EXTENDED WARRANTY INSURANCE
MADE SIMPLE

Working with the profession to simplify the language of insurance
WHAT IS EXTENDED WARRANTY INSURANCE?

When you buy something new for your home, such as a washing machine or television, this will usually come with a manufacturer’s or retailer’s guarantee – typically lasting one or two years – covering mechanical or electrical breakdown during this period. You may choose to buy an extended warranty that provides cover beyond the manufacturer’s guarantee. So, for example, if your washing machine breaks down due to a mechanical or electrical failure after the guarantee has run out, the extended warranty will pay for repairs or a replacement.

You usually have to pay for the extended warranty on top of the price of the goods.

What items can be covered?

Extended warranties can be bought for a range of items including:

- Household appliances including washing machines, dishwashers, microwaves and kettles
- Electronic goods such as televisions, DVD players, laptops and games consoles
- Household furniture including sofas, beds and wardrobes
- Motor vehicles.

The cover provided by an extended warranty often depends on the type of item that is covered.
What is covered?

The cover provided by an extended warranty can vary, but most include:

- The cost of repairs following mechanical or electrical breakdown.
- A replacement item or cash payment if the item cannot be repaired cost effectively.

Some extended warranties offer you extra cover such as:

- Accidental damage. This extension may apply even while the manufacturer’s or retailer’s guarantee is still in place, as well as during the extended period.
- Regular servicing – for example for boilers – reducing the chance of an unexpected breakdown and the problems this would cause. But an extended warranty is not a maintenance contract – it rarely covers “wear and tear”.

Some extended warranties allow you to transfer the cover to the new owner if you sell an item – for example, if you move house and include electrical appliances as part of the sale.

Remember: Not all warranties cover every problem, so make sure you check the details before you buy. Otherwise you could be paying for something you can’t get the benefit of.

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What types of policy are there?

You can choose to insure just single items under one policy, but policies are also available which insure more than one product on the same policy – although the more items the bigger the premium. If you have a number of different items that you would like to purchase extended warranties for, you may find that a multi-appliance warranty provides better value.

Extended warranties are available that last for two, three, four or even five years after the manufacturer’s or retailer’s guarantee has expired. Some extended warranties have no fixed term and can be paid for on a rolling month-to-month basis.

Watch out for excesses. If the policy includes an excess, this is the amount you must contribute towards repair bills. If a repair costs £65 and you have a £50 excess, then the contract will only pay out £15.
Do I really need it?

There are several things to think about.

- You may have automatic legal rights. If an item is faulty or not fit for purpose when you buy it, the Sale of Goods Act is there to protect you, regardless of whether you have purchased an extended warranty. Claims must be made within a reasonable time. So if you buy a new television or washing machine and it breaks down within say a month or so of purchase, you probably have the right to a refund or replacement. Similarly, if you have problems within the next few months, and believe the item was faulty at the outset the retailer should sort it out. If something goes wrong after the first six months, it’s a bit trickier. You still have the same rights, but you must prove that the goods were already faulty when you bought them.

- Check the manufacturers guarantee. Remember manufacturers often guarantee their goods for 12 months – and in some cases longer. Plus, some retailers will top up this period for free – sometimes for up to five years. Ask when you buy. Always register your guarantee if companies require this.

- Did you pay for the goods by credit card? If so, you have some protection under Section 75 of the Consumer Credit Act. The law says that the card company has to cover you if the goods are faulty or not as described. You’re automatically covered for any goods valued between £100 and £30,000.

- Existing insurance policies. Before purchasing an extended warranty, find out whether you already have cover under other policies. Electrical and mechanical breakdown are not usually covered by home contents insurance, but accidental damage may be – so it’s worth checking your policy. However, your contents policy may contain an excess meaning you have to pay the first part of any claim – many extended warranties do not.

- Will I need to claim? Most goods are getting cheaper and more reliable over time – so you’re less likely to need a warranty. According to research carried out by independent reviewer Which?, most new electrical goods and appliances have a very low chance of needing repair in the first five years. So if you buy an extended warranty, you may be paying for something you won’t really benefit from – at least in the early years.

And remember also that carrying out repairs is getting more expensive as appliances get more sophisticated – so it can be cheaper to buy new than repair. Replacing goods will also allow you to take advantage of advances in technology – a replacement item is often better than the one you had before. It will have all the latest features included – and may be more energy efficient and so cheaper to run.

- Check your bank account. Some bank accounts automatically include a number of benefits – which may include extended warranty cover. Find out whether your current account includes this feature, and, if so, whether it is suitable for your needs.

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Extended warranty checklist

If you are considering purchasing an extended warranty, here are some questions to ask yourself before you buy:

- How essential is the item to you? How inconvenient would a breakdown be?
- How often is it likely to break down or need repairing?
- What are the likely costs of repairing the item?
- Could you afford to pay for repairs yourself if you needed them doing quickly? You need to bear in mind not only the cost of labour and parts, but also call-out and diagnostic charges.
- How does the cost of buying an extended warranty compare with the cost of replacing the item?
What to be aware of

Sometimes an extended warranty can cost almost as much as buying a new product – in which case, it may be better to take the risk, save the money, and buy a new one if your appliance stops working. The research carried out by Which? highlighted that the extended warranties offered by some providers were relatively expensive. For example, one extended warranty on a £260 washing machine cost £170 – more than half the price of the goods being insured.

It is essential that you understand what cover is and, more importantly, is not provided – and any requirements that are placed on you for cover to be valid:

• Some policies contain a ‘no-claim’ period immediately after the start of the cover. This means you cannot make a claim for a certain number of days – may be as many as 60 days – after arranging cover.

• Although extended warranties cover repair costs, some do not cover labour costs, call-out charges, some spare parts or the cost of sending goods back for repair.

• Most policies contain exclusions – certain things that are not covered by the policy. The list can be quite extensive and include things such as:
  – Cosmetic damage – for example, cracked glass or damage to paintwork.
  – Indirect costs – for example, if your computer breaks down your extended warranty will cover the cost of repairing the machine, but not the cost of replacing any lost data.
  – Delivery or installation costs.
  – The replacement of inaccessible or built-in parts.

• Some extended warranties may have a limit, either on individual claims or on the amount you can claim altogether throughout the duration of the policy. There might also be restrictions on the age and value of a single item.

• You may need to register your goods and appliances for cover to be valid.

• Most policies do not cover items that are over a certain age – typically five or eight years old. This means that cover will cease once the item reaches that age. It is important that you check and update the list of items insured to make sure that you are not paying for items that are no longer covered.

Read the details of the cover you are buying very carefully and make sure you understand the insurance before signing up.
Not all extended warranties are insurance contracts

There are two types of extended warranty:

- Insurance contracts, and
- Service contracts

If your extended warranty is an insurance contract, you can have peace of mind that if you have a claim, the money will be there to pay up and if not you are protected. If you are unhappy with the service provided or the way a claim is settled, you can take your complaint to an independent body – the Financial Ombudsman Service (FOS) free of charge. In addition, should your insurance company become insolvent, leaving you with a claim that has not been paid, you can seek compensation for 90% of your claim from the Financial Services Compensation Scheme (FSCS).

However, some extended warranties are in reality merely service contracts with no insurance backing. If something goes wrong, you have to rely on a single service provider and their efficiency. If you are unhappy, you are not entitled to complain to the FOS or the FSCS.

If the service company goes bust, you could lose your money and right to repair or replacement. Some extended warranty providers set aside funds to cover their service contracts. However, this is not always the case – so before you buy – it is important to find out what type of extended warranty is being offered and what protection it offers.

Before you buy
find out what kind of extended warranty is being offered

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**How to buy the best policy**

Most retailers will offer you an extended warranty when you buy household goods and appliances. However, you do not have to buy your extended warranty from the same place you buy your goods, or even at the same time, and may be able to find cheaper cover elsewhere by shopping around. Retailers are legally required to tell you this.

You can also buy extended warranties from:
- Specialist insurance companies
- Price comparison websites
- The retailer of the item
- The manufacturer of the item
- Insurance brokers (including comparison websites)
- Utility companies (to cover certain items such as boilers).

Some websites may seem to offer helpful comparative information, but not all of these are impartial.

Cover and prices can vary from one provider to another, so make sure that the plan you purchase is the most appropriate one for your needs.

**How to make a claim**

Check your policy document for guidance on how to make a claim and make sure you follow any instructions given. Any work that is completed without authority from your insurer may not be covered.

Always contact the extended warranty insurer named in the policy document before calling in a repairman. It may be a condition of cover that you use one of their approved repairers who have expertise in repairing a particular product.

Many insurers have free phone numbers for you to call. Alternatively you may be able to notify your claim over the internet on the provider’s website.

Customer service advisors will give you a contact number for an authorised repairer in your area and a referral number. You can then call the authorised repairer, quoting your referral number and arrange for them to come to repair your appliance. Some insurers will arrange an appointment for you.

You will be asked to provide proof of ownership of the item being claimed. The best proof of ownership is the original receipt. In some cases, in the absence of the original receipt, other forms of proof of purchase, such as a credit card or bank statement may be accepted.
How will my claim be settled?

Extended warranty insurance policies are often based on the principle of indemnity. This means that, in the event of a valid claim, the insurer is obliged to put you back in the same financial position you were in prior to the loss or damage. Depending on the wording of the policy, this can be done:

- By making the necessary repairs;
- By replacing the item where the costs of repair exceed its purchase value;
- By offering a credit note as settlement; or
- By offering a cash settlement.

If the item is being repaired or replaced, your insurer will usually take care of any costs directly with the repairer or supplier, so you won't even see a bill.

However, you will be asked to pay any excess, if there is one, which will deducted from your claim settlement.

If your claim goes over the individual claim limit on your policy, you will have the option to pay the additional charge. If you do not want to pay the additional charge, you will receive a cash settlement for the individual claim limit.

What if I am not happy with the way my claim is handled?

Firstly, you must complain to your insurance company. Every insurer has a complaints procedure that you can follow if things go wrong, so check its website or give them a call.

If they do not resolve your complaint, you can then contact the Financial Ombudsman Service (FOS) for help. The service is free and independent, but the FOS will expect you to have exhausted your complaint with your insurer first.
A buying checklist

• Shop around – specialist insurers are often much cheaper than retailers, and multi-appliance deals can offer better value.

• Check how long the extended warranty cover will last compared to how long you are likely to keep the item.

• Do the terms provide a new for old replacement if the item cannot be repaired?

• Do you have to use an authorised repairer if you make a claim?

• Is there a limit to the number of claims you can make or the amount you can claim for?

• Will the cover stop once you have made a claim?

• Read the small print very closely, especially for loopholes and exclusions.

• Beware of extended warranties where you pay monthly – over the long-term these can prove to be very expensive.

• Is it a service agreement, not a guarantee?
Remember if you have any questions about extended warranty insurance, just ask me, Ciindy at askciindy.com