



## Motor Age

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# Motor Vehicle Service Contracts Help Consumers Safeguard Purchases

## Motor Vehicle Service Contracts Help Consumers Safeguard Purchases

American consumers intent on protecting and adding value to their brand new or used motor vehicle purchases considering service contracts to help manage unexpected and costly repairs on their new or used cars, vans, trucks and SUVs, according to the Service Contract Industry Council (SCIC). The SCIC is a national trade association that works with lawmakers nationwide to develop fair and uniform regulation to protect consumers and the industry.

The SCIC says that motor vehicle service contracts pick up where a manufacturer's limited warranty leaves off. They provide coverage for components and systems not covered during the warranty's duration and when the warranty ends. Most service contracts cover normal wear-and-tear and may fill in coverage gaps in the manufacturer's warranty for up to 7 years and/or 100,000 miles, depending on the terms of the contract. In addition, manufacturer's warranties are based upon defects in material and workmanship and do not cover normal wear-and-tear.

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- Steve Brooks, SCIC President

Typically, a service contract covers essential yet costly-to-repair systems not covered by the manufacturer's powertrain warranty, such as air conditioning, power windows, and electronic systems, including the vehicle's navigation system. Subsequent repairs can be costly. For example, it can cost nearly \$4,000 to replace a vehicle's integrated computer unit or air conditioner.

### A growing trend

The SCIC says that approximately one-third of all new car purchasers and nearly half of all used car purchasers buy a service contract. Most motor vehicle service contracts are purchased from dealers throughout the country at the time a vehicle is purchased. Consumers can also buy service contracts after the purchase of a vehicle from the manufacturer or a third-party provider. Service contracts help consumers keep their vehicles in top performing condition; hence, valuable and reliable, day after day.

"It is important for consumers to protect themselves from the high cost of repair, especially after the manufacturer's warranty ends," said Steve Brooks, SCIC President. "Auto loan terms can run as long as seven years now and in uncertain economic times consumers keep their cars longer and, when buying,

### Benefits of Vehicle Service Contracts

**In addition to the peace of mind that comes with knowing the vehicle will be covered for most repairs and regular maintenance after the warranty runs out, automotive service contracts can also offer (depending on the type of coverage selected) the following benefits:**

- \* Comprehensive bumper-to-bumper coverage, including everything from the exhaust system to the electrical system, the engine to the gas tank, the heater to the air conditioner, the leather seats to the sunroof, etc.

- \* Pre-qualified, professional auto technicians to perform the work, even on road trips for business or pleasure.

often choose to purchase a used vehicle. A typical manufacturer's warranty generally runs three years or 36,000 miles."

Usually, the price of the Service Contract is based on the vehicle's make, model, year, condition (new or used), as well as the scope of coverage and length of contract (mileage and term) and whether there is a deductible. In addition to paying for repairs or replacement of most mechanical components, key benefits and features often include rental car reimbursement, towing, emergency road service, tire/wheel and road hazard, scheduled maintenance, dent and ding restore, excess wear and tear protection, and theft deterrent protection. Some of these benefits or features may not be available in all states or may be offered as a stand-alone Service Contract.

More than five million automobile service contracts are sold annually, many of them by dealers at the time of sale and financing. When a consumer sells his/her vehicle, the service contract can be transferred to the new owner, sometimes with a small (\$25) transfer fee. Additional benefits can include emergency repairs/service, towing and loaner cars, and discounted maintenance plans. Because most motor vehicle service contracts are transferable upon resale, they can also enhance the resale value.

When a vehicle covered by a service contract needs to be repaired or serviced, a consumer may be able to choose among several service dealers or authorized repair centers. In some cases, the consumer must return the vehicle to the selling dealer for service.

- \* Protection against being stuck with repeated repairs.
- \* Discounted maintenance costs amortized over time to avoid huge, unexpected and draining repairs bills.
- \* Access to replacement vehicles during repair downtime.
- \* Twenty-four hour technical assistance.
- \* Roadside assistance such as towing.
- \* Convenience and time savings.
- \* Resale value may be enhanced.
- \* Transferability to a new owner upon resale.

***"To further protect consumers, a majority of states require licensure of service contract providers."***  
*- Timothy Meenan, SCIC Executive Director*

Jason Christiano of Tampa, Florida believes strongly in the financial benefits and peace of mind that comes with the purchase of an automobile service contract. "Recently, I picked up my vehicle from a dealership repair facility where the bill to replace a torque converter was \$1,722. My service contract provider paid the invoice with no challenges. The amount of that one repair exceeded the cost of the vehicle warranty," Christiano said. "And last year, when we sold a vehicle, the company promptly refunded the unused portion of the warranty cost."

**Protection through legislation**

Thirty-seven states have enacted specific laws governing motor vehicle service contracts. In these states, companies offering service contracts typically are required to fulfill their financial responsibility to the consumer in one of the following ways:

1. Insuring the program through a contractual liability or reimbursement insurance policy.
2. Maintaining reserves and placing a deposit on file with the state.
3. Maintaining a minimum net worth of \$100M.

In addition, many service contracts are backed by A+ rated insurers, who provide additional financial solvency on long-term contracts. Consumers can typically find the name and contact information of any insurer backing their particular program on their service contract.

"To further protect consumers, a majority of states require licensure of service contract providers. Consumers who want to purchase service contracts online should confirm with their state's insurance department that the provider is licensed in the consumer's state, if applicable in that state," said Timothy Meenan, SCIC executive director. "Terms and costs vary, and consumers should read the provisions of a contract carefully to understand their coverage and responsibilities."

**Consumers Tips**

- \* Read the provisions carefully and become thoroughly familiar with all coverage and exclusions. Failure to do so could void the contract.
- \* Carefully fulfill all obligatory responsibilities, such as regular oil changes, etc.
- \* Keep the service contract paperwork and all maintenance records in a secure, easy-to-access location. It is important for the consumer to keep detailed records, including receipts, to prove that the vehicle was properly maintained.
- \* Utilize the service contract for all covered repairs to maximize the function, value and enjoyment of your vehicle.

For additional consumer tips and information about service contracts, visit the [SCIC Web site](#).

(Source: [Service Contract Industry Council](#))



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