

# 'Do you want an **extended warranty** with that?'

Are you being served or served up with this question? CHOICE finds some retailers might be capitalising on consumer confusion.



## nutshell

- Always ensure you know what the extended warranty covers – don't rely on the salesperson's knowledge.
- Your right to repairs or replacement of a faulty item could be covered under the statutory warranty that covers all purchases.

**Y**ou've just made the big decision; the salesman grins and leads you to the cash register under bright store lights. You produce your credit card, gulp and get ready to pay for thousands of dollars worth of TV. Just before you sign on the dotted line the salesman asks if you'd like to take out an extended warranty. He says it will give you another four years' protection should anything go wrong and will only cost an extra couple of hundred dollars.

Suddenly the extra money doesn't seem much to help protect your expensive investment, so you agree. After all, you think, things don't seem to be made to last these days and it's good to have some protection. Right?

Not necessarily. You could be buying insurance you don't need. Firstly, most appliances are covered by a manufacturer's warranty, usually one year for TVs and up to three years for some LCD and plasma models. And contrary to common belief, most products, especially big-ticket items such as washing machines and TVs, are quite reliable.

Finally, if something goes wrong with your TV outside the warranty period you may be covered under the federal Trade Practices Act, which provides all consumers with a statutory warranty whenever they buy any kind of goods or services (see *Your rights under a statutory warranty*, page 40).

So are people being pressured by retailers into buying insurance they don't need? To find out, CHOICE and the NSW Office of Fair Trading conducted research via an online survey and a shadow shop of electrical retail stores.

## **CHOICE members say the pressure's on**

Our survey revealed consumers are regularly being offered extended warranties: of the 570 people we found had been offered an extended warranty, 95% said it had happened more than once and 33% said they had been offered one more than five times. Our survey also showed that consumers sometimes feel pressured to buy extended warranties, with more than a third of the 375 respondents who said they had gone on to buy an extended warranty reporting some degree of pressure.



### **QUESTIONS TO ASK THE RETAILER**

Before you purchase an extended warranty, insist on all the terms and conditions in writing. Once you have the fine details in print, look out for the following points.

- What are the terms and conditions?
- How long is the extended warranty?
- Who is providing the warranty? Is it the retailer or a third party?
- Is there a cooling-off period? What do you have to do if you want to cancel?
- Does the warranty cover a replacement if needed or does it only cover repairs?
- Is the number of repairs or the cost of repairs limited? Do you have to deal with the repairer? Do you have a choice of repairer?
- What about depreciation? Will you get full replacement value?
- Is freight covered if your item needs to be sent away to be repaired? If it is, is there a weight limit?

**94%** The percentage of televisions that didn't need to be repaired in the previous 12 months.

Source: 2007 Product Reliability Survey

### Why do people buy extended warranties?

A fear of breakdowns is what drove 69% of our survey respondents who had purchased an extended warranty to buy one— they believed the cost to repair the product would be too high – while 24% felt that the manufacturer's warranty didn't provide enough cover.

CHOICE regularly conducts reliability surveys on various products such as washing machines, TVs, digital cameras and ovens to put this theory to the test. The great news is that most products are, in fact, reliable. Our 2007 survey showed that more than 90% of TVs, digital cameras, washing machines and refrigerators purchased by our respondents since 2000 hadn't needed to be repaired in the previous 12 months. To read our reliability reports in detail, go to [www.choiceextra.com.au](http://www.choiceextra.com.au) and look under "Reliability" in the index.

It may be worth buying an extended warranty for some products, such as computers, which can be less reliable than other appliances. Or, if you're thinking of buying a brand or technology that's new to you or a particularly expensive item where you're worried about faults occurring down the track, an extended warranty may be worth it.

However, is the cash register really the right place to make such an important decision? CHOICE doesn't think so.

### Statutory rights and wrongs

If you have a problem with a product, check if it is covered under the manufacturer's warranty. If not, and you feel you are covered under a statutory warranty (see *Three types of warranties*, right), the first port of call is to the retailer but if it's not possible to resolve it there, you'll need to contact the office of consumer affairs or fair trading in your state. It may then get referred to the small claims tribunal.

Kay Ransom, Chair of the NSW Consumer, Trader & Tenancy Tribunal, says that most general consumer claims only take about four weeks to be heard, and about 80% of cases are resolved to both parties' satisfaction.

However, Gerard Brody from the Consumer Law Action Centre says there are problems with enforcing statutory law and it can be arduous for consumers who are required to do most of the footwork. "Often that involves a cost and if it's a small item, it might not be worth all the effort." >



### WHAT OUR SHADOW SHOP REVEALED

We engaged a shadow shopper to buy eight LCD TVs and six digital cameras at 14 major retail stores in Sydney. She was instructed by us to accept the extended warranty at an additional cost.

- The offer was mainly made to her as a "yes" or "no" question with no extra information provided until the shadow shopper asked for more information.
- On five of the 14 occasions she was offered an extended warranty she felt she wasn't told enough information about what it covered. In one instance she was simply told "this is better than the manufacturer's warranty", while another salesperson said "it was a good idea" to buy one.
- On three occasions the sales assistants weren't clear about whether the extended warranty was provided by the retailer or by a third party.



**Most appliances are already covered by some kind of warranty – and the big-ticket items are more reliable than you might think.**



### THREE TYPES OF WARRANTIES

**1 Manufacturer's warranty** This is also known as a voluntary or express warranty and is the sort most consumers are familiar with. It's usually provided as a booklet that comes with the product, but may only be available in certain circumstances, and is often for a limited time.

**2 Statutory warranty** Your rights under this type of warranty are implied; that is, you don't receive paperwork stating what's covered and what's not (see *Your rights under a statutory warranty*, page 40).

**3 Extended warranty** An additional warranty retailers try to sell you which may or may not extend the manufacturer's warranty. Some extended warranties may only replace the product or refund customers based on annual depreciation of the product. This means the product you get as a replacement may be inferior to the one you originally bought or you may be refunded less money than what you paid.

**Any product you buy should meet a basic level of quality and perform as expected.**

< Most experts we spoke to agree it is a confusing area to understand, however, new initiatives are being considered. The National Education and Information Advisory Taskforce is a working party made up of each state's fair trade regulators, and its task is to improve consumer awareness and the process of using statutory rights.

In the meantime, NSW Fair Trading Minister Virginia Judge says consumers shouldn't be afraid to invoke their rights as they now stand. "If a product is faulty you are entitled to seek a refund. It's important for people to know what their rights are and what course of action they can take if they need. It's your right as a consumer."

What is your experience of extended warranties? Join our online debate at [www.choice.com.au/extendedwarranties](http://www.choice.com.au/extendedwarranties). ■

**69%** The number of survey respondents who purchased an extended warranty because they thought the cost to repair their appliance would be too high.



### YOUR RIGHTS UNDER A STATUTORY WARRANTY

Under Australian law, all goods (except goods at auction) are covered by a statutory, or implied, warranty. This means the product you buy should be of "merchantable quality"; that is, it should meet the basic level of quality and performance expected, considering its description, price and other relevant circumstances.

- In the case of a major TV purchase you are entitled to a refund if, for example, it develops a serious fault after 15 months when it can be expected that a TV should last at least 10 years. However, a consumer would probably be more than satisfied with a two-year run from a \$10 watch, but not if it cost \$2000.
- If a product fails to live up to these expectations and can't be rectified within reasonable time limits, you're entitled to seek to have the contract cancelled, return the goods and get a refund.
- Under a statutory warranty, any problem you have with a product is the seller's responsibility, not the manufacturer's. If you have a problem refunding or exchanging an item and you have tried but failed to negotiate with the retailer, contact the fair trading office in your state for help and advice.

## Washed up

In October 2005, Megan Watson bought a front-loading washing machine from Harvey Norman. She elected to buy an extended warranty for \$50. She was told this, combined with the manufacturer's warranty of two years, would give her cover for seven years.

In January this year when the manufacturer's warranty had

expired, the machine started vibrating badly. Megan contacted the extended warranty company to have it fixed. After three weeks of chasing both the warranty company and the repairer, thanks to a communication problem between the two parties, the machine was repaired, returned and installed.

Within a week water leaked onto the floor and there were problems with the controls. When Megan contacted her warranty company she was shocked to hear she had only \$470 left on her extended warranty, which wouldn't be enough for the current problem.

Megan hadn't checked the fine print when buying the extended warranty, which stated that it would only cover the cost of repairs equal to the cost of the machine – \$1295. The first round of repairs had cost \$825, including a \$110 quote fee. Megan says she is now stuck with a very expensive washing machine, which is malfunctioning after less than three years and she would be very unlikely to buy an extended warranty again. "The frustrating thing is that they keenly sell you the warranty but don't spell out its limitations. Now I have a machine that is unreliable – and no money left to fix it."

Megan is currently pursuing the issue with the NSW Office of Fair Trading and hopes she might have some success using her statutory rights. We'll keep you updated on her progress at [www.choice.com.au/extendedwarranties](http://www.choice.com.au/extendedwarranties).



PHOTO COURTESY OF MEGAN

## CHOICE verdict

More than a third of those in our survey who bought an extended warranty reported feeling some pressure to buy it, while our shadow shopper reported poor information from sales staff, accompanied by factually incorrect statements about extended warranties. The confusion surrounding statutory warranties has allowed retailers to step in and exploit poor consumer understanding of the issue.

Consumers shouldn't be pressured into buying an extended warranty. We think the law needs to change to give consumers better information and better protection when purchasing an extended warranty. Consumers should also be given the opportunity to

purchase extended warranties within 30 days of purchasing the goods, as well as adequate termination rights on extended warranties that are purchased.

Don't be tempted to rely on the advice of the salesperson. Our research revealed that sales assistants often give incorrect and at times completely misleading information. Keep in mind that an extended warranty is not actually an extension of the manufacturer's warranty, as the terms and conditions are different. Better information about statutory warranties is needed at the point of sale to ensure that consumers have all the information they need to make an informed purchase without pressure.