

WARRANTIES MARKET OPENED UP TO GREATER COMPETITION

Competition Commission Chairman Sir Derek Morris today welcomed Trade and Industry Secretary Patricia Hewitt's decision to accept the CC's report and recommendations on the market for extended warranties on electrical goods.

Sir Derek said:

"I am pleased that the Secretary of State has accepted our report and recommendations.

"These measures go with the grain of the market and will bring much more competition in extended warranties and deliver better value for consumers. They are about choice, information and consumer sovereignty. They will make it clear to consumers that if they want an extended warranty they don't have to buy it at the point of sale. This will provide opportunities for alternative suppliers of extended warranties to get into this market.

"When our recommendations are put in place consumers will be provided with clear information about extended warranties. They will be able to compare costs and terms of other extended warranties; make an informed decision away from pressures at the point of sale; and be able to cancel a warranty and replace it with another if it is better value.

“By reducing the significant advantage electrical retailers have at the point of sale we would expect a far greater degree of competition in this market which will, over time, result in lower prices for consumers of extended warranties.

Sir Derek continued:

“It is high time that this market was subjected to normal competitive pressures. It has been causing concern to the competition authorities since 1994. The Office of Fair Trading hoped a voluntary code would deal with these concerns but subsequent investigations by them found that it was evident that the market was not working well for consumers.

“Extended warranties undoubtedly provide a valuable service. Our inquiry found that whilst many purchasers were very satisfied with them, there was a significant minority who were not. We found that the price of warranties was excessive. We estimate that had this market been fully competitive, extended warranties would have been, on average, up to a third cheaper. We have no problem with healthy profits gained from serving customers well in a fully competitive market but we do take issue with high prices being charged to customers deprived of choice and the ability to compare terms and prices.”

The CC found that a monopoly situation existed in the supply of extended warranties that operated against the public interest. This resulted in lack of choice, excessive prices, insufficient information, lack of competition at point of sale, employing selling practices which left customers feeling under unreasonable pressure, disadvantageous terms and lack of information about the scope of protection under service-backed schemes.

Because the adverse effects identified arise from lack of competition, the CC believes it appropriate to remedy these by creating the conditions for more effective competition. Therefore the CC believes it is necessary that consumers know prices for extended

warranties at the time that they choose the electrical good, have time to compare extended warranties and the opportunity to switch and generally have better information when deciding whether to buy an extended warranty.

To achieve these aims the CC recommended that retailers are required to:

- display the price of an applicable extended warranty alongside a domestic electrical good, in store and in press advertisements and other publicity;
- provide a standard information leaflet setting out information on statutory rights, on the availability of extended warranties from other organizations, on cancellation rights and whether the extended warranty is backed by insurance;
- give improved cancellation and termination rights: to cancel an extended warranty with a full refund within 45 days from purchase (if no claim has been made); to terminate an extended warranty and obtain a pro-rata monetary refund at any time; and to be given a written postal reminder of the right to cancel or terminate; and
- give a written quotation in a standard format stating that the extended warranty remained available for 30 days after purchase of an electrical good on the same terms (including any discount offered on the domestic electrical good price).

The domestic electrical goods market in the UK is between £15 billion and £20 billion a year. In 2001, 18.5 million extended warranties were supplied, with a total value of £900 million. In the CC's view there was vigorous price competition in the domestic electrical goods retail market but relatively little in the extended warranty market. Generally extended warranties were priced in relation to the price band of the domestic electrical good, retailers tending to set prices at a level that consumers would bear rather than reflecting the underlying risk or costs, such as would occur under fully competitive conditions.

The CC identified over 3,000 retailers that supplied extended warranties. The top five extended warranty retailers—The Dixons Group (Dixons, Currys, PC World and The Link),

Comet, Powerhouse, Littlewoods and Argos—were estimated to account for 80 per cent of paid extended warranty sales at point of sale.

The CC estimates that the top five extended warranty retailers had, between 1997 and 2001, collectively earned on average between £116 million and £152 million more profit each year than they would have earned under fully competitive conditions.

The CC conducted a 15-month inquiry which cost £3 million. The CC consulted widely. It held a public hearing in April 2003 and held hearings with major suppliers of extended warranties and with other interested parties. It conducted two linked consumer surveys and a two-stage international comparative study of the sale of extended warranties, both of which are available on its web site.

Notes to editors

1. The reference was made by the Director General of Fair Trading under section 2 of the Fair Trading Act 1973 on 2 July 2002 (see Press Release 34/02).
2. Copies of the report *Extended warranties on domestic electrical goods* (Cm 6089) are available from The Stationery Office, price £94. The report will also be available on the CC web site:
<http://www.competition-commission.org.uk>
3. The inquiry was carried out by a group of five CC members led by Sir Derek Morris, the CC Chairman. The other four members were Christopher Clarke, Dr Diane Coyle, Peter Hazell and Dr Elizabeth Monck.
4. Further information can be obtained from the CC's web site at:
<http://www.competition-commission.org.uk>
5. Enquiries should be directed to Francis Royle, Press Officer, tel: 020 7271 0242.