



Association of British Insurers

Consumer Guide for Motor Warranties

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A CONSUMER GUIDE TO MOTOR WARRANTIES

Introduction

Before buying a vehicle, you will probably carry out a great deal of research to make sure you choose the right one for your needs. However, you may give less thought to what you will do if something goes wrong after the manufacturer's guarantee has run out. You need to bear in mind not just the cost of labour and parts, but also diagnostic charges and VAT, as well as the inevitable inconvenience of not having the use of your vehicle if it breaks down.

If the vehicle is faulty or not fit for purpose when you buy it, you have the right to claim for repair, a replacement or a refund of equivalent value for up to six years¹ under the Sale of Goods Act. However, if something goes wrong after the first six months, you must prove that it was already faulty when you bought it.

What are motor warranties?

What do they cover?

What don't they cover?

How can I decide whether I should buy one?

Where can I buy one?

What should I think about when choosing which one to buy?

What are my responsibilities?

How do I make a claim?

Can I cancel?

What complaint and compensation rights do I have?

Where can I get more information?

¹ Six years in England, Wales and Northern Ireland, and five years in Scotland. For further information you can contact a Citizens Advice Bureau, Consumer Direct or your local authority trading standards department.

What are motor warranties?

You will often be given a manufacturer or retailer's guarantee lasting one, two or three years, which should cover the cost if there is a mechanical or electrical breakdown during that time. An extended motor warranty is a type of contract that covers you for repair costs after this guarantee has expired. These contracts are also sometimes called mechanical breakdown contracts.

What do they cover?

Most warranties tend to cover the cost of repairing your vehicle in the case of mechanical or electrical breakdown. This usually includes broken parts and labour, call-out charges and may include diagnostic fees. Some warranties will cover you for most vehicle parts ("All Mechanical All Electrical"), whilst others will only cover you for specific parts ("Named Component").

Some extended motor warranties also cover:

- car hire
- towing-in charges
- insurance against faults causing your vehicle to fail its MOT
- overnight accommodation and recovery of your vehicle if you break down
- the cost of diagnostics even when the claim itself isn't covered
- indirect loss – when a non-insured component breaks down and causes damage to an insured component
- mechanical breakdown caused by "wear and tear"

The warranty may also allow you to transfer the ownership to a new owner if you sell your vehicle, although this usually only applies if you sell your car privately.

You can buy extended motor warranty cover from three months up to (usually) a maximum of three years after the manufacturer's guarantee has expired, although you will often be able to extend cover on a 'pay as you go' basis thereafter. Cover can vary according to the age and mileage of the vehicle, with wider protection for low mileage vehicles, and more limited cover for older or higher mileage vehicles.

What don't they cover?

Extended motor warranties will have certain 'exclusions' – things that are not covered by the warranty. All warranties are different, but typical exclusions include:

- components not specifically covered under the warranty
- cosmetic damage (such as paintwork or trims)
- pre-existing damage or defects
- costs not directly associated with the mechanical/electrical failure or breakdown that caused the claim
- oil leaks
- breakdown for wear and tear commensurate with your car's mileage

Some warranties may have a limit, either on individual claims or on the amount you can claim altogether throughout the duration of the plan. It is important to carefully consider the scope of the warranty offered in each case.

How can I decide whether I should buy one?

Before purchasing a warranty, check to see whether you may already have cover under any existing insurance policies you hold. Some comprehensive motor insurance policies may include "roadside assistance", however this is not the same as "mechanical breakdown cover" and you will still be expected to pay for any spare parts and labour costs.

If you are not covered under any other insurance policies, here are some questions to ask yourself:

- How essential is the vehicle for me? How inconvenient would a breakdown be?
- How often is it likely to break down or need repairing?
- What is the likely cost of repairing it?
- How would I pay for repairs?
- Who can I trust to repair it?
- How does the cost of the warranty compare with the cost of replacing the parts?

Some websites may offer helpful comparative information for you but you should be aware that some of these may not be impartial.

Where can I buy one?

Many vehicle retailers will offer you an extended motor warranty when you buy a new or used vehicle. Some retailers may include it as part of the purchase price. However, you do not have to buy your extended warranty from the same place you buy your vehicle, or even at the same time. Cover and prices can differ between plans and providers, so it is important to make sure the plan you purchase is the most appropriate one for your needs.

Extended motor warranties are available from a variety of sources, including:

- the retailer of the vehicle
- the manufacturer of the vehicle
- insurance companies
- insurance brokers
- motoring organisations.

Further details on many of these are available online.

What should I think about when choosing which one to buy?

Before buying any motor warranty, you should always read the contract summary to ensure you understand exactly what it does and does not cover. In particular, ask yourself or the retailer the following questions.

1. When will the contract start?
2. How long will it last? How long am I likely to keep the vehicle?
3. Does the vehicle require a pre-inspection or service before cover starts?
4. Can I pay in monthly instalments? If so, does it cost more than paying up front? This may depend, for example, on how long you plan to keep the vehicle.
5. Does the contract have a 'betterment clause'? This requires you to pay something if your vehicle's value is actually improved after being repaired.
6. What level of service should I expect for the repair? Are there guaranteed service turnaround times?
7. Is there a limit to the number of claims I can make or the amount I can claim for? Will the cover stop once I have made a claim?
8. If I make a claim, will I have to pay an excess?
9. What is excluded from cover?
10. If I take it out of the UK, will it still be covered?
11. Is there a mileage limit?
12. What complaint and compensation rights do I have?
13. Have the provider and retailer adopted the ABI's Voluntary Good Practice Guide for Extended Warranties?

What are my responsibilities?

It is essential that you understand the cover that is being provided, that you understand what you need to do in order to make a claim under the warranty, and that you understand any other responsibilities identified in the contract summary terms. These could for example include requirements on how regularly you need to service the vehicle, whether it needs to be repaired or serviced by a specific garage, or whether there is a mileage limit.

How do I make a claim?

Your contract summary document should have instructions on how to make a claim. Always check this document to see who you should contact before taking your vehicle to a garage. They may have a list of approved repairers that you are required to use who have expertise in repairing a particular type of vehicle.

Can I cancel?

All extended warranties will give you a cooling off period of at least 14 days which allows you to cancel the warranty and obtain a refund if you decide you do not wish to continue with the cover. If you decide to cancel after the cooling off period, some providers offer a pro-rata refund minus the cost of claims you have been paid.

Extended Warranty providers who support the ABI's Good Practice Guide for Extended Warranties will provide you with a refund for cancellation of contracts sold after 31 August 2011. To find out about this, you can either ask the person you are buying the warranty from in store or online, contact your extended warranty provider, or check the terms and conditions within your contract documentation.

What complaint and compensation rights do I have?

It is very important that you check your contract documentation to make sure you know your complaint and compensation rights, as they differ depending on which type of warranty you buy. There are two types of extended warranty:

- Insurance contracts, and
- (Non-insured) Service contracts

Insurance contracts:

If your contract is an insurance contract, you will have the following rights if you buy insurance from an insurer authorised by the UK Financial Services Authority (FSA) or from the UK branch of an insurer authorised by another European regulator:

- The Financial Ombudsman Service (FOS): If you have complained to your insurer, and are not satisfied with the way they have handled the complaint, you can contact the FOS. The FOS is the official independent expert in settling certain complaints between customers and businesses who provide financial services. It is a free service for customers to use, and its final rulings if accepted by the customer are binding on financial services firms.
- The Financial Services Compensation Scheme (FSCS): If the insurance company goes bankrupt, you can claim on the FSCS. The FSCS is the compensation fund of last resort for customers of authorised financial services firms. If a firm becomes insolvent or ceases trading FSCS may be able to pay compensation to its customers. The FSCS can pay compensation of 90% of your claim on an insurance company, subject to the normal conditions for payment being met. The FSCS can also pay compensation if you buy insurance direct from an insurer authorised by another European regulator, rather than from a UK branch of the insurer.

(Non-insured) Service contracts:

Service contracts have to comply with a variety of other consumer protection standards and regulations, but you will not have the protection of the FOS and FSCS. In order to protect their customers in the event of a bankruptcy, some warranty providers set aside funds to cover their non-insured schemes. However, this may not always be the case, so it is important to check your contract document.

Where can I get more information?

For consumer advice on insurance and details of member insurance companies:

Association of British Insurers
Tel: 020 7216 7455
www.abi.org.uk

For complaints about your insurance company's complaints process:

Financial Ombudsman Service
Tel: 0800 0234 567
www.financial-ombudsman.org.uk

For questions concerning motor manufacturers:

Society of Motor Manufacturers and Traders
Tel: 020 7235 7000
www.smmmt.co.uk



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