

10 Selling practices and terms and conditions of sale

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Introduction

10.1. This chapter describes the evidence that we considered regarding how EWs are sold at the POS of the DEG, together with various concerns over the terms and conditions under which EWs are sold.

10.2. We first describe the formal selling practices of the large DEG retailers, ie what sales staff are instructed to say and do in formal training. We next describe the evidence regarding what consumers think about how EWs are sold. We then consider factors that may explain the apparent differences between the formal selling practices of the large DEG retailers and how consumers perceive the selling process, including incentives to sell EWs and controls on pressure selling. Finally, we consider a number of concerns that were put to us regarding how terms and conditions of EWs are communicated to consumers during the selling process. Our analysis of selling practices was assisted by consultants from Retail Planning Innovations Limited.

10.3. Our analysis has not formally compared selling practices for EWs with selling practices for DEGs, but it has been put to us that in most respects the selling practices are similar. Whilst we accept that there are many similarities in training and incentives to sell, we also note later in this chapter certain selling practices that may only apply to EWs.

Formal selling practices

10.4. This section is based on our review of the EW training materials of five large DEG retailers and the staff training section of the CC retailers' questionnaire.

10.5. EW training is provided to virtually all sales advisers in major DEG retailers, and in some cases to other staff such as back-office administration personnel who might assist on the shop floor at peak periods. Training may be provided at regional training centres and in-store. Some retailers use regional training centres to provide new joiners training courses that include sessions on EWs. There may also be more advanced EW selling skills training sessions. Training can also be carried out in-store by means of short daily briefings or weekly training sessions that are usually run by the store manager. Most sales advisers will, therefore, receive EW training on joining and then some form of regular update training.

10.6. The content and style of EW training materials varies between the large DEG specialist retailers but there are some common themes. These include how to start the EW selling process (see paragraph 10.8), how to tell customers about EWs (see paragraph 10.9), how to overcome customer objections (see paragraph 10.10), and the need not to step 'over the line' (see paragraph 10.12).

10.7. Sales advisers are trained to start the EW sales process early whilst the consumer is selecting the DEG. For example, one retailer instructs the advisers to ask open questions about usage and lifestyle both for the purpose of helping the customer to select an appropriate DEG and for possible use later in the conversation to help explain the benefits of the EW. A second retailer advises its staff that the key time to introduce the EW is when they are asking about the consumer's experience with their old DEG. A third retailer encourages staff to make 'small talk' with customers in order to create rapport and so make it easier for the customer to say what is important to them in relation to the EW. Consumers will usually not be aware that these early discussions are part of a planned EW selling process.

10.8. Sales advisers are instructed on ways of bringing EWs to the attention of customers. One retailer suggests a simple opening line: 'Let me tell you about [our EW]'. Many sales advisers are trained to match the information they already know about the customer, or responses to further questions, to the most relevant benefits of the EW. For example, the avid football fan purchasing a television might be told 'Isn't it just the way that the TV breaks down the night of the most important match? With [our EW], we offer same day service'. The NOP survey for the CC found that sales advisers most often promoted 'peace of mind' and 'no repair cost' as reasons to buy the EW.

10.9. Sales advisers are trained to deal with customer 'objections'. These are the reasons given by customers as to why they do not want to purchase an EW. One retailer tells sales advisers that 'Every objection has a potential solution—positively seek the resolution and you will create a win-win conclusion'. Another instructs staff (in training it provided following the publication of a consumer leaflet *Extended warranties—do you need one?* by the OFT in October 2002 and the ensuing press coverage) to 'empathise with the customer's viewpoint', not to be 'argumentative' and to 'explain the relevant benefits of the EW' that deal with the objection.

10.10. One possible objection covered in the training material is the customer saying that the EW is too expensive, to which one retailer advises staff to highlight the potential cost of repairs but then to 'give the customer all the available EW options and let them decide which one is more affordable to them'. A second retailer advises staff to break down the cost into a per-year cost. This retailer also disclosed to us a leaflet that had been used in the past to provide staff with some sample repair costs, such as a new motor for a washer-dryer at £254 or new heads for a camcorder ('a common repair') at £287. We understand that this leaflet is no longer in use and that it is now not this retailer's policy to provide such information to staff. A second objection is customers saying that they are already covered for accidental damage on house insurance, to which one retailer advises staff to ask customers about their home insurance policy excess and to inform customers that there is a risk that their home insurance premiums may go up the year after they make a claim.

10.11. The BRC Code of Practice states that 'those selling extended warranties and warranty providers will take steps and have a policy to prevent undue pressure to purchase being applied at the point of sale. In particular, they will not make misleading or exaggerated claims in relation to such matters as the scope of cover, the payment or amount of call out charges or the cost or likelihood of repairs'. We found that most sales advisers are given clear instructions about certain things they should not do as part of the selling process so as to comply with the BRC Code, although different retailers had interpreted the code requirement in slightly different ways. One retailer has prepared a video for staff that demonstrates some unacceptable selling practices. These include persisting with the selling attempt when the customer is clearly not interested, bringing a second sales adviser into the conversation if this could put unfair pressure on the customer, and talking of calling over the manager to speak to the customer which is described as effectively bullying and intimidating the customer. Another retailer told us that it gave staff training on the BRC Code, and warned staff not to use undue pressure to sell an EW or to make false claims about repair costs and product reliability. A third retailer told us that it insisted its staff adopt a 'soft-sell' attitude to EWs coupled with a full explanation of features, benefits and price.

Consumer experience

10.12. This section is based on the consumer market research that we considered together with around 100 views from individual consumers that were put to the Citizens Advice Bureau, the BBC television programme *Working Lunch*, the OFT, the consumer opinions web site Dooyoo.com or direct to the CC.

10.13. The OFT's FDS survey included a series of questions about the way EWs were sold. These questions were put to 1,026 people who had bought a DEG in 2000/01 and so had recent experience at the time of the study. The survey asked consumers: 'Do you feel store staff put you under pressure to take out an extended warranty?' 9 per cent of DEG customers said that they did feel they had been put under pressure. In response to a separate question, 24 per cent said that they had been advised to buy an EW but not pressurized. 23 per cent said that the salesperson may have mentioned the EW but they had not been advised to buy it. 42 per cent had not been told about the EW (hence, of those who said that they were told about the EW, 15 per cent also said that they felt they had been put under pressure to buy the EW). We analysed this data separately for the Dixons Group (with 230 customers in the sample) and Comet (141 customers). For both these companies, the percentage who had not been told about the EW was 15 per cent compared with 42 per cent overall. The percentages of those that said they had been put under pressure to buy were 17 per cent and 21 per cent respectively compared with 9 per cent overall.¹

10.14. The mystery shopping exercise that was carried out in 2001 for the OFT by TNS found that 7.4 per cent of assessors felt under pressure to take out EWs. TNS noted that the views of the assessors were those of 'informed' customers who had been specifically briefed and trained to conduct the study. The reasons why some assessors felt they had been placed under pressure varied from cases where it might be argued that the sales adviser had simply presented some strong rationale for buying an EW ('I had the feeling that without the policy I would lose out') through sales practices that might be considered annoying ('The assistant was quite persistent showing me the folder with the call-out and labour charges') to sales practices that could be considered as 'threatening' ('Two other sales people joined in the conversation trying to persuade me that it was in my best interest to take out at least the three year

¹One retailer questioned whether the result when looking at individual companies was statistically valid. We satisfied ourselves that it was.

extended warranty'). TNS concluded that 'Whilst it appears the vast majority of retailer outlets do not exert unfair influence on consumers, evidence does exist that staff do exert pressure on customers, usually through the comments they make about the product or the cost of repair'.

10.15. In the CC's NOP survey, 36 per cent of DEG customers said that they were advised to buy an EW, 23 per cent said that the EW had been mentioned but they had not been advised to buy it, and 30 per cent had not been told about the EW. Our survey did not ask specifically about pressure selling because of the various interpretations that could apply to the term 'pressure selling'. Comparing the FDS and NOP surveys, we note that the percentage of respondents where the sales adviser made some attempt to sell the EW was similar (56 per cent and 59 per cent respectively), and both surveys found that Dixons Group and Comet sales advisers were more likely to attempt to sell EWs than the average of all other retailers.

10.16. In an ICM survey for *Retail Week* in April 2003, of a random sample of 1,000 consumers, a total of 62 per cent of consumers agreed with a statement in relation to EWs: 'I felt the sales people were pressurising me into buying them'. 35 per cent disagreed with the statement. This survey may have included consumers who did not have recent experience of purchasing a DEG, but even allowing for this and other methodological differences between the surveys, the ICM results do not seem to be consistent with either the FDS or NOP surveys. We noted that this result may partly reflect the adverse publicity about EWs in the media during the last year. As such we felt that it provided an interesting snapshot of public opinion but not wholly persuasive evidence of consumers' adverse experiences.

10.17. Our objective in reviewing consumer complaints was to help understand what selling practices could be perceived as 'pressure selling' by some consumers. We recognized that these complaints were unlikely to be representative of wider consumer experiences, and in some cases could be exaggerated or misleading in other ways. We categorized the consumer complaints into examples of the retailer providing misleading information that could lead to a consumer believing that the EW might offer better value than in fact was the case, and examples of consumers feeling 'bullied' into purchasing the EW even though they believed it did not provide good value.

10.18. Examples of alleged misleading information included a sales adviser who advised a consumer to purchase an EW on a washing machine but did not mention that the manufacturer provided a free five-year parts and two-year labour guarantee. In another case a sales manager claimed that if anything went wrong with a PC being purchased, the consumer would have difficulties getting it fixed, as only the store's own warranty service kept the necessary spare parts.

10.19. Examples of alleged 'bullying' included a sales adviser who 'would not take no for an answer and made us feel very uncomfortable' ... 'he continued telling us why we should buy it and how much it would cost us if we did not' ... 'when he finally realised we were not going to buy the EW he made us feel like we had done something wrong'. Another sales adviser who was 'very pushy' and called a colleague in to attempt to support the sales effort. The consumer wrote: 'We felt very intimidated as they just wouldn't seem to take no for an answer'. A sales manager tried to sell an EW to a consumer who had already told the sales adviser that the EW was not wanted. The consumer wrote that the manager 'got distinctly irritated at my continued refusal to purchase it'.

Analysis of consumer experience data

10.20. In this section we attempt to reconcile the way in which employees of the major DEG retailers are trained to sell EWs and how consumers relate their experience of the EW sales process. As noted in paragraph 10.10, the evidence that we have reviewed on training seems to confirm the retailers' views that attempts are being made to ensure that sales advisers comply with the BRC Code of Practice. All the major retailers told us that the use of poor sales practices could damage their reputation and hence future sales; therefore they take care to ensure that sales advisers are trained properly. However, there is some evidence from the FDS and ICM surveys and consumer complaints that some consumers perceive there to be a problem with how EWs are sold. To help understand this apparent divergence in views, we considered the factors that may influence selling practices other than the formal training received. These included how sales advisers are encouraged to sell EWs by means of financial and non-financial incentives, the methods that are used by the retailers to monitor selling practices, and selling practices that could be within the BRC Code but still perceived as 'pressure selling' by consumers.

How staff are encouraged to sell EWs

10.21. The major DEG retailers encourage sales advisers to sell EWs by means of remuneration-based incentives whereby the adviser receives some form of financial reward for selling EWs, and performance-based incentives whereby EW sales targets are set and action is taken to deal with failure to meet these targets. These two types of incentives are also used by these retailers to sell DEGs and other accessories in-store. It was put to us that these incentives could result in pressure on individual sales advisers to go beyond company approved selling practices.

10.22. In most cases, commissions are paid to sales advisers when they sell EWs. The forms of payment used include a fixed amount per EW sold (for example, £5 per policy), a simple percentage of the EW sales value (for example, 0.5 per cent of the sales value of the EW), and a simple percentage of the EW sales 'margin' (for example, 2.5 per cent of the margin on the EW). We understand that the 'margin' used for this purpose is usually above the margin on the average DEG, hence although the percentage commission paid may be the same for DEG and EW, EW sales can be more rewarding in terms of absolute commission earned, though the differences may be modest. These commission systems are complicated by the existence of enhanced levels of commission on meeting certain sales levels; special, though regular, incentives given for short periods of time to encourage stores to improve performance; and bonuses paid for overall performance rather than related to sales of specific products. Our understanding is that EW sales commission for the most successful sales advisers can generate between around 4 and 14 per cent of total remuneration. For the average performer, EW sales commission can generate between around 1 and 10 per cent of total remuneration. These variations reflect differences between the retailers in the degree to which the overall remuneration package is split between basic pay and commission, and this split is not specific to EWs.

10.23. Our analysis did not find a simple relationship between financial incentives to sell EWs and actual EW sales. For example, one catalogue retailer achieves a relatively high level of EW sales whilst paying relatively low direct commissions. Other factors, including the number of customers buying on credit arrangements, appear to be more important to the level of sales of EWs than incentives to sales people. However, sales levels of EWs online are usually much lower than those in-store, and this may in part reflect the absence of sales advisers working on incentive.

10.24. In addition to financial incentives, the way in which sales advisers are managed can encourage them to sell EWs. At larger retailers, POS systems are used to log EW sales opportunities and successful sales by sales adviser. In most retailers the performance of sales advisers is reviewed on a regular basis, typically either weekly or monthly.

10.25. We reviewed the views of a small number of former and current employees of the large DEG specialists that were sent to the BBC television programme *Working Lunch*, to the consumer opinions web site Dooyoo.com or to the CC. We recognized that these could represent the views of discontented staff who may have failed to meet their employer's standards of performance or behaviour. However, they may provide some indication of the way in which sales advisers are managed on a day-to-day basis. One former sales adviser said that the retailer expected a minimum proportion of 10 per cent of his sales turnover to be EWs. Another said that at weekly staff meetings, sales advisers are told how well or poorly they are doing. They were told that the store had an EW target to meet and therefore so did the individual advisers. Another wrote that sales advisers who kept falling short of their weekly target were invited for a meeting to discuss the problem, and if they continued to miss the target consistently they would be dismissed.

Methods of maintaining the BRC Code of Practice

10.26. Control methods used by the retailers to ensure that EW sales practices are both in line with the BRC Code and, more generally, in the retailers' interests include complaint management, shop-floor supervision of sales advisers and 'mystery shopping'.

10.27. The major DEG retailers told us that they monitored complaints about EW and took appropriate action including staff disciplinary action, further training and reviewing operating procedures. Retailers are also required by the BRC Code to submit a summary of the complaints to the BRC. In the year to May 2002, the BRC was informed about 1,129 EW-related complaints across all medium and large retailers, of which 693 related to how the EW was sold. This represents around one selling

complaint per 10,000 EWs purchased or renewed. We note, however, that this statistic may reflect only 'formal' complaints, such as those made to a retailer's central helpline, rather than the number of consumers who may express dissatisfaction to a member of staff in-store but who do not take any further action. So, while we have seen in the OFT's FDS survey that approaching one in ten people had felt under pressure to take out an EW, only one in 10,000 people make any formal complaint about the selling process.

10.28. A significant form of control is that exercised in-store by the store manager and sales manager over sales advisers. We understand that in most stores there will be a store manager or sales manager on the sales floor, and these managers will 'quality control' sales advisers who are either less familiar with the retailer's formal procedures or less capable, to ensure they have followed the retailer's sales procedures. It must, however, be recognized that the managers themselves have both financial incentives and performance targets and so can be expected to have an interest in maximizing EW sales.

10.29. The BRC Code requires retailers to initiate a programme of regular audits to ensure ongoing compliance. The audit procedures that are used include internal audits, usually in the form of branch visits by staff from the head office or other managers, and external audit procedures, often including mystery shopping. In the BRC seventh annual monitoring report for the year to May 2002, 65 per cent of retailers carried out internal audits (covering 92 per cent of EW sales by retailers adhering to the code) and 53 per cent carried out external audits (covering 57 per cent of EW sales by retailers signed up to the code).

'Borderline' sales methods

10.30. In this section we consider selling practices that could be within the BRC Code but could still be perceived as 'pressure selling' by consumers. We consider these in two categories: providing selective information and persistent selling behaviour.

10.31. As noted above, sales advisers are trained to attempt to overcome customer objections to purchasing an EW. They may do this by providing additional information. Many of the examples given in the training material suggest that information given to consumers may be selective or incomplete in some way. Sales advisers may be trained to tell customers that 'one repair could cost as much as the EW', but the training does not require the adviser to tell the customer that the *average* repair cost might be less than the cost of the EW. In response to a customer saying that if the DEG breaks down they will just buy a new one, sales advisers may be trained to point out that they may need to do this more than once, whereas the EW would cover multiple repairs. However, sales advisers may not be trained to explain that the DEG is unlikely to need repairing more than once.

10.32. Our consultants told us they believed that if EW sales were not immediately achieved, a variety of techniques might be used to continue to try to sell the EW. We understand that methods used include sales advisers feigning ignorance on a specific technical topic, in order to introduce another sales adviser or sales manager; telling customers that there is a need for the sales manager to 'sign off' the DEG sale; the sales manager checking to see if customers have everything they need; or the checkout 'sticking' or needing 'management authorisation'. Through any of these or other similar methods, the sales adviser involves a second member of staff who will take the opportunity to attempt to sell an EW for a second time. In industry jargon, these practices are termed 'double hitting'. The training materials that we reviewed demonstrated that 'double hitting' is discouraged by the retailers—nevertheless it seems to persist, but only in a small minority of cases.

Web-based selling

10.33. We reviewed how EWs are sold at POS on web sites. As there is not usually any role for sales people in selling DEGs and EWs over the Internet, there is much less scope for the use of any selling techniques that might be considered to put the consumer under pressure to purchase. However, in some cases, the price of the EW may not be provided until the DEG purchase selection has been made. Further, we were told that on some web sites an EW would be automatically placed in the 'shopping basket' after the customer had selected a DEG to purchase, and the consumer who did not notice this might therefore pay for an EW unintentionally. We checked the sites of many providers but found no evidence of this happening at present, although on Dell's web site, for certain PC models a recommended EW is auto-

matically selected for the consumer at the start of the configuration process by which a consumer selects a PC to purchase. Information on other Dell EW options, including the cost saving that is available by not accepting the recommended EW option, is clear on the web site. The way in which the EW is selected is identical to that in which other recommended elements in the specification of the PC are selected. Dell told us that the most basically specified PC of each model was highlighted on the web site more prominently than any other option, and this model would exclude an EW. Dell told us that considering the context of customer choice of configuration for many features, there was little likelihood of unintentional selection of an EW.

Parties' views on pressure selling

10.34. As noted in paragraph 10.21, the parties told us that pressure sales tactics were counter-productive as they could either lose the immediate sale or damage their reputation. One large DEG retailer told us that its future success was wholly reliant on developing a long-term relationship with customers based on trust, and if customers felt pressurized into buying products or services, they would not return. Another told us that it was in its own interests to achieve the long-term development of customer loyalty, leading to satisfied customers and repeat business. Another said that it had dismissed staff for using unacceptable EW sales techniques but not for underperformance in EW sales.

10.35. The major DEG retailers told us that they took non-compliance with the BRC Code very seriously and took steps to monitor adherence to it. One large DEG retailer told us that it made substantial efforts to minimize incidents of misselling. It said that all complaints were taken seriously and follow-up action was taken with individuals if necessary. It maintained that the survey evidence put forward in the course of this inquiry strongly suggested that the incidence of inappropriate behaviour was extremely low. Another large DEG retailer agreed with the conclusion of our consultants that some pressure selling of EWs took place in spite of strenuous efforts made by DEG retailers in training and management to control such activity, but maintained that pressure selling was 'more publicised than real'.

Terms and conditions of sale

Introduction

10.36. We have not in the course of our inquiry chosen to seek evidence on the effects of all the terms and conditions of the very many EWs on offer. Nor have we sought specific evidence on the way in which consumers expect individual terms of their EWs to take effect. However, a number of complaints about the terms of some EWs have been brought to our attention. In this section we consider certain terms and conditions for the sale of EW that are specified by some providers, but may be considered unfair to consumers if these details of the policy were not clear to consumers before they purchased the EW.

Termination of EWs following a claim

10.37. Under the terms of most EWs, the EW would be terminated following a claim which led to a replacement product being provided to the customer. However, Comet told us that it believed this term was unfair to customers, because customers who purchased cover for a certain period could find themselves without any protection after only a fraction of that period. Its own EWs offered continuous cover whereby the EW would continue to apply to any replacement DEG for the remainder of the original period of cover. Similar terms applied to some other EWs such as those issued by Currys for many portable products that originally cost between £20 and £100. Looking at the EWs which would be terminated following a replacement claim, some providers gave a pro-rata refund of the unexpired element of the EW, but most did not. Dixons provided a pro-rata refund in the form of vouchers for use only on a new EW, and it argued that this was logical because the customer was likely to be offered a more modern DEG than that being replaced and the new technology might have a different risk of breakdown. It would, Dixons argued, be unreasonable to be expected to provide continuous cover when a customer had opted to replace a 21-inch television by upgrading to a plasma television. D&G's EWs do not offer a refund for the unexpired element of the EW. It told us that the key difficulty in providing cover beyond

the point of replacement was that the replacement products typically carried a one-year guarantee from the manufacturer, hence taking out a new EW on the replacement DEG would normally be more cost-effective for the customer than transferring the remaining period of cover from the old DEG. Several parties told us that the condition by which an EW would be terminated following a replacement claim was similar to the common ‘write-off’ provision under a motor insurance policy, and this represented normal underwriting practice. (For many motor insurance policies, if the car is written off during the insurance term, the unexpired premium paid would not be refunded if the car was not replaced, but it could be applied against a replacement car put on the same policy.)

Repayments on cancellation

10.38. If a consumer wishes to cancel an EW during the period of cover but outside the initial cancellation period, there is often no entitlement for a refund of the cost of the unexpired period of the policy. Among the providers offering a full pro-rata refund, providing no claim has been made, are Littlewoods and D&G. Where policies do not provide a legal entitlement to cancel after the cooling-off period, some providers told us that, in practice, some discretionary refunds are given.

Use of reconditioned products

10.39. If the provider of an EW decides that a DEG is beyond economic repair, the terms and conditions may allow the provider to replace the DEG with a reconditioned used product. Dixons told us that although its EW terms and conditions allowed for supply of a fully guaranteed refurbished product, in practice it only used refurbished products for some mobile phones, PC monitors and Sky set-top boxes. In these product categories, Dixons told us, the policy of using refurbished products was necessary to keep EW prices competitive and to ensure the fast supply of replacement products to customers. Some providers, including Comet and Littlewoods, told us that they provided only new products as replacements.

Depreciation policies

10.40. Again, in the situation that the provider of an EW decides that a DEG is beyond economic repair, in some cases it will limit the value of the replacement DEG to take account of the age of the equipment that is being replaced. This allowance for depreciation could mean that the EW would pay out less than the cost of a replacement. Most parties told us that they did not have such a term in most of their EW policies, with exceptions being that some policies offered to customers who sought to take out cover after the manufacturer’s guarantee had run out or to customers who sought to take out cover on DEGs purchased from other stores. D&G told us that although most of its policies offered ‘new for old’ cover, it needed to apply a depreciation rule for policies taken out after the expiry of the manufacturer’s guarantee and, in some cases, annual renewals following the expiry of the initial EW. D&G said that this was because there was a significant ‘adverse selection’ problem associated with these EWs, and without the use of a depreciation policy premiums would need to be much higher for cover on older products. Providers that apply depreciation rates to general EW policies include [X], although this company said that it was increasingly issuing ‘new for old’ policies. Retra told us that it was a generally accepted principle in insurance that the consumer should be restored to the position he or she was in prior to the loss or failure of the product. To replace an old product with a new one, Retra argued, would be betterment.

Cashback to consumers

10.41. A feature of some EWs issued by major providers before 2003 was a promise to repay the cost of the EW to the customer at the end of the period of coverage if there had been no claim made. Although this feature may appear at first sight to be of considerable benefit to consumers, the Financial Services Ombudsman noted in 2001 that:

... the policyholders’ ability to claim the cashback turns on their adhering scrupulously to various administrative procedures, within strict time limits. For example, if they fail to

register with the insurer within a specified period they will not be entitled to claim the promised premium refund. Moreover, payment will only be made to those who remember to claim their entitlement in the month after their cover expires, typically five years later!

In an EW cashback case in 2001 the Financial Services Ombudsman wrote that: ‘it was not acceptable that largely procedural obstacles should be placed in the way of policyholders, primarily to minimise the number of otherwise justifiable claims. “Small print” procedural requirements ... were wholly inappropriate and might well be considered unfair contract terms.’ Since this case, providers of EWs have moved away from offering cashback and no large provider currently does so. The CA told us, however, that while cashback warranties are not sold as regularly now, many were due to expire over the course of the next year and hence the issue of consumers being able to claim cash-back was very much a current one.

Uninsured cover

10.42. In Chapter 4 we considered the differences between insurance-backed and service-backed arrangements and described the different arrangements for ring-fenced trust funds that can be made. The risk that the consumer faces of paying for an EW and finding at a later stage that the provider may not be able to pay for claims depends on the type of EW scheme. In summary, for insurance-backed schemes the consumer would be protected by the FSCS which pays the first £2,000 in full if an FSA-authorized company is unable to pay claims. Hence the risk to consumers is more one of delay and inconvenience rather than financial. For service-backed schemes the risk would depend upon the detailed arrangements that were put in place as contingency for such a problem. Given that ‘peace of mind’ is typically a key selling message for EWs, we considered whether anything less than the protection of the FSCS was likely to meet reasonable consumer expectations.

10.43. Providers of insurance-backed schemes told us that consumers purchased EWs with the expectation that any repairs that were needed would be carried out. One insurer told us that the consumer who wanted a repair under an EW was exposed unless somebody could guarantee that the cost of the repair would be funded. A lot of consumers, this insurer suggested, did not understand that they had not bought a protected product, nor that there might be difficulties in claiming monies against an uninsured EW provider, even if the funds were ring-fenced. The ABI told us that there was no equivalent framework to the FSA, FSCS and FOS for uninsured EWs, which potentially put consumers of uninsured products in a more vulnerable position.

10.44. Providers of service-backed schemes told us that their customers were subject to little, if any, more risk than buyers of insurance-backed schemes. Dixons told us that there were major risks associated with EWs that did not have established ring-fenced trust funds, but that its own ring-fencing arrangements offered a level of protection that was equivalent to an insurance fund. USP told us that many people buying insurance-backed products would not make enquiries as to the availability of the compensation scheme and would not differentiate between regulated insurers and insurers from abroad. Powerhouse told us that the service agreement type of scheme was at least as robust as an insured scheme. The actions of the parties involved in a service agreement, Powerhouse said, were normally controlled by a trust that prevented the parties gaining access to any premiums or funds that were not wholly earned or justified. Whilst insured schemes appeared on the face of it to be stronger options, Powerhouse said, failures within the insurance sector were increasing and the recent experience with Independent Insurance showed that there was no guarantee for customers here either.¹

¹Deloitte & Touche, issued a statement on 16 September 2003 saying that as administrative receivers of PowerHouse it had inherited a highly complex situation with regards to warranties. It had been working to investigate urgently a variety of warranties provided by PowerHouse prior to receivership. Certain EWs were not insured but the administrative receivers were attempting to protect customers’ positions in relation to these warranties.