

EXTENDED WARRANTIES

Dear Registrant,

The following bulletin is sent to you in response to a number of claims recently made against the Motor Vehicle Dealers Compensation Fund. A dealership failure has resulted in thousands of dollars in claims that must be paid out by the Fund. In most cases, consumers purchased warranties they assumed were underwritten by the third-party warranty company listed on their contracts. Unfortunately, what they purchased was the dealer's own warranty product which was only *administered* by the third-party.

To help avoid similar situations in the future, dealerships selling extended warranties (that are **only administered by a third-party**) are reminded of the following requirements:

The current MVDA Regulations require that:

- 16 (6) Where a sale or purchase of a new or used motor vehicle includes as an option an extended warranty or service plan, that part of the sales or purchase order that deals with the warranty or plan shall show,
- a. the price of the warranty or plan;
 - b. the extent of the coverage of the warranty or plan; and
 - c. where the dealer is liable under the warranty or plan and the warranty or plan is not guaranteed or underwritten by a licensed insurer or provided by the manufacturer,
 - i. the rights of the purchaser and the procedures to be taken in the event of a dealer going out of business or failing to honour the warranty or plan,
 - ii. that the warranty or plan only covers claims incurred prior to the dealer going out of business and that any subsequent claims are to be made against the Fund,
 - iii. that where a dealer goes out of business the purchaser is only entitled to the return of non-earned premiums from the Fund, and
 - iv. the provision that is made for the mediation, adjustment and settlement of disputes between the purchaser and the insurer.

In addition to the MVDA, the *Consumer Protection Act, 2002* also requires that all disclosures be clear, comprehensible and prominent.

Putting the legislation into practice:

To ensure compliance with legislation, dealers should ensure the third-party warranty companies they use to *administer* the dealer's own warranty products are not listed prominently in warranty contracts or applications.

The provider of the warranty in these situations is the dealer and that needs to be obvious to a consumer. The only service the third-party is offering is the administration of claims on behalf of the dealer. The third-party will not be accountable for the warranty product in the event the dealership fails. While consumers have the ability to come to the Fund under specific circumstances, ensuring consumers have adequate information to make an informed decision BEFORE they purchase the extended warranty agreement is critical for compliance under the applicable laws.

If the dealer's own extended warranty isn't underwritten consumers need to understand their rights and obligations.

Changes to expect with the new MVDA

After the new MVDA is implemented in January 2010 dealers who sell their own extended warranty products will also need to be insured, or provide the Fund with a letter of credit in the amount of \$100,000. If they sell a third-party uninsured warranty product the warranty supplier needs to provide the Fund with a letter of credit in the amount of \$500,000. OMVIC will be posting an interim list of underwritten third-party warranty providers and those who have provided the required letter of credit shortly and will update the list again in January 2010 to assist dealers. In the interim, dealers are encouraged to make inquiries directly with their provider and seek verification for same.

For more information about the new MVDA, visit www.omvic.on.ca/services/shared/mvda2002.htm

How to reach OMVIC:

If you have questions about this bulletin, please get in touch. OMVIC's toll-free number is 1-800-943-6002 and staff are available during regular business hours.