

Service contract standard affects auto warranties

by: Alysha Webb

Automotive News | March 9, 2009

LOS ANGELES — A trade association for the service contract industry is urging states to adopt legislation standardizing regulation of those contracts. The model legislation covers service contracts in all industries and includes exemptions for contracts backed by automotive manufacturers.

So far, 35 states have adopted some version of the Service Contracts Act, says Tim Meenan, executive director of the Service Contract Industry Council. The council, in Tallahassee, Fla., is an organization of manufacturers, insurers, retailers, and providers and administrators of service contracts, also called extended warranties.

The proposed legislation — posted online at www.go-scic.com — has three main components:

1. Financial solvency. Issuers of service contracts must insure 100 percent of their contracts, have reserves to back 40 percent of the retail price of contracts sold or maintain a net worth of \$100 million, Meenan says.
2. Licensing or registration of all companies.
3. Disclosure and transparency. A company must disclose coverage and offer a right of cancellation and free tryout period, among other things.

Full disclosure

Automotive manufacturers have reduced financial solvency requirements, Meenan says. But their warranties must meet the same disclosure and transparency requirements and include information on coverage of parts that aren't original equipment.

Automotive service contracts take three forms: those backed by the manufacturers themselves, those backed by third parties and those backed by dealerships. Few dealership-backed service contracts exist, says Dave Robertson, executive director of the Association of Finance & Insurance Professionals in Colleyville, Texas.

He praises the model legislation. "This is a perfect example of an industry self-regulating itself for the greater good," Robertson says.

But Rob Cohen, president of Auto Advisory Services in Tustin, Calif., says automotive dealerships should have their own rules rather than be lumped into a general service contract standard.

Separate rules?

In California, only automotive dealerships can sell service contracts for vehicles, Cohen says. Any national standard should include such a provision, he says.

"New-vehicle dealers, from my experience, offer quality service contracts through reputable sources or manufacturers," Cohen says.

Dealers already are highly regulated, he says. Plus they know their customer service scores will suffer if they offer poor-quality service contracts.

If nondealership companies are allowed to sell service contracts for vehicles, "the quality goes down," Cohen says.

Meenan, a former deputy in the Florida department of insurance, dismisses that argument. "Ninety-five percent of extended warranties are sold through the dealership channel," he says, "so it is a nonissue."

Entire contents ©2009 Crain Communications, Inc.