

# NEW CAR RETAILING INDUSTRY

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## COMMENT ON ACCC DRAFT REPORT 10<sup>th</sup> AUGUST 2017

### DEALER WARRANTY

When a consumer purchases a New car the manufacturer provides a “Manufacturers Warranty” that states that “Any components that become defective in material or workmanship” will be repaired or replaced by any dealer that is an authorized representative of the franchised brand without cost to the consumer.

The manufacturers warranty has a commencement date (usually the date of first registration) and end date depending on the manufacturer somewhere between 3 years and 7 years from the commencement date.

Most manufacturers warranties also have a KM cap on when the warranty will end, usually 100,000 Km's. Some manufacturers offer unlimited Km's for the term of the warranty.

A manufacturers warranty provides the consumer with convenience and certainty in the event of a defect arising during the stated warranty period.

If a defect or failure occurs during the new car warranty the consumer notifies a franchised dealer. The dealer interacts with the manufacturer on behalf of the consumer to rectify the defect. Most warranty claims are resolved by repair or replacement of defective components.

All components of a vehicle deteriorate with time and KM's. Some components require regular servicing to maintain the safety and reliability of the vehicle.

Consumers generally service their cars with a franchised dealer while the car is under the “manufacturers warranty period”, the main reason I believe is that if a fault is detected during routine service the dealer will rectify the fault by interacting with the manufacturer. Dealers are also regularly notified by the manufacturer to check or replace potentially faulty components.

If the vehicle is being serviced by an independent service center and a fault is detected the vehicle would need to be returned to a franchised dealer to have the fault remedied. Independent repairers would not receive bulletins from manufacturers to check for potentially faulty components.

Servicing at independent service centers may result in delays and inconvenience to the consumer.

Many dealers will offer additional warranty to the purchaser at no charge, if the consumer has serviced their vehicle with the selling dealer.

The additional warranty may also have other benefits such as Towing, Car hire, Accommodation and/or Roadside Assistance. The additional warranty provides the consumer with convenience and certainty of repair after the manufacturers warranty has expired. The dealer warranty commences after the manufacturers warranty period and usually provides an additional 3 years and 100,000km's.

## NEW CAR RETAILING INDUSTRY

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The dealer warranty also provides the consumer with written information that the consumer has additional rights under consumer law.

ADS administer claims on behalf of our dealers and provide an independent assessment of every claim submitted. ADS will also assist the consumer with towing and location of repairers if the consumer requires assistance.

In the event of a defect occurring during the dealer warranty period the consumer can return the vehicle to the dealer to have the defect repaired or replaced.

The consumer may also contact the administrator of the dealer warranty (ADS) in the event of a fault and ADS will direct the consumer to a convenient repair center.

ADS can arrange repairs to the vehicle by obtaining quotes and order numbers from the selling dealer to the repairer on behalf of the consumer.

The consumer does not pay for authorized repairs of covered components.

Some dealers sell an extended warranty to the consumer.

The dealer warranty commences up on the expiry of the manufacturers warranty and is usually for an additional term of 3 years and 100,000km's.

The warranty that ADS dealers sell provides additional cover after the expiry of the manufacturers warranty that covers "any components that are defective in material or workmanship. In most cases the warranty claim limit is up to the purchase price of the vehicle.

The dealer warranty also has additional benefits such as Car Hire, Towing, Accommodation and Roadside assist.

Warranties that ADS dealers "sell" are not conditional to servicing by the selling dealer. The consumer can service their vehicle at a service center of their choice.

The majority of new and used car buyers purchase comprehensive insurance. Comprehensive insurance covers the owner against accidental damage to body panels and consequential damage to other components damaged as a result of accidental damage. Comprehensive insurance varies in cost from \$500- \$1,500 on average per annum and is also subject to excesses of \$500 + per claim.

Premiums are also subject to increase each year.

## NEW CAR RETAILING INDUSTRY

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Mechanical and electrical defects and failures are not covered by the comprehensive insurance policy.

Consumers are able to purchase a dealer warranty for up to 3 years, which covers all mechanical and electrical failures that may occur during that period. Dealer warranties are made available on both new and used vehicles that dealers sell. There is no excess on claims or increase in premiums for the term of the dealer warranty. Additional benefits also form part of the dealer warranty.

Dealer warranties usually retail for \$995 - \$1,395 including gst for the 3 year/100,00km cover.

The cost of repairing or replacing even minor components can exceed \$1,000 and major defects such as transmission or engine repair or replacement can exceed \$5,000 per claim.

Example: On the 25<sup>th</sup> of August 2017 a consumer lodged a claim for an engine failure, the repair cost is \$27,143.00. The repair was covered in full including towing. The cause of the failure was a blocked air filter that should have been replaced as part of maintenance.

Many dealer warranties and third party warranties that are sold to consumers are limited in the scope of covered components and have limits of liability per claim and in total claims, they also do not offer additional benefits.

All other dealer warranties that are sold to consumers are also conditional to servicing the vehicle with the selling dealer. I think that if the consumer has paid for the warranty the warranty should not be conditional to service by the selling dealer.

# NEW CAR RETAILING INDUSTRY

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## CONSUMER GUARANTEES – USED CARS

Dealers acquire their used vehicle inventory from a number of sources.

1. Vehicles that are traded by consumers when they purchase a New or Used car.
2. Vehicles purchased directly from the public.
3. Vehicles that are bought from wholesalers or at Auction.

Prior to retailing the used car the vehicle is inspected and reconditioned. Defects are rectified so that the vehicle will pass a RWC inspection. The RWC is valid for 30 days.

Almost all vehicles that franchised dealers sell come with a statutory warranty - “3 months or 5,000km’s. (Vehicles up to 10 Years old and 160,000Km’s.)

All dealers understand their obligations to remedy defects that occur during a statutory warranty period.

Consumer guarantees state - “goods must be fit for purpose for a reasonable amount of time”.

Dealers and consumers need clearer definitions regarding exactly how long is “reasonable”. Eventually every component has a finite life span and will need repair or replacement. A clearer definition of “reasonable” would specify a time and Km from the time of purchase.

Example: Vehicles up to 10 years old and less than 160,000Km’s a 12month/20,000km’s warranty on parts and labor for components that make the vehicle fit for purpose would clarify the dealer’s obligations.

Specific “major” components can be listed: Engine and Transmission.

Minor components: Vehicle electrical and electronics that affect the vehicles function for purpose.

Excluding: Items that do affect the vehicle being fit for purpose. - Radio, CD, Locks, Clocks, Satellite Navigation, and other accessories that do not affect the vehicles function for purpose.

Additional consultation with dealers and dealer groups could assist in defining clearer guidelines.

Defined warranty periods and cover would clarify consumer expectations and dealer obligations.

## NEW CAR RETAILING INDUSTRY

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### CONSUMER GUARANTEE'S & DEALER WARRANTIES.

While consumers have protection under ACL for Major and minor failures, it is not clear for how long and to what extent.

It would be reasonable to expect that if a major failure of the engine or transmission occurred the defect would be remedied by the dealer if the failure occurred within a "reasonable" time from when the consumer purchased the vehicle.

Example 1: if the failure or defect occurred after 2 years and 60,000km's from being purchased from a dealer would the dealer be held to account to rectify the issue? The vehicle may now be 10 years old and have travelled 190,000km's.

Example 2: If a minor defect occurred 8 months after purchase such as faulty Bluetooth, Radio, electric sunroof or satellite navigation, would the dealer be expected to rectify these issues even though they do not effect the operation of the vehicle? Each of these items can exceed \$1,000 to replace.

In each of the above examples if the customer had been issued with a comprehensive dealer warranty the dealer would repair or replace the defective items under the terms of the dealer warranty.

### DEFINED EVENT DEALER WARRANTY

Almost all dealer warranties that sold to consumers are "defined event".

The warranty lists the components covered and use terms such as covered for "sudden and unforeseen failure" and "at the discretion" of the dealer or administrator. Most of these warranties are poor value as major components such as Engine block and cylinder heads and gaskets are not covered.

They are also conditional to servicing by the selling dealer even though the consumer has paid for the warranty. Many of these warranties are void by the dealer/administrator after 6 months if the consumer has not returned to the dealership for service. The consumer is not refunded the price paid for the warranty. Most defined event dealer warranties have set claim limits usually \$2,000.

### COPREHENSIVE DEALER WARRANTY

ADS administered dealer warranties that are sold to consumer's state that "The dealer will repair or replace any component that is defective in material or workmanship" for the period and distance nominated in the warranty contract usually 3 years or 100,000 km's.

ADS administered dealer warranties that are sold to consumers are not conditional to servicing at the selling dealer.

## NEW CAR RETAILING INDUSTRY

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If at any time during the period of the warranty the consumer wishes to cancel the dealer warranty contract a "pro rata" rebate is refunded to the consumer or credited to the finance agreement. ADS administered dealer warranties also provide additional benefits such as roadside assist, car hire towing, and accommodation.

There are improvements that could be made to extended warranties that would improve outcomes for consumers and provide better value.

Consumer dissatisfaction arises when poorly designed warranties are sold to the consumer who expects that the items listed, are covered by the warranty.

Often, that is not the case and leaves the consumer who has purchased the warranty to pay for repairs that they thought were covered by the warranty.

Improvements could be made, by mandating the removal of some of the exclusions that result in poor outcomes.

Poorly designed warranties that have exclusions covering components where failure is caused by non-covered items.

Dealer warranties that are SOLD to consumers and do not provide a rebate when cancelled.

Dealer warranties that are SOLD to consumers which state; that the consumer MUST service their vehicle with the selling dealer or the warranty will be void and the premium is not refunded.

Dealer websites could provide information about warranty conditions and pricing, which could assist consumers when deciding to purchase a warranty.

Provide consumers with a comparison of the extended warranty being offered for sale and the original manufacturers' warranty.

Dealer warranties could also provide information about statutory remedies available to the consumer if the extended warranty did not remedy a fault or failure.