

The consumer will be required to sign off their understanding of key conditions relating to the MBW policy, including;

- the requirement to continue to have the vehicle serviced in accordance with the manufacturer's specified regular servicing requirements, at their expense, by an appropriately qualified and certified automotive professional, to ensure full coverage under the policy. Coverage may be reduced or excluded for failure to meet manufacturer-specified servicing requirements, if the lack of servicing relates to the failure of any covered component;
- the items excluded from coverage under the MBW policy (as per the manufacturer warranty);
- the $5k per claim cap and the potential for a co-contribution payment if they want the repair completed in full;
- the trigger of early expiry of the MBW policy if the odometer exceeds 250,000 kms; and
- a signed declaration as it relates to the odometer reading on the date of purchase.

As noted above, the failure to service the vehicle in accordance with the ongoing manufacturer requirements could result in a reduced or declined claim if it is reasonable to conclude that the lack of maintenance contributed to the component failure.

For example, if the engine oil and oil filter are not changed in accordance with the manufacturer's servicing requirements as to timing, mileage, and specified serviceable items, by a qualified technician certified to carry out such work, it would be reasonable to expect that, under normal circumstances:

- a claim for a faulty electric window motor would still be accepted; and
- a claim for engine valve failure would be declined.

Our MBW products are not suitable for, and are not intended for, consumers who intend to service their own vehicles.

3.3 Why our distribution conditions are expected to help us reach the target market

The most important distribution conditions described in this TMD document that drive consumers either into, or away from, our target market are as follows:

- the eligible (and ineligible) vehicles are clearly defined and controlled by the automated underwriting process; it will not be possible to purchase MBW for an ineligible vehicle (i.e., one outside of the target market)
- the age and mileage restrictions to qualify for different product sub-grades (over which there is no ability for either a consumer or salesperson to influence or choose) are clearly defined and controlled by the automated underwriting process; it should not be possible to purchase the incorrect sub-grade of MBW product, provided the correct odometer reading is provided at inception (and we will be requiring consumers to sign-off on the accuracy of the odometer reading provided)

- Further to the previous bullet, we will also be checking the consistency of ongoing odometer readings with the original odometer reading at policy inception whenever we are processing a claim (see also section 4 of this TMD document below)
- The MBW product is sold through a Corporate Authorised Representative (CAR) who must meet certain standards and conditions related to the sale of our MBW products (including their conduct and being up to date in all training requirements related to the sale of our products). CARs are fully trained and are able to answer consumers' questions which will assist consumers in identifying whether our MBW product meets their needs.
- Further to the previous bullet, our sales process will ask consumers particular, but general, questions that enable us to identify key consumer and vehicle attributes that, in turn, help determine whether the consumer and vehicle are likely to be in the target market (or not)
- The consumer is required to sign-off their understanding and acceptance of certain aspects related to the policy (see also 3.2.2 above) as a condition of policy acceptance and these aspects are discussed and explained throughout this TMD document as well as by the CAR during the sales process (which includes the 4-day deferral period)
- We have set out an explanation within this TMD document of the various grades of extended warranty products available (exclusion, inclusion and discretionary), the pros and cons of each, and gone on to state categorically that we only sell exclusion insurance warranty under three sub-grades (MBW Market Value, MBW 5000 and MBW 3000). Exclusion insurance warranty ensures a high level of coverage and therefore far greater certainty in future unexpected repair costs.
- We have clearly articulated the areas of exclusion in terms of components, usage (i.e., non-private) and odometer limits that trigger early policy expiry (250,000 kms)

In addition to those aspects of assessing whether a given consumer (and their vehicle) is in the target market, that can be automated within an eligibility and pricing algorithm, we need to ensure that we ask, and then obtain and electronically record responses to, specific questions.

- Confirmation of odometer reading at purchase.
- Confirmation of the consumer's understanding of maximum implied kms per annum available to get full time-based coverage (a calculation of maximum kms per annum to reach 250,000 kms can be automatically generated based on starting odometer and selected term).
- Confirmation that the consumer is not intending to service the vehicle themselves.
- Confirmation of the consumer's understanding of the need to service the vehicle in accordance with the manufacturer's ongoing requirements as to age, odometer and frequency, to ensure full coverage under the policy.
- Confirmation that the consumer does not already have any other form of warranty or guarantee over the vehicle.
- Confirmation that the vehicle will not be used for business purposes (i.e., private usage only).

Recording of responses to these questions/attestations will be critical in responding to (and nullifying) any future complaints from consumers about matters related to;

- disputes arising from initial odometer inaccuracy;
- early warranty expiry due to reaching the 250,000 kms limit before the policy term expired;
- servicing obligations;
- usage (private vs. business); and
- duplication of coverage.

4. Triggers that indicate inappropriateness of current TMD

The most likely triggers of a review of the TMD for MBW are currently viewed as (in no particular order of priority):

- Rulings by the ACCC, ASIC or any other regulatory body, and/or legislative changes, that suggest the Australian Consumer Law would now provide adequate consumer protection against unexpected repair costs for vehicles that currently satisfy 2.2.1(ii) and (iii) above.
- Adverse findings or rulings by the ACCC or ASIC in relation to Assetinsure's competitors under the ACL or under use of Product Intervention Powers.
- Manufacturers unilaterally extending Manufacturer Warranties beyond 5 years (in which case the product would adapt to those specific changes - e.g., only provide cover for vehicles aged 7-10 years as at the sale date).
- Substantial shifts in the proportion of vehicles which are non-autonomous, fossil fuel powered (i.e., Petrol, Diesel, LPG) towards electric vehicles and/or semi/fully autonomous vehicles.
- The takeover of one or more of the ineligible marques by a manufacturer that is currently eligible (and vice versa).
- Excessive claim declinature rates for reasons of coverage exclusion and/or breach of servicing conditions.
- Excessive consumer complaints relating to claims and/or policies.
- High early term policy cancellation rates (including during the 30-day cooling off period).
- Low and/or declining loss ratios
- Consistently high sales volumes relative to dealer/broker vehicle sales volumes (or indeed a rapid increase in sales)
- High incidence of lengthy delays between the total loss event date and the claim lodgement date (and the claim lodgement date and final settlement)

Loss ratios and assessing "value"

In assessing the "value" provided by our MBW policy, we believe that a loss ratio (i.e., the expected claim payments over the life of the policy as a percentage of the premium excluding government charges) does not capture all aspects of value for an MBW policy.

While we agree that loss ratios ought not to be too low (e.g., below 20%), it also needs to be borne in mind that the cost of any claims paid by us to repairers on consumers' behalf will very likely be lower than what consumers could negotiate for themselves, noting that;

- all repair work performed under an MBW policy is guaranteed until at least the expiry date of the MBW policy;
- we buy these services in bulk and can get discounted prices on parts and labour (and get prioritised service); and
- our claims staff are experts in ensuring we get maximum value for money with the repair work we purchase.

These actions also help keep both loss ratios *and* future MBW premiums lower.

Odometer at purchase

One area of particular scrutiny is around the odometer at purchase. There is a degree to which Assetinsure relies upon the accuracy, veracity, and honesty of the selling agent (and the consumer) in providing the true odometer reading and the consumer signing a declaration to state that the odometer reading satisfies 2.2.1(iv) above.

Early term claims with odometers well in excess of the odometer provided at sale date will be monitored closely, as will any claim that arises at any time in the policy term where the implied annual mileage rate between the date of sale and date of claim is excessive. Any claim event that leads to a strong suggestion of an odometer at sale in excess of the requirements of 2.2.1(iv) above will be investigated thoroughly. Excessive incidence of such cases attributed to any individual selling agent may lead to termination of the CAR Agreement with that selling agent.

Dishonest representation of the initial odometer reading may result in either additional MBW premium being charged, or to the policy being terminated by us. If we are forced to terminate a policy for this reason, personal details identifying the consumer will be retained so that we can automatically prevent that consumer from purchasing insurance of any kind with us in the future.

5. Information and data required for TMD assessments

As noted in section 4 above, there are a range of events that may indicate that the TMD is becoming, or has become, inappropriate.

The types of information that need to be collected and analysed to determine whether the TMD continues to be appropriate (or otherwise) fall into two major categories per the following table

Internal Data	External Data
Copies of any time-stamped and digitally signed dialogue between the selling agent and the consumer recorded during the sales process.	Media Releases, Consultation Papers and other documents released by ASIC, the ACCC, APRA, AFCA, the ICA etc. relating to Add On Insurance.
Claims Incurred versus Premium Earned (i.e., emerging earned loss ratio).	Rulings or Findings by the above regulators in relation to Assetinsure or Assetinsure's Add On Insurance competitors.
Earlier term cancellation rates (including during the 30-day cooling off period).	Changes to Manufacturer Warranty durations by time and mileage (available in Redbook and Glasses data).
Claim declinature rates (and reasons).	Substantial shifts towards non-fossil fuel powered vehicles (evident in VFACTS new vehicle sales data).
Excessive durations between date of event and date claim reported, and/or date claim reported and date claim finalised.	New brands, exiting brands, and brand takeovers by other brands.
Poor market penetration rates for Japanese and Korean marques (which could manifest as a portfolio mix of Japanese and Korean vehicles significantly less than 70% - the mix in the current Australian fleet)	
Any policy sales to consumers and/or vehicles outside of the TMD (should never happen if underwriting algorithms are implemented correctly).	
Regulatory breaches, complaints, IDR and EDR cases.	

Ongoing routine monitoring of claims experience (including claim frequency, average claim size, loss ratios and any delays in claims processing), cancellation rates, claim declinature rates, complaint rates and penetration rates would be carried out at least quarterly.

Data that enables enumeration of the above metrics must be provided by the distributor to Assetinsure. Data in relation to complaints that are escalated to IDR (and EDR) must enable Assetinsure to meet the requirements of ASIC's RG 271 (specifically section 271.182).

In relation to complaints and regulatory breach data, the distributor must provide an adequate description of the complaint or breach to enable an assessment of the broad category of complaint/breach (to check on any common themes emerging) and an estimation of the severity/seriousness of the complaint/breach, as well as key date and status data to enable enumeration and/or analysis of the delays between notification, acknowledgement, and resolution/outcome (per RG 271 as noted above).

6. TMD Review Frequency

Initially, the TMD should be reviewed quarterly, considering the information collection and analysis carried out under 5. above.

Over time, and as all parties gain comfort with our TMDs, this is expected to ease out gradually to an annual review (at a minimum), notwithstanding that any incidental and/or unexpected event that could reasonably be expected to impact on the Add On Insurance sector could also trigger a one-off review of the TMD.

7. Responsible Persons

Assetinsure's Head of Automotive Business is responsible for collecting data and information (per 5. and 6. above) and providing timely analysis and reporting thereon (per 6. above) to Assetinsure's Chief Executive Officer.

Appendix A Ineligible vehicles (MBW 5000)

The following table sets out the current listing of ineligible manufacturers

ALPINA	KENWORTH
ALPINE	KOENIGSEGG
ASTON MARTIN	KTM
BENTLEY	LAMBORGHINI
BLADE	MACK
CATERHAM	MAHINDRA
CATERPILLAR	MAN
CHERY	MASERATI
CHEVROLET	MAYBACH
DENNIS EAGLE	MCLAREN
DODGE	MERCEDES-BENZ TRUCKS
ELFIN	MORGAN
FERRARI	OPEL
FOTON HEAVY	PROTON
FOTON	ROLLS-ROYCE
FUSO	SAAB
HDT	SCANIA
HUMMER	SMART
HYUNDAI COMMERCIAL VEHICLES	TATA
INTERNATIONAL	TESLA
IVECO	UD TRUCKS
IVECO BUS	VOLVO COMMERCIAL
IVECO TRUCKS	WESTERN STAR
JMC	ZX AUTO

If the vehicle marque is in the list above it is not eligible for MBW 5000.

The above list shows extremely high-performance exotic brands, brands that have ceased to exist, brands where spare parts availability is questionable given very low historical sales volumes.

Even if a vehicle is not sold under the brands listed above it can still be excluded (per section 2.2 above) because of

- Age (less than 4 years, or more than 12 years, since first registration)
- Odometer (less than 120,001 kms or more than 160,000 kms)
- Glasses Guide Price When New (Maximum allowed is $160k)