

ASIC CONSULTATION PAPER 294

“The sale of add-on insurance and warranties through car yard intermediaries”.

August 2017

Feedback from: Automotive Dealer Services Pty Ltd
85 Orange Street
Bentleigh East, Vic 3165

PO Box 1199,
Huntingdale, Vic 3166

As a stakeholder in the proposed reforms to the “sale of add-on Insurance and warranty products” through car yard intermediaries, I intend to comment specifically on dealer warranties. I will also make comment on third party warranties and insurance warranties.

Automotive Dealer Services Pty Ltd. (ADS) provide dealer warranty administration services to over 100 dealers and dealer groups in Victoria and some dealers in S.A. TAS. and N.S.W.

Our organization has been a provider of warranty products to motor dealers since 1984. We have always aimed to provide warranty products that are well designed and provide genuine consumer benefits. Consumer satisfaction will result in repeat business for the dealer.

DEALER WARRANTY CONTRACTS

Dealer warranty administration is usually outsourced to specialist warranty administrators. While dealers are able to perform the administration of warranty contracts that they provide to consumers, it is usually more cost effective to utilize the services of an administrator.

The administrator charges the dealer a fee for warranty contracts lodged. The administrator provides independent assessment and administration of claims for the term of the warranty contract. The Dealer funds the warranty contracts that they provide to their customers. The fund is held by the dealer and forms the pool from which claims are paid in the event of a failure.

ADS Services provided include:

- . Central Claims processing center for consumers and dealers.
- . Recording of all claims lodged by dealers and consumers.
- . Reporting of claims- including cost of parts, labor, sublet and other costs incurred.

- . Provide dealer warranty contract registration lodgment portal.
- . Provide service history and service retention reports.
- . Provide documentation for consumers and dealers relating to dealer warranty contracts.
- . Provide on going training for dealers and their staff.
- . Assist consumers with dealer warranty queries.
- . Assist consumers with arranging repairs and locating repairers.
- . Interacting with repairers and dealers

OBJECTIVES OF THE PROPOSED REFORMS

How will this affect the sale of *extended warranties* sold by car yard intermediaries.

171 (a) introduction of a deferred sales model for *dealer warranties, third party and insurance warranties* could pose difficulties for consumers who may have purchased the *warranty* product if was available at the time of sale. Many consumers obtain finance for part or most of their vehicle purchase. A finance application for a specific amount is lodged with the financier prior to delivery of the vehicle. The consumer may want to purchase the *warranty* but where a deferred sales model is introduced the consumer may be unable to pay cash for a *warranty* after they have bought the vehicle. Paying for the *warranty* on a credit card would incur greater expense for the consumer, as interest rates on credit cards are typically 2 or 3 times higher than vehicle finance.

(b) enhanced supervision obligations on product providers may have some beneficial outcomes for the consumer. Monitoring the behavior of intermediaries would be difficult and have little if any benefit to the consumer if the *warranty* product itself is designed poorly.

172 (a) add-on “*warranty*” products should offer improved value;

“Defined event dealer warranties” (Mechanical Breakdown warranty)

Defined event dealer *warranties* and *mechanical breakdown warranties* feature a list of covered components. In some instances *dealer warranties* are offered to consumers at no cost. These *warranties* are also called *dealer warranty service contracts*.

Service contracts that are provided at no charge to the consumer, state that the consumer should service their vehicle with the dealer to maintain the additional

warranty provided by the dealer. Most service contracts are limited in scope of covered components and have claim limits per claim and/or total claims. Dealer *warranty* service contracts usually provide cover for 3 years after the expiry of the manufacturer's warranty or statutory warranty.

Dealer *warranties* and third party warranties that are SOLD to consumers usually have higher claim limits than *warranties* that are provided at no cost.

The covered components for the sold *warranty* appear to be far more comprehensive but in reality are essentially the same as the "free" warranty. The only benefit to the consumer is the increased claim limit from \$1,000 to \$2,000 and up to the market value or purchase price for all claims. Typically these *warranties* are sold for \$1,000 - \$1,800.

These *warranties* may also offer additional benefits such as roadside assist. Defined event *warranties* are also the most common warranty promoted by third party *warranty* providers.

Defined event *warranties* are designed to appear comprehensive in cover but in reality have severe deficiencies as they exclude major failures by design. They exclude failure to major components such as the engine block and cylinder head. These *warranties* also exclude seals and gaskets and consequential loss caused by non-covered or not listed components.

Example: In the vast majority of engine failures the engine overheats and destroys or damages the engine and/or cylinder head. In almost all cases when the head gasket fails it will cause this type of failure. A "defined event warranty" would not cover this type of failure as it excludes gaskets. If the consumer has paid for a *warranty* and the *warranty* lists "Engine" as a covered component the consumer would expect that the failure would be covered. This type of *warranty* needs to be either better designed or clearly show exclusions that may limit or reduce the consumer's ability to remedy defects and failures.

Redesigning the defined event *warranty* contract to provide a clearer understanding of limitations and exclusions would result in fewer consumers purchasing the product. It would also rely on intermediaries explaining the limitations to the consumer, this would be difficult to monitor and I doubt would happen.

Removing some of the exclusions that are a trait of defined event *warranties* would be more effective and require less monitoring.

Exclusions such as "failure caused by a non-covered component" or "failure caused by a component not listed" should not be allowed or clearly

communicated to a prospective buyer as these exclusions are often hidden in the fine print.

Exclusions for seals and gaskets on major components (engine and transmission and differential) should be removed, as should exclusions for “cracked cylinder heads” and “engine block”. These items can cost consumers thousands of dollars to repair in the event of a failure.

Defined event *warranties* are sold to the consumer by showing the consumer the list of covered components the “Engine” is a covered component and yet the above exclusions apply, this results in poor outcomes for the consumer. The removal of these exclusions would result in substantial improvements to consumer outcomes and generally require far less monitoring. Removing these exclusions would also increase the % dollar value of claims paid. Making these changes would have the greatest impact on third party *warranty* providers, as these changes would increase the number of claims paid to consumers and the \$ value paid in claims.

Third party *warranty* providers do not view the consumer as their customer and are mainly concerned with maximizing profit from the premium that is received. Third party *warranty* providers and insurance- based *warranty* providers consider the dealer as their customer. Both are mostly concerned with securing the business account of the dealer as they typically provide a suite of other insurance add-on products such as CCI, GAP, Tyre and Rim and other add-ons.

All third party warranty providers have commission structures that are often based on the volume of premium written. Whilst dealers earn commission on the sale of these products the providers of add-ons earn millions of dollars and are responsible for the design of the products being offered.

Defined event “*dealer warranties*” that dealers sell have better outcomes for consumers as dealers consider the consumer as their customer and generally if the consumer is not satisfied with an outcome, in most cases the dealer will assist to remedy the issue to varying degrees.

Mandating a minimum standard of cover for *warranties* that are sold to consumers would provide better value for money and better claims outcomes. Mandating that defined event *warranties* must cover the components listed and remove some of the current exclusions would result in products that deliver what the consumer would expect from a *warranty* that they have paid for.

At the time of sale, the exclusions contained in defined event *warranty* products would not be brought to the attention of consumers by intermediaries’ when the product is being presented.

If there are exclusions, they should not affect claims to specified components that are listed as “covered” unless the failure is caused by negligence or improper maintenance by the consumer.

The result of these changes may result in third party *warranty* providers increasing the premium charged to the dealer, which may be passed on to the consumer. Either way consumer outcomes would improve. If the *warranty* product is improved, consumer outcomes will improve and less reliance on monitoring would be needed.

**COMPREHENSIVE DEALER WARRANTIES:
“Premium Warranty”**

ADS dealers who “sell” consumers a “premium warranty” offer a product that is worded essentially the same as the original “manufacturers” new car warranty.

The scope of cover states -**“The Dealer will repair or replace any component that is defective in material or workmanship”**. As a result if a defect occurs, the defective item is repaired and in most cases replaced under the terms of the warranty.

Unlike a defined event *warranty*, consumers are covered for all major and minor defects that arise during the term of the warranty.

Comprehensive *warranties* also cover all minor components including locks, audio units, satellite navigation, CD, Bluetooth heater controls and any item that the manufacturer would cover as part of the new car warranty.

They do not exclude seals and gaskets or failure caused by non-covered components.

The total claim limit under the “Premium Warranty” contract is up to the purchase price of the vehicle.

Where the *warranty* is offered to the consumer who purchases a used car the cover commences after the expiry of the statutory warranty. This is communicated to the consumer prior the consumer buying the *warranty*.

Where the “*premium warranty*” is offered to the consumer on a new car or car with balance of new car warranty the warranty period of the new car warranty is explained and the consumer is advised that the *extended warranty* will commence after the expiry of the manufacturers warranty.

Less than 1% of ADS *dealer warranties* that are sold are to consumers who have bought a new car with 5 or 7 - year manufacturers warranty.

If the consumer cancels the warranty that they have purchased and the vehicle still has balance of the new car warranty a full rebate of the premium paid will be rebated. In the case of used cars a pro rata rebate is calculated.

By design, this type of *warranty* has the best outcome for the consumer. Over 95% of claims submitted are met. The comprehensive dealer “*premium warranty*” also provides car hire, towing and accommodation as well as roadside assist.

Items that are usually excluded from cover of the “Premium Warranty” are: maintenance items listed by the manufacturer ie: paint, trim, glass, belts, bulbs, hoses, exhaust, tyres and batteries.

All ADS *dealer warranties* include information advising consumers of their rights under the ACL “consumer guarantees”.

(b) add-on “*warranty*” products should be more competitive; Increasing consumer awareness may result in increased competition. Dealers could be required to publish the price of *warranties* being offered by their intermediaries. Publishing *warranty* prices on the dealer’s web site should contain a disclosure document that the consumer could download. Mandated content that advises the consumer of the “Scope of cover” and all exclusions and conditions would enable the consumer to compare different *warranty* products that are available. Providers of *warranty* products would *need to redesign their products if they wanted to remain competitive*. *The disclosure should equally apply to dealer warranties as well as third party and insurance warranties.*

(c) sales processes should be fairer and assist consumers make better decisions when buying a “*warranty*”; The sales process for *warranty* products should inform the consumer of the manufacturer’s warranty that applied to the vehicle when it was new. A disclosure of how the *warranty* being offered by the dealer intermediary differs from the original factory warranty. The disclosure would need to include exclusions and limitations that were not part of the manufacturer’s warranty. This would improve the sales process and assist the consumer make a more informed decision. Exclusions could be highlighted in “red”.

(d) add-on “*warranty*” products that offer no benefits should not be sold and “*warranties*” that offer minimal benefits should be reduced; I agree with this proposal, mandating better disclosure that relate to *warranty* exclusions would force *warranty* providers to redesign their products. This would result in *warranty* products that are of greater value and benefit to the consumer.

(e) changes should be market wide and competitively neutral; Mandating content in disclosure statements, publishing all relevant “*warranty*” information on dealer and *warranty* provider web sites would make the “*warranty*” market competitively neutral. Consumers would be able to make a better informed decision about *warranty* products that are available.

174 **Table 9 Key aspects of the objectives – regulatory expectations.**

Improved value - (warranty products)

. Claims ratios would be significantly improved if some of the exclusions contained in “defined event” Mechanical protection *warranties* were removed or highlighted in “red”.

Components listed as covered but exclude failure caused by non - covered items or exclusions of major components such as “cylinder head” and “engine block”, “head gaskets” are the most expensive items to repair and are major failures.

. Cover should be designed to meet genuine consumer need and offer tangible benefit- so that a consumer who has paid for *warranty* cover would expect that all major components would be covered during the period of the *warranty* -if the failure was not caused through negligence or poor servicing of the vehicle.

. Improved value should be driven by reduction in premiums and/or commissions – If the product is poorly designed in the first place, reducing premiums and/or commissions would not resolve the underlying problem if a failure occurs. Reduction of premiums and/or commissions would not address claims outcomes for poorly designed *warranties*.

The consumer is quite prepared to pay for cover that meets their expectations in the event of a claim.

Typically a consumer will buy a comprehensive insurance policy and pay over \$1,000 per annum. They are also prepared to pay the \$500 excess in the event of a claim. In most cases this type of insurance meets consumer expectation.

A well designed *dealer warranty* that covers all components that the manufacturer would cover for an additional 3 years 100,000 km’s on new or used vehicles generally retails for between \$995 - \$1,495 depending on make and model for the 3year period.

Not all consumers who have purchased a *dealer warranty* will need to make a claim but more than 95% of all claims administered by ADS on behalf of our dealer network are covered as the product is well designed and covers “**any component that is defective in material or workmanship**”. This type of product is designed to meet consumer expectation.

Fairer sales processes –

. ADS provide its dealers with information that consumers can easily understand.

. The *warranties* that ADS dealers offer for sale to consumers is worded the same as the original manufacturers warranty.

. The exclusions are minimal – exclusions are: Paint. Trim, Glass and any maintenance item listed by the manufacturer requiring replacement at scheduled service intervals.

. The *warranties* offered to consumers by ADS dealers represent good value and additional benefits which include; Roadside Assist, Car Hire, Towing and \$100 per night towards accommodation costs incurred as a result of a claim. There is no excess on claims.

. The consumer may cancel their *warranty* at any time and receive a full refund if the vehicle is still under manufacturers warranty and pro rata rebate on used cars.

.ADS processes over 90% of consumer claims submitted on the day of lodgment.

. ADS constantly provide ongoing training to its intermediaries.

. ADS are not aware of intermediaries that engage in unfair conduct and if such conduct is identified ADS would bring such conduct to the attention of dealership management. Consumers always have the ability to seek a refund if dissatisfied with ADS administered *warranty* products.

ADS do not have financial interest in any claims outcomes and provide impartial claims processing.

. All ADS dealer *warranties* provide information relating to ACL “consumer guarantees”.

*Fewer sales where
Consumers do not benefit –*

Many *third party warranties* are poorly designed and offer little or no benefit to consumers. Third party *warranties* are designed to maximise profit for the insurer or *warranty* provider, as they do not consider the consumer as their customer.

. Dealer *warranties* can have better outcomes for the consumer as the dealer does consider the consumer as their customer.

Some dealer *warranties* that are sold to consumers have limitations and exclusions that are not ideal for consumer outcomes.

. A well designed dealer *warranty* would be driven by demand by the consumer if the consumer was satisfied that the *warranty* will cover defects or failures for an additional period and additional km’s after the expiry of the manufacturers warranty or after the expiry of the statutory warranty.

. A well designed dealer *warranty* would give the consumer certainty and ease of rectifying any defect that may arise during the period of stated cover.

Changes should be Comprehensive and Competitively neutral –

Mandating changes to the design of third party *warranties* and *dealer warranties* should be across all *warranties* that are offered for sale to consumers and competitively neutral.

The result may be that the price of the *warranty* may increase, as the consumer will have greater scope to make a claim - and/or some consumers would not be offered *warranties* on vehicles known to have higher incidents of claims. Third party warranty providers already charge dealers up to four times more for the premium on European vehicles and other known brands with reliability issues.

Table 10: Key issues in the design of a deferred sales model

Mechanical breakdown insurance

And warranties -

E1.4 where these products are sold with new cars or used cars that are still covered by manufacturers warranty;

- (a) if a deferral period applied to the sale of *warranties* with new cars this may impact on the consumers ability to purchase a *warranty* as often finance is arranged for the consumer prior to delivery of the vehicle – the consumer may not be able to afford a cash payment if there was a deferral period. An insurer or dealer may no longer make the warranty available if there was a prolonged deferral period, as increased risks with certain brands may become evident after a lapsed period of time.
- (b) All ADS dealer warranties come with information that states that cover will commence after the expiry of the manufacturers warranty the consumer has access to other benefits such as Roadside Assist, Car Hire and Accommodation immediately. The consumer may also cancel the warranty during the period of new car warranty and receive a full refund.

Feedback: Deferred sales model warranty –

E1Q1 A deferral period for *warranty products* may impact adversely on the consumer who may not have the capacity to purchase the product if it did not form part of the original sale process.

E1Q2 A deferral period would not address consumer harms for *warranty products*, while it may reduce sales of warranty, consumer outcomes will not improve if the warranty product is poorly designed.

E1Q3 The deferral model may affect insurers and third party *warranty* providers and dealers as the sale of these products could be reduced.

E1Q4 The deferral model for *warranty* products would have the same impact on New and Used car markets and may not result in improved consumer outcomes unless the *warranty* product is improved.

E1Q5 Preconditions for a competitive online *warranty* market could include published pricing for the *warranty* product being offered. Full disclosure of exclusions highlighted in “red” and comparison of how the *warranty* being offered differs from the original manufacturers warranty. Terms and conditions as well as claim limits should also be clearly disclosed. A deferred model would not contribute to improved consumer outcomes if the *warranty* products are poorly designed.

E1Q6 Achieving better outcomes for consumers who purchase *warranty products* would be better achieved through better design.

Removing exclusions that are misleading and clearer comparison of how the *warranty product* being offered differs from the original manufacturers warranty would achieve the objectives of the proposal without introducing a deferral period. Consumers would be able to make a better informed decision, if they were able to compare the *warranty product* being offered with the manufacturers warranty. Warranty products could also have cancellation provisions where a full rebate is available while the vehicle is still under the manufacturers warranty period and/or the statutory warranty period and a pro rata rebate there after on used vehicles.

E1Q7 If the deferred sales model was introduced on *warranties* I cannot envisage removal of any existing obligations.

E1Q8 If a deferred sales model was introduced on *warranties* it would be difficult to test consumer comprehension of these products as the *warranty* would be offered by intermediaries to the consumer after the deferral period. The *warranty* product may not have improved and the outcome for the consumer would not alter if the *warranty* contains exclusions and limitations that currently cause poor outcomes.

E1Q9 A consumer opt-out mechanism may have benefits for both dealer intermediaries. It may be difficult to monitor how the “opt-out” mechanism is explained to the consumer and may not improve consumer outcomes.

Whilst I mostly agree with the statements made relating to *add-on insurance products* it would be more appropriate for performance data that is published is specific for each provider rather than an industry average. This would more accurately highlight which providers offer products that have better consumer outcomes. Providers would be required to register the products that are being offered to consumers so that the consumer can make easy comparisons.

Highlighting the performance of claims –vs- premium for *warranty products* would be difficult as claims vary significantly by make and model of vehicle as well as age and mileage.

Some warranty providers would not/do not offer *warranty* products on some brands of vehicle. A repair on a minor electrical item can vary between \$120 and \$2,000 or more, depending on the brand of vehicle for an identical replacement item.

Unfortunately consumers do not generally factor in repair costs when making a decision on the make and type of vehicle that they purchase.

Consumers are often not aware of reliability issues with certain brands or models.

Consumers mostly make buying decisions based on the amount of money that they can afford then choose between vehicles in that price range.

A consumer who chooses to purchase a \$30,000 new Japanese brand of vehicle will have fewer warranty related issues than a consumer who chooses to buy a \$30,000 2nd hand European brand.

Consumers may express dissatisfaction with a *warranty* product if the vehicle that they have purchased is not reliable and poorly manufactured and the *warranty* product is limited in scope and cover.

The dissatisfaction is most likely with the brand of vehicle rather than the *warranty* product.

A *warranty* product won't remedy a poorly manufactured vehicle.

Many European brands have inherent defects known to the manufacturer that are not rectified under the manufacturer's warranty period unless the consumer makes a complaint. When these issues arise for subsequent owners, the manufacturer denies the claim as the new car warranty period may have expired. The new owner inherits the defect and/or the selling dealer.

Ultimately a deferred sales model will have very little impact on consumer outcomes related to *warranty* issues. Improved design and better disclosure will have better outcomes but will increase premiums on certain makes and models or will not be made available to consumers for certain makes and models due to inherent reliability issues with these brands.

The deferred sales model for *dealer warranty products* would not assist with the consumer being able to compare the product after the purchase of the vehicle, as

the consumer would not be able to buy a dealer *warranty* from another dealer for the vehicle that they have purchased and third party *warranty* providers are reluctant to sell *warranty* products after the consumer has taken delivery of the vehicle.

Insurers and third party providers are reluctant to sell *warranty* products to consumers after the delivery of the vehicle, as there may be inherent faults with the vehicle when the consumer seeks to buy a *warranty*.

Feedback :Commencement of the deferral period.

E1.1Q1

193 (a) *When consumer communication is provided* - and the deferral period commences- this will limit a consumer's opportunity to purchase a *warranty product*. Often the price of the *warranty* is factored into the amount financed. The consumer may not have the capacity to purchase the *warranty* at a later date.

Dealers and third party *warranty* providers would be unlikely to offer *warranty* products if the deferral period was more than 7 days on used cars.

This deferral period would have less impact on new car purchases as the vehicle is still in the manufacturers warranty period but may be detrimental to the consumer at a later date if the consumer experiences a defect(s) after the manufacturers warranty has expired.

(b) *Where agreement to purchase and/or arrange finance and communication has been provided* - If the deferral period commences prior to delivery and the consumer has been provided with communication then the consumer may have more opportunity to purchase a *warranty* if they choose.

(c) *when the vehicle has been delivered and communication provided* and the deferral period commences, this will result in less opportunity for the consumer to buy a *warranty* as they may not have the capacity once the finance has been arranged.

Options: Warranty

Warranties offered to consumers need to be better designed-
Warranties should:

- . Provide cover for all/any components that are defective in material or workmanship.
- Or
- . Cover all components listed.
 - . Highlight exclusions in “red”.
 - . Remove exclusions to major components.
 - . Remove exclusions for failures caused by non - covered or not listed components.
 - . Cover items that make the vehicle fit for purpose (other than maintenance items).
 - . Be refundable at the consumer’s discretion.
 - . Have prices displayed on intermediaries/dealers website.
 - . List all excluded components in “red” that were covered by the manufacturer.
 - . Premiums should be rebated if the provider of the *warranty* cancels a *warranty* that the consumer has paid for.
 - . Clearly show claim limits.
 - . Provide dispute resolution information for the consumer.
 - . Have simple and efficient claims processes.
 - . Improve design that will result in better consumer outcomes with fewer complaints and less need for monitoring.

E1.1Q2 sales sequence A would best suit stated objectives- the exact cost of the product and loan amount and term **can** be determined and shown to the consumer prior to the consumer agreeing to purchasing the *warranty product*. The consumer could also be shown how other add-ons would affect the term of the loan the amount of the loan including any add-ons and the total amount payable over the period of the loan.

E1.1Q3 A deferral commencement date would most easily be determined from the date that the consumer signs the agreement to purchase the vehicle or the delivery date of the vehicle.

E1.1Q4 a deferral period for *extended warranty* would not require short term bridging insurance as mostly the vehicle is covered by statutory warranty for used cars or manufacturers warranty for new cars. Claims data for warranty claims shows that a significant percentage of claims occur within the first 3 months of delivery on used vehicles.

Feedback: duration of deferral period

E1.2Q1 If a deferral period were to be introduced, 7 days from the date of the consumer signing the agreement to purchase the vehicle would be sufficient.

E1.2Q2 The deferral period for new or used vehicles could be the same.

E1.2Q3 delivery of a used vehicle or new vehicle in stock is usually 24 -48 hours. Delivery time can be longer if accessories are being fitted or the vehicle is subject to a dealer swap. New vehicles with specific colors or models that need to be ordered can take up to 2 -3 months before delivery.

E1.2Q4 The average period of time between a finance application being lodged and approval is typically with 24 hour in most cases.

Approval may take longer in cases where the consumer is self - employed or a contractor. Usually approval is granted subject to financials in these cases.

Approval would be within a 48- hour range.

Feedback: Consumer communication (delivery and content) Warranties:

E1.3Q1 *Warranty* providers should be required to take active steps to ensure that consumers read and understand information about the *warranty* product that they are offering. Most third party *warranties* and dealer *warranties* highlight the list of covered components and claim limits, but do not clearly disclose exclusions and non - covered components. Often the exclusions such as- engine block, cylinder head, head gaskets, failure caused by non covered components and engine failure caused by overheating are very expensive to repair.

This type of *warranty* reduces the exposure to the provider and has adverse outcomes for the consumer. Either the product needs to be improved by removing unfair exclusions or the consumer is made aware of the limitations of this type of product. Monitoring disclosure to consumers from intermediaries would be difficult.

E1.3Q2 Innovative disclosure might include mandated content that the consumer can sign after communication is provided. *Warranties* offered to consumers could be categorized and “star” rated- 5 stars being cover that replicates the manufacturers original warranty and 1 star being limited component cover with low claim limits and major component exclusions. The “star” rating based on cover and claim limits could be standardized for all *warranty* product providers. All exclusions could be highlighted in “red”.

Providers of *warranty* products could have the product rated by a statutory body.

E1.3Q3 Consumer communication relating to *warranties* should include clearly identifiable exclusions, claim limits and conditions.

E1.3Q4 This question is not applicable to *dealer warranties* the consumer would not be able to purchase a dealer warranty from the non- selling dealer. Other third party warranty providers are reluctant to sell warranties to consumers without being able to inspect the vehicle.

E1.3Q5 Consumer communication could include referral to websites where similar products are offered for sale.

Mechanical breakdown Insurance and warranties comments;

ADS administer dealer warranties and as such are not *warranty* providers in this context. Less than 10% of warranties that ADS administer are sold on New cars or cars with balance of new car warranty.

Those that are sold are generally sold at a discounted price compared to used car warranties sold. The price charged for cars with new car warranty can be up to 25% cheaper as they carry less risk to the dealer.

ADS warranties commence after the expiry of the new car warranty and typically run for and additional 3 years + additional 100,000km's.

The *warranties* also have benefits that commence immediately such as; roadside assist, car hire, towing and accommodation costs for breakdowns where the consumer is unable to return to home until the vehicle is repaired.

All ADS warranties sold to consumers by dealers are fully refundable at any time. In the case of cancellation of a warranty on a used car, a prorated rebate is calculated.

If the aim of this report is to provide better outcomes for consumers as they relate to *warranty* products it is important that the product being sold actually covers the consumer for repairs that the consumer would expect the manufacturer to rectify. Sadly most third party warranties and dealer warranties do not.

ADS warranties that are sold to consumers by dealers cover the consumer for "repair or replacement" of any components that are defective in material or workmanship. The standard of *warranty* cover offered to the consumer is what the manufacturer provided when the car was new. There are no adverse outcomes for consumers when all components are covered.

E1.4Q1 A deferred sales model will not address poor outcomes if the *warranty* is of poor standard in the first place. The risks associated can only be addressed by mandating better cover and/or clearly communicating the shortfalls associated with defined event warranties that exclude major failures caused by non-covered components.

E2Q1 changes that would ensure *warranty* providers are effectively supervising their representatives could include; mandatory website information where a consumer could easily access and register a complaint or dissatisfaction with the product. This website could also be accessed by consumers who may be looking to purchase a *warranty* product to determine if the *warranty* product delivers expected outcomes. A central register would be very effective as the *warranty* provider and dealer would not want adverse reviews, as it would be detrimental to both their businesses.

E2Q2 Introduction of a central registry for *warranty* complaints associated with *warranties* sold to consumers would indicate the performance of the *warranty* product to providers, consumers and dealers.

E2Q3 Sanctions that could be introduced could include a full refund of the premium to the consumer.

Summary:

The majority of franchised dealers offer *dealer warranty products* to consumers. Not all *warranty* products provided to consumers are sold to consumers. Often *warranties* that franchised dealers provide to consumers are supplied at no charge to the consumer. This type of *dealer warranty* (service contract) may not be as comprehensive and have lower claim limits than a *dealer warranty* that is offered to consumers for purchase.

Many dealers and their intermediaries also offer third party *warranty* products to consumers.

Independent dealers also offer *warranties* to their customers. The majority of the *warranty* products offered to consumers by independent dealers are third party “defined event” *mechanical breakdown warranties*. Consumer outcomes are usually poor as many of these warranty products are poorly designed and contain exclusions and limitations.

Manufacturers of new cars are often aware of inherent problems with their products. Some manufacturers do not rectify known potential issues unless the consumer complains or the vehicle has a failure. Once the vehicle is outside the manufacturers warranty period the problem is transferred to the owner or subsequent owner of the vehicle. If the vehicle is resold or traded, the inherent problem becomes an issue for the new owner or dealer.

Manufacturers who buy back vehicles from consumers that have had major issues or ongoing issues, resell these vehicles through wholesalers and these vehicles end up being purchased by unsuspecting resellers or consumers.

Manufacturers who buy back vehicles from consumers that have had major issues or ongoing issues should not resell these vehicles.

Consumer outcomes that relate to *warranty* products can be significantly improved by improved design and better disclosures.

Jeff Kulik
Managing Director
Automotive Dealer Services PTY LTD.