



Association of British Insurers

Insured and Non-insured Extended Warranties and Service Contracts

A Voluntary Good Practice Guide for Retailers

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 that all insured extended warranty and service contract retailers should bear in mind when selling warranties or contracts to customers, to help them 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 insured extended warranty and service contract retailers 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 all retailers are aware of their responsibilities. While most retailers are not regulated in the same way as insurers, the recommendations in this guidance are for all retailers of insured extended warranties and service contracts.

Currently, many motor warranty administrators adhere to the Motor Industry Code of Practice for Vehicle Warranty Products¹. This guide reflects the recommendations of the Motor Codes Ltd. Code of Practice, but also goes beyond existing regulations and is intended to strengthen existing practice in these areas but is not a definitive guide.

The status of the guidance

This is not FSA-confirmed guidance. This is a voluntary good practice guide for retailers.

¹ The Code is operated and administered by Motor Codes Ltd, a subsidiary company of the Society of Motor Manufacturers and Traders—http://www.motorcodes.co.uk/images/stories/documents/vehicle_warranty_products_code_web.pdf

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 retailers 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

The guidance is voluntary, however 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 retailers. 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

Even though retailers are not regulated in the same way as insurers, the table sets out the high level objectives retailers should aim for to help ensure customers are treated fairly:

Table 1

TCF Outcomes	Retailers' Responsibility
Outcome 1: Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.	It is the retailer's responsibility to ensure that their corporate culture ensures fair treatment of customers.
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.	Retailers should work with insurers to ensure the products they distribute meet customers' needs and continue to review products accordingly.
Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.	It is the retailer's responsibility to appropriately inform customers of the key features of the product (i.e. product exclusions, cancellation rights, refunds etc) before, during and after the point of sale.
Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.	Retailers are responsible for their staff giving advice to customers on the suitability of the product.
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.	It is the retailer's responsibility to ensure they manage customers' expectations of the product by providing them with clear, fair and not misleading information.
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.	Retailers should ensure customers are provided with clear routes of redress.

Extended warranties and service contracts

PRODUCT DESIGN

Good practice

The recommendations set out in Table 2 go beyond existing requirements for retailers of insured extended warranties and service contracts:

Table 2

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

Retailers should work with providers to help assess whether their staff have a good understanding of the warranty/service contract.

Retailers should ensure that where policies are offered on a single premium basis, the customer is made aware of their right to cancel the policy at any time during the term and obtain a refund.

Retailers should investigate complaints internally and take action where it is clear that a product has been mis-sold to the customer.

POINT OF SALE (POS)

Good practice

The recommendations set out in Table 3 go beyond existing requirements for retailers of insured extended warranties and service contracts:

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

Retailers should take steps to ensure customers are provided with the following key contract terms of the product(s) 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)

Retailers should take steps to ensure a written summary of the key contract terms of the product(s) and level of cover is provided to the customer prior to the completion of the contract.

Retailers should take steps to ensure commission arrangements are not incentivising inappropriate sales behaviour and high-pressure selling techniques, e.g. all retailers must have adequate management of their conflicts of interest process to ensure they are not incentivised to sell the wrong product due to commission differentials, and that the achievement of performance targets for the core products are not dependent on the sale of the extended warranty products.

Retailers should take steps to ensure customers are directed to additional sources of information about extended warranties where available.

Retailers should ensure that any statement of demands identifies the requirements of the customer based upon their individual circumstances.

Retailers should take steps to ensure that the customer is eligible for the policy recommended and that it meets their requirements.

POLICY DETAILS

Current regulation:

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

- 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 go beyond existing requirements for retailers of insured extended warranties and service contracts:

Table 4

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

Retailers should clearly inform customers on how and when to claim (examples of acceptable/unacceptable claims may be helpful), and provide customers with a list of Frequently Asked Questions.

Retailers should take steps to ensure the customer is clearly informed about their cancellation rights and the method of calculating refunds is clearly explained.

COMPLAINTS

Current regulation:

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

- The Domestic Electrical Good 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 5 go beyond existing requirements for retailers of insured extended warranties and service contracts:

Table 5

Aim: Customers should understand the routes to redress

Retailers should ensure customers are made aware of the redress process through information provided at point of sale.

TRAINING AND COMPETENCE

Good practice:

The recommendations set out in Table 6 go beyond existing requirements for retailers of extended warranties and service contracts:

Table 6

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

Retailers should take steps to ensure that staff selling insured extended warranties and service contracts receive adequate training. Retailers may want to consider the following:

- Creating guidance notes that can act as quick reference sales guides and can be included within the retailers own training and competency programmes and sales support materials
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Retailers should take steps to validate extended warranty training material with providers.

POST-SALE / RENEWALS / CANCELLATIONS**Good practice:**

The recommendations set out in Table 7 go beyond existing requirements for retailers of extended warranties and service contracts:

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

Retailers should take steps to ensure the customer is provided with adequate information on whether and how they are able to:

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

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.

ICOBS

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 (ICOBS 6.1.7) and providing information on price (ICOBS 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 in the EEA.
DEG Order 2005	<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.
Society of Motor Manufacturers and Traders	<p>The SMMT has developed a Consumer Code that sets out standards for all retailers selling motor warranties. The code focuses on advertising, point of sale obligations, complaints, clarity of information, dispute resolution and disciplinary action.</p> <p>http://www.motorcodes.co.uk/images/stories/documents/vehicle_warranty_products_code_[web].pdf</p>