

dti

Guidance for Business: The Supply of Extended
Warranties on Domestic Electrical Goods Order
2005

Guidance by the Department of Trade and Industry on the legislation implementing the remedies recommended in the 2003 Competition Commission report on the supply of extended warranties on domestic electrical goods.

January 2005

URN 05/562

dti

The DTI drives our ambition of 'prosperity for all' by working to create the best environment for business success in the UK. We help people and companies become more productive by promoting enterprise, innovation and creativity.

We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.

CONTENTS

FOREWORD	5
About this Guidance	5
PART ONE	6
1. Background to the Order.....	6
PART TWO	7
2. What businesses does the Order cover?	7
3. Type of warranties covered by the Order	7
4. Type of electrical goods covered by the Order	8
5. Summary of requirements.....	8
PART THREE: IN STORE REQUIREMENTS – PRICE, FURTHER INFORMATION, WRITTEN QUOTATIONS	10
6. Obligation to display price and duration of one applicable extended warranty.....	10
7. Obligation to provide further relevant information in a leaflet.....	10
8. Obligation to provide a written quotation	11
PART FOUR: PRINTED CATALOGUES – PRICE, FURTHER INFORMATION	13
9. Obligation to publish price and duration of one applicable extended warranty	13
10. Obligation to provide further relevant information	13
PART FIVE: WEB SALES – PRICE, FURTHER INFORMATION	15
11. Obligation to publish price and duration of one applicable extended warranty	15
12. Obligation to provide further relevant information	15
PART SIX: PRESS ADVERTISEMENTS AND PROMOTIONAL PUBLICATIONS – PRICE, FURTHER INFORMATION.....	17
13. Obligation to publish price and duration of one applicable extended warranty	17
PART SEVEN: CANCELLATION AND TERMINATION RIGHTS; REFUNDS	18
14. Cancellation rights	18
15. Termination rights.....	18
16. Notice provisions	18
17. Written confirmation of right to cancel/terminate – reminder notice	19
18. Form of refunds.....	19
PART EIGHT: ENFORCEMENT AND ADDITIONAL INFORMATION.....	21
19. Enforcement.....	21
20. Additional Information	21
ANNEX A.....	22

ANNEX B.....	25
ANNEX C.....	28

FOREWORD

About this Guidance

This guidance is aimed at businesses who supply extended warranties with domestic electrical goods for a charge. It is intended to help business understand what they may need to do to comply with The Supply of Extended Warranties on Domestic Electrical Goods Order 2005¹ (“the Order”). The Order seeks to remedy the adverse effects identified in the Competition Commission’s report of December 2003 relating to the market for extended warranties on domestic electrical goods (“electrical goods”). This guidance contains suggestions for various notices and documents required by the Order. However it is important to note that compliance with the Order may well require modification of these by each business to reflect their specific business circumstances.

This guidance is not a statement of the law, nor does not it attempt to provide an exhaustive rehearsal of its requirements. It aims to help businesses determine whether the Order may affect them and if so what it means in practice. However, this guidance does not form part of the Order and anyone in any doubt about whether and how they may be affected by the legislation should seek legal advice. This guidance does not cover obligations under other legislation that may be applicable to the sale of electrical goods and/or extended warranties.

¹ S.I. 2005/37

PART ONE

1. Background to the Order

1.1 Following a reference by the Office of Fair Trading, the Competition Commission (“CC”) examined the market in extended warranties on domestic electrical goods. In December 2003 the CC published their report into the supply of extended warranties on domestic electrical goods within the UK². The CC concluded that there is a complex monopoly situation within the extended warranties market which operates against the public interest. The report found that the selling of extended warranties at point of sale of electrical goods creates a huge competitive advantage for retailers. This is because of a lack of information available to consumers, a lack of competition at point of sale and excessive prices.

1.2 The CC identified the following four overlapping characteristics of market behaviour, which might distort or restriction competition:

- almost all extended warranties are bought on point of sale; very few consumers consider the purchase of extended warranties before purchasing their electrical goods and have little opportunity to consider alternatives;
- extended warranties on offer at point of sale are nearly always from one provider – usually the retailer;
- there is generally no information available on the reliability of electrical goods or likely repair costs; and
- there is generally no information available at point of sale on prices of extended warranties, terms and conditions, or availability from alternative providers.

1.3 The CC recommended a number of measures designed to open up the extended warranties market to allow greater competition. The Government has accepted the findings of the CC and has made the Order to remedy the adverse public interest identified by the CC.

² (CM 6089) available from The Stationery Office or from the Competition Commission’s website: www.competition-commission.org.uk

PART TWO

2. What businesses does the Order cover?

2.1 The Order defines a ‘supplier’ as “a person who offers to supply a consumer with an extended warranty, either directly or on behalf of a third party, at the same time as offering to supply a consumer with a domestic electrical good (to which that extended warranty relates) or immediately subsequent to the sale of a domestic electrical good (to which that extended warranty relates)”³.

2.2 This Order is therefore intended to apply to you if your business sells electrical goods and offers extended warranties for those goods, either on your own behalf or as an agent for someone else (for example, an insurance company).

2.3 The Order is not intended to apply to businesses who:

- do not offer for sale extended warranties on their electrical goods;
- merely refer the consumer to a provider of extended warranties, but do not sell them;
- offer for sale extended warranties but do not offer for sale electrical goods (for example insurance companies);
- supply extended warranties for free *e.g.* where the extended warranty is included in the published price of the electrical good; and/or
- offer replacement extended warranties where there is no simultaneous sale of an electrical good.

3. Type of warranties covered by the Order

3.1 The Order defines an ‘extended warranty’ as a “contract for domestic electrical good cover entered into by a consumer for monetary consideration” and ‘domestic electrical good cover’ is defined as “cover which at least provides cover against the cost of repairing or replacing a domestic electrical good in the event of a breakdown and which may also provide additional cover against eventualities such as accidental damage, loss or theft and assistance in setting up and operating a domestic electrical good”⁴.

3.2 The Order is therefore intended to apply where a consumer enters into a contract for a warranty which costs extra and is offered for purchase at the same time as the electrical good to which it applies. Such a warranty may relate, for example, to cover for the cost of repairing the electrical good in the event of a breakdown. It applies both to contracts of insurance and service-backed contracts (but see paragraph 14.2 for the exclusion relating to cancellation and termination rights for insurance contracts sold at a distance).

3.3. The Order is not intended to cover:

³ Article 1(3). Note that “consumer” and “supply” have the same meaning as in the Fair Trading Act 1973 by virtue of the Interpretation Act 1978.

⁴ Article 1(3).

- warranties that are provided for free. So it is not intended to apply, for example, where manufacturers provide free one-year warranties when an electrical good is purchased; and/or
- extended warranties where there is no element of repair or replacement cover in the event of a breakdown. So it is not intended to apply, for example, to extended warranties that only provide accidental damage or theft cover.

4. Type of electrical goods covered by the Order

4.1 The Order defines a ‘domestic electrical good’ as “a product designed to be connected to an electricity supply or powered by batteries and used for domestic purposes, but does not include watches, jewellery or fixed installations (other than integrated appliances)”⁵.

4.2 The following is a non-exhaustive list of the type of electrical goods that the Order is intended to cover:

- white goods including washing machines, tumble dryers, dishwashers, fridges, freezers, cooking appliances, microwaves;
- brown goods including TVs, videos, DVD players and recorders, satellite / cable TV systems, Freeview boxes, radios, personal stereos, CD players, other audio equipment;
- small appliances including kettles, toasters, hairdryers, and other kitchen and personal care appliances;
- photographic equipment including 35mm and digital cameras and camcorders;
- grey goods including PCs, laptops, mobile phones, printers, scanners, fax machines, MP3 players, I-Pods; and
- garden equipment, lawn mowers, gym equipment, sunbeds, games consoles, handheld consoles, electronic toys.

4.3 Fixed installations such as central heating systems, boilers or air-conditioning units are not intended to be covered. However, integrated appliances, such as washing machines or cookers that are built into fitted kitchens, are intended to be covered. Watches and other forms of jewellery that are powered by batteries are excluded.

5. Summary of requirements

5.1 If you are affected by this Order, the main requirements which you will need to comply with are as follows:

- ensuring your product price displays include information (price and duration) on at least one applicable extended warranty;
- providing “further relevant information” to your customers about extended warranties;
- including in your published advertising materials information (price and duration) on at least one applicable extended warranty; and
- providing sufficient termination and cancellation rights for your customers.

⁵ Article 1(3).

5.2 Additionally, if you are an in store retailer you will need to:

- provide to your customers on request and at any time before the purchase of an extended warranty, a written quotation for the price and duration of the extended warranty relating to the electrical good(s) that you have sold, which must remain valid for at least 30 days from the date of issue; and
- ensure that your customer has acknowledged receipt of the written quotation in writing before the purchase of the extended warranty.

PART THREE: IN STORE⁶ REQUIREMENTS – PRICE, FURTHER INFORMATION, WRITTEN QUOTATIONS

6. Obligation to display price and duration of one applicable extended warranty

6.1 If, in your business premises, you display the price of an electrical good in respect of which you also offer for sale an extended warranty, you must also display the price and duration of one applicable extended warranty adjacent to the price of the electrical good. Therefore, if there are three different applicable extended warranty prices depending on the duration of the contract, you only have to display one price and duration next to the price of the electrical good (although you can of course display more than one if you choose to).

6.2 The Order does not specify a precise format for these requirements in respect of, for example, font sizes, but the price and duration of the applicable extended warranty must be displayed in a clear and legible manner and make clear that the purchase of the extended warranty is optional⁷.

6.3 Where you have a range of electrical goods on display for which the same extended warranty price and duration applies, you may display this information in “close proximity”⁸ to that range rather than adjacent to the price of each relevant electrical good. If you do this, you must ensure that the information can be seen when looking at any of the electrical goods in the range. The concept of close proximity is intended to provide a degree of flexibility in the way that the extended warranty price and duration information can be displayed. In the Department’s view, this means that you would be able to display, for example, signs or tables of extended warranty price and duration information beside the display/ranges, so long as this information can be seen by the consumer who is looking at any of the electrical goods in the range covered by the signs/tables.

6.4 The obligation to display the price and duration of one applicable extended warranty adjacent, or in close proximity, to the price of the relevant electrical good does not apply where the price of the electrical good is displayed:

- on a stock-checker device; or
- on an automated self-service machine⁹.

7. Obligation to provide further relevant information in a leaflet

7.1 The Order requires businesses selling extended warranties for their electrical goods in store to provide information leaflets to help consumers make an informed decision about the purchase of an extended warranty. The leaflets must be freely available in store so that customers can take them away to read and must be positioned in a place that customers will be able to see them¹⁰.

⁶ Defined in article 3(5).

⁷ Article 3(1)(a).

⁸ Defined in Article 1(4).

⁹ Article 3(2).

¹⁰ Article 3(1)(b).

7.2 The leaflet should contain the following further relevant information¹¹:

- an explanation of the customer's statutory rights relating to the sale of the electrical good. This is likely to be a summary of rights under the Sale of Goods Act 1979. However, if the electrical good forms part of a contract for goods and services (for example, a washing machine installed as part of a contract for a fitted kitchen), the consumer's rights in relation to the sale of the electrical good will be governed by the Supply of Goods and Services Act 1982. If the electrical good is bought on hire purchase, the consumer's rights will be governed by the Supply of Goods (Implied Terms) Act 1973;
- a statement that extended warranties may be available elsewhere;
- the relevance of household insurance (i.e. it may already cover the purchased electrical good and duplicate some of the cover provided by an extended warranty);
- the fact that the extended warranty does not have to be purchased at the same time as the electrical good(s);
- the customer's cancellation and termination rights provided for under the Order;
- the nature of the financial protection provided in the event of the provider¹² of the extended warranty going out of business; and
- whether or not the extended warranty cover continues or terminates in the event of a claim being made.

7.3 Annex A provides further guidance on the kind of information that should be provided and Annex B provides the suggested content of an information leaflet.

8. Obligation to provide a written quotation

8.1 If your business sells extended warranties for electrical goods in store, you must provide customers with a written quotation setting out the terms of the extended warranty. This applies in the following circumstances:

- when a customer requests a quotation at point of sale of the electrical good;
- in any case before a customer purchases an extended warranty at point of sale of the electrical good¹³.

8.2 The Order is not intended to oblige you to provide a written quotation to a customer who previously purchased an electrical good from you and then came back at a later date. Nor is it intended to require you to provide a written quotation if you are not the supplier of the electrical good in question, i.e. it was purchased elsewhere. The obligation is intended to be a point of sale obligation only, although there is of course nothing to prevent you offering written quotations in these other cases if you choose to.

8.3 The requirement to provide a written quotation does not apply where:

- the price of the extended warranty is £20 or less (inclusive of VAT or Insurance Premium Tax); or

¹¹ Defined in article 1(3).

¹² That is, the person who has the contract with the customer (article 1(3)).

¹³ Article 3(1)(c).

- the extended warranty is purchased through an automated self-service machine in store¹⁴.

The requirement to provide a written quotation only applies to in store purchases and does not apply to catalogue and Internet sales (Parts 4 and 5, below).

8.4 The written quotation must contain the following information¹⁵:

- the price and duration of the extended warranty and the electrical good(s) to which it applies;
- an explanation that the extended warranty can be purchased at the price quoted for a period of 30 calendar days (or more if that is the case for your business) from the date of issue of the written quotation;
- a reminder that extended warranties may be available from elsewhere;
- a reminder that the customer does not have to purchase the extended warranty at the same time as the purchase of the electrical good(s);
- a reminder of the customer's cancellation and termination rights provided for under the Order (see below); and
- whether cover under the extended warranty continues or terminates in the event of a claim being made.

8.5 If you have provided a customer with a written quotation pursuant to the terms of the Order, it is unlawful for you to sell to that customer an extended warranty specified in that written quotation unless you:

- keep the price of the extended warranty specified in the written quotation available for at least 30 calendar days from date of issue of the quotation (although you can of course offer a lower price during that period);
- during that period, continue to make available on precisely the same terms, any offers that are linked to the purchase of the extended warranty; and
- ensure the customer acknowledges in writing that they have received the written quotation before purchasing the extended warranty (for instance by signing a copy of the quotation) if the purchase is made during the validity of the quotation¹⁶. *Note that the customer does not have to sign the quotation upon receiving it, only before purchasing the extended warranty (although in many transactions, it is likely that these two things will occur at the same time).*

8.6 The Order does not stipulate that you should retain a copy of the written quotation, but it may be prudent to do so as proof that you have complied with the requirements of the Order when making the extended warranty sale.

8.7 A suggestion for the content of a written quotation can be found in Annex C.

¹⁴ Article 3(3).

¹⁵ Article 3(4).

¹⁶ Article 7.

PART FOUR: PRINTED CATALOGUES – PRICE, FURTHER INFORMATION

9. Obligation to publish price and duration of one applicable extended warranty

9.1 If you sell electrical goods and extended warranties for those goods through catalogues, whenever you publish the price of an electrical good in your catalogues, you must also publish the price and duration of one applicable extended warranty adjacent to the price of the electrical good. Therefore, if there are three different applicable extended warranty prices depending on the duration of the contract, you only have to publish one price and duration next to the price of the electrical good (although you can of course publish more than one if you choose to).

9.2 The Order does not specify a precise format for these requirements in respect of, for example, font sizes, but the price and duration of the applicable extended warranty must be published in a clear and legible manner¹⁷. There is no obligation to make clear that the purchase of the extended warranty is optional, but you may choose to do so if you wish to make this clear.

9.3 Where you have a range of electrical goods published on a catalogue page for which the same extended warranty price and duration applies, you may publish this information in “close proximity”¹⁸ to that range rather than adjacent to the price of each relevant electrical good. If you do this, you must ensure that the information can be seen when looking at any of the electrical goods in the range on that page. The concept of close proximity is intended to provide a degree of flexibility in the way that the extended warranty price and duration information can be published. In the Department’s view, this means that you would be able to publish, for example, signs or tables of extended warranty price and duration information on the same page as the range of electrical goods in question so long as this information can be seen by the consumer who is looking at any of the electrical goods in the range covered by the signs/tables. This information must be clear and legible.

10. Obligation to provide further relevant information

10.1 The Order requires businesses selling extended warranties for their electrical goods via catalogue sales to provide consumers with relevant information to help them make an informed decision about the purchase of an extended warranty.

10.2 If you sell electrical goods and extended warranties for those goods through catalogues you must, at the beginning of your catalogues (or where your catalogues are divided into sections, at the beginning of each section offering electrical goods), let your customers know that further relevant information is available on the purchase of extended warranties and let them know where in the catalogue they can find that information¹⁹.

¹⁷ Article 5(1)(a).

¹⁸ Defined in article 1(4).

¹⁹ Article 5(b).

10.3 You should make the following further relevant information available to your customers²⁰:

- an explanation of the customer's statutory rights relating to the sale of the electrical good. This is likely to be a summary of rights under the Sale of Goods Act 1979. However, if the electrical good forms part of contract for goods and services, for example, a washing machine installed as part of a contract for a fitted kitchen, the consumer's rights in relation to the sale of the electrical good will be governed by the Supply of Goods and Services Act 1982. If the electrical good is bought on hire purchase, the consumer's rights will be governed by the Supply of Goods (Implied Terms) Act 1973;
- a statement that extended warranties may be available from elsewhere;
- the relevance of household insurance (i.e. it may already cover the purchased electrical good and duplicate some of the cover provided by an extended warranty);
- the fact that the extended warranty does not have to be purchased at the same time as the electrical good(s);
- the customer's cancellation and termination rights provided for under the Order;
- the nature of the financial protection provided in the event of the provider²¹ of the extended warranty going out of business; and
- whether the extended warranty cover continues or terminates in the event of a claim being made.

10.4 Annex A provides further guidance on the kind of information that should be provided.

²⁰ 'Further relevant information' is defined in article 1(3).

²¹ That is, the person who has the contract with the customer (article 1(3)).

PART FIVE: WEB SALES – PRICE, FURTHER INFORMATION

11. Obligation to publish price and duration of one applicable extended warranty

11.1 If you sell electrical goods and extended warranties for those goods through your website, whenever you publish the price of an electrical good through such means, you must also publish the price and duration of one applicable extended warranty adjacent to the price of the electrical good. Therefore, if there are three different applicable extended warranty prices depending on the duration of the contract, you only have to publish on the website one price and duration next to the price of the electrical good (although you can of course publish more than one if you choose to).

11.2 The Order does not specify a precise format for these requirements in respect of, for example, font sizes, but the price and duration of the applicable extended warranty must be published in a clear and legible manner.²² There is no obligation to make clear that the purchase of the extended warranty is optional, but you may choose to do so if you wish to make this clear.

11.3 Where you have a range of electrical goods published on a website page for which the same extended warranty price and duration applies, you may publish this information in “close proximity”²³ to that range rather than adjacent to the price of each relevant electrical good. If you do this, you must ensure that the information can be seen when looking at any of the electrical goods in the range on that page. The concept of close proximity is intended to provide a degree of flexibility in the way that the extended warranty price and duration information can be published. In the Department’s view, this means that you would be able to publish, for example, signs or tables of extended warranty price and duration information on the same page as the range of electrical goods in question so long as this information can be seen by the consumer who is looking at any of the electrical goods in the range covered by the signs/tables. This information must be clear and legible.

11.4 Where a customer has selected their purchase(s) and is simply effecting payment for an electrical good (and is not purchasing a warranty), the requirement to publish an applicable extended warranty price in respect of such goods does not apply²⁴.

12. Obligation to provide further relevant information

12.1 The Order requires businesses selling extended warranties for their electrical goods via website sales to provide consumers with information to help them make an informed decision about the purchase of an extended warranty.

12.2 If you sell electrical goods and extended warranties for those goods through your website you must provide a hyperlink on your home page and every introductory page offering electrical goods to a page containing further relevant information.

12.3 You should make the following further relevant information available to your customers²⁵:

²² Article 6(1)(a)

²³ Defined in article 1(4).

²⁴ Article 6(2).

- an explanation of the customer’s statutory rights relating to the sale of the electrical good. This is likely to be a summary of rights under the Sale of Goods Act 1979. However, if the electrical good forms part of contract for goods and services, for example, a washing machine installed as part of a contract for a fitted kitchen, the consumer’s rights in relation to the sale of the electrical good will be governed by the Supply of Goods and Services Act 1982. If the electrical good is bought on hire purchase, the consumer’s rights will be governed by the Supply of Goods (Implied Terms) Act 1973;
- a statement that extended warranties may be available from elsewhere;
- the relevance of household insurance (i.e. it may already cover the purchased electrical good and duplicate some of the cover provided by an extended warranty);
- the fact that the extended warranty does not have to be purchased at the same time as the electrical good(s);
- any cancellation and termination rights provided for under the Order²⁶;
- the nature of the financial protection provided in the event of the provider²⁷ of the extended warranty going out of business; and
- whether the extended warranty cover continues or terminates in the event of a claim being made.

12.4 Annex A provides further guidance on the kind of information that should be provided.

²⁵ “Further relevant information” is defined in article 1(3).

²⁶ The Order will not confer these rights if the exclusion described in paragraph 14.2 applies.

²⁷ That is, the person who has the contract with the customer (article 1(3)).

PART SIX: PRESS ADVERTISEMENTS AND PROMOTIONAL PUBLICATIONS – PRICE, FURTHER INFORMATION

13. Obligation to publish price and duration of one applicable extended warranty

13.1 If you sell electrical goods and extended warranties for those goods and advertise your electrical goods through advertisements in newspapers, magazines or periodicals, or in other printed publicity such as posters and promotional flyers or other printed publications, then whenever you advertise the price of an electrical good through such means, you must also advertise the price and duration of one applicable extended warranty adjacent to the price of the electrical good. Therefore, if there are three different applicable extended warranty prices depending on the duration of the contract, you only have to advertise one price and duration next to the price of the electrical good (although you can of course publish more than one if you choose to).

13.2 The Order does not specify a precise format for these requirements in respect of, for example, font sizes, but the price and duration of the applicable extended warranty must be advertised in a clear and legible manner²⁸.

13.3 Where you have a range of electrical goods advertised in a newspaper etc., for which the same extended warranty price and duration applies, you may advertise this information in “close proximity”²⁹ to that range rather than adjacent to the price of each relevant electrical good. If you do this, you must ensure that the information can be seen when looking at any of the electrical goods in the range on that page. The concept of close proximity is intended to provide a degree of flexibility in the way that the extended warranty price and duration information can be advertised. In the Department’s view, this means that you would be able to advertise, for example, signs or tables of extended warranty price and duration information on the same page as the range of electrical goods in question so long as this information can be seen by the consumer who is looking at any of the electrical goods in the range covered by the signs/tables. This information must be clear and legible.

13.4 The obligation to publish the price and duration of one applicable extended warranty in your advertisements/promotional publications will not apply if your business has sold less than £10,000 worth of extended warranties in the previous business year (inclusive of VAT or Insurance Premium Tax)³⁰.

13.5 Note that these obligations are imposed on businesses offering extended warranties and electrical goods and not on the publishers of advertisements.

²⁸ Article 4(1)

²⁹ Defined in article 1(4).

³⁰ Article 4(2).

PART SEVEN: CANCELLATION AND TERMINATION RIGHTS; REFUNDS

14. Cancellation rights

14.1 If your business offers extended warranties with an initial duration of more than one year for electrical goods sold by you, you must offer your customer a minimum “cooling off” period of 45 calendar days, beginning with the day on which the extended warranty is purchased, in which they can cancel the policy and obtain a full refund where no claim has been made³¹ (see paragraph 18 for further guidance on refunds). You will still have to comply with this provision even if your business is selling extended warranties on behalf of another party. You may, of course, offer a “cooling-off” period lasting more than 45 days.

14.2 You will not have to provide a 45 day cancellation period if the extended warranty is a distance contract to which Directive 2002/65/EC concerning the distance marketing of consumer financial services³² applies. This means that insurance-backed extended warranties sold by unauthorised intermediaries at a distance will not have to comply with the provisions in article 8 of the Order³³, as they will be subject to other rules implementing that Directive. The effect of this exclusion is that these types of extended warranties must only offer a 14-day cancellation period (although there is nothing to prevent a longer cancellation period being offered by choice).

15. Termination rights

15.1 If your business offers extended warranties, with an initial duration of more than one year for electrical goods sold by you, you must enable your customers to terminate the policy by giving notice after the cancellation period has expired. Your customers will have the right to terminate the extended warranty at any time until the expiration of the extended warranty and receive a pro-rata refund even where a valid claim has been made under the extended warranty³⁴. This will not apply where, under the terms of the extended warranty, it is automatically terminated on the making of a claim³⁵.

15.2 If your customer makes a claim on the extended warranty within the cancellation period and the policy cannot then be cancelled as a claim has been made on it, your customer would still be entitled to terminate the policy after this period and receive a pro-rata refund.

16. Notice provisions

16.1 The Order provides your customers with the right to cancel or terminate the extended warranty by giving notice. They may do this by giving you notice either orally (through

³¹ Article 8(1)(a).

³² O.J. No. L 271, 9.10.2002, p.16.

³³ See Article 2.

³⁴ Article 8(1)(b).

³⁵ Article 8(2).

attending in person at your business premises or by telephone) or in writing³⁶. You cannot insist on the customer giving written notice to cancel.

17. Written confirmation of right to cancel/terminate – reminder notice

17.1 To ensure that your customers are reminded of their right to cancel/terminate you must also ensure that your customers are sent a reminder notice AT LEAST 20 calendar days before the cancellation period expires³⁷. This notice – which must be in writing, but may be in the form of a letter rather than a formal notice – should inform customers of their right to cancel or terminate the policy.

17.2 The reminder notice may be sent out in a separate communication or along with other documentation such as the policy documentation that may be sent out shortly after the purchase of the extended warranty. However, the duty to ensure that your customers get a reminder notice falls to you as the business selling the extended warranty – even if you are selling extended warranties on behalf of another party. As a business selling extended warranties, you should therefore satisfy yourself that you have arrangements in place to do this either by your own actions or by including this within the terms of any commercial relationship with a third party.

17.3 The obligation to provide a written reminder notice does not apply where the price of the extended warranty is £20 (inclusive of VAT or Insurance Premium Tax) or less (although you can of course still provide one if you wish).

18. Form of refunds

18.1 If your customer has exercised the right to cancel the extended warranty within the cancellation period, you must provide a full refund where no claim has been made. If your customer has exercised the right to terminate the policy after the expiration of the cancellation period, you must provide a pro-rata refund, which must be calculated by reference to the remaining period of full unexpired months, unless the extended warranty has been terminated due to a claim in accordance with the terms and conditions of the warranty.

18.2 You cannot deduct any discounts given on the electrical good to which the extended warranty relates when calculating the full refund/pro-rata refund³⁸.

18.3 A refund can be made in various ways, including a refund in the form originally tendered. This may include the variation of a credit agreement where applicable. However, you cannot offer store vouchers or credit notes that restrict where your customer may redeem them, unless this was the form originally tendered for the extended warranty. If payment for the extended warranty was made partially through the means of vouchers/credit notes, then a refund may be made through these means but only for the amount initially tendered through these means³⁹.

³⁶ Article 8(6)(a).

³⁷ Article 8(1)(c).

³⁸ Article 8(5).

³⁹ Article 8(6)(b).

PART EIGHT: ENFORCEMENT AND ADDITIONAL INFORMATION

19. Enforcement

19.1 In order to secure compliance, Article 10 enables the Secretary of State to give directions in the event of non-compliance with this Order. If these directions are not complied with by the person to whom they are addressed the Secretary of State can apply to the High Court (Court of Session in Scotland) for an order requiring compliance. In the absence of any directions by the Secretary of State, the Order can still be enforced by civil proceedings by the Crown for an injunction or interdict or any other appropriate relief⁴⁰.

20. Additional Information

20.1 Additional information about this legislation including related consultation documents can be found on the Internet at the following address

<http://www.dti.gov.uk/ccp/topics2/extendwarrant.htm>

⁴⁰ Section 93 Fair Trading Act 1973 (as saved by Schedule 24 of the Enterprise Act 2002).

ANNEX A

Further relevant information requirements (article 1(3) of the Order)

- **An explanation of the customer's statutory rights relating to the sale of a domestic electrical good**

The purpose of this requirement is to ensure your customers are made aware that they already have certain rights in relation to their electrical good purchases. This information will therefore help them to decide whether or not they need to buy an extended warranty for the electrical goods they have purchased.

- This is likely to be a summary of rights under the Sale of Goods Act 1979 stating that: the consumer has a right to claim for a repair or replacement for up to 6 years (five in Scotland) if the electrical good when sold was not of satisfactory quality or fit for its purpose;
- the burden of proof is on the retailer in respect of claims made in the first six months. However, subsequently the onus would be on the consumer to prove that the product had a fault when it was sold.
- consumers can get further information about their rights from their local trading standards department.

However, if the domestic electrical good forms part of a contract for goods and services (for example, a washing machine installed as part of a fitted kitchen or is purchased on hire purchase), the relevant legislation which you will need to summarise will be rights under the Supply of Goods and Services Act 1982 and the Supply of Goods (Implied Terms) Act 1973 respectively.

- **The availability of extended warranties from others**

The reason for this information is that sometimes consumers are not aware that they can 'shop around' for extended warranties. You should therefore provide information so that your customers are aware that extended warranties may be purchased from elsewhere. You could include a list of the types of alternative providers and note, for example, that some credit cards provide free cover.

- **The relevance of household insurance.**

This information is required to help your customer decide whether or not to purchase an extended warranty, as household insurance cover may already provide sufficient cover for the electrical good(s) in some cases, although in other cases it will not. You should therefore provide information letting your customer know that if they have household insurance this may be relevant. You could therefore state that:

- some household contents insurance policies cover for accidental damage, fire or theft of electrical goods;
- where cover is provided under household insurance, there is likely to be an excess payable by the policy-holder;

- where cover is provided, making a claim under household insurance may lead to higher premiums in future if there is a no-claims bonus.
- **The fact that the extended warranty does not have to be purchased at the same time as the electrical good(s).**

The reason for this information is that many consumers are under the impression that they have to purchase the extended warranty at the same time as they purchase their electrical good(s) and do not realise they can ‘shop around’ before committing themselves to a purchase. You should therefore make it clear to your customers that they are not obliged to buy an extended warranty at the same time as the purchase of the electrical good(s). In store retailers may also wish to mention the fact that the customer can obtain a written quotation for an extended warranty and the price and any other incentives linked to the purchase of the extended warranty or the electrical good(s) will be kept open for 30 days (or more if applicable) from the date of the quotation, thereby enabling your customers to ‘shop around’ without fear of losing any deal offered to them.

- **The customer’s cancellation and termination rights under the Order.**

The reason for providing your customers with this information is so that they are aware that the policy may be cancelled by notice within a certain period of time or terminated thereafter so that they are not tied to the contract for the duration of contract. The information should make clear that an extended warranty may be cancelled within 45 days (or any longer period which may apply) with a full refund being provided where no claim has been made (and a reminder letter will be sent out in this period if the extended warranty costs more than £20) or terminated thereafter at any time regardless of whether a claim has been made with a pro-rata refund being provided. Notice may be given orally or in writing.

- **The nature of the financial protection provided in the event of the provider of the extended warranty going out of business.**

The reason for providing your customers with this information is that some extended warranties may provide better financial protection than others if the person providing the cover – that is the person who has a contractual obligation towards the consumer under the extended warranty (not necessarily you as the retailer) – goes out of business. This may help your customer decide whether or not to purchase your extended warranty. You should therefore make it clear whether the extended warranty is covered by the Financial Services Compensation Scheme, a ring fenced trust or neither.

- **Whether or not the extended warranty cover continues or terminates in the event of a claim being made or the electrical good being replaced under the terms of the warranty.**

The reason for providing this information is that the detailed terms and conditions of extended warranties vary significantly and consumers are often unfamiliar with their rights if they make a claim and get a replacement electrical good. Cover under some extended warranties may cease immediately, if they make a claim and get a replacement electrical good, and consequently such customers would not be eligible for a refund for the remaining period of cover. This information will therefore help your customers to decide

whether to purchase your extended warranty and you should make clear whether or not their cover would cease in such circumstances.

ANNEX B

Suggested content of an information leaflet where purchase of domestic electrical good covered by the Sale of Goods Act 1979.

It is up to individual businesses to determine the precise design and format of the leaflets that they wish to make available, for example, in line with corporate branding styles, so long as it contains the information required by the Order. The following example is illustrative only and may need to be adapted for your business.

Information Leaflet on Extended Warranties for Domestic Electrical Goods

Further Information

This leaflet contains information which may help you decide whether or not to purchase an extended warranty for any domestic electrical goods you purchase.

Your Statutory Rights

Whether or not you purchase an extended warranty, consumers have various statutory rights that apply to the purchase of your electrical goods. These include the right to claim for a repair or replacement for up to six years (five in Scotland) if your electrical goods **when sold** were not of satisfactory quality or fit for their purpose. Within the first six months, the burden of proof is on the retailer to establish that the goods you purchased were of satisfactory quality and fit for their purpose. However, **after the first six months**, you will **have to prove** that the goods **had a fault when sold to you**.

Further information on your rights can be obtained from your local trading standards department

Other Extended Warranty providers

We offer a range of extended warranties for your purchase. Extended warranties may also be available from other high street outlets, insurance companies and other providers. Extended warranty cover may also be available for free if your purchase was made using some credit cards.

Household insurance

Some household contents insurance policies cover for accidental damage, fire or theft of electrical goods. However, an excess may be payable and a claim may affect the cost of subsequent insurance premiums.

You do not have to purchase an extended warranty at the same time as you purchase your electrical goods

You do not have to purchase an extended warranty at the same time you purchase your domestic electrical goods. You are entitled to shop around for one. [We will be happy to offer you a written quotation for the price and duration of one of our extended warranties, which will remain valid for 30 calendar days from the date of issue of the written quotation. Any offers, such as discounts/vouchers etc., which are linked to the purchase of the extended warranty or the electrical goods will also remain available for that period].

Your right to cancel and receive a full refund

If you decide to purchase an extended warranty for one of our electrical goods, **you have the right to cancel** that extended warranty **within 45 calendar days and receive a full refund** provided no claim has been made under the terms of the extended warranty. You will be sent a reminder of this right at least 20 calendar days before this period runs out.

Right to Terminate

You will also have the right to terminate the extended warranty at any time after the 45-day cancellation period and receive a pro-rata refund of the amount paid. The amount refunded will be calculated in proportion to the number of complete unexpired months of protection remaining.

If you make a claim under the terms of the extended warranty during the 45 day cancellation period you will not be eligible to cancel the extended warranty and receive a full refund. However should you wish, you will still be able to terminate the extended warranty after that period and receive a pro-rata refund in relation to the number of complete months remaining before the expiry of the extended warranty.

You may give notice of your intention to cancel or terminate the extended warranty in person or by telephone or in writing to the address shown on your policy document.

Financial Protection

[depending on the specific circumstances]

Our extended warranties are provided by a UK-based insurance company [ABC plc] which means that if the provider gets into financial trouble, money from the Financial Services Compensation Scheme will be paid to you so you will not lose out.

Or

Our extended warranties are supported by an arrangement which keeps extended warranty funds separate from the rest of the business in case the provider gets into financial trouble. These arrangements can be very secure but the Financial Services Compensation Scheme does not apply to this warranty.

Or

Our extended warranties are run by the provider without any arrangements to keep extended warranty funds separate from the rest of the business in case the provider gets into financial trouble. These arrangements depend on the provider staying in business. The Financial Services Compensation Scheme does not apply to this warranty.

Continuous Cover

If you decide to replace the electrical goods during the life of this extended warranty then *[use applicable text]*

you can transfer the unexpired portion of your extended warranty to your new purchase. To do this simply notify *[our warranty service department]* and we will transfer the unexpired portion of your warranty to your replacement.

[or]

simply notify our warranty service department and we will refund the premium paid in respect of the unexpired portion of your warranty.

[or]

your warranty cover will cease, and no refund will be payable.

Claims

If you make a claim under this extended warranty then *[use applicable text]*

Your warranty will cease from the date of the claim

[or]

We will continue to provide coverage under the warranty until its expiration date.

ANNEX C

Suggested content of a written quotation

It is up to individual businesses to determine the precise design and format of a written quotation, for example, in line with corporate branding styles, so long as it contains the information required by the Order. The following example is illustrative only and may need to be adapted for your business.

Local Electricals PLC
123 The High Street
Anytown

Extended Warranty Quotation

Date quotation issued - xx/xx/xxxx

Your are reminded that you do not have to purchase this extended warranty now, and that extended warranties may be available from other providers.

This quotation remains valid for you to take up on these terms for [30] [other period if more] calendar days from the above date[*you may also refer to any offers linked to the purchase of an extended warranty which must also be available on the same terms, whilst the quotation remains valid*].

Price of extended warranty for [ACME Hi Fi System - abcd/1234]

Three years from date of purchase of extended warranty: £[39]

Four years from date of purchase of extended warranty: £[45]

Five years from date of purchase of extended warranty: £[50]

The extended warranty can be cancelled within 45 days of purchase and a full refund obtained unless a claim has been made. The extended warranty can be terminated at any time after that period and a refund obtained on the unexpired period [unless a claim has been made and the warranty terminates automatically].

If you wish to purchase an extended warranty specified in this quotation at the same time as purchasing the related electrical good you must sign below to acknowledge that you have been given a written quotation. You do not have to sign this now if you choose to purchase a warranty specified in this quotation at a later date within the quotation period.

I confirm that I have read the quotation and wish to purchase the [first/second/third] extended warranty described in this quotation.

Signed..... Date