



Association of British Insurers

Insured and Non-insured Extended Warranties and Service Contracts

A Voluntary Good Practice Guide for Providers

February 2011

Foreword

Insured extended warranties and non insured service contracts provide valuable protection for customers against the cost of breakdown and repair and, for non insured contracts, the service and maintenance of household items and vehicles.

However, the benefits and limitations of, and differences between, insured extended warranties and service contracts are not always well understood by customers. This can mean that customers end up buying a product that either does not provide the cover they thought, or is one that does not fully meet their needs.

Extended warranties are available through both insured and non-insured ("service contract") arrangements, both of which are within the scope of the 2005 Domestic Electrical Goods Order (the Order only covers domestic electrical goods). Generally, these products offer similar benefits to the customer, normally covering repair or replacement, with some insured warranties providing additional cover such as accidental damage, and some service contracts providing additional benefits such as scheduled maintenance and servicing. Some ABI members belong to groups of companies providing both insured and non-insured extended warranties and these are generally offered on very similar terms and conditions. The availability of both insured and non-insured extended warranties has provided more choice for customers. Whilst service contracts fall within a different regulatory regime from insured warranties, they have to adhere to a variety of other consumer protection standards such as the Distance Selling Regulations and the Sale of Goods Act. Such contracts are also subject to the requirements of the point of sale Extended Warranties Order (as for insured warranties), including the requirement to disclose what measures, if any, have been put in place to ensure that the obligations of the provider can be met in the event of the provider's default.

Additionally, our members who have involvement in both areas would not make any distinction in the type or quality of service provided to customers relative to the nature of the contract as an insurance or service contract.

This voluntary guidance sets out examples of good practice for all insured extended warranty and service contract providers to help ensure customers are able to choose the right product for their needs.

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Introduction

The purpose of the guidance

The guidance sets out a series of high-level standards that all Insurers and service contract providers should seek to achieve in order to ensure customers are able to make an informed decision about the right product for their needs.

There are already a number of regulations governing the sale of insured extended warranties. The Financial Services Authority's (FSA) Treating Customers Fairly (TCF) initiative requires that:

- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly. (TCF Outcome 2)
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale (TCF Outcome 3)
- Where consumers receive advice, the advice is suitable and takes account of their circumstances (TCF Outcome 4)
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect (TCF Outcome 5)

This guidance does not seek to replace existing regulations, but aims to ensure customers are treated fairly by ensuring that all providers are aware of their responsibilities. Through existing regulation, the insurer has an obligation to ensure that the customer – via the retailer - is provided with sufficient information so that they may choose the right product for their needs.

The recommendations in this guidance are for all providers of extended warranties (including service contracts). The guidance is intended to strengthen existing practice in the way warranties and service contracts are regulated.

The status of the guidance

This is not FSA-confirmed guidance. This is a voluntary good practice guide for providers of insured extended warranties and service contracts.

Authors of the guidance

The guidance has been developed by the Association of British Insurers (ABI), in consultation with:

- Society of Motor Manufacturers and Traders
- Motor Codes Ltd

Implementation

The guidance is available to all providers of extended warranties and service contracts. We encourage stakeholders to implement the necessary changes by 31 August 2011. The guidance is not intended to be applied retrospectively to policies sold before this date.

Review and update

Although the guidance is voluntary, we believe that the high-level standards it sets out will help ensure that customers are treated fairly, and as such should be implemented as far as practicable by all providers. The ABI will therefore carry out regular reviews to establish how widely it is being implemented, and to identify any new issues that need to be incorporated into it, after consultation with stakeholders.

Format of the guide

The guidance establishes standards in the following areas:

- Product design
- Point of sale
- Policy details
- Complaints
- Training and competence
- Post-point of sale & renewals

Treating Customers Fairly

FSA regulation requires firms to be able to demonstrate that they are consistently delivering fair outcomes to customers. The table below illustrates the responsibilities for insurers and service contract providers under the six TCF outcomes:

Table 1

TCF Outcomes	Insurers/Services Contract Providers Responsibility
<p>Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.</p>	<p>It is the insurer’s responsibility to ensure that their corporate culture ensures fair treatment of customers.</p>
<p>Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.</p>	<p>Insurers should ensure their products are designed to meet customers’ needs and continue to review products accordingly. The products should also be tested to ensure the correct customer needs have been identified.</p>
<p>Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.</p>	<p>It is the insurer’s responsibility to ensure the retailer is provided with sufficient product information, and is kept appropriately informed if any changes are made to the product cover.</p>
<p>Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.</p>	<p>Insurers should provide retailers with all necessary information to help inform the customer on the suitability of the product.</p>
<p>Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.</p>	<p>It is the responsibility of the insurer to ensure they provide clear information on the product’s key features to the retailer.</p>
<p>Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.</p>	<p>Insurers should ensure customers are provided with clear routes of redress, and flexibility in their ability to change product, make a claim or switch providers.</p>

Extended warranties for brown, grey and white goods (electrical appliances)*

* Brown and White electrical goods include televisions, washing machines and dishwashers. Grey goods cover computers and games consoles.

PRODUCT DESIGN

Current regulation:

Providers of insured extended warranties are subject to the following regulations on product design:

- Treating Customers Fairly Outcome 2

Annex A provides more detail on existing regulations.

Good practice

The recommendations set out in Table 2 strengthen existing practice under the current requirements for providers of insured extended warranties: there is no one-size-fits-all solution to promoting insurance, but you can maximise the impact by adopting the principles set out below.

Table 2

Aim: to ensure that customer needs are at the heart of the product design process

Providers should consider the use of qualitative research and/or quantitative data to assess the needs of target markets

Providers should work closely with retailers to design products and assess whether the retailer has the capability to understand the product.

Providers should consider employing external agencies and focus groups to assess the suitability of a product and customer understanding of the product and accompanying literature.

Providers should ensure that where policies are offered on a single premium basis, the retailer is informed of the customers' right to cancel the policy at any time during the term and obtain a refund.

Providers should identify complaint trends (through information provided by the retailer) to help develop/improve product design.

POINT OF SALE (POS)

Current regulation:

Providers of insured extended warranties (brown, grey and white goods only) are subject to the following regulations on the information that must be made available to customers at the point of sale:

- Treating Customers Fairly Outcomes 2 & 3
- Insurance Conduct of Business Sourcebook (ICOBS) 2.2
- The Domestic Electrical Goods Order 2005

Annex A provides more detail on existing regulations.

Good practice

The recommendations set out in Table 3 strengthen existing practice under the current requirements for providers of insured extended warranties:

Table 3

Aim: To improve transparency at the point of sale so that customers can make an informed decision about the suitability of a product

Providers should ensure that the retailer is provided with the following key contract terms of the product(s) to help inform the customer of the key features of the product at point of sale:

- the period of cover
- the limit of sums covered
- the level of cover provided
- the total premium disclosure
- whether the product is a contract of insurance, a service contract or a guarantee
- cancellation rights, and the manner of calculating refunds, including any cancellation fees
- whether the product requires the customer to have their vehicle serviced by a particular dealer group or by a manufacturer authorised repairer and may require the customer to pay diagnostic costs in the event that a repair is not covered by the warranty (motor warranties only)

Providers should provide retailers with additional sources of information about extended warranties where available.

Providers should take steps to ensure there is appropriate governance in place for financial promotions used by retailers.

POLICY DETAILS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on policy details:

- Treating Customers Fairly Outcome 3
- Insurance Conduct of Business Sourcebook (ICOBS) 6.1
- The Domestic Electrical Goods Order 2005
- The British Retail Consortium Code of Practice for Extended Warranties

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 4 strengthen existing practice under the current requirements for providers of insured extended warranties:

Table 4

Aim: Customers should be presented with clear terms and conditions, and information about their cancellation rights when purchasing an extended warranty

Providers should take steps to ensure that the product documentation clearly lists all of the features which are covered.

Providers should ensure that the terms and conditions of each product clearly state what the product covers and list any key exclusion(s) which may apply.

Providers should ensure that cost information is presented clearly so that customers can easily understand all fees and any taxes that apply.

Providers should ensure that the policy details provide clear information on how and when to claim (examples of acceptable/unacceptable claims may be helpful), and provide customers with a list of Frequently Asked Questions.

Providers should ensure that the policy details provide clear information on cancellation rights and the method of calculating refunds.

COMPLAINTS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on redress:

- Insurance Conduct of Business Sourcebook (ICOBS) 6.2
- The Domestic Electrical Good Order 2005
- Dispute Resolution Complaints (DISP) 1

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 5 strengthen existing practice under the current requirements for providers of insured extended warranties:

Table 5

Aim: Customers should understand the routes to redress

Providers should identify complaint trends (through information provided by the retailer) to help develop/improve product design.

TRAINING AND COMPETENCE

Current regulation:

Providers of insured extended warranties are subject to the following regulations on training and competence:

- Treating Customers Fairly Outcome 4
- Insurance Conduct of Business Sourcebook (ICOBS) - 6 Annex 1
- SYSC 5.1.12

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 6 strengthen existing practice under the current requirements for providers of insured extended warranties:

Table 6

Aim: Customers should be satisfied that sales staff are trained and competent to assist them in their purchase of extended warranties

Providers should check retailers' training material for factual accuracy.

POST-SALE / RENEWALS / CANCELLATIONS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on post-sale services and/or renewals:

- Treating Customers Fairly Outcome 6

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 7 strengthen existing practice under the current requirements for providers of extended warranties:

Table 7

Aim: To remove any unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint

Providers should take steps to ensure the retailer is provided with adequate information on whether and how the customer is able to:

- Change the product
 - Switch provider (and effect a cancellation)
 - Make a complaint
 - Cancel the policy
 - Obtain a refund
-

Providers should make retailers aware of refunds available and the basis on which the amount of any refund is calculated (to help retailers inform the customer).

Extended warranties – all other warranties*

* All other warranties include furniture, motor and others. Service contracts also fall within this category.

PRODUCT DESIGN

Current regulation:

Providers of insured extended warranties are subject to the following regulations on product design:

- Treating Customers Fairly Outcome 2

Though uninsured extended warranties are not regulated to in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules.

Annex A provides more detail on existing regulations.

Good practice

The recommendations set out in Table 8 go beyond existing requirements for providers of warranties/service contracts:

Table 8

Aim: to ensure that customer needs are at the heart of the product design process

Providers should consider the use of qualitative research and/or quantitative data to assess the needs of target markets

Providers should work closely with retailers to design products and assess whether the retailer has the capability to understand the product.

Providers should consider employing external agencies and focus groups to assess the suitability of a product and customer understanding of the product and accompanying literature.

Providers should ensure that where policies are offered on a single premium basis, the retailer is informed of the customers' right to cancel the policy at any time during the term and obtain a refund.

Providers should identify complaint trends (through information provided by the retailer) to help develop/improve product design.

POINT OF SALE (POS)

Current regulation:

Providers of insured extended warranties (brown, grey and white goods only) are subject to the following regulations on the information that must be made available to customers at the point of sale:

- Treating Customers Fairly Outcomes 2 & 3
- Insurance Conduct of Business Sourcebook (ICOBS) 2.2 & 6.1
- The Domestic Electrical Goods Order 2005

Though uninsured extended warranties are not regulated in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules.

Annex A provides more detail on existing regulations.

Good practice

The recommendations set out in Table 9 go beyond existing requirements for providers of warranties/ service contracts:

Table 9

Aim: To improve transparency at the point of sale so that customers can make an informed decision about the suitability of a product

Providers should ensure that the retailer is provided with the following key contract terms of the product(s) to help inform the customer of the key features of the product at point of sale:

- the period of cover
 - the limit of sums covered
 - the level of cover provided
 - the total premium disclosure
 - whether the product is a contract of insurance, a service contract or a guarantee
 - cancellation rights, and the manner of calculating refunds including any cancellation fees
 - whether the product requires the customer to have their vehicle serviced by a particular dealer group or by a manufacturer authorised repairer and may require the customer to pay diagnostic costs in the event that a repair is not covered by the warranty (motor warranties only)
-

Providers should provide retailers with additional sources of information about extended warranties where available.

Providers should take steps to ensure there is appropriate governance in place for financial promotions used by retailers.

POLICY DETAILS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on policy details:

- Treating Customers Fairly Outcome 3
- Insurance Conduct of Business Sourcebook (ICOBS) 6.1
- The Domestic Electrical Goods Order 2005
- The British Retail Consortium Code of Practice for Extended Warranties

Though uninsured extended warranties are not regulated in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 10 go beyond existing requirements for providers of warranties/ service contracts:

Table 10

Aim: Customers should be presented with clear terms and conditions, and information about their cancellation rights when purchasing an extended warranty

Providers should take steps to ensure the product documentation clearly lists all of the features which are covered.

Providers should ensure that the terms and conditions of each product clearly state what the product covers and list any key exclusion(s) which may apply.

Providers should ensure that cost information is presented clearly so that customers can easily understand all fees and any taxes that apply.

Providers should ensure that the policy details provide clear information on how and when to claim (examples of acceptable/unacceptable claims may be helpful), and provide customers with a list of Frequently Asked Questions.

Providers should ensure that the policy details provide clear information on cancellation rights and the method of calculating refunds.

COMPLAINTS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on redress:

- Insurance Conduct of Business Sourcebook (ICOBS) 6.2
- Dispute Resolution Complaints (DISP) 1
- The Domestic Electrical Good Order 2005

Though uninsured extended warranties are not regulated in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules.

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 11 go beyond existing requirements for providers of warranties/ service contracts:

Table 11

Aim: Customers should understand the routes to redress

Providers should ensure customers are made aware of the redress process through information provided to the retailer.

TRAINING AND COMPETENCE

Current regulation:

Providers of insured extended warranties are subject to the following regulations on training and competence:

- Treating Customers Fairly Outcome 4
- Insurance Conduct of Business Sourcebook (ICOBS) - 6 Annex 1
- SYSC 5.1.12

Though uninsured extended warranties are not regulated in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules.

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 12 strengthen existing practice under the current requirements for providers of insured extended warranties:

Table 12

Aim: Customers should be satisfied that sales staff are trained and competent to assist them in their purchase of extended warranties

Providers should check retailers training material for factual accuracy.

POST-SALE / RENEWALS / CANCELLATIONS

Current regulation:

Providers of insured extended warranties are subject to the following regulations on post-sale services and/or renewals:

- Treating Customers Fairly Outcome 6

Though uninsured extended warranties are not regulated in the same way as their insured equivalents, it is good practice for providers to adhere to the same principles and rules.

Annex A provides more detail on existing regulations.

Good practice:

The recommendations set out in Table 13 go beyond existing requirements for providers of warranties/ service contracts:

Table 13

Aim: To remove any unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint

Providers should take steps to ensure the retailer is provided with adequate information on whether and how the customer is able to:

- Change the product
 - Switch provider (and effect a cancellation)
 - Make a complaint
 - Cancel the policy
 - Obtain a refund
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Providers should make retailers aware of refunds available and the basis on which the amount of any refund is calculated (to help retailers inform the customer).

ANNEX A

CONNECTED CONTRACTS

A connected contract of insurance is where a retailer who sells non-motor goods (or services), sells insurance policies that are incidental or complimentary to their business and as such may be exempt from regulation if they satisfy a number of criteria. The exclusion for the seller of the insurance applies to insurance mediation when carried out in relation to an insurance policy that:

- Is for a term of 5 years or less
- Has an annual premium of 500 Euros or less
- Is not a contract of long term insurance
- Covers the risk of breakdown, loss of, or damage to, non-motor goods supplied by the retailer (but does not cover liability risks)
- Is complimentary to the goods supplied by the retailer

FSA Perimeter Guidance manual (PERG) (5.3.7 and 5.11.13).

TCF

Outcome 1	Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
Outcome 2	Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
Outcome 3	Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
Outcome 4	Where consumers receive advice, the advice is suitable and takes account of their circumstances.
Outcome 5	Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
Outcome 6	Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

ICOB5

2.2	Communications to clients - When a firm communicates information, including a financial promotion, to a customer or other policyholder, it must take reasonable steps to communicate it in a way that is clear, fair and not misleading.
6.1	Informing the customer – The customer must be given appropriate information about a policy in order that they can make an informed decision about the product. This includes taking account of the customer’s level of knowledge, the policy terms and its complexity (ICOB5 6.1.7) and providing information on price (ICOB5 6.1.6).
6.2.2	Consumer redress - Before a <u>contract</u> is concluded, a <u>firm</u> must inform a <u>customer</u> of the relevant complaints procedure and the existence of a complaints body (FOS).

SYSC

5.1.12	Sales staff performing regulated activities – In selling an extended warranty, retail staff are performing a 'regulated activity' and should therefore be aware of the procedures they must comply with when carrying out their duties.
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DISP

DISP 1	Firms should deal promptly and fairly with complaints in respect of business carried out in the United Kingdom or by certain branches of firms
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DEG Order 2005	<p>in the EEA.</p> <p>Codified the recommendations made by the Competition Commission in 2003 following their investigation into the sale of extended warranties for DEGs. This means that retailers are subject to the following legal guidelines in relation to their sale of DEGs:</p> <ul style="list-style-type: none">- requirement to display the price of an applicable extended warranty alongside a DEG in store and in press advertisements and other publicity;- cancellation and termination rights, including the right to cancel an extended warranty with a full refund within 45 days from purchase if no claim has been made, and the right to terminate an extended warranty and obtain a pro-rata monetary refund at any time;- the provision of a written quotation in a standard format stating that the extended warranty remains available for 30 days on the same terms, and the requirement that offers of a discount on DEG prices contingent on the purchase of an extended warranty should be available to the consumer for the period of the quotation; and- the requirement to make available to consumers a standard information leaflet setting out information on statutory rights, on the availability of extended warranties from other organizations, on the possible relevance of household insurance for some consumers, on cancellation rights and on the nature of the warranty.
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