

Financing Extended Warranties

The financing of extended warranty products presents compliance and financial risk management to both brokers and credit providers.

The key risk arises from the potential that extended warranty products mislead consumers about their protections under consumer guarantee provisions and/or these products do not genuinely provide additional coverage, they simply duplicate legislative obligations.

Knowledge of the products and the context in which they are sold, together with attention to regulatory compliance requirements, is essential for brokers and credit providers to appropriately manage the potential risks.

In designing risk and compliance programs to manage the risks of financing extended warranty products, brokers and credit providers would be prudent to:

- assess whether the product is a true warranty or insurance product
 - identify the legislation that applies to both the extended warranty product offered and the customer type ('consumer' definitions)
 - establish whether the provider of the product is appropriately licensed/authorised (if applicable) to provide the product; and
 - receive confirmation (e.g. copy of legal advice) from the provider about the legal structure of the contract.
- undertake due diligence on the product's provider to manage joint and several liability exposure
- evaluate the cost benefit of the product against protections already available under consumer guarantees and statutory warranties
 - ensuring the product does not overlap with applicable consumer guarantees, implied warranties or manufacturer/supplier express warranties – otherwise, the consumer is inappropriately paying for their statutory rights
 - when the product commences to benefit the consumer and its duration, e.g.
 - whether the product only operates for the duration of the loan
 - whether the product does not commence until after the loan term
- assess sales methodology to ensure there is no potential for misrepresentations and unconscionable conduct about the need for the product and/or its value to the consumer
- ensure the product is consistent with a NCC customer's requirements and objectives
- ensure NCC contracts correctly disclose disbursements, commissions etc

This is a challenging compliance area which is the subject to continuous regulator scrutiny on its nature, price, sales methodology and compliance with current laws.

Our training module on Financing Extended Warranties provides more information – <http://creditwise.talentlms.com/catalog>

Alternatively, contact Steve Edwards on 0414232562 or Steve.Edwards@creditwise.com.au

This Compliance Guide provides a high level explanation of how the current law may impact on finance sector businesses. However, the application of the law may vary according to circumstances and readers should seek legal advice for their specific situation.

14 Haigh Place, Castle Hill, NSW Australia 2154

Phone: 02 9885 7097 Mobile: 0414 232 562 Email: contact@creditwise.com.au

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