

ACCC NEW CAR RETAILING INDUSTRY MARKET STUDY.

Automotive Dealer Services Pty Ltd (ADS) - Background.

ADS provide dealer warranty administration services for over 90 franchised dealers.

The dealer warranty program is designed to assist the motor dealer and consumer process any warranty claims that arise after the expiry of the manufacturers new car warranty.

The warranty programs that ADS administer are dealer warranties and are underwritten by the dealer. These are not insurance products, although it is not uncommon that the dealer may also use an insured warranty product.

Our claims department is able to process calls from car dealers and consumers and authorise repairs as required under the terms and conditions of the warranty contract.

Generally the consumer is directed back to the selling dealer where practical or to the nearest repairer. Once a quote for repairs is received by ADS, a claim and approval# is issued.

If a warranty repair is needed the repair is usually made by the selling dealer where practical.

Most of the ADS dealer warranties are provided at no charge to the consumer. The additional warranty that commences after the expiry of the manufacturers warranty is usually subject to the consumer servicing with the selling dealer.

Some of the dealers offer a “premium warranty” that commences upon the expiry of the manufacturers warranty or on vehicles that the new car warranty has expired. The premium warranty is to “repair or replace any components that are defective in material or workmanship”. The same cover as the manufacturer’s new car warranty. There are also additional benefits such as Roadside assist, car hire, towing and accommodation costs for breakdowns more than 100 km’s from their residence.

If the warranty is sold to the consumer it is not conditional to servicing with the selling dealer.

Consumer guarantees, warranties and new cars questionnaire.

11. When purchasing a new car the dealer provides the consumer with written information about their consumer rights. The consumer guarantee information is supplied by the manufacturer and forms part of the terms and conditions that are set out in the manufacturer's owner's handbook.

If the vehicle purchased has an extended dealer warranty, the customer is informed of the scope of cover of the warranty and the servicing conditions that may apply.

The dealer warranty information and consumer guarantee information is supplied in printed form and forms part of the dealer warranty agreement. The consumer receives a dealer warranty book.

12. When purchasing a new car, the dealer provides the consumer with printed information relating to the interaction between consumer guarantee rights and the manufacturers warranty.

The dealer receives this printed information from the manufacturer.

The consumer is advised to read the "owners hand book" which contains information regarding consumer guarantee rights.

This information is also conveyed to the consumer by the delivery coordinator at the time that the consumer takes delivery of the new car.

The consumer is also introduced to a service department advisor who informs the consumer how they can interact with the manufacturer should they have any warranty or service concerns. The service department interacts with the manufacturer on behalf of the consumer to resolve any issues.

When the consumer has been provided with a dealer warranty a warranty contract is provided to the consumer by the dealer the consumer guarantee rights are printed on the dealer warranty contract.

Information about how the dealer warranty and the manufacturers warranty interaction is provided to the dealer by ADS.

The dealer provides this information in the form of a dealer warranty book and contract to the consumer.

The consumer signs the dealer warranty contract this is also witnessed and signed by representative of the dealer.

The dealer warranty book also contains information that explains the additional benefits and servicing conditions of the extended warranty and how the consumer can interact with the dealer should any issues arise.

In most cases the dealer service department will interact with ADS on behalf of the consumer in the event that an issue arises.

The manufacturers warranty and the dealer warranty both contain information relating to ACL and consumer guarantee rights.

13. Perception of consumer guarantees is varied.

Most consumers are aware that they have consumer rights however most consumers would not consider the scope of the consumer guarantees unless an issue arises and the issue, is not satisfactorily resolved by the manufacturer or the dealer.

Generally I would say that consumer guarantees would have little or no influence on the consumer when buying a new car.

Consumer perception of manufacturers warranties are that the dealer will repair or replace any defects that may occur during the period of the new car warranty on behalf of the manufacturer. As all manufacturers provide a term of new car warranty (between 3 years and 7 years) the manufacturers warranty does play a part in the consumers' decision when buying a new car but not a major part.

Manufacturer's warranties instill confidence in the consumer when making a decision to buy a new car over a used car.

Dealer warranties can influence the consumer decision when buying a new car to the extent that the consumer may choose to buy from a motor dealer that offers additional extended warranty on the particular brand of vehicle over a dealer that is not offering extended warranty.

Their decision may further be influenced if the consumer does not pay for the extended warranty.

An advantage of the dealer warranty is that the consumer would be less likely to rely on consumer guarantee rights if an issue arises after the manufacturers warranty has ended, as the consumer would have any defects rectified under the dealer warranty.

14. Consumers have relied on consumer guarantees to seek a refund, repair or replacement where the manufacturer has been unable to rectify major faults or on going faults.

Consumers' reliance on consumer guarantees is greater when the manufacturers product has reliability issues and the manufacturer does not support its dealer network with technical assistance to diagnose or rectify the faults.

There are certain brands of vehicle that are inherently unreliable and experience a larger numbers of defects during and after the manufacturers warranty has expired.

The manufacturers of these brands generally are aware of specific faults that occur within their model range but do not recall or rectify potential problems until the consumer makes a complaint.

This may be because Australia represents only a small percentage of their overall global market share.

It is well known throughout the Australian motor dealer network which vehicles have reliability issues. These reliability issues are often reflected by poor resale value when the consumer wants to sell or trade the vehicle.

Most dealers are weary of stocking these vehicles as their inherent unreliability contributes to major consumer dissatisfaction once they are resold.

I am aware of some instances where initially refunds have been denied for major failure during the manufacturer's new car warranty period.

I cannot provide first hand examples of the denials of refund but they do relate to those manufacturers that have known reliability problems. I would say that this also due to the dealer not getting support from the manufacturer's parent company and the dealer denies a refund to the consumer.

When a consumer receives a refund from a dealer, the consumer is often asked to sign a confidentiality agreement.

The confidentiality agreement is between the consumer and the manufacturer.

15. Issues that I am aware of where consumers have had difficulty with remedying faults while the vehicle is still under manufacturers warranty are brand specific. These brands are known to have inherent reliability concerns - as outlined in 14.

I am aware of issues with consumers having difficulty having faults remedied once the manufacturers warranty period ends.

This seems to be more common with brands with poor reliability reputations.

Some manufacturers will not assist or remedy faults once the expressed manufacturers warranty has expired even for premature major faults such as engine or transmission failure.

Dealers who sell brands with known reliability issues do not generally offer dealer warranties or if they do the warranty is limited in scope and limited to a specified dollar value.

This does not restrict the consumer from exercising the remedies available to them under ACL if the manufacturer or the dealer does not remedy the fault.

Manufacturers such as Toyota, Mazda and Honda will generally continue to support their product after the stated manufacturers warranty period has expired.

The degree of support from the manufacturer is dependent on a number of factors such as, how far out of the stated warranty period by Km's and/or time that the defect occurs, the nature and cause of the fault. The vehicle service history will also effect the support that the manufacturer may offer.

In some cases the manufacturer will contribute 100% parts and labor once the expressed warranty has expired, however it is common for the manufacturer to provide parts cover only and the dealer will cover the labor cost.

In some cases the dealer will pass on the labor costs to the consumer where there is no dealer extended warranty in place.

I am aware of some consumer issues arising where the consumer has not properly serviced their vehicle as specified by the manufacturer.

This can result in the failure of certain components and the claim, may be rejected by the manufacturer.

I am also aware of consumers experiencing difficulty with claims being accepted by the dealer if they have not serviced their vehicle with the selling dealer that has provided the additional dealer warranty.

The additional warranty provided by the dealer is conditional to servicing with the selling dealer.

This does not prevent the consumer from seeking remedy from the manufacturer or exercising their consumer guarantee rights that would ordinarily be available to them.

One of the advantages of the dealer warranty is that generally the dealer will rectify any faults that occur after the manufacturers warranty has expired if the consumer has serviced their vehicle with the dealer.

I am aware of instances where consumers have experienced difficulty with a dealer warranty where the warranty cover is limited in scope of covered components or there are limits placed on the \$ amount that the dealer will pay for any repair.

Example 1: The manufacturer's warranty expired after 3 years or 100,000km. The dealer warranty is for an additional 3 years or 100,000km but is limited to the components listed in the contract.

The audio unit in the vehicle has developed a fault and is not listed as a covered item under the dealer warranty; the dealer may decide not to cover the audio, as it is not a listed covered component.

Example 2: The manufacturer's warranty has expired after 3 years/100,000km. The additional dealer warranty is for 3 years or 175,000km. The engine has overheated and damaged internal components of the engine. The repair bill is \$1,875.00, however the dealer warranty is limited to \$1,000 per claim and the consumer is asked to pay the difference of \$875.00.

The manufacturer is not willing to assist as the manufacturer's warranty expired 2 years ago and the vehicle has travelled 165,000km. In this instance, the consumer claim was limited. Although this could be considered a major failure and the consumer was asked to contribute to the cost of the repair. We would need to consider the age and mileage of the vehicle.

Would this be considered a fair outcome for the consumer?

How long is a vehicle expected to last without having a minor or major defect?

Would consumer guarantees apply and to what extent?

16. There are examples of consumers being advised that their right to repair or replacement is limited after the manufacturer's warranty has expired.

The consumer would be advised by the dealer that their out-of-warranty request has been limited or denied by the manufacturer after the dealer contacted the manufacturer and had the out-of-warranty request denied or limited.

Depending on the time and km's that a fault arises after the manufacturer's warranty has expired, the manufacturer may limit or deny the claim.

Most Japanese manufacturers will offer a % contribution towards the repair after the expiry of the stated warranty period, depending on how far out of manufacturer's warranty the issue arises.

I am aware of instances where the consumer has had their claim limited or denied by the manufacturer even though the vehicle has had problems while still under manufacturer's warranty.

The consumer will generally approach the dealer to rectify faults and the dealer will make an "out of warranty" request to the manufacturer where the stated manufacturer's warranty has expired.

Example 1: A consumer purchased a VW cab chassis. The dealer fitted a tray so that a toolbox could be mounted for the consumer's tools of the trade. The vehicle experienced varied mechanical problems while still under manufacturer's warranty including excessive oil consumption.

At 115,000km, the vehicle has had a major failure and requires thousands of dollars of repairs.

The consumer approached the VW dealer to rectify the issues and was advised that the manufacturer would not assist with rectifying the faults as the manufacturer's warranty had expired. The vehicle has suffered a catastrophic engine failure.

The consumer has approached the manufacturer and has been advised that they would not rectify the issue as the defect may have been caused by the weight of the tool box even though the tool box weight did not exceed the specified carrying capacity as stated by the manufacturer.

The consumer was later offered a nominal amount towards the repair.

The consumer has decided not to accept the offer from the manufacturer and has taken out legal proceedings against the manufacturer.

Example2: a consumer had an issue with a "knock" developing in the motor. To rectify the issue the vehicle required a new motor.

The vehicle had only travelled 73,00 km's but the manufacturer's warranty had expired 10 months ago.

The repair bill was for \$6,844 parts and labor. The dealer contacted the manufacturer and the manufacturer would only agree to contribute 70% parts only (\$3066.78).

In this case the consumer had a dealer warranty and the dealer paid the difference of parts plus 100% of the labor and 100% of the sublet charges.

The consumer did not have to contribute to the claim.

17. I am aware of instances where a major failure has occurred while under manufacturer's warranty and the manufacturer has denied a refund. The manufacturer would only offer to rectify the issue.

The consumer had lost confidence in the vehicle and was later offered an additional 12 months warranty by the manufacturer.

The consumer accepted the offer of the additional 12 month warranty.

18. Dealers are constrained in their ability to provide remedies to consumers by the manufacturer dealer agreements.

The dealer is only able to provide remedies that are first authorized by the manufacturer during the manufacturer's warranty period.

The dealer is also reliant on the manufacturer's expertise in diagnosing issues that the dealer cannot remedy.

19. Dealers and their management team receive information relating to consumer guarantees from the manufacturers.

The manufacturer provides written information and conduct training workshops for dealers on a regular basis.

The dealer provides written information to the consumer.

This information is supplied by the manufacturer and is contained in the manufacturers warranty booklet.

ADS provide information to the dealers regarding consumer guarantees and how they relate to warranty programs that ADS administer on behalf of the dealer.

ADS conduct regular training at dealerships on consumer guarantee rights and how they relate to dealer warranties.

The consumer receives printed information from the dealer regarding consumer guarantees and how these relate to their dealer warranty.

A copy of the signed agreement is attached to the dealer warranty booklet after the customer has had the dealer warranty explained.

The booklet provides additional details regarding the terms and conditions and additional benefits of the dealer warranty.

Some dealers also send out information regarding the dealer warranty after the sale of the vehicle this information also includes consumer guarantee information.

20. The consumer receives information from the dealer about the commencement and expiry date of the manufacturers warranty from the dealer.

The information is conveyed to the consumer by way of printed material that is supplied by the manufacturer.

The commencement date and the expiry date and expiry km's form part of the manufacturers warranty handbook.

The consumer receives information relating to the dealer warranty from the dealer. This information includes the commencement and expiry date and expiry km of the dealer warranty.

The dealer warranty commences upon the expiry of the manufacturers expressed warranty.

The consumer receives printed information from the dealer at the time of delivery that forms part of the Dealer Warranty Agreement.

Any interaction between the manufacturers warranty and the dealer warranty would usually come into play once the manufacturers stated warranty expires. The dealer would interact with the manufacturer on behalf of the consumer.

21. The consumer is supplied with a warranty/service handbook with the vehicle when a new vehicle is purchased. The prescribed service intervals and requirements are set out by the manufacturer for the make and model that the consumer has purchased.

The manufacturer does not state the consumer must service at a one of the manufacturers dealers.

It is becoming more common that manufacturers are offering a “capped price service” to encourage the consumer to return to one of the manufacturers authorized dealers for service.

A dealer may offer the consumer an additional dealer warranty after the manufacturers warranty expires. To obtain the additional dealer warranty the dealer will require that the consumer service their vehicle with the selling dealer for the term of the manufacturers warranty and the additional dealer warranty period. Usually the additional dealer warranty provides additional benefits to the consumer.

Dealers may also offer “capped price” service for the additional dealer warranty period.

The consumer is supplied with printed information from the dealer that sets out the terms and conditions of the service contract.

The consumer will also receive service reminders by text and/or mail.

22. I am not aware of any issues that the consumer may have had with having a dealer warranty claim accepted where a used part has been previously used.

In cases where an insurer has fitted secondhand parts the manufacturer or the dealer would not warranty that particular part.

Insurance policies come with guarantees of parts and workmanship for the repairs that have been made by the insurer.

It would be the responsibility of the insurer to rectify the issue.

23. I have heard that some manufacturers have requested confidentiality agreements be signed by the consumer to resolve complaints. I am not aware of any dealers that have requested that a confidentiality agreement be signed to resolve any issues.

Summary:

Some of the questions that are frequently asked by dealers and their staff that relate to consumer guarantees are:

At what stage does the manufacturers warranty responsibility end after the stated warranty period ends?

How long does the dealer need to warrant a car from defects if that car is a used car and the manufacturers warranty has already expired?

To what extent does the dealer need to guarantee a car if it only has balance manufacturers warranty?

How long is a dealer responsible for minor defects if the car has no new car warranty or balance of new car warranty?

In part, that is why most dealers offer some sort of dealer warranty on cars that have no balance of new car warranty.

The dealer warranty sets out the covered items the claim limits if applicable.

The consumer is also informed of the service conditions and the period of cover.

This simplifies the process for the consumer and the dealer.

The consumer is not reliant of verbal promises that may have been made or implied at the time of purchase.