

Consumers and Product Insurance Purchase Decisions

August 2018



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Copyright

This study evaluates consumer attitudes and behaviours towards extended protections offered on major household purchases in Canada. It includes the results of a survey of 2,000 consumers about their experiences with extended protections, their knowledge and understanding of the protections they provide and the factors that influence their purchasing decision. The study also evaluates the information communicated to consumers through the service contracts and practices of retailers, the history of warranty and extended warranty legislation in Canada and the United States, and the factors shaping industry change.

Keywords: warranty, extended warranty, provincial consumer protection, service plan, product protection

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Foreword

Sears Canada's bankruptcy left customers who had paid extra to protect their appliances or electronics purchase beyond the duration of the manufacturers warranty without any further protection.

Because Sears Protection Plans were only backed by the retailer, when Sears liquidated, the protections vaporized too.

Consumers who had prepaid to reduce future risk on a major purchase suffered a cruel twist of the knife.

Readers can be forgiven if they assume that the Sears situation sparked this project, but in fact, the proposal for this research was filed months earlier. Numerous consumers had contacted the Consumers Council of Canada through web sites and social media to ask for assistance in disputes about extended warranties and service plans: A vendor refused to honour a contract. There was a significant parts delay and I'm stuck with a worthless product. There is no licensed repair service near me, and the shipping costs are immense. What do I do?

Those queries sparked this project. The Sears bankruptcy made tangible the degree of risk in a business sector meant to serve consumers trying to avoid risk.

Acknowledgements

Consumers Council of Canada greatly appreciates the participants who responded to requests for consultation and assistance to complete this project. This includes representatives from many provincial governments and regulators, U.S. industry associations, third-party service providers, industry experts Eric Arnum of Warranty Week and Michael Bailey, and lawyers from a leading Canadian law firm involved in extended protections. Research methodologist Robert Kerton provided insight and access to many academic resources. Scot Blythe provided research and writing assistance.

Consumers Council of Canada received funding from Innovation, Science and Economic Development Canada's Contributions Program for Non-profit Consumer and Voluntary Organizations. The views expressed in this report are not necessarily those of Innovation, Science and Economic Development Canada or the Government of Canada.

Executive Summary

“There are thousands of consumers who end up holding a bag of nothing, and that’s bad.”

Background

Consumers making a substantial household purchase are prompted to pay additional amounts at the point of sale to obtain additional product protection. Sometimes called “extended warranty” or “service plus” or “protection plans”, these programs aim to reduce purchasers’ worry that the products may fail after the manufacturer’s warranty expires, but before they have enjoyed all the benefits they expected.

However, as an example of how the promise of protection can fall short, when Sears Canada liquidated in the fall of 2017, consumers who had purchased Sears Protection Plan coverage with their major appliance discovered their protections vanished with the retailer.

Do consumers understand what they are buying when they purchase extended protection? This report of the Consumers Council of Canada asked consumers how they feel about their purchase decisions, what factors affect that decision, whether they are making informed decisions, what their experiences with claims are, what is and is not covered by these contracts, and the state of legislated protections.

Methodology

The attitudes and experiences of 2,000 Canadian consumers who had purchased an expensive household durable in the past three years were gathered through an online survey conducted in May 2018 by Environics Research on behalf of Consumers Council of Canada. Participants were asked

up to a dozen questions about the factors that influenced their purchasing decision, their attitudes and knowledge of protections available.

The preparation of the survey questions required research into relevant provincial laws and the contracts of service providers. Interviews with industry participants, provincial government representatives and other experts provided details of the history of warranties, legislative initiatives in Canada and the United States, the current shape of the industry and the forces leading to change.

Summary Conclusions

The research results reflect all three inputs: the consumer survey, the legislative review and the evaluation of current practices. The consumer survey results show that extended protections are used by a distinct segment of the population. The product, its price and the cost of the protection all affect the purchase decision, but the key differentiator appears related to the consumers themselves. Consumers who purchased protection on one product were about three times more likely than other consumers to purchase protection on another product. The attributes most highly valued by purchasers are convenience and peace of mind. The results suggest that there is a certain type of consumer – risk averse and perhaps regret averse – that is much more likely to purchase extended protections. The decision appears to be more emotional than logical.

Protection purchase rates vary by product category, peaking at 23% of major appliance purchases. About 30% of consumers have purchased extended protection on a major household durable in the past three years.

Extended protections are not well understood by consumers in the aggregate. Consumers have a number of misunderstandings about the rules, and better-informed consumers are generally less likely to purchase extended protections. Consumers bear a portion of responsibility for these misunderstandings, because contracts generally spell out exclusions. But there are asymmetries between buyer and seller: consumers are asked to assess a risk of product failure and estimate repair cost when the vendor has nearly perfect knowledge of those things. There is no competition at the point of sale

and extended protection contracts feature high commissions (markup) for retailers. Printed contractual disclosure is usually done in very small type. About one quarter of claims for service are resolved unsatisfactorily or with substantial inconvenience.

There is not much consistency between provinces in how legislation treats warranties and extended warranties and whether they are considered insurance. Only Quebec residents show awareness of required warranty protection, likely the result of legislation that requires sellers to disclose warranties before offering additional warranties for sale. The reliance on courts for redress likely discourages some consumers from pursuing their legal and contract rights.

Most major retailers choose third-party service providers, who have adopted U.S. practices to serve Canadian consumers. But consumers have little understanding of how this approach differs from self-financed protection, the scenario that led to Sears Canada extended protection purchasers “holding a bag of nothing” as one industry leader noted.

Recommendations

The report concludes with multiple recommendations to improve consumer experiences.

Consumers would be better served if they better understood the protections offered. Misunderstandings about coverages is the top source of unsatisfied coverage claims, and consumers assume a significant portion of this responsibility when they purchase without understanding the contracts they sign.

Retailers and third-party administrators benefit from the lack of competition in stores. Retailers typically offer only a single provider. A more competitive environment would likely result in lower costs to consumers, and perhaps greater engagement that leads to more overall revenue to retailers.

The majority of this report’s recommendations relate to public policy development.

Three approaches to improving the market for extended warranty/product insurance commonly cited in other research – in-store competition, mandatory disclosure of warranty protections prior to the sale of extended

protections, and expanded basic warranty protection – all merit more considered evaluation.

The relative safety of different approaches to offering these services imported by U.S. firms also warrants further study, before another major retailer follows Sears into bankruptcy.

Alternatives to the current redress system, which relies on civil court action by consumers, could also improve consumer experiences.

Introduction

As Sears Protection Plan customers discovered, amounts paid to protect purchases can provide no protection at all

The Importance of This Research to Consumers

A major purchase is a major source of anxiety. Consumers purchasing a household durable – a refrigerator, a computer, a lawn mower – face the risk that the item may not perform. A manufacturer’s warranty can offer some comfort that if a product fails, the consumer will be compensated. (It may also fulfill legal requirements for goods offered for sale.)

To extend that comfort, consumers will often be presented with additional ways to protect their purchase. The offerings may be called “extended warranties” or “service plus” or “product protection”, but consumers will be asked if they would like to purchase additional protection for a fee.

Consumers may believe that these programs will make them whole in the event of a product failure. They may view them as simple time extensions of a manufacturer’s warranty. In reality, these programs – this report uses the term “extended protection” to cover the set of product names – are varied, do not always emulate manufacturers warranty, and involve many specific exclusions to limit protection available to the purchaser. Consumers often reach out to the Consumers Council of Canada to describe their disputes after claims for coverage were disputed or denied.

Moreover, as consumers who purchased extended Sears Protection Plans from the retailer prior to its bankruptcy discovered, amounts paid for protection can provide no protection at all.

This project is based on the considerable misunderstandings in the marketplace about what programs cover, their structure and the consumer

protections that may exist through warranty, insurance or consumer protection law. Published reports indicate retail margins on extended protection are high, and manufacturers can also benefit from reduced warranty obligations. The report is designed to examine the level of consumer understanding, experiences and attitudes towards extended protections.

This is not a report on ordinality. There is no attempt to “rate” different protection options, though many approaches and contracts are examined and compared.

Our Research Questions

At the simplest level, the purpose of this research is to discover how consumers feel about their decision to purchase extended protection on larger price household items. But that simple question has multiple dimensions and related questions. Among them are:

- What factors influence the purchase decision?
- Is the decision made at the point of sale, or prior?
- How well do consumers understand what they are purchasing?
- Are they making well-informed decisions?
- How frequently do consumers make a claim under these extended protection plans?
- What is their satisfaction when they make a claim, and what are the common sources of dissatisfaction?
- How do past experiences influence future purchase decisions?
- Do consumers make different choices when purchasing online versus in-store?
- What protections actually exist in contracts, and what restrictions do they impose on consumers?
- How similar are contracts, and what are the notable differences?
- What legislative protections exist, and are consumers aware of those protections?
- What provincial variations exist?
- What decisions have policymakers in other jurisdictions made?

The report reviews the history of the product category, and how legislation and industry practices have shaped the current marketplace. It examines the forces changing the industry today and those likely to change it in the future.

The research used a combination of literature review, contract review, participant interviews and a survey of 2,000 Canadian consumers to address these questions. These methodologies are described in Section III. Section IV discusses the development of extended protections, their relationship with warranties and the common criticisms of the industry. Section V describes Canadian laws in theory and in practice, and Section VI describes the structure of the current industry, how it is changing and what contracts contain. The survey results are in Section VII.

Sections VIII and X include the report's conclusions and recommendations respectively.

Section IX is an expression of how extended protection might work ideally.

The report is supplemented by several English-language appendices.

Appendix A lists all the questions asked of consumers in the web panel survey. Appendix B is the French-language survey. Appendix C shows all the information gained from the surveys. Appendix D is a more detailed description of the development of warranty and extended warranty legislation and practices. Appendix E is a more detailed account of provincial legislation that shapes current practices. Appendix F summarizes legislation and practices in other nations.

III

Methodological Summary

What 2,000 Canadian consumers, literature review and stakeholder interviews say about industry practices

Literature Review

A literature review involved the collection of brochures and contracts from vendors, both in-store and online, to evaluate the information presented to consumers.

Each provincial government was given a short survey to identify the relevant legislation that covered extended protections to consumers. That legislation was reviewed, as were the web sites of provincial government agencies charged with consumer protection.

A number of academic studies were reviewed to help understand the development of current practices. Other reports were found through interviews with industry participants, and citations in other research reports. Social media sites were used to identify common consumer complaints, experiences and misunderstandings.

Industry analysis and statistics were found through online searches, as well.

Online searches helped inform the sections of the report on historical developments, older legislative initiatives and industry history.

Although the research is focused on the Canadian market, many of the industry practices correspond to U.S. initiatives, so international perspectives and legislative examples were also gathered.

Interviews

Interviews were completed with three separate sets of participants.

At the outset of the report, researchers casually interviewed store staff and other customers while gathering contracts and sales brochures to help learn the language of sales conversations and some basic consumer attitudes. Social media postings also yielded additional anecdotal responses.

Interviews were conducted with several provincial government representatives to help improve understanding of legislation, regulations and relationships with insurance rules, based on responses to initial questionnaire responses.

Interviews with a number of industry participants, experts, lawyers and consultants were also conducted.

Some participants were interviewed with the understanding that the information provided would not be specifically attributed to them or their firm. Requests were made of most of the retailers mentioned in this report, but none provided any official response beyond the informal comments from in-store staff.

Consumer Survey

Consumer experiences and attitudes about extended protections were collected through an online survey of 2,000 Canadian consumers in May 2018. The survey was conducted by Environics. In order to qualify for the survey, respondents had to be 18 years of age or older, residents in Canada, and a purchaser of a major home durable in the past three years. The survey was available in both languages (see Appendix A).

Survey questions were informed by the findings of the literature review and interviews. The survey was created by researchers, incorporating suggested revisions from other Consumers Council of Canada participants, the project's research methodologist and Environics.

The survey asked consumers about their decision to purchase (or not purchase) extended protection on recent large-value items, their attitudes towards these arrangements and their experiences with any recent claims.

Consumers were also asked about their understanding of protections available in different scenarios.

Limitations

The use of online web panels to gather information from consumers has limitations. Participants may express opinions that do not match actual behaviours. Also, as subsets of the panel are considered, the reliability of the results decreases as the sample size decreases.

Greater industry participant responsiveness would have provided additional perspectives about the motivations of different participants. Compared to the number of requests of retailers, third-party service providers and insurers, the number of respondents was low. Industry statistics, particular in Canada, were impossible to find. Not every province responded to the outreach for information and statistics. The core of the research was consumer attitudes and experiences, which were ascertained through the survey.

The participation rates in the survey may reflect the first two limitations. Industry participants certainly have more accurate data about purchase behaviour. The important survey findings are about attitudes, past experiences and product knowledge.

Web research, sales brochures and contracts were all in English only. Researchers are not fluent in French. French-language consumers may have different experiences.

Contract language collected at the time of the research may have subsequently modified. Contract language is prepared by experts and this study does not use a legalistic approach. To assess consumer behaviour, interpretation of contract language is based on how a layman might read it.

IV

Background and History

How extended warranties grew out of warranties, and the case for and against them

Introduction

A consumer buys a Sony television from Best Buy. Another buys a MacBook laptop computer from Apple. A third buys a Fender guitar from Long & McQuade. All three product purchases include a manufacturer's warranty, a pledge from the manufacturer at no extra cost that the product will perform properly for a specified time (commonly one year).

Each consumer will likely be asked if they wish to purchase additional protection, a Geek Squad protection plan at Best Buy, an AppleCare+ plan from Apple, or the Performance Warranty from Long & McQuade. With each of those plans, consumers agree to pay extra amounts at the point of purchase to receive assurance that the product will continue to function properly beyond the duration of manufacturer's warranty.

Consumers must assess multiple factors in making the decision: the cost of the protection, the likelihood of failure, the cost of repairs, the convenience of the service, the value of the item versus the cost of a replacement, the expected lifespan of the product, and so on. Each plan will have its own terms, limits on coverages, rules about replacements, delivery costs.

The plans themselves will also be structured differently. If you purchase extended protection at Best Buy, you are actually entering a contract through Geek Squad, a Best Buy service affiliate. That agreement will tell you that you are entering two legal contracts, a service contract with Assurant Services Canada Inc., the administrator of the plan, and a benefits contract with American Bankers Insurance Company of Florida, which provides the benefits

under the plan. The contract is not with Sony, not with Best Buy and not with Geek Squad.

Many major retail chains in Canada follow the Best Buy model, but exceptions exist. Apple Canada Inc. is the “legal and financial obligor” for AppleCare plans sold in Canada. Smaller retailers such as Long & McQuade commonly manage their own programs.

Sears Canada also self-managed its plan. A consumer who bought a major appliance from Sears Canada with Sears Protection Plan coverage would have contracted directly with Sears. When the retailer went out of business, the protections offered by those extended protection plans evaporated; consumers had paid for no protection at all.

These programs were known as “extended warranty” programs in the past. That term has fallen out of favour, in part because the word “warranty” led consumers to believe that the coverage was simply an extension of the warranty provided by the manufacturer.

The relationship with manufacturer’s warranty remains one current issue. Another is whether extended protections meet the definition of insurance. At some level, consumers are paying extra amounts to protect against the future loss of use, which is loosely ‘insurance’. Warranties protect against part failures and manufacturers’ defects, not the “unforeseen” events covered by insurance.¹ Extended protections and service programs may complicate matters further by often offering other services not included in warranties, such as 24-hour technical support and service, home pickup and delivery, and protection against accidental damages (a component of conventional insurance).

This report is designed to examine the level of consumer understanding, experiences and attitudes toward extended protections. Doing so will require research into the different forms of extended protections, their relationship with warranties, their relationship with insurance and the costs and benefits they provide consumers.

¹ Unless manufacturing errors or design flaws are unforeseen rather than expected events.

The Common Criticisms

The common criticisms of extended protections are easy to find. *Consumer Reports* is highly critical of them. Social media allows consumers to share their unsatisfactory experiences easily. It is a popular topic for “should you” or “10 things you need to know about” personal finance web postings. Numerous academic studies have examined faults with the industry.

A review of published reports, articles, and other sources provide multiple common criticisms of the industry. This is a chronicling, not a validation, of those criticisms.

1. The costs exceed the benefits

Any cost-based analysis will show that the revenues provided by a service exceed the costs of providing the service. Otherwise, services are less likely to be provided.² Manufacturers and service providers have aggregated data about likely failure rates, and can use statistical analysis to weigh the cost of repairs and likelihood of repairs to set a price of protection that is profitable to them. Actuarially speaking, with enough data, insurers always price to profit.

Worded more casually, “if merchants are selling this service, it must be profitable, so it must be mathematically against me.”

Consumer Reports makes two related points frequently in its articles: 1) The average cost of a service call is only slightly higher than the average cost of a protection contract, so if a product has one problem during the coverage period, consumers are roughly in the same situation either way. 2) Extended protections are extremely lucrative to merchants, because they typically keep half of the revenue as a commission.

That pricing is often used as evidence that extended protections can never be a sensible choice for consumers. It also raises the issue of competitive pricing. Service providers compete for retailers, but in the store, there is generally no competitive service offered to the consumer. Retailers can use monopoly pricing options, as consumer choice may be limited to choosing a duration, not choosing from a suite of providers.

² There is a not-for-profit service industry and consumers once shared various risks through cooperatives, but current practices are dominated by “for profit” enterprises.

Some coverage plans (smartphones, in particular) also come with “deductibles” that effectively increase the cost of protection.

2. Misunderstandings about coverages

A gap frequently exists between the protection that consumers believe they are buying, and the contracted terms. “The salesperson assured me I was covered, but it turns out I wasn’t” is a very common complaint. The margins on contracts may incent some sales staff to exaggerate or misstate protections. Notably, consumers generally do not read contractual terms before endorsing them.

The most common misunderstanding involves coverage limitations. Most contracts have detailed lists of exclusions that can invalidate coverage. A sales person may imply that a contract covers “damages”, when in practical terms, the contract can protect against damage to a sofa caused by spilled nail polish, but not protect against damage to the same sofa caused by a toddler with a magic marker.³

Contractual terms may limit responsibility in instances where there are parts shortages, impose service restrictions, leave consumers without a replacement unit while the purchased unit is being repaired, or require consumers to pay expensive shipping charges. Some contracts require consumers to undertake periodic maintenance programs to continue coverage.

3. Third-party providers don’t care like manufacturers and retailers do

The protections provided by third parties are frequently criticized for lackadaisical approaches, slow turnaround, cumbersome procedures and apathy toward customers. The premise is that consumers have no direct relationship with the providers and that either manufacturers or retailers would be much more responsive and sympathetic to consumer complaints. A third-party provider has less direct interest in consumer satisfaction.

³ Spillage is accidental. Doodling is deliberate.

4. Protections overlap

Some consumers may enjoy protections through other means. Some extended protections could overlap with protections offered under manufacturers' warranties. Provincial consumer protection legislation can require products to be fit for an intended purpose and have reasonable durability. Certain premium credit cards may extend manufacturers' warranties for products purchased with that card. There may be some protection duplication based on homeowner or contents insurance.

In many situations, consumers may pay for some extended protections unnecessarily.

5. The wrong periods are protected

The argument is that "defective" products will malfunction in the first year, when they are typically covered by a manufacturer's warranty. After that, they can reasonably be expected to last past any extended protection period before normal use results in greater failures. It is sometimes cynically stated that protection periods are designed specifically to expire just before products are likely to fail.

6. Protections can vanish

Sears Canada's bankruptcy left consumers who paid for protection without any effective protection. Manufacturer bankruptcy can also make it difficult for third-party providers to obtain replacement parts to fulfil contracts. Theoretically, third-party providers could also cease operations.

Consumers also may purchase protection and then forget that they did so.

7. Built-in product obsolescence limits their effectiveness

This argument is particular to products such as phones and computers. If a laptop computer fails after two years, technological advances may mean that consumers prefer to purchase a newer item than repair an older one. These devices depreciate quickly, so contracts that provide replacements of equal value would not be particularly valuable.

8. Lack of choice of service

Contracts often restrict who can provide service to the product, and consumers may not be able to have a product repaired by their preferred firm.

9. Buying extended protections sends the incorrect message to manufacturers and retailers

Some criticisms make a more philosophical point about consumers in the aggregate as opposed to individual consumers. If consumers increasingly use extended protections, it decreases manufacturers' incentives to compete on warranty protections, and allows them to shorten coverage. If extended protections are more lucrative to sell than products, merchants also benefit, and, in this way, extended protection purchasers are subsidizing non-purchasers.

Some consumers expressed the same sentiment a bit differently, noting that consumers should not buy products that manufacturers are not prepared to stand behind on their own.

Retail sales staff also detailed ways that company policies can harm consumer interests. In one example, a Best Buy employee noted that sales staff can entice consumers to purchase extended protection by reducing prices.⁴ However, on the actual transaction, it is the price of the good that is reduced, not the price of the protection. As a result, any claims that involve the replacement of the product will be limited by the lowered product price.

The Case For Extended Protection

The arguments in favour of extended protection are equally diverse. This summary represents the cumulative findings of industry participants, merchant sales materials, web sites, social media and some of the academic research. No single summary could adequately express all the possible

⁴ <https://www.imore.com/should-you-buy-extended-warranty-electronics>

benefits and all the possible responses to all possible criticisms. Common approaches to supporting extended protections include:

1. Peace of mind

The phrase “peace of mind” appears over and over, in sales material, in passionate defences of the industry. The most promoted benefit is the security provided to purchasers of knowing that they can enjoy the use of their purchased product for the duration of the protection.

It’s an emotive appeal, expressed in a way that makes costs much less important. Consumers are paying for certain enjoyment, and how can you put a price on that?

Other highly promoted benefits involve other emotional hotspots. Phrases such as “worry-free” and “hassle-free” and the simplicity of “one number to call” emphasize not having to worry about whether to contact the retailer or manufacturer, or find your own service person and make an undesired time commitment to accomplish any of the previous.

Phrases such as “avoid costly repairs”, “if we can’t fix it, we’ll replace it,” and “no lemon guarantee” also reduce anxiety about costs.

2. The actuarial arguments also apply to insurance

On strict dollars and sense arguments, proponents commonly note that most consumers are risk averse and fear loss much more than they enjoy gain. The ‘protection costs too much’ arguments may work in the aggregate, but that is not the same argument for each consumer, and protection costs are a small price to pay for risk averse consumers wishing for assurance of ongoing performance.

Sometimes it is noted that the cost-based arguments essentially apply to all forms of insurance. It’s a small amount paid to prevent against the loss of a large value. In the aggregate, it may not make sense, because insurance policies are priced to guarantee a reasonable price for the insurance company, yet consumers do not think twice about insuring their home and valued possessions against loss of use.

3. Contracts can provide incredible convenience and exceptional service

Consumers are quite eager to share their personal “horror” stories of coverage claims that went wrong. Many complain, but some also praise. You don’t have to search long to find consumers who will share their appreciation or affection for exceptional extended protection experiences.

In his interview with researchers, SCIC Executive Director Tim Meehan noted that many contracts make consumers whole in a way that individual consumers would find impossible otherwise. “You have a cell phone break at 9:45 tonight. You go on line and file a claim. At 8:00 tomorrow, a package with a new phone shows up with another package to put the broken phone in, prepaid, to send it back.”⁵ He noted that an unprotected consumer would have to get up early to shop for a new phone, or find a repair/replacement service another way.

4. Denied claims are overstated and consumers have an obligation to read the contract

Many of the disputes and unsatisfactory resolutions are the results of consumers not taking the time to read the contract before endorsement. Doing so would eliminate many of the misunderstandings.

Some industry participants bristled at comparisons that service providers are constantly looking for coverage loopholes and will do anything to avoid paying out on contracts. “If you stepped into our claim room and looked at the volume of claims that we pay, it’s eye-popping,” one executive said.⁶ “One of the biggest misconceptions is that they’re fraudulent, or they’re not valuable contracts. If you talk to someone who has made a claim on a car or a consumer good, they will tell you the exact opposite. We don’t pay out every claim; there are some things we have to deny obviously, but by and large there are a lot of claims that are being paid. If there’s an obvious exclusion, we want to make that very apparent to the consumer before they make the purchasing option because, fast-forward three years, they make a claim, it’s denied because of one of those exclusions, that’s obviously a bad conversation and it doesn’t help anybody out.”

⁵ Interview with researchers

⁶ Interview with Aaron Lunt of The Warranty Group, February 2018

5. Many of the past problems have been addressed

Service providers have updated their procedures based on past experiences. Market forces, revised regulations and competitive practices provide more effective protection today. Many consumer opinions may be coloured by past experiences of questionable protection plans that do not reflect current offerings.

Among the improvements cited are the practices of providers under U.S. state laws to employ insurance policy underwriting to protect against fraudulent providers. Many contracts now provide for the issuance of cash values or gift cards as a fulfillment of a contract, rather than paralyzing a consumer claim in instances where there are difficulties finding proper parts or service. That may still be an imperfect solution, but it is an improvement on offering nothing. Online shopping also offers a new option for consumers to read the details of extended protection contracts, so that details can be learned and comparisons made at the same time as online product and retailer selections, instead of at the checkout counter of a busy store.

6. Manufacturers' extended warranties make more sense than third-party providers

There are two parts to this argument. First is that extended protections from manufacturers should be less expensive, because there is no "middleman" to pay. Second is that repairs should be less expensive and quicker because manufacturers have access to parts, are more sympathetic to customers directly, and no strife or overlap exists with manufacturer's warranty.

Manufacturers that deal directly with the public (Apple or Dell) are sometimes praised for these advantages.

7. There are many overlooked benefits

Extended protections may contain many benefits that consumers do not truly appreciate and may be hard to value on a strict cost/benefit analysis. These benefits may not be universal to all contracts, but many do allow for:

- Transferability of benefits, so if a product is privately sold, the extended protection can be transferred along with it, increasing the value of the item.
- Protection if the purchaser moves across the country.
- Service and technical expertise, including 24-hour call centres and online assistance, technical support to help troubleshoot products and compatibility.

In addition, many of the common criticisms are only true of certain contracts. Many contracts do cover shipping costs, or will pick up insured products in your home, provide loaners for extended outages and cover forms of accidental damage.

Warranties, Extended Warranties and Service Plans

The history of extended warranties is bound up in the history of warranties, since the one appears to supplement the other. That twin history is lapidary, surfacing here and there in the news and court cases, sometimes in regulations, sometimes in statutes. The development in Canada similarly reflects twin forces. The major influence on Canadian law stems from the United Kingdom, while commercial innovations wash over the border from United States practitioners, shaped by that nation's authorities.

This section offers a summary of the development of extended protections. A more complete version is contained in Appendix D.

When first considered in courts, warranties were limited to what a seller expressly promised in writing – hence the term “express warranty”. (Loomba 2005) Legal action was confined to fraud or misrepresentation. In the 19th century age of mass manufacture, the notion of an implied warranty emerged fitfully. (Sutherland 1984 33) Initially, though judges had sought not to interfere with freedom of contract, courts came to hold that there was an implicit warranty, regardless of the terms of the contract, and consumers could expect that products bought were merchantable, free from defect and fit for their intended purpose. (Sutherland 1984 43)

The post-war consumer boom resulted in newly built houses with appliances that had previously been out of reach, or not ready for mass

production. Most consumer industries set sales records annually. Production and price competition mattered more than quality, and that was reflected in express warranties. Until 1960, the standard warranty on a Ford automobile was 90 days or 4,000 miles, unchanged since the Model A. But in that year, automakers introduced one-year 12,000-mile warranties for the next model year. Beset by quality concerns, Chrysler further upped the ante for the 1963 model year with a five-year, 50,000-mile power train warranty, resulting in a 40% increase in market share. (Priest 1981)

Some refer to Chrysler's effort as an 'extended warranty,' though it does not meet the current definition, as there was no add-on price for the additional coverage. The auto warranty wars were short-lived; repair costs, legislative safety and environmental mandates forced prices higher.

GE is reported to have offered the first extended warranty – a five-year service plan – in 1936 for a refrigerator. (Warranty Week, 2004) By 1940, a five-year warranty seemed standard, adding \$5 at purchase to a \$109.95 refrigerator. (New York Times Nov 23 1960 7) Originally seen as a payment for additional protection, a 1958 court ruling noted that because they were compulsory, they were part of the warranty. (Harvard Law Review 1958)

RCA is reported to have offered an extended warranty on television sets in the 1940s. (NYT Aug 28, 1980 31) Other businesses seeking entry to the service contract market were warned off by the New York Attorney-General ruling that third-party warranties were insurance if they were not offered by a manufacturer or dealer. (NYT Jul 24 1949 4) Yet, department stores soon offered service contracts on televisions (Caudill & Garman 1994), and by the early 1970s, extended warranties had become well-established business for appliance makers and retailers. (Spahn 1996)

The Consumer Revolt

While the post-war expansion satisfied consumer desires, quality and warranty terms stoked ire. Consumer complaints led U.S. President Lyndon Johnson to establish two task forces on warranties, one for appliances and one for autos. Each called for clear warranty language, the elimination of contractual disclaimers that belied advertised claims and for warranties to make good on their promises. (NYT Jan 9 79 12). In this context the competing

notion of a warranty – not a mechanism to signal quality but instead a means to limit liability – comes to the fore. (Priest 1981)

The *Magnuson-Moss Warranty Act* came into effect in 1975, distinguishing between “limited” and “full” or “written” warranties. The latter, whose provisions applied to service contracts, were bound by 13 conditions among them: “the warrantor under section 104 must agree to repair without charge the product to conform with the warranty; no limitation may be placed on the duration of any implied warranty; the consumer must be given the option of a refund or replacement if repair is unsuccessful and consequential damages may be excluded only if conspicuously denoted. Additionally, and most significantly, the Act provides that a warrantor cannot disclaim any implied warranty.” (Roberts 1978 1849)

At the same time the significant parallels shared by extended warranties and insurance coverage made comparisons frequent, and there were calls for the industry to be regulated similarly to insurance, an outcome that would “represent a significant deviation from the historical general lack of regulation of the EW industry.” (Pope 2014) While “extended warranties are insurance” advocates note that both extended warranties and insurance protect purchasers from future risks, others note that insurance covers “fortuitous” (unexpected) events, while warranties and extended warranties cover normal breakages and wear-and-tear.

The National Association of Insurance Commissioners held a significant role with state and federal legislators, and had long argued that extended warranties were not subject to insurance regulation. However, a series of high-profile bankruptcies in the electronics industry led policymakers to seek action, which resulted in the *Service Contracts Model Act*, aimed at regulating the industry under state insurance regulators. Still insisting that it wasn’t insurance, the NAIC believed that enough parallels existed such that existing insurance regulatory structure could accommodate it. (Pope 2014)

Notable failures included EWC, which sold very inexpensive service contracts to retailers in an attempt to gain market share, then failed to gain enough revenue to fund the repairs when products failed. (Spahn 1995) Other companies that sold protections that were ultimately worthless included Pacific Stereo, Zody’s, and Crazy Eddie’s.

Individual states adopted the *Service Contracts Model Act* to varying degrees, but more than half the states representing more than two-thirds the population have adopted its basic elements.

Meanwhile in Canada

The Canadian process was different, because consumer protection legislation is largely the purview of provinces. Some provinces enacted consumer protection acts by the late 1960s, but consumer protection was initially focused on door-to-door sales, consumer credit and repossession. (Globe and Mail, May 2 1968 B5)

As growing consumer complaints moved U.S. policymakers to act, the same forces stirred Canadian markets. Ontario directed the Ontario Law Reform Commission to examine warranties in 1970. The OLRC noted that the provincial *Sale of Goods Act* “is largely divorced from present day commercial and consumer realities” and that the law “largely ignored the impact of manufacturers’ express warranties and the defects in their contents and administration. Finally our sales law is private law and it has failed to provide any meaningful machinery for the redress of consumer grievances.” (OLRC 1972 23)

The commission recommended a separate *Consumer Products Warranties Act* to clarify warranty obligations, provide guidelines for warranties and lay out the machinery for the resolution of disputes. Introduced in Ontario in 1977, it died on the order paper, but did have some influence on Saskatchewan and New Brunswick legislation. (Axworthy 1980)

The current U.S. and Canadian laws are described in Section V.

Academic Perspectives

There is a considerable amount of published academic research on warranties and extended warranties. Here are very short summaries of the most important or interesting academic studies found on the economics of warranties, legislative initiatives and consumer behaviour.

On the subject of warranties

Much of the academic work on warranties focuses on the concept of “market signal” and whether warranty information acts as a signal of quality.

In general terms, consumers rationally conclude that manufacturers would not offer a generous warranty if the product regularly failed during that period. So, consumers should prefer products with better warranties.

Michael Spence’s work (1977) points out consumers find it very difficult to estimate the probability of product failure. A second difficulty rests in the ability of a consumer to detect differences in the level of reimbursement provided by different warranties in a market. Consumers may acquire accurate information on the probability of failure from product testing publications. (In a more modern setting, peer review and social media inputs could serve a similar function, though reliability of those sources is problematic.) If the item is purchased frequently, the consumer may have personal evidence. Warranties are a weak or confusing signal, so sellers of the least risky brands may take other measures to signal quality.

For the guarantee to serve as a reliable signal very special conditions must exist. Spence discusses regulation that is designed to produce full liability as a possible alternative. In the end, Spence finds no reason to suggest the market meets all the conditions that would have warranties produce a useful signal.

Chu and Chintagunta (2011) test four theories about the economic rationale for warranty provision, using the U.S. computer server and auto markets. That research concluded that in both markets “warranties primarily provide customers with insurance against product failure, and warranties of different durations work as a sorting mechanism across customers with different levels of risk aversion. Warranties are not used to signal product quality or to provide an incentive for manufacturers to reveal or improve product quality.”

Gerner and Bryant (1981) found that consumers do a poor job of assessing risk, and put too much credibility in the signal. They concluded appliance warranties can be considered to provide a market signal of reliability, but the cost to consumers of obtaining enough information to interpret the signal adds complexity, and the more complicated the laws surrounding warranties, the greater the cost to consumers of warranty information.

Lwin and Williams (2006) studied warranties in the context of Internet retailing, but found that warranties exaggerated the feelings consumers already had about online retailers. Because consumers lack the ability to examine or test merchandise when purchasing online, consumers are likely to perceive higher risks online than in-store. They found the presence of warranty information lowered perceived purchase risk and increased perceptions of product quality for online retailers with strong reputations, but consumers were less influenced – and sometimes even negatively influenced – by warranty information when dealing with online retailers with weak reputations or just starting up.

Two recent reports analyzed Canadian warranty laws. Union des consommateurs' 2012 *Adequacy of Legal Warranty Plans in Canada* recommended that provincial consumer protection laws be harmonized on warranty requirements through the federal-provincial Consumer Measures Committee. It also recommended that provincial legislators evaluate the feasibility of a mediation service that could settle warranty disputes more efficiently than courts.

Option consommateurs' 2015 report *The Views of Canadians on the Harmonization of Consumer Protection Standards* included a section on warranty protections. That report also recommended the CMC study the possibility of harmonizing warranty rules, and recommended provinces establish programs to educate consumers on their rights and merchants on their obligations.

On extended warranties

With extended warranties, the “market signal” argument becomes more complicated. A ‘Spence-type’ of guarantee – by a retailer, manufacturer or third-party – is a signal that the item is so reliable that the consumer can be insulated from failure. An attempt to make the consumer pay for future shortcomings with an extended warranty may well be understood to indicate a defect is probable.

For a straight warranty, the relationship is linear. A refrigerator with a five-year warranty would be perceived by consumers as more reliable (or less

risky) than one with a one-year warranty. The manufacturer is standing more forcefully behind its product.

In extended warranty, the consumer pays additional fees. If a three-year warranty on Refrigerator A is \$250, and on Refrigerator B is only \$150, the consumer may view Refrigerator B as more reliable. If Refrigerator A cost \$1,500 and Refrigerator B \$1,000, the “signalling” calculations are more complicated.

Consumer Reports has published frequent “actuarial” style studies of extended warranty and concluded that they rarely make sense for consumers. They recommend consumers start by buying reliable products, and then self-fund future repairs periodically.

The U.K. Office of Fair Trading released a report on extended warranties on electrical goods in 2012. It found several improvements from earlier studies as a result of some legislated changes, but still criticized the lack of consumers comparison shopping and the presence of information asymmetry.

In the December 2009 *Journal of Consumer Research*, Chen, Kalra and Sun published *Why do consumers buy extended service contracts*. They found that consumers are more likely to purchase protection on “hedonistic” purchases rather than utilitarian ones (i.e., DVD players more than washing machines) because buyers place more value on pleasure purchases and feel a greater risk if they do not function. Unadvertised in-store promotions also lead to more protection purchases, because the discounts give consumers the feeling that they are spending less than expected. It also found that lower-income consumers were more likely to purchase protection because they are more sensitive to replacement costs. They also found that product price does serve as a cue of quality, and assign a lower chance of product failure, but did not see evidence that the length of a manufacturer’s warranty was seen as an indicator of quality. They also found that consumers who purchased protection in the past were more likely to do so again.

A 2010 survey reported in *Extended Warranties and Insurance: Consumer Awareness and Perception*, found that nearly two-thirds of U.S. consumers agreed that extended warranties are essentially the same thing as insurance. In a second component, Ishida et al asked about five different scenarios in which a television was not working, and asked whether the scenarios would

be covered through homeowners insurance or extended protection. The overall “correct” rate was about 56%, but the average was pulled down by one question that stumped the majority of participants.

A 2014 paper on extended warranties published in the U.S. *Journal of Insurance Regulation* by the National Association of Insurance Commissioners described the U.S. industry as “highly profitable” and recommended banning the sale of extended warranties at the point of sale. Authors Pope, Ishida, Kaufman and Langrehr traced the history of the industry, legislated protections, common criticisms and provided recommendations for a more consistent regulatory structure. Its recommendations were: (1) the elimination of situational monopoly sales by retailers at the point of sale, (2) simplification and standardization of contract language and (3) enforcement by a central authority (perhaps the CFPB). This is based on findings that consumers demonstrate a poor understanding of coverages, and the Chen, Kalra and Sun (2009) finding that financially disadvantaged consumers are more likely to purchase them. The report also noted recommendations from Huysentruyt and Read (2010) that retailers be required to give consumers choice at the point of sale, and from Baker and Siegelman (2013) that if checkout sales cannot be banned, then regulators should create an online market where consumers could purchase extended warranties directly from providers.

On Consumer Behaviour

The extended warranty purchase decision is an interesting one for behavioural economists because it involves a conflict between two well-established behavioural principles. Loss aversion is the personal bias to value the cost of losses more than comparable gains, and is a significant force in extended protections. Present bias (or hyperbolic discounting) overvalues the present and downplays the future, when a protected loss is more likely to occur, such that consumers might not place a high value on the future (loss) event, and would prefer to keep their money in the present.

These forces are combined at a moment when the consumer likely does not have good information about the likelihood of a product failure during the protection period, nor the cost of making the repair. A 2012 World Bank

report noted this imbalance of power between consumers and providers in many financial transactions. “In part, this is due to the complex nature of financial products and services which often have a deferred pay-off to the consumer and, in many cases are purchased only rarely.” (World Bank, 2012)

Baker and Siegelman (2013) pose other behavioural economics hypotheses about extended protection in “*You Want Insurance With That?*” They examine the “mistaken calculator” hypothesis, which is that people overestimate the cost or frequency of repairs, and misunderstand the value of insurance against relatively small losses.⁷ They also examine an “emotional risk management” hypothesis, which notes that people will often pay dearly to avoid even small losses. Combined with the emotional distress associated with larger future loss, and the endowment effect (people prefer what they have just because they have it), “many consumers are willing to pay a small additional ‘cost’ to protect themselves against the negative emotions associated with a future “loss” that looms larger than it rationally should. While this process could be described in terms of mistakes about probabilities, we think that it is better understood as emotional risk management: paying for peace of mind.”

The authors find support for the “emotional risk management” hypothesis in the findings of other studies. The report concludes with a three-step regulatory solution. First, ban the sale of the insurance at the time of product sale. Second, if there is a compelling case against the first point, regulators should consider creating a transparent and competitive online market for add-on insurance. Finally, if the first two approaches are unfeasible, regulators should set prices.

In that report and their study on *Behaviour Economics and Insurance Law*, the authors also use the shrouded pricing model to explain why competitive forces do not push extended warranty profits lower. In the Gabaix and Laibson model, consumers have to make an initial purchase, then optionally make a secondary purchase tied to the first. Other examples include a laser printer and replacement cartridges. The second stage price is often unobservable when the first purchase is made, and the theory states will often be

⁷ The report is also notable for its pop culture “Homer Simpson” reference related to an episode in which Homer has a crayon hammered into his nose to lower his IQ. The procedure was a success when Homer finally exclaimed “Extended warranty! How can I lose?”

significantly above the marginal cost because the seller has a captive market for that part of the purchase. This seems to apply to extended warranty.

The consumer experience informed by the survey covers the relationship between extended protection and insurance. The study includes topics from the academic research such as the imbalance of power between buyer and seller, risk aversion and signalling. It also considers warranty experience with retailing in both traditional markets and online.

V

The Rules

What do laws and regulations say, in theory and in practice

Canadian Laws

In Canada's federal system, the regulation of warranties, as with other civil matters, falls to the provinces and territories. The federal role is limited to such things as prosecuting fraudulent practices and preventing anti-competitive practices.

Among the provinces, warranties have chiefly been the purview of the *Sale of Goods Act*, a British template introduced in 1893 that achieved Canada-wide status with its adoption by Ontario in 1920, and in Quebec, the Civil Code. (OLRC 1979) Some of the warranty protections offered by this legislation have been augmented by consumer protection acts, which sometimes also include references to extended warranties. In other instances, extended warranties may be treated as insurance under a province's insurance act. For the most part, however, extended warranties are a regulatory orphan, sometimes acknowledged, sometimes assimilated to a pre-existing subject of legislation, but mostly outside the legislative framework.

This section summarizes the legislative environment in Canada. A more detailed report is in Appendix E.⁸

Extended Warranties As Insurance

The three western-most provinces, British Columbia, Alberta and Saskatchewan, have acted to harmonize their insurance acts, modelling them in part after the *Federal Insurance Act*, in part under the press of a 2003

⁸ Lengthier discussions of warranty are found in Union de consommateur's 2012 "Adequacy of Legal Warranty Plans"

Supreme Court judgment that declared B.C.'s legislation "outmoded". (BC 2010)

While all three provinces treat extended warranties as insurance, either through the Act or regulations, they do so in different ways, and each has exemption clauses that effectively remove most extended warranties from insurance regulation.

In British Columbia, extended warranties are known as product warranty insurance, defined as "contracts which undertake to indemnify another person for a loss by repairing a product or vehicle, replacing the broken parts of a product or vehicle or reimbursing the cost of repairs made to a product or vehicle." (BC 2006)

However, they are exempt from insurance regulation if offered by the manufacturer or retailer of the product, or a wholly-owned subsidiary of either, where the insurance is incidental to the product sale. The manufacturer or retailer must be the administrator of the plan. (BC 2006; McMillan 2005)

Alberta similarly calls extended warranties product warranty insurance – a change instigated by a tax ruling – defined as "insurance not incident to any other class of insurance against loss of or damage to personal property other than a motor vehicle under which an insurer undertakes to pay the costs of repairing or replacing the personal property." (Cassells 2012) Warranty sellers are exempt, however if the product is a household appliance and "if the total compensation payable for the insurance is \$200 or less" or the obligor is the manufacturer or retailers and the warranty contract is incidental to the sale of the product. This exemption does not apply to subsidiaries or affiliates of the manufacturer or retailer. (Alberta 2001; McMillan 2005).

In Saskatchewan, extended warranties are generally regarded as insurance and the province enumerates three classifications: extended third-party warranties, which are "programmes that are administered by an entity other than the manufacturer, retailer or underwriting insurer", extended warranties, which are offered by an insurer, and finally manufacturer or retailer extended warranties. (Saskatchewan 2017; McMillan 2005).

With the latter class, Saskatchewan also offers an exemption for "warranties that cover only manufacturers defects or the quality of the product and that are underwritten by a manufacturer or retailer are not

insurance, but may be subject to consumer protection legislation.” In particular insurance regulations “do not apply to manufacturer or retailer extended warranties for consumer electronic goods and household appliances.”

Those exclusions seem to reflect a convention in jurisprudence that where a manufacturer or dealer offers a warranty, it cannot be insurance, however much it might resemble a similar offering by a third-party. (McLemore 1975)

Extended Warranties and Consumer Protection Acts

Provincial consumer protection legislation was commonly enacted in the late 1960s and early 1970s, and lays out in more detail the implicit warranties from common law jurisprudence: warranties of title, fitness for purpose and merchantability, the latter sometimes spelled out to encompass durability. These warranties cannot be disclaimed by an express or written contract.

In provinces outside of Quebec, consumer protection legislation usually references the provincial *Sale of Goods Act* – if there is an express warranty section – British Columbia, Alberta, Nova Scotia, PEI and Newfoundland have none. Saskatchewan, Manitoba, Quebec and New Brunswick all have more extensive reference to warranties than is contained in their sales statutes (or in Quebec, the Civil Code). Notably, both Quebec and New Brunswick make explicit references to durability, while Quebec, Manitoba and Saskatchewan include extended warranties. Provincial variations are detailed in Appendix E.

Saskatchewan and Manitoba incorporate extended warranties directly into legislation. Manitoba’s section 58.1 makes the seller responsible for all warranties and expenses to having the goods serviced under any warranty, whether given by the manufacturer, seller or a third party. Quebec has the most comprehensive treatment of warranties and extended warranties. The latter are explicitly excluded from its *Insurance Act* (McMillan 2005). Consumer contracts are regulated under the *Consumer Protection Act*, which lays out merchantability and durability language. It also requires merchants inform the consumer “orally and in writing” of the warranty provisions before proposing a contract that includes an additional warranty on goods. (Section 228.1)

Conclusion

Canada's patchwork of regulation makes for ambiguity and uncertainty. While only three provinces define extended warranties as insurance, there is nothing to stop others from doing so. There is no uniform definition of the distinction between warranties and insurance. In B.C., manufacturers and retailers can offer warranties, but in Alberta, only the manufacturer may do so. Yet, in warranty case law, retailers are as responsible for original defects as manufacturers.

U.S. Laws

After a number of high profile instances in which U.S. retailers defaulted and left extended protection purchasers owning worthless contracts, regulators were pressured to improve consumer protection.

With the "abdication of the direct regulation of the U.S. insurance at the federal level" (NAIC 2014), regulatory authority became the domain of state insurance regulators, which presented 50 sets of inconsistent rules, regulators without experience in these kinds of products, and a wide variety of practices and protections being sold to consumers.

"The confluence of these conditions contributes to an almost intractable national marketplace with a multitude of variables where a truly consistent and functional regulatory system would almost be impossible to fashion. And that is the environment that currently exists with respect to [extended warranty] regulations." (NAIC, 2014)

The NAIC and the (industry trade association) SCIC worked to develop model state legislation: the *Service Contracts Model Act*. (NAIC materials make little reference to SCIC, but SCIC representatives state that they jointly developed the model act in the early 1990s.)

The NAIC draft act⁹ includes notice that its model assumes that service contracts are exempt from the insurance code. It requires providers to take one of three approaches to service contracts: 1) Insure all service contracts under a reimbursement insurance policy issued by an authorized insurance provider in the state; 2) maintain a funded reserve held in trust of at least

⁹ <https://www.naic.org/store/free/MDL-685.pdf>

40% of funding; or 3) maintain a net worth of \$100 million and meet certain reporting requirements.

The act defines a reimbursement insurance policy as one to which “the insurer agrees, for the benefit of the service contract holders, to discharge all of the obligations and liabilities of the provider under the terms of the service contracts in the event of non-performance by the provider.” (Section 2L)

SCIC Executive Director Tim Meehan said that 33 state legislatures have adopted the act, though there are many variations state-by-state. NAIC reported slightly different categorizations in a 2014 study, classifying 28 states as adopted comprehensive versions of the model, 13 have more limited adoption, exempting service contracts from insurance codes, but not having the full array of registration and financial responsibility requirements. Eight states are unregulated or regulated in a very limited manner. Florida had its own specific, comprehensive laws in place. “The net effect of this regulatory structure is that regulation of EW programs is difficult, confusing and anything but uniform.” (NAIC, 2014)

Aaron Lunt of the Warranty Group characterized state legislations as “60% the same, 40% different”.¹⁰ State lawmakers amend the draft legislation, and state regulatory agencies publish guidance and interpretations that cause state deviations. He cited California as a state in which additional protections for consumers result in higher compliance costs. He also noted that the federal CFPB had signalled intent to look at this space, but now appears less likely to after the change in U.S. political leadership.¹¹

Meehan said New York, Florida and California have larger state insurance departments and have “closed down programs involving bad operators.”

The net result is a system where most major U.S. retailers adopted the structure where there was a retailer, an administrator and an insurance company. Sometimes the administrator and insurance company are the same.

“Subscribing to the third-party system using insurance, that gives the regulator some confidence that the claims will be paid even if the seller goes out of business,” noted *Warranty Week’s* Eric Arnum. “So therefore, they’ll say

¹⁰ Interview with researchers

¹¹ Interview with researchers

you don't have to follow insurance laws [which may require] cashiers to have an insurance license, and that's not going to happen at minimum wage."

Most contracts include some explicit language around this point. They might say "the plan is not an insurance policy, however our obligations under this plan are insured under an insurance policy issued by [insurance co]."

What's a CLIP?

The industry term for the "reimbursement insurance policy" cited in the model act is Contractual Liability Insurance Policy or "CLIP". Though the other two approaches are allowed, and it appears Apple uses the "\$100 million net worth" approach, most providers use CLIPs. Most states have adopted the "cut-through" language for the retail service contracts to allow consumers to seek reimbursement if the provider failed to meet its obligations through insolvency. So if a consumer purchases an extended protection contract from a retailer that later cannot honour its obligations, the consumer can submit the claim directly to the insurer for reimbursement for the contractual benefits. This is a reason why many current service contracts include a "cash out" option in which the vendor is allowed to pay out in cash the value (purchase price or depreciated price) to fulfill the contract in certain instances.

Canadian regulation has no parallel to the U.S. requirements of CLIP protection.

Protections in Practice

Few consumers have the ability to review laws on warranty, extended warranty and insurance, and reach a reasonable understanding of the protections available. Regulations, interpretation bulletins and communications from provincial consumer protection and other offices also inform the marketplace.

Even experienced practitioners often struggle interpreting legislation. In many instances, legislation alone is inadequate to address specific questions. "The various definitions of 'insurance' under provincial insurance statutes are unduly wide, and open to interpretation. We regularly speak with regulators, which sometimes is really the only way you can give some clarity around what kind of products they would consider to be insurance, and what kind of

products they would say are outside the realm of insurance,” noted one Ontario lawyer with expertise in service contracts.¹²

Precedents are limited, they noted. “The case law is very, very sparse in Canada. There are a couple of cases that could be helpful, if your facts fit the exact scenario, but for the most part, it can be a grey area.”

A document could be considered insurance, a warranty or a service contract and it can be difficult to define hard and fast rules between those categories. “A lot of it is completely fact dependent. It is interpretation around a specific product and there may be no simple answer.” Contracts that are categorized as insurance carry more obligations, and where possible, the lawyer encourages clients to offer service contracts. “A service contract is subject still to consumer protection, but it’s not regulated as an insurance product, it’s not regulated as a warranty,” they noted.

The decision points – about whether a specific agreement qualifies as an insurance contract, a warranty, a true indemnity, a service contract or some other legal construct – can depend on multiple factors, noted another lawyer who specializes in insurance, near-insurance and what they referred to as the ‘insurance borderline’. “There are a number of things to consider. For example, if the arrangement purports to be a service contract, then is the entity selling the service actually providing the service, or is it simply outsourcing it?” they said. “It’s complex. And we shouldn’t take anything from the availability of a particular product in the marketplace as to whether it is or is not insurance. One must make that determination without regard to what is available.”

Consumer Outreach

Just as the laws vary between provinces so, too, do efforts – and the focus of – consumer outreach. In smaller provinces and territories, official consumer protection websites are often skeletal and rarely mention warranties, let alone extended warranties. Some include a reference to the Canadian Consumer Handbook, which is available through the federal Office of Consumer Affairs website. Among more populous provinces, British Columbia’s Consumer Protection website blog walked through a cost-benefit analysis of extended

¹² Interview with researchers

warranties. Alberta mentions extended warranties in a consumer brochure. Ontario has a brief section on its website, which notes the cost-benefit calculations and the fact that a warranty provider may go out of business.

More explicit in enumerating consumer rights and recourses are the websites of Saskatchewan, Manitoba and Quebec, which don't make the usual references to implied warranties but rather refer to statutory or legal warranties. Manitoba's website covers warranties and extended warranties, specifying consumer recourse for defects and repairs and sellers' obligations. In Saskatchewan, the warranties webpage references extended warranties as it lays out rights covered by statutory warranty.

Quebec has by far the most extensive outreach, with three pages devoted to legal warranties, conventional 'express' warranties and extended warranties.

Consumer Recourse

Most provinces advise consumers to be aware of rights and responsibilities, but few specify recourse for warranties or extended warranties. It might not be in the legislation – only some provinces (Manitoba and Quebec) spell out the seller's responsibility for repairs. In Manitoba, its Consumer Protection Office has the power to mediate disputes. For other provinces, the small amount under consideration for an extended warranty militates against intensive oversight.

Quebec again is a different case. Legislation requires retailers to inform consumers of their legal warranty rights before attempting to sell an extended warranty. Failure to do so has led to class action suits. (CBC) Newfoundland has followed this partially with distance contracts, legislating "failure to disclose applicable warranties before offering additional warranties for sale is an unfair business practice." (Newfoundland 2009) Saskatchewan consumer literature explains that goods should be reasonably durable and suggests going back to the retailer for redress.

For the most part, consumers face a choice between a seller voluntarily complying with implicit or statutory warranties, or taking the seller to court.

Consumer Complaints

Researchers asked provincial government protection representatives about the types of complaints most frequently received related to extended protections. Manitoba's representatives specifically noted that if its mediation comes to an impasse, consumers have to go to small claims court, and other provincial representatives indicated that consumers sometimes expect criminal action to resolve contractual discrepancies.

Conflicts over coverage exclusions and inadequate disclosure were the most commonly cited complaints. "Many consumers do not realize they may have to fulfil certain obligations in order to trigger or maintain their extended warranty," noted one western province. Other notable responses from provincial representatives:

- "If the company offering the extended warranty closes, they may not be able to continue with any warranty service", "they do not understand that a business other than the manufacturer may be providing the extended warranty or service contract."
- "Consumers generally contact us when their claim has been denied and they believe the warranty provider [insurance company] is not providing the service as explained to them."
- "Who services the warranty? Dealer, supplier, insurance or warranty provider. What is the coverage?"
- "Consumers being sent multiple places: Stores or companies will refer the consumer to a local service provider, who then asks the consumer to pay, and send the receipt/invoice to the initial store or company. The consumer's concern is – will they be reimbursed (for the repair cost they are incurring)?"

VI

The Marketplace Today

Canadian laws meet U.S. practices, and what do contracts actually cover?

How it Works

Some Canadian retailers choose to self-finance their extended protection programs. They collect the revenues and assume the obligations. They deal with multiple suppliers for parts, and, in return, control more elements of the client relationship.

Apple Canada does this, for example. Smaller or regional chains researched commonly do this. Sears Canada did this.

The majority of larger retailers offering consumer durables have adopted the alternative approach, contracting with a third-party service provider with insurance underwriting. In this way extended protection is “outsourced”. The retailer receives a commission for contracts sold, but the third-party provider co-ordinates the provision of service, finding, hiring and managing service technicians, working with suppliers on parts and inventory management.

Here is a list of selected prominent Canadian retailers, and their extended protection plan provider, along with insurer, if listed in contracts obtained.

Table 1

Canadian Retailer Extended Protection Providers

Third-party administrators/obligors and underwriters for selected retailers

Retailer	Administrator/Obligor	Insurer (if named)
Costco (computers)	Asurion	
Hudson’s Bay (jewellery)	AMT Warranty Corp	
Tasco (appliances)	Comerco	
Home Depot (various)	Comerco	
Leon’s (furniture)	Zucora	
Best Buy (electronics)	Assurant	American Bankers
Lowe’s (various)	Assurant	American Bankers
The Brick	King & State (Barbados)	
Walmart	Asurion	
amazon.ca	AMT Warranty Corp	
Dell	Asurion	

Based on literature provided in stores or through web sites.

All are U.S. firms, except for Comerco and King & State. The U.S. firms all gave Canadian head office addresses in contracts.

A number of other retailers appear to be self-financed, or at least no third-party administrator or obligor is listed on contracts obtained. These include: Apple Canada, Samsung (mobile care), Staples¹³, and Sears Canada. Smaller and regional retailers including Long & McQuade, Canada Computers, 2001 Audio and Video, all appear to be self-financing.

Divergent service approaches

The retailers also display divergent approaches to extended service, independent of their choice of whether to use third-party agreements.

¹³ Researchers believe Canadian Tire is self-financed as well, but at nearby retail locations there were few products for which extended protection was feasible. Its Replacement Advantage tire program appears to be self-financed.

Apple Canada's AppleCare program encompasses the manufacturer's warranty and extended protections. Best Buy branded 'Geek Squad' to cover its suite of service offerings, including a variety of extended protections. Geek Squad has dedicated floor space in retail locations and the offerings are branded "Geek Squad Protection" not "Best Buy Protection". While some retailers emphasize that they stand behind the products they sell, "some other retailers would say 'here's the 800 number, we have nothing to do with that'" noted one industry participant. "Normally what happens is the retailer sells the contract, takes the sales commission and is done with the work."

Implications of third-party agreements

The service providers compete for retailers, and provide cost pricing to the retailers. But retailers set pricing for consumers (more on pricing below). A rule of thumb is that pricing includes a 100% markup – or commission – but there are variations.¹⁴ Because margins on protection are higher than on merchandise, merchants can use protection revenues to lower merchandise prices.

The retailer owns the consumer relationship. Insurers and some manufacturers have tried different models to reach consumers directly, with limited success. Approaches such as sliding a mail-in card into product packaging to solicit extended protection or selling additional coverage when consumers phone in or log in for warranty information are infrequently used, because they simply are not as successful as selling at point of product purchase.

The skill of retail representatives is crucial to extended protection sales. "Staff are trained to say 'you're going to love this washing machine, but what if a hose breaks?' Hoses sometimes break," noted one industry participant.

(The broken hose likely leads consumers to imagine extensive water damage to their property, a costly loss. However, extended protection contracts only cover the product being purchased. The damaged walls and property would not be covered by the contract, but the faulty hose would be replaced.)

¹⁴ Industry sources interviewed agreed with this figure.

Online techniques

Online retailers have adopted techniques when consumers purchase goods to specifically ask about accessories at the electronic checkout. Consumers are often prompted: “Other consumers who bought this were also interested in ...” as a way to augment purchases. Many online retailers have now attached “extended protection” offers at the checkout to solicit sales in the absence of a persuasive human. Online shopping also allows consumers to access terms and conditions and view contractual language (including exclusions) in a way that they almost never do when presented with similar information in stores.

Pricing to consumers

Retailers commonly set retail pricing in tiers, based on the cost of the product purchased. For Costco laptops, for example, the dividing line is a \$500 retail price. Below that, protection is \$69.99. Above it, it's \$99.99. Home Depot's appliance coverage is also priced in tiers, with no distinctions between the specific product being protected, nor brands.

Some retailers give consumers a choice of duration, while more choice is provided commonly to laptop computers and cellphone customers, who may elect to purchase different tiers of coverage that include features such as home service, 24-hour telephone support, or protection against certain damages.

Cross-border issues

With the exception of Home Depot, which uses Asurion in the United States, and perhaps Amazon, the retailer/obligor (administrator) relationships are the same in Canada and the United States. This is not a requirement, but rather common practice. “It's easier for the U.S. parent to say to their provider down there ‘replicate my program in Canada if you want my business,’ “ said one industry participant. Though requirements in Canada may differ “you make the (third-party) solve it. I'm giving you tens of millions or more here in the United States and I've got a program that's going to generate a million in Canada. As a manufacturer, or retailer, I will struggle. I'd rather give the problem to you to solve it.”

U.S. Facts and Figures

Statistics on the size of the Canadian industry were difficult to locate. Most industry sources interviewed simply said there is no simple, single source.

Warranty Week is a newsletter covering the U.S. warranty, extended warranty and claims management industry for more than 15 years. Its online archives and interviews with editor Eric Arnum provided some data about the U.S. industry. This information has limited relevance to Canada, but the practices of vendors and insurers seem quite similar in both countries.

Industry size

Total extended warranty spending in 2017 was US\$44.7 billion, a minor decline from 2016 levels.¹⁵ The largest component is vehicle service contracts (extended warranties on autos), at 37% of the total. Mobile phone companies collected 19%, and consumer electronics retailers collected 15%. The sales of phone and electronics protections is complicated because phones can be protected through retailers (Best Buy, Costco), manufacturers (Apple, Samsung) or service providers (in Canada, Bell, Rogers, etc.) Computers can be protected through retailers or manufacturers. The remaining 29% of revenue comes from home warranties, appliances, PC manufacturers, furniture and jewellery.

The report noted that prices of many electronics items have dropped such that fewer consumers are willing to pay an additional amount to protect those purchases. (*Warranty Week*, Feb 1, 2018)

The costs of protection

Warranty Week compared the price of protections across a range of appliances and electronics, retailers and durations of protection. It used the ratio of the protection cost to the product cost to evaluate the pricing norms.

¹⁵ A 10% rule of thumb would put the Canadian market at US\$4.4 billion (C\$5.6 billion), though Canadian figures could differ for many reasons.

As an example, a one-year service contract on a dishwasher averaged 10% of the product price. A five-year contract averaged 24% of the product price.

The research reached a number of conclusions.

1) There is generally a relationship between product price and service cost. The protection-cost percentages were usually higher for lower cost items than for higher cost items. So, the price of protection does tend to take into account the cost of likelihood of claims. Or to put it another way, the cost of protecting a \$1,600 refrigerator is not twice the cost of protecting a \$800 refrigerator.

2) There were examples of significant differences of coverage prices for the same product at different retailers. The contract on a specific \$1,500 refrigerator ranged from \$100 to \$400 through different retailers. *Warranty Week* concluded that at the extremes, some retailers were selling service contracts below their cost, while others were overpricing the protection plans, potentially to make up revenue for lower-priced products.

3) They found Sears and Kmart consistently had the highest-priced service contracts, but noted that those plans offered higher levels of service, including protection on replacement units issued, no deductibles and no limit on house calls.

Attachment rates

Estimates of the percentage of consumers that elect optional coverages are only estimates. In some of the early fact-finding and brochure collecting at different retailers, researchers were told:

- 10% of customers (a regional electronics chain),
- “about a third” (a Home Depot representative),
- “about 60%” (a computer retailer) and
- “about two-thirds” (a regional appliance chain).

Consumer Reports estimates 16% on electronics in store, and 20% on major appliances. (Consumer Reports 2018) An OFT (UK) survey reported about 19% on electronics goods.

One U.S. industry participant said the figure was nearly 40% in the U.S. automotive industry, and a bit lower for consumer goods.

Protection plans increase satisfaction and loyalty

A 2016 survey of 700 U.S. consumers by The Warranty Group reported that buyers of protection plans are happier with their purchases and more loyal to both the retailer's and manufacturer's brand than are non-service-contract buyers. It reported that service contract buyers skew male and younger, and that the percentage of customers buying service contracts increases with familiarity of the contracts. This suggests that retailers could increase the success of selling these programs by informing consumers earlier in the process and not relying on impulse buys at the end of the sales process.

It also reported that 30% of consumers had purchased a contract in the past 12 months.¹⁶

Capsule profiles

Warranty Week also profiled some leading firms in the industry. The leaders include Asurion, which is notable for its success in cellphone networks, and is the named obligor on leading retailers in Canada such as Costco and Walmart. It is privately owned and started as a roadside assistance company in 1995. Assurant has a significant presence in the automotive and retail sectors. It is associated with extended protection contracts through Best Buy and Lowe's in Canada. The leader in "gross written premiums" is Apple, which enjoys unique status as a manufacturer, retailer and service provider through its AppleCare branded service department. *Warranty Week* noted that AIG provided underwriting for Apple on accidental damage from handling coverage in the United States, though researchers could not find similar language in Canadian contracts. Comerco is a Laval-based firm that handles extended service programs for Home Depot in Canada. Asurion is Home Depot's U.S. provider.

And though this research has focused on consumer protection, *Warranty Week* notes that "commercial protection" is a significant source of revenue as well, as extended protection can be obtained on products such as construction vehicles and equipment.

¹⁶ Which is not the same as saying 30% of purchases included optional protection

Motivations

At what point would a retailer consider a third-party service provider instead of self-financing?

Researchers asked many participants about this decision, using national musical instrument retailer Long & McQuade, as an example.¹⁷ That firm offers a “Performance Warranty” that protects most products for the first year after purchase, but gives consumers the opportunity to purchase additional years of coverage for additional cost.

Long & McQuade’s products are niche, and the firm has its own repair specialists, which makes it unique compared to a mid-sized electronics retailer.

Multiple participants noted that this would be a difficult sector for an insurance underwriter, because it is small, niche and the company is already the expert and does its own repairs. “There’s no risk spread, and no pools,” noted one.

Many of the motivations in favour of contracting out the extended protection are financial. Revenue may be recognized earlier and liabilities can be eliminated.

Firms that self-insure must show the liability of that risk on financial statements. The level of liability is uncertain, because failure rates are only estimates. When looking for financing, there can be disagreements in the adequacy of liability figures for future repair commitments on the balance sheet. A retailer that sells a protection contract for two years has 24 months of potential liability. The revenue from that contract is earned over that period. So for the duration of a \$100 contract over 24 months on a \$1,000 item, that’s a potential \$1,000 liability, but the \$100 revenue is earned slowly over 24 months. “That’s a massive liability on their balance sheet, versus very little revenue recognition until the contract terms out,” one insurance provider told researchers. With a service contract, firms can recognize the revenue of whatever commission is earned in the year of purchase.

Another advantage would be for retailers to outsource the relationship with multiple brands. Retailers that sell multiple brands have multiple

¹⁷ Researcher inquiries to Long & McQuade received no response.

warranty coverages to manage, multiple parts suppliers and so on. Outsourcing that to a third-party provider could provide some simplicity for retailers.

One industry participant noted that outsourcing allows specialists who are good at repairing, dispatching and parts management to do those tasks while retailers focus on retailing.

On the other hand, one significant risk to retailers of third-party extended service is that they lose some contact with their customers. If followup service calls are made to a third party instead of the retailer, businesses that rely on repeat business from a loyal customer base may not want to lose that connection. Retailers may also find reputations damaged by poor third-party service providers.

Agents of Change

The extended protection industry is not static. The literature review and participant interviews identified numerous forces of change, trends in consumer behaviour and industry reaction that shape the industry. Many of these trends interrelate, but the significant factors include:

1. Falling consumer electronics prices have reduced protection revenues

The large screen television that was \$4,000 with a \$600 service plan now costs \$1,200 and the service plan is \$200. Even if television sales remained constant, protection revenues would suffer dramatically. But the lower retail price leads many consumers to eschew protection altogether. If it falls over, I'll just get a new one.

Warranty Week's Eric Arnum noted that it's not just that replacement costs have declined, it's also the perception of risk, and a plateau in new product development. "Five to 10 years ago, there was a great upheaval in the products that were on sale, the onset of laptops instead of desktops, the onset of flat screen TVs, digital music players, game consoles. The perception of vulnerability has declined on those. The price has declined on those. There's

no refresh, there's no 'got to have it' gadget now. The whole electronics category has diminished except for the mobile phone."¹⁸

2. Except for the mobile phone

The mobile phone has replaced many other devices that consumers may once have insured. It is an alarm clock, a GPS, a camera, a music player, making all of those products nearly extinct. It is cannibalizing the electronics industry. "Now you don't even buy a digital camera, let alone insure it," noted one industry participant. "It's the perfect product for protection. It's important, it's vulnerable and it's expensive.

"Behind passenger vehicles, (cell phones have) come to dominate the service contract."

2a. And maybe custom integrators

One industry participant noted the potential growth from programs that integrate household appliances controlled by a single device. Consumers will need solutions for situations such as "Your house is taken over by your iPad, and then at 10 o'clock, you can't turn your lights off. ... It's a nightmare."

3. Adding damage coverage to some devices

Extended protection contracts on many household products once commonly excluded most forms of damage. If an item stopped working because of a part failure, you were covered. If it stopped working because you dropped it, probably not. Many current contracts for devices such as laptops and cellphones include coverage for certain types of accidental damage, such as dropping.

This coverage further blurs the lines between service contracts and insurance, and theoretically makes it more likely that these contracts will be regulated as insurance. SCIC's Tim Meehan noted that many states have changed legislation to permit this coverage, without putting service contracts into more explicit insurance regulation. "The idea that you could have

¹⁸ Interview with researchers.

something damaged by accidental damage, just from dropping, we've gone and added that in most of the laws. There's still a few states we've got to get it added to."

4. Consolidation among providers

Three major transactions among extended warranty firms are expected in 2018, including the US\$2.5 billion acquisition of The Warranty Group by Assurant Inc. completed in May, and the sale of AmTrust's controlling interest in its extended warranty business to a private equity firm. Following Allstate's 2017 acquisition of SquareTrade, it is one of the busiest periods for merger activity in the industry. (Warranty Week, Jan 25 2018)

The Warranty Group's Aaron Lunt said larger firms have more leverage with vendors, and a wider spectrum of client bases. Financing remains inexpensive and the business model involves getting cash up front with liability incurred later, which makes firms appealing to a variety of investors. "It's an attractive business model for people who are looking to grow and consolidate."¹⁹

But Lunt did not think the market would consolidate into two or three providers. "In traditional channels, you're going to see more consolidation, but you have other channels that are web-based providers that might be backed by hedge funds and things like that. Competition is actually going to grow in terms of the market players, rather than a decrease with consolidation."

5. The Internet could change everything

The growth of Internet shopping is squeezing many conventional retailers. Consumers have grown more comfortable with Internet shopping and delivery. Consumers can find information about products – technical specifications, individual consumer experiences of reliability, consumer ratings – with a few clicks in a way that was impossible a decade ago. They could do the same with extended protection contracts.

One industry participant indicated they were "not seeing a huge disparity" between the percentage of consumers who purchased extended protection

¹⁹ Interview with researchers

online compared to those that purchased in stores, but they hoped the ease of information would drive online rates higher.

SCIC's Tim Meehan noted that Internet sales can trigger some consumer risks because optional protection providers may not be licensed appropriately in each state. "There's no power to stop them (unlicensed providers) from not paying the claim, or just running off with your money," he said. "Here you're getting a piece of paper that has a future promise and you need to make sure that the people are going to be there for the future."

6. Competitive programs within a retailer

In its 2016 audit of extended protection costs and practices, *Warranty Week* noted that [Amazon.com](https://www.amazon.com) offered a "competitive mix of service contracts available from multiple administrator/underwriter teams, sometimes bidding against each other for the same laptop." (Warranty Week, Oct 27, 2016). It noted that they found no other retailer that sold multiple brands of service contracts²⁰.

Traditionally, retailers had exclusive relationships with providers. Online marketplaces allow for easier competition. SCIC's Meehan said this was good for consumers, "we believe competition creates a better mousetrap. It also keeps the price of the mousetrap to as fair or breakeven price as possible."

7. And who knows about the future

Interviewed industry participants were all asked about future trends. Some spoke about new household devices that might change household purchase patterns. Others spoke of more "holistic" approaches to covering goods, in an age where multiple appliances and devices are connected; there's an opportunity for service contracts to cover all the interconnected electronic goods.

²⁰ Amazon's model is complex and may allow for multiple sources of products from Amazon directly and other merchants selling through Amazon. Researchers could not duplicate this through amazon.ca. There are multiple service contract providers, but could not see "competition" between providers attached to specific products.

Others expected margin compression and greater emphasis on the speed of resolution of problems. Predictive technology that can identify and alert problems with components before failure may also grow more important.

Sears Canada

On October 16, 2017, Sears Canada announced that it had received court approval to proceed with liquidation, ending any plans it may have had to emerge from bankruptcy. As part of that announcement, the company would no longer be able to honour Sears Protection Agreements to customers, after October 18.

The company public relations statement noted that most merchandise sold came with a one-year manufacturer's warranty, which was still in place. Protection Agreements purchased in the past 30 days could also be refunded. Service on furniture and mattresses, which was covered through a separate program offered by Guardsman would continue to be in place.

While most major retailers had adopted the third-party model for extended protections, Sears had continued to use its own Product Repair Services, and its own plan. Because consumers contracted directly with Sears Canada Inc., when that firm declared bankruptcy, protection plan purchasers essentially became unsecured creditors and the fees they had prepaid for future protections provided no protection.

It was a much higher profile example of some of the cases from earlier in the history of extended warranties, when bankruptcies would result in consumer protection premiums being lost and protection contracts becoming valueless.

Though the Sears contracts were essentially valueless, two other firms made offers to attract Sears customers. In January, DirectBuy announced it had purchased parts from the bankrupt retailer and was honouring Sears Canada "extended warranties" for all new DirectBuy members. Memberships have different tiers and costs. Furniture retailer The Brick offered to manage manufacturer warranty claims and gave Sears extended warranty holders a \$100 in-store credit on future purchases for repairs arranged – and paid to – the Brick's Trans Global Service.

Sears Canada's bankruptcy followed a number of years of difficulties with store closures as multi-purpose retailers struggled against 'big box' and online competitors. One industry consultant told researchers that Sears' bankruptcy was no surprise, and that efforts to arrange third-party protections would have been difficult because service providers "knew it wouldn't stay alive long enough to make their investment of time and resources to get the program onto their books worthwhile."²¹

Other industry participants were asked if anything else could have prevented consumer losses in such a situation. Some noted that Sears' self-financing structure meant it bore all of the risk. "There's a lot of insurance companies and banks that went under in America, not many years ago, within the last decade. There's no law you're going to write that's going to protect everybody and everything," said SCIC's Tim Meehan. "A healthy economic market does have business failures. That's part of capitalism," noted a U.S. insurance provider. "The fact that Sears went under doesn't necessarily have some systemic effect on the marketplace. Obviously, there are thousands of consumers who end up holding a bag of nothing, and that's really bad. We feel for them. But when you look at the overall marketplace, that's one isolated incident which was quite consequential versus the thousands of other examples where the market has been performing exactly as it has been intended."

Sears' U.S. operations are under similar pressure. Asked whether a similar occurrence with the U.S. firm would likely trigger any new initiatives, one U.S. executive said: "There might be some insurance on the back end that would step into the shoes of Sears, on its obligations. It's all about who should bear the risk of that. Who should bear the risk, the consumer, the insurance entity, should it be citizens of the state, the government? It's all a very political question of who should bear that risk."

Warranty Week Eric Arnum noted Sears' U.S. service programs rank among the best. "The thing they're not really good at is running the company. They're going bankrupt but their service is great," Arnum told researchers. He noted Sears programs cover replacement units through to the end of the term, and include pickup and delivery inside the consumer's house. "What if it's a TV

²¹ Michael Bailey Interview

that hangs on the wall and you're an elderly lady that can't lift it. You have to think of these things. Sears thought of them, and said 'we'll come to your house, we'll take it off the wall, we will put it in a box, we will take it away, we will fix it, we will bring it back and put it back on the wall.'"

What do the Contracts Say

To gain greater perspective on the marketplace, researchers collected brochures and contracts from more than 20 retailers near their homes outside Toronto. The retailers included leading national retailers (Walmart, Best Buy, Costco, Home Depot, Apple, Leon's), smaller regional chains (Tasco Appliances, 2001 Audio and Video), speciality retailers (Long & McQuade), as well as Sears Protection Plans. Additional contracts were downloaded from the web sites of retailers (The Brick, Lowe's, Staples) and on-line sellers (Dell, Amazon).

The sample was not large enough to provide "data", but was broadly representative, a useful array of the types of coverage and contract terms offered to consumers from companies that use third-party service providers, and those that finance protection directly.

Researchers reviewed the contract terms and language. Researchers possess no legal expertise, the observations are solely those of how a typical consumer might read and comprehend the terms of the contract. The summary also presents the terms and conditions of certain retailers at a specific time. Also, some retailers offer multiple versions of contracts, based on products, duration or province.

Nonetheless, the contract review showed that there are many areas of commonality, topics and language that appear in all or virtually all of the service contracts. There are also some points of contention, where coverages can differ based on the product, the policies of the retailer or service provider. There are also some anomalies, interesting variations from norms.

Commonalities

These items were almost universally found in the service contracts evaluated.

1. *Information that the entirety of the agreement is represented by the written terms in the contract*, suggesting that mistakes or misleading information presented by sales representatives are not part of the contract.
2. *How to file a claim or arrange service*, including the number to call and the information required. Most agreements require the purchaser to have their original receipt as proof of purchase, though this is more frequently done on-line today.
3. *Transferability* – If the item is sold to someone else, the protection can transfer to the new buyer, but the service provider requires notice of this.
4. *Cancellation rights* – Consumers often are provided a specific time period within which they may cancel the contract and receive a full refund, though the exact duration varies. Pro-rata refunds for cancelled coverage later in the contract are often available. The service providers will generally give themselves the right to cancel the contract as well under circumstances such as fraud or if they believe an unauthorized repair has been performed.
5. *Limits on liability* – The service contracts usually limit the provider's total liability to the purchase price of the product. Some vendors note exceptions under Quebec law (noted below).
6. *What's covered* – Every contract includes an articulation of the types of incidents or problems that are covered, though the specific language differs. Some examples: “Repair the covered product, or any of its part, impeding its normal functioning due to a manufacturing defect, under normal conditions of use, during the coverage period of the Plan.” (Home Depot), “This Plan provides for the repair or replacement of your product in the event the product experiences a breakdown.” (Walmart). These statements are usually followed by a great deal of elaboration, including:

- Notice that replacement parts can be new or used, and may not be from the manufacturer.
 - If replacement parts are not available, or repairs are not possible, coverage includes a replacement item of similar quality and features that may also be refurbished.
 - If repair or replacement is not possible, most service contracts allow for the fulfillment of the contract by issuing a cheque or gift card for the value of the original purchase.
 - Many contracts also have “no lemon” clauses that stipulate that a replacement item is to be issued if a particular part is replaced frequently (usually 3 or 4 times) during the term of the contract.
7. *What isn't covered* – Most contracts have a lengthy list of situations that are not covered. Commonly found exclusions:
- Items with missing serial numbers or other modified identification, or safety features removed.
 - Items in commercial use. Contracts are for products for personal use only.
 - Improperly installed items and items used outside their desired purpose.
 - Service by unauthorized service repair personnel, use of which can often terminate the contract.
 - Most accessories.
 - Cosmetic or superficial damage that doesn't affect the product's operation is generally excluded (some exceptions for furniture).
 - A wide variety of exogenous acts are typically excluded from coverage such as natural or man-made disasters, war, flood, riot or civil commotion, insect infestations.
 - Peripherals such as shelves, knobs, remotes and power cords.
 - Components that have limited life such as batteries or bulbs.
 - Abuse, misuse or deliberate damage. Accidental damage is sometimes covered (see below).

- Lost or stolen items.
 - Wear and tear and damage caused by normal aging.
 - Failure to follow manufacturer's recommended maintenance can also result in disallowed coverage.
 - Compensatory payment for damage caused by the loss of the product is also included as a limitation of liability, so consumers can't claim for damages caused to a household because of a leaky dishwasher, or for lost income because a computer stopped working.
 - Items subject to a manufacturer's recall.
 - Burn-in on screens is specifically excluded in most technology contracts.
 - Any replacement unit issued to fulfill the contract. There were (minimal) exceptions, but most contracts clearly state that the contract terminates when a replacement item is issued to the buyer. "From the moment the equipment has been replaced, CSI [service provider] will have met all its obligations and the Plan will become null and void" (Home Depot). "If we replace the Covered Product after expiry of the manufacturer's warranty and during the Agreement Term, then our obligations under the Protection Plan will immediately be deemed fulfilled and the Protection Plan will end on the date of replacement." (Sears)
8. *Language and presentation* – One common criticism of agreements is that the language is often too confusing and complex. In general, researchers found the contract language reasonably clear with only a little "lawyer" language that resists easy interpretation. (Some sections on unique provincial requirements were written to provide legal protection, not clarity to consumers.) The basics should be comprehended by most consumers. The actual print size on most contracts was extremely small, presenting a different type of comprehension challenge.

Variations

The contract review also showed a number of topics that were sometimes included, sometimes not mentioned:

1. *Not insurance* – Many contracts indicated specifically that the service contracts “were not insurance”.
2. *Relation to provincial laws* – Some contracts included language indicating that if there were specific obligations required by provincial consumer protection laws or regulations, they were deemed to be part of the contract.
3. *Technical support* – Some contracts provided assistance with installation, troubleshooting and other assistance beyond service and repair.
4. *Specific loss coverage* – Many contracts included specific coverage for the loss of food in the case of problems with refrigerators or freezers. Many contracts included specific NON-coverage for the loss of data in the case of problems with computers.

There were also some areas where providers had contrasting policies:

1. *Location of service* – Some contracts allowed for repairs to be conducted in home, particularly if in-home service was provided for by the manufacturer’s warranty. Other contracts provided for in-home coverage for consumers located within a specific range of a service centre. Delivery of items to service locations was generally a consumer-borne cost, although some plans offered exceptions.
2. *Start date* – Some contracts note that coverage takes effect after the manufacturer’s warranty expires. Others note that the contract starts from the date it is signed, but deny coverage if the manufacturer’s warranty is still in effect. Some of the protection plans that take effect after the manufacturer’s warranty can be purchased well after the item is purchased. The Comerco plans offered at Home Depot allow for extended protection to be purchased up to 10 months after the item is purchased.

3. *Temporary units (loaners)* – Some contracts state that temporary replacements are provided in some circumstances, while other contracts state that they are not.
4. *Damage* – Many contracts specifically cover manufacturer’s defect (or similar) and specifically exclude coverage for accidental damage. Some contracts do allow for coverage for certain kinds of accidental damage. Many electronics providers (Samsung, Best Buy, Apple, etc.) have coverages that include accidental damage from handling (ADH) of certain products, most commonly laptops, tablets and smartphones. In some cases, this is optional coverage; consumers can purchase coverage without damage protection or pay a higher amount for coverage with damage protection. Furniture coverage often includes damage protection against certain types of spillage. Leon’s “Platinum Complete” covers household foods, human or pet bodily fluid stains, ball-point pen ink, lipstick, crayon, nail polish and other accidental single incident stains and damage, but excludes paint, bleach, permanent dyes and inks, grease and gum. (If a toddler draws on a sofa, that may not qualify as “accidental”.)
5. *Tiered service* – Some vendors offered only a single level of coverage. Others offered different options with different prices. Best Buy’s Geek Squad, for example, offers a Protection Replacement Plan, Protection Total Plan, and Protection with Accidental Damage. It also offers a Home Membership Plan to cover every device or appliance in your home. The individual product plans also differ by product. Leon’s “Platinum Complete” program also offers choices between Accidental Stain Coverage, Accidental Damage Coverage and Structural Coverage.
6. *Purchaser choice of term* – This information is not typical in the contract, but rather set out in promotional materials or on the web site. Many providers have optional terms. Some appliance providers, for example offer protection for three or five years. Home electronics are often even more flexible, with variety of plans with incremental years. Online retailer Dell.ca, for example, offers extended protection from one to four years. It also has three different tiers of service (Getting Started, Premium Support and Premium Support Plus), giving computer purchasers 12 options above its standard one-year “mail in” service.

Anomalies

The contracts evaluated had many similarities, but there were some notable differences as well. Here are some of the interesting outliers:

1. AppleCare Protection Plus for its computers and monitors extends coverage to any product issued to replace a damaged item. “If Apple exchanges the Covered Equipment, the original product becomes Apple’s property and the replacement product is your property with coverage for the remaining period of the Plan.” As noted above, most coverages terminate with the issue of a replacement unit.
2. Staples EasyCare does not allow for transferability of protection.
3. Assurant’s two-part structure – The service contracts provided by Assurant through retailers Best Buy/Geek Squad and Lowe’s are uniquely structured. Each distinguishes between services (provided by Assurant) and benefits (provided by the underwriter American Bankers). In general, Assurant takes care of the customer (contact us, co-ordination of service and delivery), while American Bankers takes care of the product (the costs of repair, labour and any other eligible benefits). This structure does appear to give the purchaser a contractual relationship with the insurer.
4. Unused premium payments – Some retailers allow unused premium payments to be applied as a discount on future purchases. Tasco Service Protection Plan offers a “Value Back Guarantee” that allows a credit against future appliance purchases in the 120 days following the plan expiration. This is a “promotion” by Tasco, not specifically included in the contract language. Self-financed retailer 2001 Audio and Video provides similar benefits through its Money-Back Extended Service Plan. Sears Protection Plans had a similar provision.
5. Pairs and sets – Leon’s “Platinum Complete” allows for the possibility of coverage of all products if one part of a suite (sectional furniture, dining room chairs) requires replacement.
6. Non-insured deviations – Smaller retailers without insurance underwriters frequently have more deviations from standard. Long & McQuade’s Performance Warranty provides for “loaners”, accessories

and commercial use, can cover used instruments, and covers limited theft protection on band and orchestral instruments.

7. The Peace of Mind Protection on jewellery sales at Hudson's Bay allows the insurer to recover payment from any other party for anything they have paid.
8. Deductibles and service fees – Commonly cited as a criticism of extended protections, researchers found few agreements that required payment of deductibles or service fees: Samsung Mobile Care has a service fee of \$129 plus taxes on each service request, in addition to the plan purchase price of \$170. There were also service fees on certain devices, such as iPhone X, on AppleCare+ plans.
9. Provincial exceptions – Many of the multi-provincial vendors include alternative language for contractual provisions that apply to specific provinces.
 - Asurion's contracts for Costco and Walmart products contain specific language for British Columbia that identifies Continental Casualty Company as the insurer in the contract, and specific cancellation rights under Section 19(m) of the Business Practices and Consumer Protection Act. A separate section notes other cancellation rights for residents of Ontario, Manitoba, Alberta, Saskatchewan and Newfoundland, and a "right to ask for access to the information" clause for Quebec transactions. Cancellation for the five provinces must be delivered to the administrator of the plan, while BC cancellation must be to the address of the plan.
 - The Comerco contract for Home Depot sales identifies the BC insurer as Nordic Insurance Company.
 - The Assurant contract offered through Lowe's notes that Quebec residents can request a French version of the contract. The contracts offered through Best Buy's Geek Squad in Quebec include some specific language about Quebec warranty laws (Sections 37 and 38 of the Consumer Protection Act), and a clause required by the Act that covers rules of forfeiture and default under sections 14, 104 to 110.
 - The AMT protection offered to Hudson's Bay Jewellery and Watches customers has many more provincial exceptions. For all provinces

except British Columbia, Alberta, New Brunswick and Nova Scotia, contract language states “this is not an insurance policy. It is an extended warranty contract. Our liabilities under this contract are insured by a contractual liability policy effectuated with certain Lloyd’s Underwriters through Lloyd’s Approved Cover holder.” For residents of the other four provinces, references to Extended Warranty Contract are deleted and replaced with ‘extended warranty insurance policy’. In Nunavut you can cancel by contacting the government. In the Yukon, you can cancel by informing the retailer orally or in writing. In Ontario, you can cancel by calling the retailer or administrator orally or in writing. AMT protection offered through [Amazon.ca](https://www.amazon.ca) appears similar.

The language of the various provincial exceptions raises an interesting point. All appear to make the B.C.-related point of appointing a licensed insurer as the contractual party to fulfill regulatory requirements. But the provincial exceptions otherwise vary between providers. This would suggest that even among professionals in the industry, there are divergent opinions about the requirements of provincial legislation.

Also, AMT specifically includes the CLIP, (Contractual Liability Insurance Policy) a requirement under most U.S. state legislation. Assurant language contractually connects the product purchaser with the insurer, which may have a similar effect. Asurion and Comerco contracts do not. This would suggest that at least some of the contracts were drawn to comply with U.S. requirements. Some of the “this is not insurance” language may also be designed with that effect. Some contracts (AppleCare for example), include state variations at the bottom of the contract, a clear indication that the same contract serves Canada and the United States.

VII

Consumer Survey

What 2,000 Canadians said about extended protection purchases, claims and attitudes

Questions for Consumers

The key research objectives outlined at the beginning of this report were used as the foundation of the consumer survey. The research into legislative history, behavioural economics, industry practices and the actual contract language added interesting perspectives to the project and interesting questions for consumers.

A consumer survey was designed to collect and evaluate consumer experiences and beliefs related to extended protections. The survey focused on these areas:

Purchase decisions – How frequently do consumers purchase protections, and what are the factors that contribute to that decision? Is the decision made impulsively at the point of sale or is it well considered? Is it price driven? Product driven?

Points of differentiation – How do protection purchasers and non-purchasers differ? What attitudes and beliefs help explain their choice?

Product knowledge – How well do consumers understand the protections they are offered? Are they making well-informed decisions? What are the common misconceptions? Do they believe what happened to Sears consumers could happen to other extended protection purchasers?²²

²² Researchers used Home Depot and Lowe's in the survey as they are large national retailers that sell appliances consumers are most likely to protect. It was not intended to suggest that either retailer is a genuine risk for bankruptcy.

Claims experiences – For consumers who have made claims, what is their overall level of satisfaction, and what are the common problems? Do past claims influence future purchase decisions?

Legislated protections – Are consumers aware of relevant provincial laws about warranty protection? Do they believe extended protections are essentially insurance?

Other relationships – Do consumers view manufacturer protections differently than retailer protections? Are they more or less likely to purchase protections when shopping online? Do consumer durables last longer than ever?

Do results vary based on education, age, gender, income or province? Cross tabulations will allow the measurement of relationships between questions. For example, are protection purchasers more loyal to manufacturers and merchants, and do they show higher levels of product satisfaction?

The Consumer Survey

Consumer views on these topics were obtained through an on-line survey of 2,000 consumers conducted by Environics Research. The questionnaire consisted of 21 questions in total, but segmented so most consumers would answer 10 to 15. Participants were asked about their attitudes and experiences with extended protections, and the survey was designed to take approximately 10 minutes to complete.

Researchers designed the questionnaire, based on findings of the literature reviews and interviews, with additional input from Consumers Council of Canada executives, the project's research methodologist and Environics.

Questions about general consumer attitudes, satisfaction and warranties preceded questions that sorted participants into four groups: those who had purchased protection on at least one major purchase in the past three years; those who consider purchasing, but haven't recently; those who used to purchase but no longer do; and those that do not ever purchase.

Each group was asked about specific motivations and reasons. Purchasers were asked about claims experiences, and then the survey posed additional questions about retailers, manufacturers and public policy issues.

This section describes the key findings of the survey. The list of survey questions is in Appendix A. Complete results are available in Appendix C.

Participant Information

The surveys were completed from May 10 to 23, 2018. A total of 2,000 respondents aged 18+ were surveyed using an online methodology. As this study is a non-probability sample, the policy of the MRIA (the governing body for the market research industry in Canada) is that the margin of error should not be cited. Participating panelists are recruited through thousands of web sites. Environics was responsible for translating the survey into French.

Key Findings

Here are the most significant findings²³ from the survey of 2,000 Canadians. Findings are grouped along the lines of the key topics outlined above.

1. The Purchase Decision

Key Question: How frequently do consumers purchase protections, and what are the factors that contribute to that decision?

Summary: Protection purchase rates vary significantly by product category, ranging from 23% of major appliance purchases to as low as 4% for major outdoor items such as lawn equipment and barbecues. About 30% of consumers have purchased extended protection on a major household durable in the past three years. The key motivation for purchasers is convenience. The key motivations for non-purchasers are the costs and a strongly held belief that extended protections costs exceed likely benefits.

Detailed Findings: Consumers were asked about purchases of major household items (above \$150) in the past three years in seven different product categories. For the most recent purchase in each category, participants were asked if they had purchased optional protection.

²³ Results of survey questions that provided little insight are included in the Appendix.

Table 2

Extended Protection Purchase Decision

Q: For your most recent purchase in each category, indicate whether you purchased extended protection.

Product Category	Purchased %	Did Not Purchase %	Can't Recall %
Major appliances – refrigerators, ovens, washer or dryer	23	72	5
Personal computers – desktops, laptops, touchscreen pads	18	79	3
Home entertainment – televisions, home theatre, stereo	16	81	4
Smartphones/cellphones	21	77	3
Tools, lawn equipment, barbecue, outdoor furniture	4	92	3
Indoor furniture or carpet	10	88	2
Other products – jewelry, musical instruments, exercise equipment	8	90	2

Note: 2000 respondents

Prior to the question, participants were given a definition of extended protection as “separate agreements that consumers can purchase to provide services and certain product guarantees beyond those covered by the manufacturer’s warranty [and] can be known as “service contracts” or “protection plans” or “extended warranties” or “product care” or other terms, but all involve the consumer paying extra amounts to protect against future loss of use of the product.”

The ordinality of product types matches U.S. data, with household appliances, phones and computers leading the way. Absolute levels are lower than the U.S. figures from Chapter VI, more in line with U.K. results. Obviously, retailers and third-party providers have more accurate figures based on actual purchases. Approximately 30% of the sample (597 of 2000 respondents) purchased protection on at least one product in the past three years.

Purchasers were asked to evaluate six common benefits of these programs.

Table 3

Attitudes of Protection Purchasers				
Q: Asked only of extended protection purchasers. When considering whether to purchase extended protection, how strongly do you agree or disagree with the following statements?				
Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %
A. The higher the price of the item, the more likely I am to purchase extended protection.	18	55	22	4
B. I am more likely to purchase extended protection if I am concerned about the quality of the manufacturer.	10	45	34	10
C. I like that I don't have to worry about finding parts and technicians with extended protection. I know who to call.	23	61	13	4
D. The cost of extended protection is generally reasonable.	6	44	40	10
E. There are some products for which I would always purchase extended protection.	23	53	19	5
F. There are elements of protection such as telephone assistance, software support and troubleshooting that are important to my decision.	10	51	29	10

Note: 955 respondents

The highest level of support was for the statement that most closely echoed the “peace of mind” sentiment that appears in other studies. The next highest supported statement was that there were some products for which they always purchase protection, and that there was some relationship with the price of the underlying product. Support for statements about signalling (concern about the manufacturer), and non-manufactured supports were less notable, and barely 50% of purchasers thought the costs of protection were generally reasonable.

The results suggest that the type of product and price of product are more significant influences than the price of the protection.

Purchasers were also asked about when they typically made the decision to purchase protection. The mode response (25%) was that they knew before entering the store. The balance included brochure reading and sales conversations as part of their process.

In other questions, 57% of purchasers said they had been persuaded to purchase extended protections by a particularly effective salesperson, and 36% said they had purchased extended protection and then forgotten they had done so.

The 1,403 participants that had NOT purchased protection recently were then asked a question to further segment the participants.

Table 4

Categories of Non-Purchasers	
Q: (Asked only of consumers who have not purchased extended protection recently) Which statement best captures your views on why this is?	
Statement	%
I don't ever buy extended protections	52
I used to purchase extended protections, but no longer do	22
I sometimes purchase extended protections, just not on any of the listed item categories in this time period.	26

Note: 1,403 respondents

In some of the following discussion, these categories may be referred to as 'never buy', 'used to buy' and 'sometimes still buy'.

Non-purchasers were offered six possible reasons for not purchasing extended protections.

Table 5

Attitudes of Consumers that do not Purchase Extended Protection

Q: (Asked only of non purchasers) For each statement, indicate your level of agreement or disagreement.

Statement	Strongly Agree %	Somewhat Agree %	Somewhat Disagree %	Strongly Disagree %
A. I feel that I already have some protection through homeowners insurance	5	44	29	22
B. I feel that I already have some protection through my credit card	14	46	25	15
C. I feel that the manufacturer’s warranty covers the most important period.	25	61	11	3
D. The protection costs are too high compared to what it costs me to replace or repair the product.	41	49	8	2
E. This coverage wouldn’t be offered if it wasn’t to the store’s advantage. So it must be to my disadvantage.	34	49	15	3
F. If a product stops working, I’m probably better off buying a replacement item.	21	57	19	2

Note: 1,045 respondents

The most strongly endorsed rationales are the price-based arguments, expressed either tangibly (D) or more philosophically (E). The notion that extended protections are declined because of other protections is least supported.

All participants were also asked to evaluate a number of statements regarding attitudes towards extended protection. Most of these were used to identify possible cleavages between purchasers and non-purchasers, but in the aggregate:

- There was strong support for the statement “extended protection for some technology isn’t cost effective. After three years, it probably makes more sense to buy a new device than repair an old one” (87% agree, 11% disagree, 2% don’t know).

- There was also strong support for competition at the point of sale. “I would be more inclined to purchase extended protection at a retailer if I had a choice of plans from which to choose,” was scored 64-28-8.
- Support for the “signalling”-based statement “The cost of extended protection is an indication of product quality. If coverage is inexpensive compared to the product price, the product is probably very reliable” was mixed (46-42-12).
- Likewise “It makes sense to buy extended protection because it’s like other insurance. It’s a small price today to protect a much larger loss/cost” received mixed support (45-51-5).
- Participants were asked one of two statements about the durability of appliances. The half asked “Home appliances and durable goods don’t last as long as they used to” received exceptionally strong support (83% agreement, with 56% strongly agreeing, compared to 12% against, and 5% don’t know. Yet the opposite wording “Home appliances and durable goods are made to last longer than ever” received 30% agreement, 67% disagreement and the disagreement was much less emphatic. This approach was taken to reduce the bias that might have been caused by using just one specific wording or the other. The results suggest that participants did show an affirmation bias towards agreement – and that consumers generally believe consumer durables are not made as well as they used to be.

2. Points of differentiation

Key Question: What are the key differentiators between purchasers and non-purchasers? What attitudes and beliefs explain their choice?

Summary: Participant responses to various “attitude” statements produced inconclusive results. Responses to “product knowledge” questions suggest the “never buy” consumers had slightly better results, but the differences were small. The closest relationship found in the results was related to consumers themselves. Consumers who purchased protection on one product were about three times as likely to purchase protection on another product.

Detailed Findings: The basic results indicated that the price of the product and the type of product are both significant factors in the protection purchase decision. A number of attitude and product knowledge statements were analyzed to identify differences between ‘purchasers’ and ‘non-purchasers’.

Not surprisingly, the statement “it makes sense to buy extended protection because it’s like other insurance. It’s a small price to pay today to protect against a much larger loss/cost” was much more strongly endorsed by protection purchasers. Similarly, the somewhat cynical “Merchants only sell extended protection because it makes them more money, so it’s not going to be to my advantage to buy it” was much more strongly supported by the “never buy” group, and least supported by purchasers. Protection purchasers were also more likely to agree that higher protection costs indicated lower product quality.

On the product durability statements, when phrased “home appliances and durable goods are made to last longer than ever”, protection purchasers showed stronger agreement than non-purchasers. But there was no relationship with the alternative wording.

Support for multiple plans at the retailer was strongest among protections purchasers. Still, 45% of the “never buy” and 60% of the “used to buy” group expressed support for that statement.

Over the suite of product knowledge questions, the “never buy” segment generally had the best overall results, but differences were small. Protection purchasers are more likely to believe (incorrectly) that extended protection generally covers accidental damage, products damaged in a fire, and that replacement items issued during the extended protection period are also covered. This suggests that some purchases are made or supported by false information or beliefs. Protection purchasers and non-purchasers showed the same level of understanding (weak) on the different implications of a bankruptcy of a retailer such as Home Depot compared to the bankruptcy of Sears.

The most interesting discovery was that consumers who purchase protection on one type of product are about three times more likely to purchase protection on other products.

Table 6

Protection Purchases Across Categories

How frequently do consumers who purchase protection on one good also choose to purchase protection on other products?

Product Category	% of Consumers	% of Protection Purchasers
Major appliances – refrigerators, ovens, washer or dryer	23	60
Personal computers – desktops, laptops, touchscreen pads	18	51
Home entertainment – televisions, home theatre, stereo	16	41
Smartphones/cellphones	21	60
Tools, lawn equipment, barbecue, outdoor furniture	4	13
Indoor furniture or carpet	10	27
Other products – jewelry, musical instruments, exercise equipment	8	23

Note: 2,000 respondents

For clarity, 21% of participants purchased extended protection on their most recent smartphone/cellphone. But of those people, more than half *also* purchased extended protection on their most recent computer, and nearly half on their most recent major appliance, far above the rates of the overall sample (18% and 23% respectively). The table indicates 60% of the participants who purchased protection on at least one product in the past three years purchased protection on smartphones/cellphones.

This would support that there is a certain type of consumer – perhaps the “regret averse” theorized in academic studies – that is more likely to purchase extended protection, and that this personality attribute is a stronger force than protection pricing or product knowledge or other attitudes tested.

3. Product Knowledge

Key Question: How well do consumers understand the protections they are offered? Are they making well-informed decisions? What are the common misconceptions?

Summary: Overall, results suggest consumers are not well informed. Asked to evaluate a number of statements that were objectively true or false, consumers did poorly. The majority of participants agreed that the bankruptcy of a retailer such as Home Depot or Lowe's would leave their extended protection customers facing a situation similar to Sears customers, when they should actually continue to be protected by the terms of their contract with the third-party provider.

Details: More than one-third of participants (35%) agreed that extended protection for products generally covers accidental damage. Accidental coverage on phones and computers is sometimes available, but as an exception.

Almost two-thirds (64%) believed that if a protected item breaks and is replaced, that the replacement item is also covered for the duration of the contract. Again, this is true in some exceptions, but almost all contracts terminate when the replacement item is provided.

A similar percentage (68%) agreed that extended protection covers the same things as manufacturer's warranty, just for longer time. This can sometimes be the case, but it indicates that most consumers do not appreciate the other elements of some service contracts that go beyond manufacturers' warranties.

Protection purchasers were asked if protection could be transferred if an item was sold. Only 38% thought it could be – it generally can be – while 31% said it could not and 30% said they did not know. In addition, 25% of protection purchasers thought extended protection would cover them if a product was damaged in a fire, and 31% responded they did not know.

A query comparing Home Depot's and Lowe's protection to Sears' was split. Half of the participants were asked "If Home Depot or Lowes were to go bankrupt like Sears Canada did, those who purchased extended protection would lose their coverage." The results were 61% agreed, 20% disagreed and 20% did not know. The other half were asked "If Home Depot or Lowe's were

to go bankrupt like Sears Canada did, those who purchased extended protection would continue to be covered.” Worded this way, 31% agreed, 49% disagreed and 21% didn’t know.

About 70% of consumers say they are knowledgeable about who bears responsibility in extended protection contracts, but 77% say they would begin a claim with the retailer, and 80% of claimants began their most recent complaint by contacting the retailer or manufacturer.

The results indicate that there is little awareness of the different structures of extended protection programs and some of the basic protections and exclusions.

4. Claims Experiences

Key Question: What is the overall level of satisfaction on the resolution of claims? What are the common problems?

Summary: About half of protection purchasers had made a claim in the past five years, and about 75% of claims were resolved with little or no disruption to consumers. The balance, about 25%, reported an inconvenient or unsatisfactory resolution to their most recent claim.

Details: A five-year time frame allowed for the inclusion of participants who said they sometimes purchase protections, but had not done so recently. Also, using too short a timeframe would involve more manufacturers’ warranties. As constructed, it is likely some participants would not recall exact timeframes, or improperly recall whether problems were dealt with under manufacturer’s warranty or extended protection.

Table 7

Satisfaction of Resolution of Service Claim	
Q: Which of the following statements best summarizes the outcome of your most recent claim for service in an extended protection program?	
Statement	%
It was a perfect or nearly perfect	30
It was a positive experience. There was only minor inconvenience	45
It was eventually resolved, but it was very inconvenient.	16
They tried, but it was not resolved to my satisfaction	5
My claim was denied	2
It is ongoing and not yet resolved	1
I initiated the claim, but after learning about the process, elected not to pursue it.	1

Note: 484 respondents

Almost 10% report the absence of a satisfactory outcome because the claim was denied or the problem could not be resolved satisfactorily. The mode response about why claims were denied was “This particular problem was not eligible for coverage”, but the sample was extremely small.

While half of the protection purchasers reported no claims in the past five years, this is not equivalent to saying that half of protection plans are not used. Consumers may have purchased protection on more than one item, so the percentage of contracts that involved a claim would be lower. The time frames are not an exact match.

Asked where they began the claim process, nearly half (49%) said the retailer, followed by the manufacturer (31%) and a third-party provider (14%).

Table 8

Has This Ever Happened to You?

Q: Asked of extended protection purchasers, past or present. Over the past 10 years, and not just on the most recent claim or extended program purchase, have any of these events happened to you?

Statement	%
I inquired about a service claim, but was told that my situation was not covered.	20
My particular problem was covered, but proved difficult to fix and required multiple service visits and replacement components (or items).	13
The salesperson told me I would be covered, but it turns out I wasn't	11
Parts and labour were covered for different durations, so I was still covered for one, but not the other.	10
Those responsible for the repair of my product could not get the proper parts.	10
I thought my product was protected against normal wear and tear.	8
Those responsible for the repair of my product could not find a qualified service technician near me.	7
None of these events happened to me.	52

Note: 1,267 respondents

With the longer time frame and the elimination of the “most recent” qualifier, participants reported more examples of extended protection difficulties. Slightly more than half of participants reported none of these enumerated incidents. Totals exceed 100% because participants could select more than one incident. Asked about possible responses to difficulties or dissatisfaction with extended protection coverage, 22% of respondents said they had stopped using a particular retailer or manufacturer, and the same percentage said they had told friends and family to do the same. Fewer than 10% had taken any “official” action, such as complaining to government (3%) or taking legal action or seeking legal advice (3%).

The “used to buy, but no longer do” group of non-participants reported higher incidences of all seven experiences detailed above. For example, 29% said they had been told that a situation was not covered (instead of 20%), and 21% said “the sales person told me I would be covered”, compared to 11% of

overall participants. This supports a link between service claims experiences and current attitudes of those who no longer purchase extended protections.

5. Legislated protections

Key Question: Are consumers aware of relevant provincial laws about warranty protection? Do they believe that extended protections are essentially insurance?

Summary: Awareness of legislated warranty protection was extremely low. Survey participants strongly supported regulation of these contracts conceptually, but support insurance-based and sale-of-goods-based regulation equally. There was strong support from consumers for the separation of prepaid warranty funds from other assets in instances where vendors declare bankruptcy, the Sears scenario.

Details: All participants were asked whether they agreed with the statement “My province’s consumer protection legislation provides for a warranty, even if the product does not come packaged with one.” The mode response (50%) was “don’t know”, while 32% agreed and 18% disagreed. Support for “extended protection contracts are essentially insurance and should be regulated the same way as other forms of insurance” was strong: 78% agreed, 10% disagreed, 11% don’t know. Support for “extended protection is part of a product purchase and should be regulated the same way as other retail transactions” was nearly identical: 78-13-10. The two statements were intended to be somewhat contradictory, but this distinction was lost to participants, who expressed a strong preference for regulation on extended protection purchases, but ambivalence about the particular flavour of regulation.

Participant support for the statement “money received from consumers for future service obligations should be set aside for that purpose and kept separate from other funds in case the vendor declares bankruptcy” was also substantial: 80% agree, 9% disagree, 11% don’t know.

6. Relationships with manufacturers, retailers and overall satisfaction.

Key Questions: Are consumers who purchase extended protection more loyal to manufacturers and retailers? Are they more satisfied with purchases in general?

Summary: Satisfaction with purchases is generally so strong that it is difficult to discern any differences between purchasers and non-purchasers. Participants showed very modest loyalty to manufacturers and retailers overall, but loyalty was higher for consumers who purchase extended protections.

Details: For each product purchased, consumers were asked to evaluate their level of satisfaction. The results indicate strong levels of satisfaction across all categories.

Table 9

Most Recent Product Purchase Satisfaction				
Q: For your most recent purchase in each category, indicate your overall level of satisfaction.				
Product Category	Strongly Satisfied %	Satisfied %	Dissatisfied %	Strongly Dissatisfied %
Major appliances – refrigerators, ovens, washer or dryer	35	59	4	2
Personal computers – desktops, laptops, touchscreen pads	41	53	4	2
Home entertainment – televisions, home theatre, stereo	45	51	3	1
Smartphones/cellphones	40	53	5	2
Tools, lawn equipment, barbecue, outdoor furniture	35	60	4	1
Indoor furniture or carpet	37	58	4	2
Other products – jewelry, musical instruments, exercise equipment	37	60	3	1

Note: 2,000 respondents

This question was designed to test protection advocate claims that consumers who purchase extended protections enjoy greater product satisfaction. For all product categories, satisfaction was rated at 93%, making statistically significant variations difficult to find. Satisfaction across product categories is quite consistent. Looking more closely at the distinction between extremely satisfied and satisfied, consumers who purchased extended protection on computers, home entertainment and smartphones did express slightly higher satisfaction than those who did not. Satisfaction was lower than average for buyers of protection on indoor furniture and carpet purchases. For appliances and other categories, there was no meaningful difference in satisfaction.

U.S. surveys show protection purchasers display greater loyalty to merchants and manufacturers on the purchase of replacement goods. Survey participants were first asked if goods purchased were 'new' or 'replacements' and then for replacements, asked if the same brand was purchased, and whether it was purchased from the same retailer.

Table 10

Replacement Product Brand and Retailer Choice				
Q: For replacement products purchased, did you choose the same brand or different brand? Did you choose the same retailer or different retailer?				
Product	Same Brand %	Different Brand %	Same Retailer %	Different Retailer %
Major appliances – refrigerators, ovens, washer or dryer	20	80	21	79
Personal computers – desktops, laptops, touchscreen pads	42	58	39	61
Home entertainment – televisions, home theatre, stereo	26	74	26	74
Smartphones/cellphones	68	32	63	37
Tools, lawn equipment, barbecue, outdoor furniture	17	83	27	73
Indoor furniture or carpet	11	89	20	80
Other products – jewelry, musical instruments, exercise equipment	33	67	28	78

Note: Number of respondents in each category varies

Consumer loyalty is stronger for phones and computers, but milder in the other categories. Protection purchasers were more likely to purchase the same brand and use the same retailer than non-protection purchasers. That said, it is not clear that this has anything to do with protection purchases, as consumers who purchased extended protections were more brand loyal on all the products they buy, not just the products for which they purchase extended protections, and also more retailer-loyal on all products than those who do not purchase protections.

Asked if they were more likely to purchase extended protections on purchases made online than in store, 18% agreed, 72% disagreed and 10% didn't know.

Protection purchasers were asked to evaluate a number of statements that compared manufacturer and retailer protections. Protections from manufacturers were more strongly supported than protections from retailers.

Table 11

Attitudes about Retailers and Manufacturers

Q: Asked of extended protection purchasers, past or present. For each of the following statements, indicate your level of agreement.

Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %
A. Manufacturers that offer their own extended protections (AppleCare, for example) make me more confident about the quality of their products.	16	57	21	6
B. Retailers that establish their own service providers (Best Buy's Geek Squad, for example) make me more likely to shop there.	8	50	31	11
C. I am aware whether the extended protection I buy is the responsibility of the merchant, the manufacturer or a third-party provider.	15	55	24	6
D. If something goes wrong with a product for which I have purchased extended protection, I usually start by calling the retailer.	21	56	18	4
E. Consumers are better off when extended protection is purchased from the product manufacturer than the retailer.	14	52	30	4
F. Consumers are better off when extended protection is purchased from the retailer than the product manufacturer.	7	43	39	11

Note: 1,267 respondents

Statements E and F were also split questions – participants were only asked one of these two contradictory statements. Note that the net effect is that participants seem to think extended protection is more valuable from manufacturers than retailers, but the affirmation bias is clearly in evidence as well, as the 66-34 manufacturer preference becomes a 50-50 result when the wording is reversed.

7. Demographics

The web panel questionnaire gathered basic demographic information about participants, allowing for evaluations by age, education, gender, household income and province of residence. Here are some of the most interesting findings:

By Province

Atlantic Canada results were aggregated because of smaller sample sizes, as were figures from Manitoba and Saskatchewan. Quebec residents showed more consistent deviations from the rest of Canada around multiple topics. Quebec residents did better on the knowledge-based questions, and showed greater awareness of provincial warranty rules.

Table 12

Provincial Comparison of Warranty Protection					
Q: Asked of all participants. "My province's consumer protection legislation provides for a warranty, even if the product does not come packaged with one."					
Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %	Don't Know %
National	14	18	13	5	50
Atlantic Provinces	3	11	12	9	65
Quebec	38	29	7	1	24
Ontario	7	17	15	6	55
Manitoba/Saskatchewan	9	16	13	8	54
Alberta	5	10	15	8	61
British Columbia	5	15	14	6	60

Note: 2,000 respondents.

Quebec residents were less likely to purchase extended protections on all product categories tested, had the highest percentage of "don't ever buy extended protection" respondents, showed more faith in manufacturers'

warranties and valued the benefits of extended protection less highly than other provincial residents throughout multiple questions. Manitoba and Saskatchewan participants were more likely to purchase extended protection in just about every product category, and were above average on each.

Gender

Men were more likely than women to make purchases in all categories except for furniture and carpet. There is no meaningful difference between the sexes in the frequency with which they purchase extended protection, though women are more likely to purchase protection on higher priced items, and more likely to think protection prices are reasonable. Men are more likely to agree the products today last longer than ever.

Men are more likely to select “extreme” alternatives to most questions, and less likely to respond “don’t know”.

Age

Participants were subdivided into six age groups: 18-24, 25-34, 35-49, 50-64, 65-74 and 75+, with 35-49 being the most populated and the two extreme groupings having the smallest sample sizes.

The two extremes – the youngest and the oldest – are most likely to purchase extended protection across all product categories. In general, younger consumers are more likely to add protection to online purchases, be persuaded by an effective salesperson and take all of the actions listed if they feel wronged by an extended plan experience.

Education

Participants were segmented into three categories, based on their highest level of formal education: high school or lower, college/CEGEP or university and post-graduate. Participants with higher levels of education are less likely to purchase extended protection and more likely to say they never will.

Those with higher education generally did better on the product knowledge questions, were more likely to agree that merchants only sell

extended protection because it makes money, and were also less likely to believe that new household durable products are “better than ever”.

Household income

The survey participants were broken into five groups for the purposes of income analysis, but more than 20% of participants declined to provide income information.

The product purchase rate of all categories increases with income. As income rises, extended protection purchase is less likely on appliances. There were some other anomalies, (those in the \$100K to \$150K range are more likely to purchase extended protection on phones) but no general patterns relate to income categories.

Higher-income participants are more likely to make a claim for coverage, but income does not seem to relate to satisfaction of the resolution.

VIII

Conclusions

Margins are high, understanding is low and redress largely involves taking providers to court

Consumer Rights & Responsibilities

The Consumers Council of Canada advocates for eight globally recognized consumer rights and responsibilities, plus an additional one that has become increasingly important in an interconnected world.

1. Basic Needs

- The right to basic goods and services which guarantee survival.
- The responsibility to use these goods and services appropriately. To take action to ensure that basic needs are available.

2. Safety

- The right to be protected against goods or services that are hazardous to health and life.
- The responsibility to read instructions and take precautions. To take action to choose safety equipment, use products as instructed and teach safety to children.

3. Information

- The right to be given the facts needed to make an informed choice, to be protected against misleading advertising or labelling.
- The responsibility to search out and use available information. To take action to read and follow labels and research before purchase.

4. Choice

- The right to choose products and services at competitive prices with an assurance of satisfactory quality.
- The responsibility to make informed and responsible choices. To take action to resist high-pressure sales and to comparison shop.

5. Representation

- The right to express consumer interests in the making of decisions.
- The responsibility to make opinions known. To take action to join an association such as the Consumers Council to make your voice heard and to encourage others to participate.

6. Redress

- The right to be compensated for misrepresentation, shoddy goods or unsatisfactory services.
- The responsibility to fight for the quality that should be provided. Take action by complaining effectively and refusing to accept shoddy workmanship.

7. Consumer Education

- The right to acquire the knowledge and skills necessary to be an informed consumer.
- The responsibility to take advantage of consumer opportunities. Take action by attending seminars and workshops, work to ensure consumer education takes place in schools.

8. Healthy Environment

- The right to live and work in an environment that is neither threatening nor dangerous and which permits a life of dignity and well-being.

- The responsibility to minimize environmental damage through careful choice and use of consumer goods and services. Take action to reduce waste, to reuse products whenever possible and to recycle whenever possible.

PLUS – Privacy

- The right to privacy particularly as it applies to personal information.
- The responsibility to know how information will be used and to divulge personal information only when appropriate.

The following table/matrix sets out summary attributes of the issue being explored by this research through the lens of consumer rights and responsibilities.

Consumer Rights & Responsibilities Matrix		
Consumer Protection Issue	Rights Affected	Responsibilities Affected
Consumers lack awareness of the warranty protections provided by legislation.	Information, choice, representation, redress, consumer education	Information, choice, redress, representation
The cost of redress, even through small claims court, is high (both in money and time) relative to the cost of the protection and product.	Redress, choice	Redress, choice
Consumers do not take the time to properly read the terms of their extended protection contracts and do not fully understand the protections.	Information, consumer education	Information, consumer education, choice, redress, safety
Consumers are often enticed and misled by persuasive sales agents who may exaggerate or falsely state contractual protections in order to make a sale.	Information, consumer education, redress, choice	Information, choice, redress
There is no competition at the point of sale for extended protections. Some evidence that protection contracts are highly profitable to merchants.	Choice	Information, choice
The high margins of extended protections may be used to lower retail prices, meaning protection purchasers are subsidizing non-purchasers.	Basic needs, choice	Basic needs
At the point of sale, consumers may not have the information or take the time to properly assess the risks of product failure.	Information, choice, consumer education	Information, choice, consumer education
A basic information asymmetry means consumers have significantly less information about product reliability and repair costs.	Information, choice, consumer education	Information, choice, consumer education
Provincial laws are inconsistent about the treatment of these contracts. Information is difficult to find, and the lack of case law leads providers to make their own interpretations.	Information, representation, redress, consumer education	Information, redress, consumer education
Extended protection amounts prepaid to retailers who self-finance can vanish in retailer bankruptcies (such as Sears).	Redress, basic needs, information	Redress, information,
Consumers express a desire for protection, either from insurance avenues or from other conventional retail purchase avenues.	Redress, representation	Redress, representation
More common use of extended protections would lead to manufacturers and vendors lowering standards of warranty protections.	Representation	Choice, representation
There is an environmental impact for unnecessarily abandoned products that could easily be repaired.	Healthy environment	Healthy environment

Consumer Rights & Responsibilities Matrix: Table 13

Summary of Consumer Rights & Responsibilities Impacts

Basic Needs

The most frequently protected products include major household appliances such as refrigerators and washers, which may be considered essentials. Excess amounts spent on protection contracts represent funds that cannot be spent on other necessities.

U.S. studies indicate two classes of protection purchase habits relevant here. Protection purchases are more common from lower income consumers because they can least afford the replacement costs, and for hedonistic purchases rather than essentials. Though no household income effect was found in this study, and no test for hedonistic purchases was made, the general point remains that extended protections are more profitable for retailers and purchases may subsidize product purchasers.

Efforts to make pricing more competitive would allow more funds to be spent on other necessities.

Also, extended protection amounts prepaid to retailers who self-finance can vanish in retailer bankruptcies, such as Sears Canada.

Safety

Most of the extended protection contracts reviewed included exclusions for unsafe or non-intended product use. Consumers who fail to take the time to read and understand the contractual protections may invalidate those terms by failing to follow the contract's terms of how the product is to be used and maintained.

Information

Consumers have an obligation to seek information from reasonable sources. This could include online product reviews and extended protection research

before purchase, and assessing the actual terms and conditions of the protection contract before endorsement.

Extended purchase transactions can include many forms of mis-information. Consumers may be given incorrect or misleading information from overzealous sales representatives, which commonly create more vivid memories for consumers than the fine print in a contract. Contracted exclusions are presented in small type, which is challenging to read.

Consumers are also at a significant information disadvantage because vendors have much more accurate information about product failure rates and typical repair costs. The absence of this information may lead consumers to overstate risks and overestimate costs.

Consumers also show little awareness of warranty protections provided by legislation and of avenues of redress should a problem arise.

Choice

Consumers have a choice of manufacturer, and a choice of vendor, but almost never a choice of extended protection provider. Consumers choice is generally limited to either a binary yes/no purchase decision, or in some instances choice about duration and inclusion of some optional support services (typically in electronics and computers.)

Consumers can freely execute their ability to comparison shop on the product and vendor, but are captive on the extended protection decision. This lack of choice manifests in uncompetitive pricing.

Consumers contemplating a major purchase would be better served by evaluating the entire transaction, including potential optional protections, before deciding on a purchase. Consumers frequently seek information about insurance costs before car purchases.

Representation

Consumers benefit from having powerful, informed advocates working on their behalf. If there are public policy discussions forthcoming about revising or clarifying extended protection regulations, consumers deserve funded,

effective, capable representation, in addition to being granted and supported to have a voice of their own as individuals.

Research such as the Consumers Council of Canada report *Options for a Sustained Institutional Role For Consumer Organizations in Internal Trade Harmonization Initiatives* shows consumers expect business and government to help pay for consumer representation concerning trade-related matters.

Consumers also deserve a voice in organizations that provide arbitration and redress.

Redress

Consumers' right to redress is at the core of this project. A product is being sold to them to protect against the future loss of use, something of a "prepaid redress" to cover product failures. Consumers have a responsibility to take action by complaining effectively, and using the means they have at their disposal.

Yet failures abound. A large national retailer goes out of business, leaving consumers to discover that the amounts they prepaid to protect against future losses provide no actual protection, and no other redress. Enforcement of other individual claims largely falls to civil (small claims) courts, where consumers may feel the pursuit of redress is too costly, both in time and money, and fruitless, because providers have legal expertise they lack.

Survey results suggest consumers (outside Quebec) are wholly unaware of legislated warranty protections or what extended protections may also exist in legislation. Though contracts are largely designed to escape insurance regulation, case law is thin, and there may be opportunities for redress through insurance mechanisms, subject to provincial authorities' interpretation of the specific agreement.

Consumer Education

Consumers have the right to acquire the knowledge and skills necessary to be informed consumers. Yet many fail to take advantage of the opportunity to

read the terms of an extended protection contract before signing it. It is generally unwise to purchase things you don't understand.

In other parts of the marketplace, education can be difficult to find. Some provincial web sites have excellent disclosure about the protections available, but others do not. Merchants have a conflict – better informed consumers tend to not purchase extended protections. Manufacturers generally do not make durability statistics available. Repair and parts costs can be difficult to find, or may be exaggerated by sales representatives.

Consumers need no-cost, non-commercial public education options to assist them with personal financial management issues. Consumers also have a responsibility to take advantage of those educational opportunities.

Healthy Environment

Though outside the scope of this project, there is an environmental impact for unnecessarily abandoned products that could be easily repaired instead of dumped. (Equiterre 2018)

Privacy

Use of electronic or online warranty keeping does expose consumers to some of the privacy and identity management risks commonly found with online commerce.

Conclusions

This research sought to evaluate how consumers decide whether to purchase extended protection on larger value household items. Attitudes and experiences were gathered through a survey of 2,000 Canadian consumers. The survey was informed by research into two other key elements of the market: the legislative environment, and the operational practices of market participants. The report's conclusions follow this structure – there are conclusions drawn from each of the three components: the survey, the legislation, and the market practices.

Survey Findings

1. *The important perceived benefit is convenience.*

The most important benefits for consumers who purchase extended protection appear to be related to convenience. Non-purchasers react most negatively about the costs of protection, and strongly believe that extended protections cannot be in their best interests. Purchase rates vary significantly by product category, peaking at 23% of major appliance purchases. About 30% of consumers have purchased extended protection on a major household durable in the past three years.

2. *Consumer disposition differentiates buyers from non-buyers.*

The key differentiator between those who purchase extended protection and those who do not appears to be the consumers themselves. Consumers who purchased protection on one product were about three times as likely to purchase protection on another product than the sample at large. This suggests that there is a type of consumer for whom protection is valued much more significantly. The survey included dozens of questions and statements to evaluate attitudes and product knowledge, to identify key differences between purchasers and non-purchasers. Results were mostly inconclusive. Demographic characteristics such as education, income and age provided minimal evidence about differences. Consumers who believe that durable products last longer than ever are *more* likely to purchase extended protection, a counter-intuitive result. The best “predictor” on whether a consumer will choose extended protection on a product is whether they bought protection on another product purchased.

The findings support some behavioural finance theories that postulate a regret-averse segment of the population exists that values extended protections most strongly, and makes more “felt” than “thought” decisions.

The price of the product, type of product, cost of protection and past experiences with claims also appear to influence the purchase decision.

There are other indications that the purchase decision is made without a lot of thought. The mode response to a question about decision timing was that consumers knew they would purchase extended protection when they purchased the item, although the majority indicated there was some evaluation of either contract language or a sales representative’s spiel. In

another question, 76% of purchasers agreed that there were some products for which they would always purchase extended protection.

3. Overall results suggests consumers are not well informed.

Asked to evaluate a number of statements about how extended protections worked, in general, consumers fared poorly. There was little awareness of the types of coverages typical included or excluded. The majority of participants agreed that the bankruptcy of a retailer such as Home Depot or Lowe's would leave their extended protection customers facing a situation similar to Sears customers. These customers should actually continue to be protected by the terms of their contract with a third-party provider.

There was a small negative relationship between product knowledge and protection purchase rates. Consumers that "never buy" protection generally demonstrated the highest levels of knowledge, while protection purchasers were more likely to believe (incorrectly) that extended protection generally covered accidental damage, fire damage and replacement items issued during the extended protection period. This creates a modest disincentive for merchants to improve feature disclosure, if better informed consumers are less inclined to buy.

4. About 25% of claims responses were reportedly unsatisfactory.

About half of protection purchasers had made a claim in the past five years, and about 75% of claims were resolved with little or no disruption to consumers. The balance (25%) reported an inconvenient or unsatisfactory resolution to their most recent claim. It is difficult to judge these results as either positive or negative, though overall satisfaction for product purchases was much higher (90%+). Common sources of dissatisfaction were the denial of claims, instances where coverages they believed to be in place based on sales discussions were not actually covered in the contract. Consumers who once purchased extended protections but no longer do reported higher incidences of all asked unsatisfactory experiences, indicating a link between claims resolution and future purchase decisions.

5. Low consumer awareness for the most part.

Awareness of legislated warranty protection was extremely low, except for Quebec residents. There was strong support for regulation of extended protection contracts, but no preference for regulation as an insurance product

versus regulation like other goods sold. There was strong support for consumers for the separation of prepaid funds from other assets in instances where vendors declare bankruptcy, the Sears scenario.

6. Consumers value extended protection by manufacturers most.

Overall consumer satisfaction with home durable purchases is quite strong. Consumers believe that the manufacturers warranty covers the most important period, and value extended protections from manufacturers more strongly than from retailers.

Legislation and Regulation Review

Canada's patchwork of regulation produces ambiguity and uncertainty. There is virtually no province-to-province consistency of how extended protections are covered. Provincial Sale of Goods Acts, Consumer Protection Acts and Insurance Acts can all be relevant in different circumstances. Three provinces define extended warranties as insurance, but each province has a number of exclusions that providers appear to follow to avoid the heavier regulatory scrutiny of offering actual insurance products to consumers. In some provinces, merchants can be as responsible for original defects as manufacturers.

One area in which the provinces are relatively consistent is that protection for individual consumers largely rests with the judicial system, in particular, small claims court. The costs of redress through these mechanisms,²⁴ combined with the asymmetry of individual consumers acting against larger corporations, likely blunts consumer enthusiasm for this avenue. Though 25% of claims have unsatisfactory conclusions, only 3% of protection purchasers seek any legal advice, and a similar amount report inquiries to regulators.

Quebec alone requires merchants to inform consumers about statutory warranty protections before the sale of extended protections, a requirement that produced significant results in the consumer survey. The lack of awareness of warranty protection from survey participants in other provinces is troubling. Protection is not effective if those being (theoretically) protected are unaware of its existence.

²⁴ Actual court costs may be considered low but when combined with the opportunity costs of lost wages and the emotional costs of preparation may be enough to dis-incent many lower value actions.

Some provinces offer a number of interpretation bulletins to improve understanding, but industry practitioners note the lack of case law. This collective ambiguity is reflected in a number of industry practices.

Practices Reflecting Regulatory Ambiguity

Here are two examples of how the ambiguity in provincial requirements manifests in operational practices:

1. The review of provincial exclusions in contracts provided by leading national retailers shows a lack of consistency. Apart from measures to name a licensed insurer as the contracted party in British Columbia, the different third-party providers (Assurant, Asurion, AMT, Comerco) include different language. This lack of harmony reflects the input these firms have received from legal firms who have helped design the contracts for Canadian consumers. If there was general agreement about the statutory requirements, the contracts would be more similar.
2. The unique language of the Assurant contracts (through Best Buy and Walmart) and AMT contracts appear to establish a direct relationship between the consumer and insurer. There is no statutory requirement for a CLIP, so this would suggest that some providers are importing a U.S. approach to the Canadian market, not because it is uniquely advantageous, but rather because U.S. practices are not inconsistent with Canadian requirements. Most other contracts appear to just bind the consumer to either the third-party provider (Asurion, etc.) or the retailer/manufacturer (Apple). The relative benefits of the two approaches remain untested. It may require a high-profile bankruptcy of a retailer, a third-party provider or insurer to test, similar to how Sears Canada's demise underscored the risks of the self-financed model.

Some provinces do warn of the possibility of third-party providers going out of business. A major retailer bankruptcy would mean that the third-party provider would no longer receive revenue from that retailer, while still having its service obligations. The default risks are diversified with third-party providers, but not eliminated. Theoretically, if the bankruptcy of a retailer such as Lowe's threatened the solvency of Assurant, Best Buy's consumers, also contracted with Assurant, could also be affected. The successful rescue of

Confederation Life's policyholders in the 1990s may give some hope that insurance regulation could provide some assistance in the potential bankruptcy of an insurer, but that was a major undertaking for a much more prominent financial institution.

The potential demise of Sears may lead to revised U.S. regulations on the self-financed, or other regulatory changes that may affect practices in Canada.

From the Review of Current Practices

The lack of competition at the point of sale allows merchants to engage in monopolistic pricing. Further, if retailers use extended protection sales to more competitively price the underlying products, then extended protection purchasers are effectively subsidizing product purchasers.

As a result, the conclusions of a number of U.S. studies (Baker and Siegelman, Pope et al) are to separate the purchase of the product from the purchase of extended protections. It is theoretically interesting, but full of practical challenges. It would certainly upset loyal Apple customers, for example, if they could not purchase extended AppleCare when they purchased their iPad, or could only do so in an Apple store, but not at a Best Buy. Retailers would likely point out that protection purchase rates would crater if consumers were not allowed to purchase protection simultaneous to the product. No doubt, some consumers prefer to buy the protection at the point of product sale for convenience.

Some studies recommend requiring in-store competition for extended protection. The Amazon model in which protection providers compete for customers at the point of sale could grow more popular. It is also likely that some consumers would not appreciate having to decide between multiple protection providers at the point of sale and prefer having a single option.

With the current practice, consumers can see the costs of protection but cannot measure the risks nor estimate the costs of repair (and may be systematically inclined to overstate those figures). In effect, the consumer pays a premium for the actuarial knowledge of a product's failure. Better disclosure of mean time to failure statistics would allow consumers to better assess the product's true costs, and allow consumers to plan or save with greater certainty for replacement.

It may also be that consumers buy extended protections because they perceive the costs of obtaining their legal rights under warranty are simply too high to pursue, whether measured in time or money.

The language in agreements may be reasonably good, but the presentation is not. The small print and thin fonts discourage reading and may contribute to some of the misunderstandings.

High-pressure sales tactics and misleading statements (“what if a hose breaks?”) can add to the misunderstandings. Survey results showed that 57% of purchasers had been persuaded to purchase extended protection by an effective retail salesperson.

The distinction between manufacturers and retailers can be difficult to parse. Sears owned and sold sub-brands such as Kenmore and Craftsman. Best Buy has its own Geek Squad brand. Apple does not make all the components in its products. It is difficult for consumers to enforce common law or civil code rights of warranty because it is difficult to identify the responsible party for a product or part failure and gain restitution.

There has been much consolidation among U.S. providers, perhaps a reaction to contractions in some market segments and a search for economies of scale. U.S. participants resisted descriptions of the industry as oligopolistic, but it’s unclear how fewer, larger U.S. providers would provide net benefit to Canadian consumers or re-shape the relationship with their retailer customers.

At the outset of this report, a number of questions were listed. Questions about purchase decisions, product knowledge and claims experience are answered above. Other questions are answered elsewhere in this report:

The survey findings show that 18% of protection purchasers agree they were more likely to purchase protections for online transactions, while 72% disagreed and 10% didn’t know.

Section VI includes an evaluation of the similarities and differences between contract language from numerous retailers.

Section V covers the legislative review, in Canada, the United States and in practice.

IX

Consumer Vision Statement

An ideal vision from a consumer's perspective of how extended protection might work.

I can learn about the terms of a manufacturer's warranty as part of considering and comfortably in advance of a product purchase from information that is easy to understand and access, and available across different information platforms. I can also learn about the features, benefits and costs of an extended protection plan from information that is similarly easy to understand, easy to access, and available across different information platforms. These products will be represented to me as being optional.

I can learn about the product and of any extended protection offered through online consumer reviews of both the product and the after-sales experiences with the extended protection. These reviews are accurate and trustworthy, and not tainted by merchant, manufacturer or service provider 'astroturf'.

I can view trustworthy product reliability statistics and reasonable product repair costs, also from trustworthy sources, to help me assess the risks and costs of product failure.

When I purchase a product, either in a store, or online I have a choice of protection plans from different providers, much as I have a choice of products. I understand that manufacturer-retailers have specialized product knowledge and are likely to have advantages in their extended protection offerings, but there still will be sufficient, accurate marketplace information about alternatives. I also understand that extended plans must complement and not overlap manufacturers' warranty coverage.

If I have not prepared myself for the purchase, the retailer will inform me of the basic warranty protections, as well as the important coverages and

exclusions in any extended protection contract. If this information is provided verbally by a sales representative, this information will match the information provided in the agreement.

I may choose to purchase the protection at the time the product is purchased, but also be allowed a period of time in which to reconsider my decision so long as I have not been awarded protection. I may also collect appropriate material, take it away, and consider whether to purchase extended protection while the manufacturers' warranty is in place.

If there is a problem during the manufacturer's warranty, I will know who to contact and how to make a claim.

If I choose to purchase extended protection, I will clearly understand the protections provided and the exclusions that are not covered. I will also understand:

- The effective start and end date of the extended protection
- Who is providing the service
- Where the service is provided
- How to initiate the service process
- Who is responsible for delivering the product to the service location
- Any additional costs that could be borne by me
- Expected repair times for most common problems
- The process for resolving any disputes about coverage or other limitations.

I may cancel the protection when I desire, and receive a refund of any payments made for unused future protection. Should I privately sell the protected product, I have the ability to transfer the protection to the purchaser. I have an obligation to inform the contracted service provider of this – who will make this easy for me to do – and provide proof of this to the new buyer.

I will know that the coverage provided will match the coverage contracted. At the outset of a service claim, I will be informed about how long a diagnosis may take, and how long the contracted repair or service may take.

I also will understand that the outcome may include being provided my choice of a comparable, if different, product, or a cash or equivalent as compensation, or any other arrangement set out in the contract or that I consider acceptable. I know that this resolution will occur in a timely manner to minimize the inconvenience to me.

I understand that if there is a dispute over the terms and conditions of coverage, that there is an economical, clear, impartially administered redress process, available at minimal costs to me. I know that my comments, feedback and complaints will be responded to, and can become part of a public record so that other purchasers can become aware of my experiences.

I am assured that personal data generated through this process is protected, and not shared without my fully informed consent.

X

Recommendations

How can regulators and market participants improve consumer experiences?

For Public Policy

The objective of this report was to determine how consumers feel about their decision to purchase extended protection on higher price household items. The recommendations that flow out of the conclusions found in Section VIII include general public policy issues as well as recommendations for retailers, service providers and consumers.

For policymakers, three recommendations found in other studies were broadly supported by findings in this project.

1. Consumers would benefit if extended protection purchase could be separated from product purchases. Because of practical implementation considerations, Baker and Siegelman suggest regulators create an online market where consumers could purchase extended warranties directly from providers, without retailer intervention, or that retailers at least be required to make providers compete for the retailer's business. The research findings support the view the margins are high and consumers have only one provider from which to choose in the retail environment.
2. Mandated warranty disclosure must be made as part of any extended protection sale. Quebec makes this a requirement, and the survey result shows that Quebec consumers are less likely to purchase extended protection, presumably because they are more aware of legislated warranty protections. Australia has similar measures.
3. Improve statutory warranty requirements, such as France's requirements that effectively require a two-year warranty on consumer

durables. Retailers and manufacturers might argue that this will increase prices, but it is not clear how consumers would be harmed in the aggregate by this measure. Greater protection may end up increasing demand, and it could more fairly spread protection costs among all consumers. Retail pricing may be more straightforward, and is two years truly an unreasonable expectation for a major appliance? It would likely lower extended protection use.

A more detailed evaluation of each of these propositions is supported by research findings. They are not mutually exclusive.

Legal experts who work with merchants in creating extended protection contracts noted the difficulties in interpreting provincial legislation. In particular, they noted the considerable differences between provinces, as noted by this project's own legislative review. Interpretation bulletins help, but there is still a patchwork of protections related to warranties, who can use the term "extended warranty", the relationship with insurance legislation, and how much responsibility merchants bear. The introduction of damage protection in some contracts lessens the distinction between extended protection and insurance. Provinces could add explicit language on the warranty of durability to consumer protection acts, though civil remedies might still be required. Co-ordinated efforts to harmonize requirements – perhaps through CMC – would benefit market participants, and likely consumers, in the long run.

In practice, many retailers have imported U.S. administrators, and with them, U.S. practices. Researchers lack the qualifications to evaluate the compatibility of these measures with Canadian laws. It is generally believed, but untested, that if a retailer that used a third-party provider were to declare bankruptcy, consumers would receive their contracted benefits through the provider. But if the provider were to declare bankruptcy, would consumer outcomes differ, depending on whether the underlying insurer was named in the contract (as done in some AMT and Assurant contracts) or if there was no insurer named and the consumer was contracted only with the provider (as done in Asurion and Comerco contracts)?

While the implications of a third-party provider declaring bankruptcy are only theoretical, the implications of a self-funded retailer declaring bankruptcy are now established, thanks to Sears. To U.S. industry participants,

the Sears situation²⁵ is one counter-example of a system that otherwise is working well, and one outcome of capitalism is that not all risks can be protected. If the U.S.-style protections (CLIPS, and certain liquidity requirements) are truly superior, Canadian policymakers should consider adopting them. The 40% reserve in trust for prepaid protection amounts outlined in the model U.S. legislation would have ensured that Sears Canada protection purchasers at least received \$0.40 for every \$1 spent on unused protection.

The project findings include a number of other issues worthy of public policy examination.

The reliance on civil courts likely discourages some consumers from pursuing redress to which they are entitled. Even small claims courts are costly, can be time-consuming, and the thought of making a claim against a larger corporation, with well-funded counsel, likely intimidates consumers. Some reports have indicated mediation services would be fairer to consumers.

Though consumers surveyed were evenly split on whether extended protection was like insurance, support for regulating extended warranties as insurance was very strong. Support for regulation on extended warranties similar to other products in Sale of Goods acts was equally strong, suggesting consumers favour regulation, but have no preferred flavour.

The publication of product reliability information (mean time to failure) and projected repair costs would also allow consumers to make better-informed decisions.

For Retailers

Retailers, including manufacturer-retailers, have two avenues for growth; they can attempt to gain more revenue from existing protection purchases, or they can attempt to turn protection non-purchasers into purchasers. The biggest barriers for non-purchasers are cost-related. Survey results suggest the most

²⁵ “Thousands of consumers who end up holding a bag of nothing, and that’s really bad. We feel for them.”

emphatic positions held by non-purchasers relate to the costs of extended protection exceeding its perceived benefits.

The research supports careful examination of two possibilities for retailers. The first is to allow competition at the point of sale. This would complicate transactions, and would certainly irritate consumers who prefer to keep things simple. Yet 68% of the overall sample expressed agreement with the statement: “I would be more inclined to purchase extended protection at a retailer if I had a choice of plans from which to choose.” Notably, 45% of the “never buy” group agreed with this, as did 60% of the “used to buy” consumers.

Depending on the elasticity of demand, in-store competition could result in greater sales and commissions to retailers and service providers, as well as choice and lower prices for consumers. There are points of differentiation between coverages that simply aren’t being competed on because of retailer exclusivity, and retailers benefit from monopolistic pricing policies.

The second issue that retailers could address is the significant blowback from unsatisfied customers. Survey results show that consumers who have a bad extended protection experience have more negative attitudes. Unsatisfied customers indicate they take multiple actions when frustrated by retailers through social media, changed purchase habits and sharing harsh private criticism with friends and family.

The main sources of dissatisfaction relate to contractual exclusions, incidents in which consumer believe they are protected but are not, based on incorrect assumptions, misleading sales staff and a failure to read contract terms. A simpler disclosure summary statement could more clearly articulate coverage inclusions and exclusions. It could also include simpler description of how claims start (because consumers routinely start with the retailer when that may not be proper), when coverage starts (from purchase date, or after manufacturer warranty expiration), who bears shipping costs, and conceivably even whether the coverage is being provided by the retailer or a third-party, to alleviate the Sears-style misunderstandings prevalent in this research. Many financial service products (certain loans, mutual funds) require special single-page disclosure and minimum font size presentation to improve consumer understanding, and reduce reliance on more complex legal documents.

There is a slight inverse relationship between product knowledge and extended protection purchases; merchants benefit from non-disclosure. However, there are many more non-purchasers than purchasers, and many of those non-purchasers were once purchasers who no longer purchase because of an unsatisfactory experience. Better articulation of coverages and exclusions and more careful disclosure by sales staff of protections should result in fewer disputes that antagonize lifetime customers.

Online retailers could add the ability for consumers to rate performance of the manufacturers' warranty and extended warranty to online review systems and encourage reviewers to periodically update to rate product durability and the quality of any warranty experience.

For Service Providers

The methodological approach for this report focused primarily on consumers and secondarily on retailers. There was not as much attention – or participation – from the third-party service providers.

Nonetheless, the survey results and evaluation of market trends allow for some relevant recommendations around client satisfaction and agents of change.

The overall client satisfaction rate of 75% on most recent extended protection claims could be viewed positively or negatively, depending on perspective. Compared to product satisfaction (roughly 93%), it is clear that there is considerable room for improvement.

The main source of client dissatisfaction appears to be misunderstandings related to coverage. Some of the retailer recommendations about improved disclosure and summary documents apply here. Retailers appear to simply publish contractual terms and conditions written by third-party providers. The perception of third-party providers not caring as much about the consumers was not tested, but the greater consumer support for manufacturer-sourced protections suggests that there is consumer doubt about the value provided by the third-party service companies. Again greater clarity about coverages could reduce these trust-harming misunderstandings.

Consumers strongly support multiple-providers at the point of sale. The cost of protection was cited as the top barrier by non-purchasers. Lower prices, either through lower retail commissions or lower costs to retailers, would benefit consumers. Prices are set by retailers.

There is an element of cost reduction and claim efficiency in some of the protection industry literature found in *Warranty Week* and elsewhere. The more substantial developments appear to be mergers and acquisitions, which suggest that economies of scale and diversification across product categories are a top priority. The introduction of damage protection to certain handheld or laptop devices also appears to be designed to meet client demand and secure additional revenue.

The likely continued growth of Internet sales should make contract terms more visible, and also allow for more competition on price, and coverages. Online registration of extended protection information should reduce the number of abandoned or forgotten contracts, also benefitting consumers.

For Consumers

A large portion of the misunderstandings consumers have about extended protection contracts could be addressed if they made a habit of reading the actual contract terms – specifically the exclusions – before signing them. In fact, consumers would benefit from considering the merits of extended protection alongside the product purchase decision. Extended protections differ, and the costs and coverages could make a meaningful difference in choices of brand or retailer when making a purchase. Contracts today may be structured quite differently than those of many years ago. Coverages for damage, shipping costs and replacement units vary between plans.

Online and crowdsourced product reviews can be a useful indicator of product quality. Developing similar resources for extended protection plans and claims would also be useful to consumers, though the inclusion of warranty and extended protection experiences seems likely to require the modification of existing systems for collecting and presenting online reviews of products.

Industry executives scoff at the likelihood of consumers making periodic contributions to savings for future repair needs but this could be more cost-effective for consumers financially capable of doing so. This could be part of regular budgeting. Funds set aside for repairs could become funds available for new purchases if repairs are not required.

A significant portion of consumers admit to buying protections and then forgetting they did so. Improved record-keeping and the use of tamper-proof online records of coverages obtained can reduce this risk.

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Appendices

Appendix A

Survey Script (English)

SCREENING QUESTIONS

Thank you for agreeing to participate in our online survey. Please be assured that all information you provide here will be kept entirely confidential. This survey will take approximately **10** minutes to complete and your opinions on the matter are highly appreciated!

Please proceed (or NEXT button)

DOB1. What is your year of birth?

Select one response

Select Year (drop down _1917 ... _2010)

If 18yrs+ continue, otherwise thank and terminate

37. What is your province of residence?

1. Newfoundland and Labrador [Allow English only]
2. Prince Edward Island [Allow English only]
3. Nova Scotia [Allow English only]
4. New Brunswick [Allow English or French language of interview selection]
5. Quebec [Allow English or French language of interview selection]
6. Ontario [Allow English or French language of interview selection]
7. Manitoba [Allow English or French language of interview selection]
8. Saskatchewan [Allow English only]
9. Alberta [Allow English only]
10. British Columbia [Allow English only]
11. Other

IF SELECTED A PROVINCE (CODES 01 - 10 AT Q.37) CONTINUE, OTHERWISE TERMINATE

J. Do you identify as male or female?

Select one response

Male 1
Female 2

Is anyone in your household employed in any of the following areas:

Select one response for each

Consumers and Product Insurance Purchase Decisions

<u>Randomize</u>		<u>Yes</u>	<u>No</u>
[]	The design of product warranty or extended warranty programs		
[]	The retail sale of consumer appliances or electronics		
[]	Insurance underwriting		
[]	The repair of household appliances or home electronics		
[]	Credit or debit card payments		
[]	Travel/Tourism		
[]	Real Estate		
[]	Healthcare		
[]	Telecommunications		
[]	Manufacturing		

IF SELECTED any code 1 – 4 terminate, OTHERWISE CONTINUE

Q00 Please indicate if you have purchased products (for household use, not for business use and motor vehicles should be excluded) valued individually at \$150 or more in any of the following product categories in the past three years?

Select all that apply

Randomize

- Major appliances - refrigerators, ovens, dishwasher, washer or dryer
- Personal computers - desktops, laptops, touchscreen pads
- Home entertainment - televisions, home theatre, stereo systems
- Smartphones / cellphones
- Tools, lawn equipment, barbecues, outdoor furniture
- Indoor furniture or carpet
- Other products not listed above such as jewelry, musical instruments, exercise equipment [SHOW 2ND LAST]
- None of the above [EXCLUSIVE - SHOW LAST]

IF SELECTED any codes 1 – 7 AT Q00 CONTINUE, OTHERWISE TERMINATE

continue TO SURVEY...

SECTION 1: EXTENDED WARRANTIES STUDY

GEN POP (18 YRS+) [N of 2000]

NATIONAL

Q1. For your most recent purchase in each of these categories, indicate your overall level of satisfaction with the product(s) purchased.

Select one response for each

Consumers and Product Insurance Purchase Decisions

	Strongly dissatisfied	Dissatisfied	Satisfied	Strongly satisfied
01 - Major appliances - refrigerators, ovens, dishwasher, washer or dryer [SHOW ONLY IF MENTIONED AT Q.00]				
02 - Personal computers - desktops, laptops, touchscreen pads [SHOW ONLY IF MENTIONED AT Q.00]				
03 - Home entertainment - televisions, home theatre, stereo systems [SHOW ONLY IF MENTIONED AT Q.00]				
04 - Smartphones / cellphones [SHOW ONLY IF MENTIONED AT Q.00]				
05 - Tools, lawn equipment, barbecues, outdoor furniture [SHOW ONLY IF MENTIONED AT Q.00]				
06 - Indoor furniture or carpet [SHOW ONLY IF MENTIONED AT Q.00]				
07 - Other products not listed above such as jewelry, musical instruments, exercise equipment [SHOW ONLY IF MENTIONED AT Q.00]				

Q2. For your **most recent** purchase in the category of [INSERT CATEGORY THAT APPLIES], was your purchase a replacement of an older or obsolete item? [PROGRAMMER: SHOW ONLY 1 COLUMN CATEGORY AT A TIME. ONLY SHOW CATEGORIES THAT ARE APPLICABLE]

Select one response

Consumers and Product Insurance Purchase Decisions

	01 - Major appliances - refrigerators, ovens, dishwasher, washer or dryer [SHOW ONLY IF MENTIONED AT Q.00]	02 - Personal computers - desktops, laptops, touchscreen pads [SHOW ONLY IF MENTIONED AT Q.00]	03 - Home entertainment - televisions, home theatre, stereo systems [SHOW ONLY IF MENTIONED AT Q.00]	04 - Smartphones / cellphones [SHOW ONLY IF MENTIONED AT Q.00]	05 - Tools, lawn equipment, barbecues, outdoor furniture [SHOW ONLY IF MENTIONED AT Q.00]	06 - Indoor furniture or carpet [SHOW ONLY IF MENTIONED AT Q.00]	07 - Other products not listed above such as jewelry, musical instruments, exercise equipment [SHOW ONLY IF MENTIONED AT Q.00]
Q.2i							
Yes, a replacement product [ASK Q.2ii AND Q.2iii]							
Not a replacement product [SKIP TO NEXT CATEGORY OR IF NO OTHER CATEGORY SKIP TO Q.3]							
[PROGRAMMER: SHOW Q.2ii AND Q.2iii ON THE SAME SCREEN WITH THE COLUMN HEADER AT THE TOP] ASK Q.2ii IF CODE 1 AT Q.2i							
<i>Was it the same brand or a different brand?</i> <i>Select one response</i>							
Same brand							
Different brand							
ASK Q.2iii IF CODE 1 AT Q.2i							
<i>Was it from the same retailer or a different retailer?</i> <i>Select one response</i>							
Same retailer							
Different retailer							
[PROGRAMMER: AFTER RESPONDENT ANSWERS Q.2iii FOR THIS CATEGORY, CONTINUE WITH Q.2i FROM NEXT CATEGORY SELECTED AT Q.00. IF NO ADDITIONAL CATEGORIES SELECTED AT Q.00 PLEASE CONTINUE TO Q.3]							

Q3. How well would you rate your overall knowledge of personal finance issues on a scale of '1' to '7'?
Select one response

Consumers and Product Insurance Purchase Decisions

Extremely Low						Extremely high
1	2	3	4	5	6	7

Q4. Products are usually sold with a warranty from the manufacturer that guarantees an acceptable level of performance for a certain period of time. Which of these statements best describes your treatment of manufacturer warranty information?

Select one response

Randomize

- I always read it and keep it. I have a place where I keep all warranty information.
- I always read it and sometimes keep it.
- I browse through it, but generally keep it.
- I browse through it and keep it only if I think I'll need it.
- I don't read it, but I do file it away.
- I don't read it, and I often don't remember if I've kept it or not.

Many of the following questions refer to “extended protections”. These are separate agreements that consumer can purchase to provide services and certain product guarantees beyond those covered by the manufacturer’s warranty when buying products. They can be known as “service contracts” or “protection plans” or “extended warranties” or “product care” or other terms, but they all involve the consumer paying extra amounts to protect against future loss of use of the product.

Survey questions use the term “extended protections”, but they refer to all of these offerings, no matter their specific title.

Q5. Here are some common consumer opinions and beliefs about products and extended protection. For each statement, indicate whether you strongly disagree, somewhat disagree, somewhat agree, strongly agree or don't know.

Select one response for each

- Strongly disagree
- Somewhat disagree
- Somewhat agree
- Strongly agree
- Don't know

Randomize list – show in carousel format

- Extended protection for products generally covers accidental damage.
- If the item I purchased breaks, and I am given a replacement item, the replacement item is also generally covered for the duration of the protection period.
- Extended protection covers the same things as manufacturer’s warranties, just for additional time.
- Home appliances and durable goods such as refrigerators and televisions don't last as long as they used to. [ASK SAMPLE GROUP A: 1000N]
- Home appliances, and durable goods such as televisions and lawnmowers are made to last longer than ever. [ASK SAMPLE GROUP B: 1000N]
- The cost of extended protection is an indication of product quality. If coverage is inexpensive compared to the product price, the product is probably very reliable.
- Extended protection for some technology isn't cost effective. After three years, it probably makes more sense to buy a new device than repair an old one.
- If Home Depot or Lowe’s were to go bankrupt like Sears Canada did, those who purchased extended protection would lose their coverage. [ASK SAMPLE GROUP A: 1000N]

Consumers and Product Insurance Purchase Decisions

- If Home Depot or Lowe’s were to go bankrupt like Sears Canada did, those who purchased extended protection would continue to be covered. [ASK SAMPLE GROUP B: 1000N]

Q6. For your most recent purchase in the category of [INSERT CATEGORY THAT APPLIES], please indicate whether you purchased extended protection. [PROGRAMMER: SHOW ONLY 1 COLUMN CATEGORY AT A TIME. ONLY SHOW CATEGORIES THAT ARE APPLICABLE]

Select one response

	01 - Major appliances - refrigerators, ovens, dishwasher, washer or dryer [SHOW ONLY IF MENTIONED AT Q.00]	02 - Personal computers - desktops, laptops, touchscreen pads [SHOW ONLY IF MENTIONED AT Q.00]	03 - Home entertainment - televisions, home theatre, stereo systems [SHOW ONLY IF MENTIONED AT Q.00]	04 - Smartphones / cellphones [SHOW ONLY IF MENTIONED AT Q.00]	05 - Tools, lawn equipment, barbecues, outdoor furniture [SHOW ONLY IF MENTIONED AT Q.00]	06 - Indoor furniture or carpet [SHOW ONLY IF MENTIONED AT Q.00]	07 - Other products not listed above such as jewelry, musical instruments, exercise equipment [SHOW ONLY IF MENTIONED AT Q.00]
Purchased							
Did not purchase							
Can't recall							

If yes to “smartphone/cellphone” go to Q6b, then SKIP TO Q9

If at least one other “yes”, SKIP to Q9

If no to all categories, SKIP to Q7

Q6b. [FOR SMARTPHONE/CELLPHONE PROTECTION PURCHASERS ONLY (CODE 1 AT Q.6 FOR SMARTPHONE /CELLPHONE); ASK:] From whom did you purchase the extended protection on your smartphone?

Select one response

- From manufacturer (Apple, Samsung, etc)
- From a retailer that is not the manufacturer (Best Buy, Costco, etc)
- From my network service provider that provides the phone as part of my plan (Telus, Bell Mobility, Rogers, etc.)
- Other
- I don't know

Q7. [IF NO PROTECTION PURCHASED IN PAST 3 YEARS (NO CODE 1 AT Q.6); ASK:] You indicated that you have not purchased extended protection in any of the product categories in the past three years. Which statement best captures your views on why this is?

Select one response

SPLIT SAMPLE INTO TWO SEQUENCES:

1) SHOW ORDER FROM ‘DON’T EVER BUY’ TO ‘I SOMETIMES PURCHASE’ (1-3)

2) SHOW ORDER FROM ‘I SOMETIMES PURCHASE’ TO ‘DON’T EVER BUY’ (3-1)

- I don't ever buy extended protections. [CONTINUE TO Q8, THEN SKIP Q 19]

Consumers and Product Insurance Purchase Decisions

- I used to purchase extended protections, but no longer do. [CONTINUE TO Q8, THEN SKIP Q 15]
- I sometimes purchase extended protections, just not on any of the listed item categories in this time period [SKIP TO Q9]

Q8. [IF NO PROTECTION PURCHASED IN PAST 3 YEARS (NO CODE 1 AT Q.6); ASK:] You indicated you do not purchase extended protection. For each of the statements below, indicate your level of agreement or disagreement.
Select one response for each

Consumers and Product Insurance Purchase Decisions

	Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree
I feel that I already have some protection through homeowner or property insurance				
I feel that I already have some protection through my credit card				
I feel that the manufacturer's warranty covers the most important period.				
The protection costs are too high compared to what it costs me to replace or repair the product.				
This coverage wouldn't be offered if it wasn't to the store's advantage. So it must be to my disadvantage.				
If a product stops working, I'm probably better off buying a replacement item.				

If responded "DON'T EVER BUY" AT Q7, SKIP to Q19.

If responded "used to BUY" AT Q7, SKIP to Q15.

Consumers and Product Insurance Purchase Decisions

Q9. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] You indicated that you have purchased extended protection in the past. When considering whether to purchase it or not, how strongly do you agree or disagree with the following statements?

Select one response for each

Consumers and Product Insurance Purchase Decisions

<u>Randomize</u>	Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree
The higher the price of the item, the more likely I am to purchase extended protection.				
I am more likely to purchase extended protection if I am concerned about the quality of the manufacturer.				
I like that I don't have to worry about finding parts and technicians with extended protection. I know who to call.				
The cost of extended protection is generally reasonable.				
There are some products for which I would always purchase extended protection.				
There are elements of protection such as telephone assistance, software support and troubleshooting that are important to my decision.				

Consumers and Product Insurance Purchase Decisions

Q10. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Which statement best corresponds with your typical experience with a contract for extended protection?

Select one response

- I knew I was going to purchase extended protection when I purchased the item.
- I read the contract's terms and conditions before deciding whether to purchase it.
- I browsed through the contract while a sales representative explained the key points.
- I asked a few questions with the sales representative, who handed me a brochure.
- I listened to what the sales representative said but didn't really read anything.
- I read the terms and conditions online before clicking to accept.
- I didn't read the terms online, I just clicked to accept.

Q11. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Which statement most accurately describes where your most recently purchased agreement is now?

Select one response

- I know exactly where it is at home.
- It could be in either one or two places.
- I have registered electronically, so I know it's stored online.
- I don't know about the contract, but I know the number to call and that's all that matters.
- I don't really know.

Q12. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] How many times in the past five years have you made a request for service on an extended protection plan you purchased? [PROGRAMMER: ALLOW A RANGE OF 0-20 ONLY]

Type numerical response below

Q13. [IF MADE A CLAIM IN PAST 5 YEARS (NO 'ZERO' AT Q12); ASK:] Thinking of your most recent claim for service under an extended protection program, with whom was the claim made?

Select one response

- The retailer
- The manufacturer
- A third-party service provider specified by the contract
- I'm not sure exactly, I just called an 1-800 number
- Other

Q14. [IF MADE A CLAIM IN PAST 5 YEARS (NO 'ZERO' AT Q12); ASK:] Which of the following statements best summarizes the outcome of your most recent claim for service in an extended protection program?

Select one response

- It was a perfect or nearly perfect experience.
- It was a positive experience. There was only minor inconvenience
- It was eventually resolved, but it was very inconvenient
- They tried, but it was not resolved to my satisfaction.
- I initiated the claim, but after learning about the process, elected not to pursue it.
- It is ongoing and not yet resolved
- My claim was denied (go to Q14a)

Q14a. [IF CLAIM DENIED AT Q.14, ASK:] Why was your claim denied?

Select the statement that most appropriately applies

- My coverage had expired.
- This particular problem was not eligible for coverage
- I no longer had the receipts to prove I was covered

Consumers and Product Insurance Purchase Decisions

- I was misled by the sales person... Something I was told was covered wasn't actually covered.
- Other (specify) _____

IF BUY PROTECTION OR SOMETIMES BUY PROTECTION OR USED TO BUY PROTECTION (ANY CODE 1 AT Q.6 OR CODE 2 or 3 AT Q.7) ; ASK Q.15 – q.18

Q15. Thinking about the past ten years, and not just the most recent claim or extended protection purchase, have any of these events happened to you? (Not under the manufacturer's warranty, but under the extended protection period.)

Select all that apply

- Those responsible for the repair of my product could not get the proper parts.
- Those responsible for the repair of my product could not find a qualified service technician near me.
- I inquired about a service claim, but was told that my particular situation was not covered.
- Parts and labour were covered for different durations, so I was still covered for one, but not the other.
- The sales person told me I would be covered, but it turns out I wasn't.
- I thought my product was protected against normal wear and tear,
- My particular problem was covered, but it proved difficult to fix and required multiple service visits and replacement components (or items)
- None of the above [EXCLUSIVE]

Q16. In the past ten years, have you taken any of these actions during or after a dispute regarding an extended protection contract?

Select all that apply

Randomize

- I have complained to the manufacturer even though I knew the manufacturer's warranty had expired.
- I complained to government consumer protection authorities.
- I complained to my province's insurance regulator.
- I sought legal action, or at least consulted a lawyer about alternatives.
- I used a public social media to express my displeasure and seek advice.
- I told friends and family never to buy from this manufacturer or retailer again.
- I have stopped using a particular retailer or manufacturer because they didn't fulfil what they promised.
- None of the above [EXCLUSIVE]

Q17. For each of the following statements, indicate whether you strongly disagree, somewhat disagree, somewhat agree, strongly agree or don't know.

Select one response for each

- Strongly disagree
- Somewhat disagree
- Somewhat agree
- Strongly agree
- Don't know

Randomize list – show in carousel format

- In general, extended protection will provide me coverage if my product is damaged in a fire.
- I have purchased extended coverage for a product and then forgotten I did so.
- If I sell something I own during the period of extended protection, I can generally transfer that protection as part of the transaction.
- I am more likely to purchase extended protection for items I purchase on line than in store.
- Extended protection is a factor in determining the brand of product I purchase.
- Extended protection is a factor in determining where I purchase products.
- I have been persuaded to purchase extended protection by a particularly effective salesperson at the retailer.

Q18. For each of the following statements, indicate whether you strongly disagree, somewhat disagree, somewhat agree or strongly agree.

Select one response for each

- Strongly disagree

Consumers and Product Insurance Purchase Decisions

- Somewhat disagree
- Somewhat agree
- Strongly agree

Randomize list – show in carousel format

- Manufacturers that offer their own extended protections (AppleCare, for example) make me more confident about the quality of their products.
- Retailers that establish their own service providers (Best Buy's Geek Squad, for example), make me more likely to shop there.
- I am aware whether the extended protection I buy is the responsibility of the merchant, the manufacturer or a third-party provider.
- If something goes wrong with a product for which I have purchased extended protection, I usually start by calling the retailer.
- Consumers are better off when extended protections are purchased from the product manufacturer than the retailer. [ASK SAMPLE GROUP A: 1000N]
- Consumers are better off when extended protections are purchased from the retailer than the manufacturer [ASK SAMPLE GROUP B: 1000N]

ASK ALL

Q19. The final set of statements concerns consumer attitudes towards products and protection. For each of the following statements, indicate whether you strongly disagree, somewhat disagree, somewhat agree, strongly agree or don't know.

Select one response for each

- Strongly disagree
- Somewhat disagree
- Somewhat agree
- Strongly agree
- Don't know

Randomize list – show in carousel format

- My province's consumer protection legislation provides for a warranty, even if the product does not come packaged with one.
- It makes sense to buy extended protection because it's like other insurance. It's a small price today to protect against a much larger loss/cost.
- Extended protection contracts are essentially insurance, and should be regulated the same way as other forms of insurance.
- Extended protection is part of a product purchase and should be regulated the same way as other retail transactions.
- Merchants only sell extended protection because it makes them more money. So it's not going to be to my advantage to buy it.
- I would be more inclined to purchase extended protection at a retailer if I had a choice of plans from which to choose.
- Money received from consumers for future service obligations should be set aside for that purpose and kept separate from other funds in case the vendor declares bankruptcy.
- I use Consumer Reports (Protegez Vous) and other resources to research extended protection coverages.

Continue with next section

DEMOS

ASK EVERYONE

Now, just a few final questions to help classify your responses...

Appendix B

Survey Script (French)

SCREENING QUESTIONS

Nous vous remercions d'avoir accepté de participer à notre sondage en ligne. Soyez assuré(e) que tous les renseignements recueillis ici resteront entièrement confidentiels. Il vous faudra environ **10** minutes pour répondre au sondage et vos opinions sont grandement appréciées!

Veuillez poursuivre (ou appuyer sur le bouton SUIVANT).

DOB1. Quelle est votre année de naissance?

Choisir une réponse.

Choisir l'année (drop down _1917 ... _2010)

If 18yrs+ continue, otherwise thank and terminate

37. Dans quelle province demeurez-vous?

1. Terre-Neuve-et-Labrador [Allow English only]
2. Île-du-Prince-Édouard [Allow English only]
3. Nouvelle-Écosse [Allow English only]
4. Nouveau-Brunswick [Allow English or French language of interview selection]
5. Québec [Allow English or French language of interview selection]
6. Ontario [Allow English or French language of interview selection]
7. Manitoba [Allow English or French language of interview selection]
8. Saskatchewan [Allow English only]
9. Alberta [Allow English only]
10. Colombie-Britannique [Allow English only]
11. Autre

IF SELECTED A PROVINCE (CODES 01 - 10 AT Q.37) CONTINUE, OTHERWISE TERMINATE

J. Vous identifiez-vous comme étant un homme ou une femme?

Choisir une réponse.

- Homme 1
Femme 2

IND. Est-ce qu'un membre de votre ménage travaille dans l'un des domaines suivants?

Choisir une réponse pour chacun.

Consumers and Product Insurance Purchase Decisions

<u>Randomize</u>		<u>Oui</u>	<u>Non</u>
[]	Élaboration de programmes de garanties de produits ou de garanties prolongées		
[]	Vente au détail d'appareils électroménagers ou d'appareils électroniques		
[]	Souscription d'assurance		
[]	Réparation d'appareils électroménagers ou d'appareils électroniques		
[]	Paieement par carte de crédit ou de débit		
[]	Voyage/tourisme		
[]	Immobilier		
[]	Soins de santé		
[]	Télécommunications		
[]	Fabrication		

IF SELECTED codes 5 – 10 CONTINUE, OTHERWISE TERMINATE

Q00 Veuillez indiquer si vous avez acheté des produits (pour un usage domestique seulement, et non pour un usage professionnel ou pour un véhicule automobile) évalués individuellement à 150 \$ ou plus dans l'une ou l'autre des catégories de produits suivantes au cours des trois dernières années?

Choisir toutes les réponses pertinentes.

Randomize

- Gros électroménagers - réfrigérateur, four, lave-vaisselle, laveuse ou sècheuse
- Ordinateurs personnels - ordinateur de bureau, ordinateur portable, tablette
- Divertissement à domicile - téléviseur, cinéma maison, système stéréo
- Téléphones intelligents, téléphones cellulaires
- Outils, équipement pour la pelouse, barbecues, mobilier d'extérieur
- Mobilier d'intérieur ou tapis
- Autres produits non énumérés ci-dessus, tels que des bijoux, des instruments de musique, de l'équipement d'exercice [SHOW 2nd LAST]
- Aucun des choix ci-dessus [EXCLUSIVE - SHOW LAST]

IF SELECTED ANY CODES 1 – 7 AT Q00 CONTINUE, OTHERWISE TERMINATE

continue TO SURVEY...

SECTION 1: ÉTUDE SUR LES GARANTIES PROLONGÉES

GEN POP (18 YRS+) [N of 2000]

NATIONAL

Consumers and Product Insurance Purchase Decisions

- Q1. Pour votre plus récent achat dans chacune de ces catégories, indiquez votre niveau global de satisfaction à l'égard du ou des produits achetés.
Choisir une réponse pour chacune.

	Totalement insatisfait(e)	Insatisfait(e)	Satisfait(e)	Entièrement satisfait(e)
01 - Gros électroménagers - réfrigérateur, four, lave-vaisselle, laveuse ou sècheuse [SHOW ONLY IF MENTIONED AT Q.00]				
02 - Ordinateurs personnels - ordinateur de bureau, ordinateur portable, tablette [SHOW ONLY IF MENTIONED AT Q.00]				
03 - Divertissement à domicile - téléviseur, cinéma maison, système stéréo [SHOW ONLY IF MENTIONED AT Q.00]				
04 - Téléphones intelligents, téléphones cellulaires [SHOW ONLY IF MENTIONED AT Q.00]				
05 - Outils, équipement pour la pelouse, barbecues, mobilier d'extérieur [SHOW ONLY IF MENTIONED AT Q.00]				
06 - Mobilier d'intérieur ou tapis [SHOW ONLY IF MENTIONED AT Q.00]				
07 - Autres produits non énumérés ci-dessus, tels que des bijoux, des instruments de musique, de l'équipement d'exercice [SHOW ONLY IF MENTIONED AT Q.00]				

- Q2. En ce qui concerne votre plus récent achat dans la catégorie [INSERT CATEGORY THAT APPLIES], était-ce pour remplacer un article qui était rendu trop vieux ou obsolète? [PROGRAMMER: SHOW ONLY 1 COLUMN CATEGORY AT A TIME. ONLY SHOW CATEGORIES THAT ARE APPLICABLE]
Choisir une réponse.

Consumers and Product Insurance Purchase Decisions

	01 - Gros électroménagers – réfrigérateur, four, lave-vaisselle, laveuse ou sècheuse [SHOW ONLY IF MENTIONED AT Q.00]	02 - Ordinateurs personnels - ordinateur de bureau, ordinateur portable, tablette [SHOW ONLY IF MENTIONED AT Q.00]	03 - Divertissement à domicile - téléviseur, cinéma maison, système stéréo [SHOW ONLY IF MENTIONED AT Q.00]	04 - Téléphones intelligents, téléphones cellulaires [SHOW ONLY IF MENTIONED AT Q.00]	05 - Outils, équipement pour la pelouse, barbecues, mobilier d'extérieur [SHOW ONLY IF MENTIONED AT Q.00]	06 - Mobilier d'intérieur ou tapis [SHOW ONLY IF MENTIONED AT Q.00]	07 - Autres produits non énumérés ci-dessus, tels que des bijoux, des instruments de musique, de l'équipement d'exercice [SHOW ONLY IF MENTIONED AT Q.00]
Q.2i							
Oui, c'était pour remplacer un article [ASK Q.2ii AND Q.2iii]							
Non, ce n'était pas pour remplacer un article [SKIP TO NEXT CATEGORY OR IF NO OTHER CATEGORY SKIP TO Q.3]							
[PROGRAMMER: SHOW Q.2ii AND Q.2iii ON THE SAME SCREEN WITH THE COLUMN HEADER AT THE TOP] ASK Q.2ii IF CODE 1 AT Q.2i							
<i>S'agissait-il de la même marque ou d'une autre marque?</i> <i>Choisir une réponse</i>							
M ê m e marque							
A u t r e marque							
ASK Q.2iii IF CODE 1 AT Q.2i							
<i>S'agissait-il du même détaillant ou d'un autre détaillant?</i> <i>Choisir une réponse</i>							
M ê m e détaillant							
A u t r e détaillant							
[PROGRAMMER: AFTER RESPONDENT ANSWERS Q.2iii FOR THIS CATEGORY, CONTINUE WITH Q.2i FROM NEXT CATEGORY SELECTED AT Q.00. IF NO ADDITIONAL CATEGORIES SELECTED AT Q.00 PLEASE CONTINUE TO Q.3]							

Consumers and Product Insurance Purchase Decisions

Q3. Sur une échelle de 1 à 7, comment évalueriez-vous vos connaissances générales lorsqu'il est question de finances personnelles?

Choisir une réponse.

Très mauvaises						Très bonnes
1	2	3	4	5	6	7

Q4. Les produits sont généralement vendus avec une garantie du fabricant qui assure un niveau de performance raisonnable pendant une certaine période. Lequel de ces énoncés décrit le mieux la façon dont vous vous intéressez à la garantie du fabricant?

Choisir une réponse.

Randomize

- Je la lis toujours et je la conserve. Je conserve toutes les informations relatives aux garanties au même endroit.
- Je la lis toujours et parfois, je la conserve.
- Je la parcours et en général, je la conserve.
- Je la parcours et je la conserve seulement si je pense que je vais en avoir besoin.
- Je ne la lis pas, mais je la conserve.
- Je ne la lis pas et souvent, je ne me souviens même pas si je l'ai conservée ou non.

Plusieurs des questions suivantes font référence aux « garanties prolongées ». Il s'agit de garanties distinctes que le consommateur peut acheter pour bénéficier de certains services et de certaines protections supplémentaires au-delà de celles qui sont offertes par la garantie du fabricant lors de l'achat de produits. Elles sont connues sous les termes « contrats de service », « plans de protection », « garanties prolongées », « entretien du produit » ou sous d'autres termes, mais elles impliquent toutes que le consommateur paie des montants supplémentaires pour se protéger en cas de perte d'usage du produit.

Dans ce sondage, le terme « garantie prolongée » est utilisé, mais il se rapporte à toutes ces formes de garantie, quelle que soit leur appellation.

Q5. Voici quelques opinions et croyances courantes des consommateurs au sujet des produits et des garanties prolongées. Veuillez indiquer si vous êtes tout à fait en désaccord, plutôt en désaccord, plutôt d'accord ou tout à fait d'accord avec chacun des énoncés suivants.

Choisir une réponse pour chacun.

- Tout à fait en désaccord
- Plutôt en désaccord
- Plutôt d'accord
- Tout à fait d'accord
- Je ne sais pas

Randomize list – show in carousel format

- La garantie prolongée couvre généralement les dommages accidentels.
- Si l'article que j'ai acheté se brise et qu'on me donne un autre article pour le remplacer, cet article est généralement couvert pendant toute la durée de la garantie.
- La garantie prolongée offre la même couverture que la garantie du fabricant, mais pour une période supplémentaire.

Consumers and Product Insurance Purchase Decisions

- Les appareils ménagers et les biens de consommation durables tels que les réfrigérateurs et les téléviseurs ne durent plus aussi longtemps qu'avant. [ASK SAMPLE GROUP A: 1000N]
- Les appareils ménagers et les biens de consommation durables tels que les téléviseurs et les tondeuses à gazon sont conçus pour durer plus longtemps qu'avant. [ASK SAMPLE GROUP B: 1000N]
- Le coût de la garantie prolongée est un bon indicateur de la qualité du produit. Si la garantie est peu coûteuse par rapport au prix du produit, le produit est probablement très fiable.
- La garantie prolongée pour certains produits technologiques n'est pas rentable. Après trois ans, il est probablement plus logique d'acheter un nouvel appareil que de réparer un vieux appareil.
- Si Home Depot ou Rona faisaient faillite comme Sears Canada, les garanties prolongées ne seraient plus honorées. [ASK SAMPLE GROUP A: 1000N]
- Si Home Depot ou Rona faisaient faillite comme Sears Canada, les garanties prolongées continueraient d'être honorées. [ASK SAMPLE GROUP B: 1000N]

Q6. Pour votre plus récent achat dans la catégorie [INSERT CATEGORY THAT APPLIES], veuillez indiquer si vous avez acheté une garantie prolongée. [PROGRAMMER: SHOW ONLY 1 COLUMN CATEGORY AT A TIME. ONLY SHOW CATEGORIES THAT ARE APPLICABLE]

Choisir une réponse.

	01 - Gros électroménagers - réfrigérateur, four, lave-vaisselle, laveuse ou sècheuse [SHOW ONLY IF MENTIONED AT Q.00]	02 - Ordinateurs personnels - ordinateur de bureau, ordinateur portable, tablette [SHOW ONLY IF MENTIONED AT Q.00]	03 - Divertissement à domicile - téléviseur, cinéma maison, système stéréo [SHOW ONLY IF MENTIONED AT Q.00]	04 - Téléphones intelligents, téléphones cellulaires [SHOW ONLY IF MENTIONED AT Q.00]	05 - Outils, équipement pour la pelouse, barbecues, mobilier d'extérieur [SHOW ONLY IF MENTIONED AT Q.00]	06 - Mobilier d'intérieur ou tapis [SHOW ONLY IF MENTIONED AT Q.00]	07 - Autres produits non énumérés ci-dessus, tels que des bijoux, des instruments de musique, de l'équipement d'exercice [SHOW ONLY IF MENTIONED AT Q.00]
J'ai acheté une garantie prolongée							
Je n'ai pas acheté de garantie prolongée							
Je ne me rappelle pas							

If yes to "smartphone/cellphone" go to Q6b, then SKIP TO Q9

If at least one other "yes", SKIP to Q9

If no to all categories, SKIP to Q7

Q6b. [FOR SMARTPHONE/CELLPHONE PROTECTION PURCHASERS ONLY (CODE 1 AT Q.6 FOR SMARTPHONE /CELLPHONE); ASK:] De qui avez-vous acheté la garantie prolongée pour votre téléphone intelligent?

Choisir une réponse.

- Du fabricant (Apple, Samsung, etc.)

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- D'un détaillant qui n'est pas le fabricant (Best Buy, Costco, etc.)
- De mon fournisseur de services réseau qui fournit le téléphone dans le cadre de mon forfait (Telus, Bell Mobilité, Rogers, etc.)
- Autre
- Je ne sais pas

Q7. [IF NO PROTECTION PURCHASED IN PAST 3 YEARS (NO CODE 1 AT Q.6); ASK:] Vous avez indiqué que vous n'avez pas acheté de garantie prolongée dans aucune des catégories de produits au cours des trois dernières années. Quel énoncé explique le mieux la raison de cette situation?

Choisir une réponse.

SPLIT SAMPLE INTO TWO SEQUENCES:

1) SHOW ORDER FROM 'DON'T EVER BUY' TO 'I SOMETIMES PURCHASE' (1-3)

2) SHOW ORDER FROM 'I SOMETIMES PURCHASE' TO 'DON'T EVER BUY' (3-1)

- Je n'achète jamais de garantie prolongée. [CONTINUE TO Q8, THEN SKIP Q 19]
- J'avais l'habitude d'acheter des garanties prolongées, mais je ne le fais plus. [CONTINUE TO Q8, THEN SKIP Q 15]
- J'achète parfois des garanties prolongées, mais pas pour les articles énumérés ci-dessus, ni dans cette période. [SKIP TO Q9]

Q8. [IF NO PROTECTION PURCHASED IN PAST 3 YEARS (NO CODE 1 AT Q.6); ASK:] Vous avez indiqué que vous n'achetez pas de garantie prolongée. Veuillez indiquer dans quelle mesure vous êtes d'accord ou en désaccord avec chacun des énoncés ci-dessous.

Choisir une réponse pour chacun.

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	Tout à fait en désaccord	Plutôt en désaccord	Plutôt d'accord	Tout à fait d'accord
Je pense que j'ai déjà une certaine protection avec mon assurance propriétaire ou mon assurance habitation				
Je pense que j'ai déjà une certaine protection avec ma carte de crédit				
Je pense que la garantie du fabricant couvre la période la plus importante				
Le coût des garanties est trop élevé par rapport à ce qu'il m'en coûterait pour remplacer ou réparer le produit				
Ces garanties ne seraient pas offertes si ce n'était pas profitable pour le magasin. Donc ce n'est probablement pas profitable pour moi				
Si un produit cesse de fonctionner, il vaut probablement mieux que j'achète un autre produit				

If responded "DON'T EVER BUY" AT Q7, SKIP to Q19.

If responded “used to BUY” AT Q7, SKIP to Q15.

Q9. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Vous avez indiqué que vous avez déjà acheté une garantie prolongée dans le passé. Lorsque vous envisagez d’acheter une garantie prolongée, dans quelle mesure êtes-vous d’accord ou en désaccord avec les énoncés suivants?

Choisir une réponse pour chacun.

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<u>Randomize</u>	Tout à fait en désaccord	Plutôt en désaccord	Plutôt d'accord	Tout à fait d'accord
Plus le prix de l'article est élevé, plus il est probable que j'achète une garantie prolongée				
Je suis plus susceptible d'acheter une garantie prolongée si je doute de la qualité du produit/fabricant				
J'aime le fait qu'avec une garantie prolongée, je n'ai pas à me soucier de trouver des pièces et des techniciens pour réparer mon produit. Je sais qui appeler si j'ai un problème				
Le coût de la garantie prolongée est généralement raisonnable				
Il y a certains produits pour lesquels j'achèterais toujours une garantie prolongée				
Il y a des éléments de protection tels que l'assistance téléphonique, l'assistance logicielle et le dépannage qui sont importants dans ma prise de décision				

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Q10 [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Quel énoncé correspond le mieux à votre expérience d'achat d'une garantie prolongée?

Choisir une réponse.

- Je savais que j'allais acheter une garantie prolongée lorsque j'ai acheté l'article.
- J'ai lu les modalités du contrat avant de décider si j'allais acheter la garantie ou non.
- J'ai parcouru le contrat pendant qu'un vendeur m'expliquait les points importants.
- J'ai posé quelques questions au vendeur, et il m'a remis une brochure.
- J'ai écouté ce que le vendeur m'a dit, mais je n'ai pas vraiment lu quoi que ce soit.
- J'ai lu les modalités en ligne avant de cliquer sur « accepter ».
- Je n'ai pas lu les modalités en ligne, mais j'ai cliqué sur « accepter ».

Q11. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Quel énoncé décrit le mieux où est rangé votre plus récent contrat d'achat?

Choisir une réponse.

- Je sais exactement où il est rangé dans la maison.
- Il pourrait être rangé à plusieurs endroits.
- Je me suis inscrit(e) de façon électronique, donc je sais qu'il est stocké en ligne.
- Je ne sais pas où est le contrat, mais je connais le numéro à composer si j'ai un problème, et c'est tout ce qui compte.
- Je ne sais pas vraiment.

Q12. [IF HAVE PURCHASED PROTECTION IN PAST 3 YEARS (ANY CODE 1 AT Q.6) OR SOMETIMES PURCHASE PROTECTION (CODE 3 AT Q.7); ASK:] Au cours des cinq dernières années, combien de fois avez-vous fait une demande de service dans le cadre d'une garantie prolongée que vous aviez achetée? [PROGRAMMER: ALLOW A RANGE OF 0-20 ONLY]

Indiquer une réponse numérique ci-dessous.

Q13. [IF MADE A CLAIM IN PAST 5 YEARS (NO 'ZERO' AT Q12); ASK:] En pensant à votre plus récente demande de service dans le cadre d'une garantie prolongée, à qui la demande a-t-elle été faite?

Choisir une réponse.

- Au détaillant
- Au fabricant
- À un autre fournisseur de services spécifié dans le contrat
- Je ne sais pas exactement, j'ai seulement appelé à un numéro 1-800
- Autre

Q14. [IF MADE A CLAIM IN PAST 5 YEARS (NO 'ZERO' AT Q12); ASK:] Lequel des énoncés suivants résume le mieux l'issue de votre plus récente demande de service dans le cadre d'une garantie prolongée?

Choisir une réponse.

- Ce fut une expérience parfaite ou presque parfaite.
- Ce fut une expérience positive. Il n'y a eu que quelques petits inconvénients.
- Mon problème a finalement été résolu, mais ce fut très compliqué.
- Ils ont essayé de régler le problème, mais je ne suis pas satisfait(e).
- J'ai fait la demande de service, mais après avoir pris connaissance de la procédure, j'ai choisi de ne pas aller plus loin.
- Le problème est toujours présent; il n'a pas été résolu
- Ma demande a été refusée (go to Q14a)

Q14a. [IF CLAIM DENIED AT Q.14, ASK:] Pourquoi votre demande a-t-elle été refusée?

Choisir l'énoncé qui s'applique le mieux.

- Ma garantie était expirée
- Le problème n'était pas couvert
- Je n'avais plus les reçus pour prouver que le problème était couvert

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- J'ai été induit(e) en erreur par le vendeur... On m'a dit que quelque chose était couvert alors qu'en fait, ça ne l'était pas
- Autre (précisez) _____

IF BUY PROTECTION OR SOMETIMES BUY PROTECTION OR USED TO BUY PROTECTION (ANY CODE 1 AT Q.6 OR CODE 2 or 3 AT Q.7) ; ASK Q.15 – q.18

Q15. En pensant aux dix dernières années, et pas seulement à la plus récente demande de service ou au plus récent achat d'une garantie prolongée, est-ce que l'un de ces événements vous est déjà arrivé? (Dans le cadre de la garantie prolongée, et non de la garantie du fabricant)

Choisir toutes les réponses pertinentes.

- Les personnes responsables de la réparation de mon produit n'ont pas pu obtenir les pièces nécessaires.
- Les personnes responsables de la réparation de mon produit n'ont pas pu trouver un technicien qualifié près de chez moi.
- Je me suis renseigné(e) au sujet d'une demande de service, mais on m'a dit que ma situation particulière n'était pas couverte.
- Les pièces et la main-d'œuvre étaient couvertes pour des durées différentes, donc l'un des éléments était toujours couvert, mais l'autre non.
- Le vendeur m'a dit qu'un élément en particulier serait couvert, mais il s'avère qu'il ne l'était pas.
- Je pensais que mon produit était protégé contre l'usure normale.
- Mon problème était couvert, mais il s'est avéré difficile à résoudre et a nécessité plusieurs visites de service et plusieurs pièces (ou articles) de rechange
- Aucun des choix ci-dessus [EXCLUSIVE]

Q16. Au cours des dix dernières années, avez-vous pris l'une ou l'autre de ces mesures pendant ou après un litige concernant un contrat de garantie prolongée?

Choisir toutes les réponses pertinentes.

Randomize

- Je me suis plaint(e) au fabricant même si je savais que la garantie du fabricant avait expiré.
- Je me suis plaint(e) aux autorités gouvernementales de protection des consommateurs.
- Je me suis plaint(e) à l'organisme de réglementation des assurances de ma province.
- J'ai entamé des procédures judiciaires, ou du moins consulté un avocat pour connaître les recours possibles.
- J'ai utilisé les médias sociaux pour exprimer mon mécontentement et demander conseil.
- J'ai dit à mes amis et à ma famille de ne plus jamais acheter de produit chez ce fabricant ou ce détaillant.
- J'ai cessé d'acheter des produits d'un détaillant ou d'un fabricant en particulier parce qu'ils n'avaient pas tenu leurs promesses.
- Aucun des choix ci-dessus [EXCLUSIVE]

Q17. Veuillez indiquer si vous êtes tout à fait en désaccord, plutôt en désaccord, plutôt d'accord ou tout à fait d'accord avec chacun des énoncés suivants, ou si vous ne le savez pas.

Choisir une réponse pour chacun.

- Tout à fait en désaccord
- Plutôt en désaccord
- Plutôt d'accord
- Tout à fait d'accord
- Je ne sais pas

Randomize list – show in carousel format

- En général, une garantie prolongée me fournira une couverture si mon produit est endommagé lors d'un incendie.
- J'ai déjà acheté une garantie prolongée pour un produit pour ensuite oublier que j'en avais acheté une.
- Si je vends un de mes biens qui est encore couvert par une garantie prolongée, je peux généralement transférer cette garantie dans le cadre de la transaction.

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- Je suis plus susceptible d'acheter une garantie prolongée pour des articles que j'achète en ligne plutôt qu'en magasin.
- La garantie prolongée est un facteur déterminant pour choisir la marque des produits que j'achète.
- La garantie prolongée est un facteur déterminant pour choisir l'endroit où j'achète mes produits.
- Je me suis déjà laissé convaincre d'acheter une garantie prolongée par un vendeur particulièrement persuasif.

Q18 Veuillez indiquer si vous êtes tout à fait en désaccord, plutôt en désaccord, plutôt d'accord ou tout à fait d'accord avec chacun des énoncés suivants.

Choisir une réponse pour chacun.

- Tout à fait en désaccord
- Plutôt en désaccord
- Plutôt d'accord
- Tout à fait d'accord

Randomize list – show in carousel format

- Je fais plus confiance à la qualité des produits des fabricants qui offrent leurs propres garanties prolongées (AppleCare, par exemple).
- Je suis plus susceptible d'aller magasiner chez des détaillants qui font affaire avec leurs propres fournisseurs de services (la Geek Squad de Best Buy, par exemple).
- Je sais si la garantie prolongée que j'achète relève de la responsabilité du commerçant, du fabricant ou d'un autre fournisseur.
- S'il y a un problème avec un produit pour lequel j'ai acheté une garantie prolongée, je commence habituellement par appeler le détaillant.
- Les consommateurs devraient acheter les garanties prolongées auprès du fabricant du produit plutôt qu'auprès du détaillant. [ASK SAMPLE GROUP A: 1000N]
- Les consommateurs devraient acheter les garanties prolongées auprès du détaillant plutôt qu'auprès du fabricant du produit. [ASK SAMPLE GROUP B: 1000N]

ASK ALL

Q19. La dernière série d'énoncés concerne les attitudes des consommateurs à l'égard des produits et des garanties. Veuillez indiquer si vous êtes tout à fait en désaccord, plutôt en désaccord, plutôt d'accord ou tout à fait d'accord avec chacun des énoncés suivants, ou si vous ne le savez pas.

Choisir une réponse pour chacun.

- Tout à fait en désaccord
- Plutôt en désaccord
- Plutôt d'accord
- Tout à fait d'accord
- Je ne sais pas

Randomize list – show in carousel format

- La législation de ma province en matière de protection des consommateurs prévoit une garantie, même si le produit ne s'accompagne pas d'une telle garantie.
- Il est logique d'acheter des garanties prolongées parce qu'elles agissent au même titre que les autres assurances. On paie un petit montant d'argent aujourd'hui pour se protéger contre une perte/un coût beaucoup plus élevé plus tard.
- Les contrats de garantie prolongée sont essentiellement des contrats d'assurance et devraient être réglementés de la même manière que les autres types d'assurance.
- Les garanties prolongées font partie intégrante de l'achat d'un produit et devraient être réglementées de la même manière que les autres transactions de détail.
- Les commerçants vendent des garanties prolongées seulement parce qu'elles leur permettent de faire plus d'argent. Donc ce n'est pas à mon avantage de les prendre.
- Je serais plus susceptible d'acheter une garantie prolongée chez un détaillant si j'avais le choix entre plusieurs plans de protection.
- L'argent déboursé par les consommateurs pour de futures demandes de service devrait être mis de côté à cette fin seulement et être conservé dans des fonds spécifiques au cas où le vendeur ferait faillite.

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- Je consulte Consumer Reports, Protégez-Vous et d'autres ressources pour m'informer des couvertures de garanties prolongées.

Continue with next section

DEMOS

ASK EVERYONE

Finalement, nous aurions quelques questions à vous poser pour nous aider à classer vos réponses.

Appendix C

Full Survey Results

Section VII of the report contains the highlights of the consumer survey for the purposes of this report. This Appendix details the complete survey results, along with some other observations, highlights and analysis. The full “script” of the survey is in Appendix A.

The survey was conducted online through the services of Environics Canada. The surveys were completed from May 10 to 23, 2018. A total of 2,000 respondents aged 18+ were interviewed using an online methodology. As this study is a non-probability sample, the policy of the MRIA (the governing body for the market research industry in Canada) is that the margin of error should not be cited. Participating panelists are recruited through thousands of web sites.

Consumers were asked a number of questions about their purchases of large-value household items and extended protections, as well as their knowledge and attitudes toward extended protections. Consumers who had an immediate family member employed in the design of product warranty or extended warranty programs, the retail sale of appliances or electronics and insurance underwriting were excluded. The questionnaire consisted of 21 questions in total, but certain questions were eliminated based on answers to earlier questions. Most participants answered 10 to 15 questions. It was designed to take approximately 10 minutes to complete. A French-language version was prepared through the translation services of Environics to use with French-speaking consumers.

After some initial demographic and exclusion questions, consumers were asked whether they had made a purchase of a large value (\$150 or more) consumer durable in the most recent three years, excluding motor vehicles and items for business use. Consumers who had not made such a purchase were also excluded from the survey.

From this point, participants were asked a few questions about their most recent product purchase in each category, their overall level of satisfaction, some questions about manufacturer and retailer loyalty and their attitudes towards manufacturers warranties. These questions were asked before any questions about extended protections, to reduce the bias of results.

Then participants were sub-divided into four categories:

A) those who had bought extended protection on at least one recent purchase

B) those who had not purchased extended protection recently, but sometimes did so

C) those who had formerly purchased extended protection but no longer do so

D) those who had never purchased extended protection.

Participants in each category were asked specific questions to learn about what factors led them to make this choice.

Consumers who purchase extended protections (groups A and B) were asked about their experiences with any claims for service.

The survey finished with some questions about protection purchaser preferences, product knowledge, relationships with merchants and manufacturers and possible future industry developments.

Here are the question-by-question results, followed by demographic overlays and then an examination of some of the interesting interrelationships between questions:

Table 14

Consumer Purchases

Q: Have you purchased products for household use, not business use valued individually at \$150 or more in this product category in the past three years?

Product	Purchased %
Smartphones/cellphones	68
Personal computers - desktops, laptops, touchscreen pads	58
Tools, lawn equipment, barbecue, outdoor furniture	43
Indoor furniture or carpet	41
Home entertainment - televisions, home theatre, stereo	41
Major appliances - refrigerators, ovens, washer or dryer	39
Other products - jewelry, musical instruments, exercise equipment	31

Note: 2,000 respondents

Seven different product categories were identified, tested and used throughout the survey. Environics representatives counselled that respondent tolerance and accuracy decreases with the number of categories within a question. The “other” category was used to amalgamate atypical purchases for which extended protection was theoretically available into a single category.

For subsequent questions, participants were only asked about the specific product categories for which they had made purchases. The first question was about satisfaction with their most recent purchase.

Table 9

Most Recent Product Purchase Satisfaction

Q: For your most recent purchase in each category, indicate your overall level of satisfaction.

Product Category	Strongly Satisfied %	Satisfied %	Dissatisfied %	Strongly Dissatisfied %
Major appliances - refrigerators, ovens, washer or dryer	35	59	4	2
Personal computers - desktops, laptops, touchscreen pads	41	53	4	2
Home entertainment - televisions, home theatre, stereo	45	51	3	1
Smartphones/cellphones	40	53	5	2
Tools, lawn equipment, barbecue, outdoor furniture	35	60	4	1
Indoor furniture or carpet	37	58	4	2
Other products - jewelry, musical instruments, exercise equipment	37	60	3	1

Note: 2,000 respondents

There is very little difference in satisfaction across products. Extended protection advocates sometimes cite that purchasers enjoy greater product satisfaction. This question allowed researchers to examine the same question.

Similarly, there were U.S. surveys that found protection purchasers had greater loyalty to merchants and manufacturers on the purchase of replacement goods. To test that, participants were first asked if the goods purchased were new purchases or a replacement for an older item.

Table 15

Replacement Purchases versus New Purchases

Q: For your most recent purchase in each category, was your purchase a replacement of an older item, or an item you had not previously owned?

Product Category	Replacement %	New Item %
Major appliances - refrigerators, ovens, washer or dryer	84	16
Personal computers - desktops, laptops, touchscreen pads	75	25
Home entertainment - televisions, home theatre, stereo	61	39
Smartphones/cellphones	88	12
Tools, lawn equipment, barbecue, outdoor furniture	49	51
Indoor furniture or carpet	51	49
Other products - jewelry, musical instruments, exercise equipment	14	86

Note: Number of respondents in each category varies

The vast majority of products purchased were “replacements”. Then for replacement items, participants were asked whether the same brand was purchased, and whether the item was purchased from the same retailer.

Table 10

Replacement Product Brand and Retailer Choice

Q: For replacement products purchased, did you choose the same brand or different brand? Did you choose the same retailer or different retailer?

Product	Same Brand %	Different Brand %	Same Retailer %	Different Retailer %
Major appliances - refrigerators, ovens, washer or dryer	20	80	21	79
Personal computers - desktops, laptops, touchscreen pads	42	58	39	61
Home entertainment - televisions, home theatre, stereo	26	74	26	74
Smartphones/cellphones	68	32	63	37
Tools, lawn equipment, barbecue, outdoor furniture	17	83	27	73
Indoor furniture or carpet	11	89	20	80
Other products - jewelry, musical instruments, exercise equipment	33	67	28	78

Note: Number of respondents in each category varies

There appears to be a relationship between both brand and retailer loyalty. Participants were most loyal to both for their telephones and personal computing products, and least loyal on furniture and carpet purchases.

Participants were next asked to self-assess their knowledge of personal finance, on a scale of 1 (extremely low) to 7 (extremely high).

Table 16

Self-Assessed Financial Knowledge

Q: On a scale of 1 to 7, how would you assess your overall knowledge of personal finance issues?

Rating	%
7 (Extremely High)	15
6	30
5	34
4	14
3	4
2	2
1 (Extremely Low)	1

The main purpose of this question was also to evaluate whether answers to other questions differed based on this self-assessed knowledge. It is interesting to note that illusory superiority – the phenomenon that leads almost all drivers or university professors or employees to think they are above average – applies to Canadian consumers as well.

The next question was about consumer attitudes related to manufacturers' warranties.

Table 17

Manufacturers Warranty Information

Q: Which of these statements best describes your treatment of manufacturers warranty information?

Statement	%
I always read it and keep it. I have a place where I keep all warranty information	33
I always read it and sometimes keep it	5
I browse through it and generally keep it	26
I browse through it and keep it only if I think I'll need it	10
I don't read it but I do file it away	21
I don't read it, and I often don't remember if I've kept it or not	5

Note: 2,000 respondents

This too was a question with a comparative aspect in mind: whether consumers treated extended warranties differently than manufacturers' warranties.

The next question introduced the concept of "extended protections". The purpose was to gather some initial data about consumer knowledge and attitudes before asking more specific questions about use. It was introduced with this description:

These are separate agreements that consumer can purchase to provide services and certain product guarantees beyond those covered by the manufacturer's warranty when buying products. They can be known as "service contracts" or "protection plans" or "extended warranties" or "product care" or other terms, but they all involve the consumer paying extra amounts to protect against future loss of use of the product.

Participants were asked to evaluate their level of agreement with seven statements.

Table 18

Initial Consumer Views on Extended Protections

Q: For each statement about extended protection, indicate whether you agree, disagree or don't know.

Statement	Strongly Agree %	Somewhat Agree %	Somewhat Disagree %	Strongly Disagree %	Don't Know %
A. Extended protection for products generally covers accidental damage.	9	26	34	19	12
B. If an Item I purchased breaks and I am given a replacement, the replacement item is also generally covered for the duration of the protection period.	26	38	13	7	16
C. Extended protection covers the same things as manufacturers warranties, just for additional time.	25	43	20	5	7
D. Home appliances and durable goods don't last as long as they used to.	56	27	10	2	5
E. Home appliances and durable goods are made to last longer than ever.	8	22	34	33	3
F. The cost of extended protection is an indication of product quality. If coverage is inexpensive compared to the product price, the product is probably very reliable.	11	35	28	14	12
G. Extended protection for some technology isn't cost effective. After three years, it probably makes more sense to buy a new device than repair an old one.	45	42	8	3	2
H. If Home Depot or Lowe's were to go bankrupt like Sears Canada did, those who purchased extended protection would lose their coverage.	30	31	15	5	20
I. If Home Depot or Lowe's were to go bankrupt like Sears Canada did, those who purchased extended protection would continue to be covered	10	21	28	21	21

Note: 2,000 Respondents

This question used split statements in two instances. Participants were asked either statement D or statement E, but not both, and also statement H or statement I, but not both. This was an attempt to reduce the bias that might have been caused by using just one specific wording. The results indicate that participants did show an affirmation bias towards agreement. Statements D and E are almost exactly contradictory. Yet, the results do not reflect that. Participant responses to the negatively worded “home appliances and durable goods don’t last as long as they used to” received 83/12/5 response (agree/disagree/don’t know), with a significant portion (56%) strongly agreeing, while the positively worded “home appliances and durable goods are made to last longer than ever” received a 30/67/3 response and the negative sentiment was much less emphatic.

Two contradictory statements (H and I) about the outcomes of consumers who purchased extended protections from a major national retailer should the retailer declare bankruptcy showed a similar contradictory effect.

Statements A, B, C and H/I were forms of product knowledge in that there was an objectively “correct” or “incorrect” response. In the first three, the “correct” response would be a disagreement. There are exceptions of course, but most agreements do not cover accidental damage, replacement units or exactly match manufacturers’ warranties. While Sears Canada self-financed its extended protections, both Lowe’s and Home Depot use third-party protection and extended protection purchasers should continue to be entitled to contracted protections if the retailer went bankrupt.

The majority of respondents supported incorrect views on three of the four questions, and even in the fourth, more than one-third agreed with an incorrect statement.

From the attitudinal questions, there was strong support overall that durable goods were declining in quality, and strong agreement that there were some products for which extended protection made little sense because it would make more sense to buy a new product instead of repairing an old one. Support for a statement that examined an inverse relationship between protection price and item cost (F) was mixed.

For each category in which they had indicated a recent purchase, participants were then asked about their extended protection decision.

Table 2

Extended Protection Purchase Decision

Q: For your most recent purchase in each category, indicate whether you purchased extended protection.

Product Category	Purchased %	Did Not Purchase %	Can't Recall %
Major appliances - refrigerators, ovens, washer or dryer	23	72	5
Personal computers - desktops, laptops, touchscreen pads	18	79	3
Home entertainment - televisions, home theatre, stereo	16	81	4
Smartphones/cellphones	21	77	3
Tools, lawn equipment, barbecue, outdoor furniture	4	92	3
Indoor furniture or carpet	10	88	2
Other products - jewelry, musical instruments, exercise equipment	8	90	2

Note: 2,000 respondents, but varies for product categories.

The ordinality of product types matches U.S. figures, (phones, computers and appliances lead the way) but the absolute levels are slightly lower than what researchers expected. Retailers and third-party providers have figures based on actual data. Approximately 30% of the sample (597 of 2000 respondents) purchased protection on at least one product in the past three years.

Phone protection purchasers were asked from whom they purchased the protection.

Table 19

Cellphone / Smartphone Protection Location	
Q: From whom did you purchase the extended protection on your cellphone / smartphone?	
Location	%
From manufacturer (Apple, Samsung etc)	46
From my network service provider that provides the phone as part of my plan (Telus, Bell Mobility, Rogers etc)	27
From a retailer that is not the manufacturer (Costco, Best Buy etc)	26
Other	0
I don't know	1

Note: 281 respondents

The 1,403 participants that had not purchased protection recently were then asked a qualifying question for categorization. This question was used to route a number of followup questions.

Table 4

Categories of Non-Purchasers	
Q: (Asked only of consumers who have not purchased extended protection recently) Which statement best captures your views on why this is?	
Statement	%
I don't ever buy extended protections	52
I used to purchase extended protections, but no longer do	22
I sometimes purchase extended protections, just not on any of the listed item categories in this time period.	26

Note: 1,403 respondents

These results allow groupings of the 2,000 participants into four groups:

- Have purchased protection recently 597
- Sometimes purchase protection 358
- Used to purchase it, but no longer do 312

- Never buy it, never will

733

Questions about recent purchases and experiences are restricted to the first group. Questions about current practices can be given to the first two groups. Questions about past experiences can be given to the first three groups. The final group is excluded for most of the balance of the survey, except for another general consumer attitude question at the end.

First, however, non-purchasers (groups 3 and 4 above) were asked about some attitudes related to their non-purchase of protections.

Table 5

Attitudes of Consumers that do not Purchase Extended Protection				
Q: (Asked only of non purchasers) For each statement, indicate your level of agreement or disagreement.				
Statement	Strongly Agree %	Somewhat Agree %	Somewhat Disagree %	Strongly Disagree %
A. I feel that I already have some protection through homeowners insurance	5	44	29	22
B. I feel that I already have some protection through my credit card	14	46	25	15
C. I feel that the manufacturer’s warranty covers the most important period.	25	61	11	3
D. The protection costs are too high compared to what it costs me to replace or repair the product.	41	49	8	2
E. This coverage wouldn’t be offered if it wasn’t to the store’s advantage. So it must be to my disadvantage.	34	49	15	3
F. If a product stops working, I’m probably better off buying a replacement item.	21	57	19	2

Note: 1,045 respondents

The most strongly supported reason for non-purchase is price, the assertion that protection costs are too high compared to the costs of repairing or replacing an item. A more cynically worded variation of that rationale

(Statement E) is also strongly supported. The notion that extended protections are declined because of other protections are the least supported statements tested.

Protection purchasers were asked to evaluate six commonly cited reasons to purchase.

Table 3

Attitudes of Protection Purchasers

Q: Asked only of extended protection purchasers. When considering whether to purchase extended protection, how strongly do you agree or disagree with the following statements?

Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %
A. The higher the price of the item, the more likely I am to purchase extended protection.	18	55	22	4
B. I am more likely to purchase extended protection if I am concerned about the quality of the manufacturer.	10	45	34	10
C. I like that I don't have to worry about finding parts and technicians with extended protection. I know who to call.	23	61	13	4
D. The cost of extended protection is generally reasonable.	6	44	40	10
E. There are some products for which I would always purchase extended protection.	23	53	19	5
F. There are elements of protection such as telephone assistance, software support and troubleshooting that are important to my decision.	10	51	29	10

Note: 955 respondents

Those who purchase protections appear to value statement C about convenience most strongly, followed by statements E and A, which relate to more “automatic” purchases, either because of the nature of the product or its price. The price of protection is the least attractive element of the six tested

with purchasers. Purchases seem to be made despite the price, rather than because of the price.

Protection purchasers were then asked about their decision-making process, and asked to select the most appropriate of seven given responses.

Table 20

Protection Purchasers and Contract Terms	
Q: Which statement best corresponded with your typical experience with a contract for extended protection?	
Statement	%
I knew I was going to purchase extended protection when I purchased the item.	24
I read the contract's terms and conditions before deciding whether to purchase it.	22
I browsed through the contract while a sales representative explained the key points.	22
I asked a few questions with the sales representative, who handed me a brochure.	15
I listened to what the sales representative said but didn't really read anything.	12
I read the terms and conditions online before clicking to accept.	3
I didn't read the terms online. I just clicked to accept	2

Notes: 955 respondents

The mode response again suggests an element of “non-decision-making” at the point of purchase, though the majority of consumers indicated that they at least browsed contract terms before deciding.

Protection purchasers were asked about the location of their extended protection information.

Table 21

Extended Protection Contract Location

Q: Which statement most accurately describes where your most recently purchased agreement is now?

Statement	%
I know exactly where it is at home	57
It could be in either one or two places	22
I have registered electronically, so I know it's stored online	14
I don't really know.	4
I don't know about the contract, but I know the number to call and that's all that matters.	3

Notes: 955 respondents

The next set of questions related to claims for coverage in extended protection programs. The time frame for the question was expanded to five years to allow for inclusion of the participants who said they sometimes purchase extended protections, but had not done so in the past three years. Also, asking about claims on the most recent purchases would likely involve manufacturers' warranties, not extended warranties. Even as constructed, it is likely some participants would not accurately recall exact timeframes, or whether problems were dealt with under manufacturer's warranty or extended protection.

Table 22

Extended Protection Service Requests

Q: How many times in the past five years have you made a request for service on an extended protection plan you purchased?

Number of Requests	%
Zero	49
One	24
Two	14
Three	7
Four	2
Five	2
Six or more	2
Total	100

Notes: 955 respondents

Roughly half of protection purchasers reported no service claims in the past five years. This is not the same as saying that half of protection plans are not used, however. For one, consumers can purchase protection on multiple category of items, so the percentage of contracts that involved a claim would be lower than 50%, and as noted, the time frames used in the two questions are not an exact match.

Participants who had made a claim for service under an extended protection program were then asked where that claim process started.

Table 23

Where Claims Start	
Q: Thinking of your most recent claim for service under and extended protection program, with whom was the claim made?	
Party	%
The retailer	49
The manufacturer	31
A third-party service provider specified by the contract	14
I'm not sure exactly. I just called a 1-800 number	6

Note: 484 respondents

The responses indicate that about half of claims begin with a call to the retailer, and that only about 20% begin with a call to a third-party service provider.

These same participants were then asked about the resolution of their problem that required a service call.

Table 7

Satisfaction of Resolution of Service Claim	
Q: Which of the following statements best summarizes the outcome of your most recent claim for service in an extended protection program?	
Statement	%
It was a perfect or nearly perfect	30
It was a positive experience. There was only minor inconvenience	45
It was eventually resolved, but it was very inconvenient.	16
They tried, but it was not resolved to my satisfaction	5
My claim was denied	2
It is ongoing and not yet resolved	1
I initiated the claim, but after learning about the process, elected not to pursue it.	1

Note: 484 respondents

About 75% report a satisfactory outcome, with little or no inconvenience. Almost 10% report the absence of a satisfactory outcome because the claim was denied or the problem could not be resolved satisfactorily.

Participants with a denied claim were asked about the reason for the denial.

Table 24

Reasons for Claim Denial	
Q: Why was your claim denied?	
Reason	Quantity
This particular problem was not eligible for coverage	5
My coverage had expired	2
I was misled by the salesperson. Something I was told was covered was not actually covered.	2
Other	2
I no longer had the receipts to prove I was covered	1
Total	11

With fewer than a dozen denied claims, it is impossible to derive statistically significant conclusions. The survey allowed the respondents to give more specific responses, but the only specific responses received were “Told everything was covered, which was a lie” and “Should have been covered. The retail company made it right but not the insurer.”

More “has this ever happened to you” questions were next posed to a group that included all the participants who used to purchase extended protection but no longer do.

Table 8

Has This Ever Happened to You?

Q: Asked of extended protection purchasers, past or present. Over the past 10 years, and not just on the most recent claim or extended program purchase, have any of these events happened to you?

Statement	%
I inquired about a service claim, but was told that my situation was not covered.	20
My particular problem was covered, but proved difficult to fix and required multiple service visits and replacement components (or items).	13
The salesperson told me I would be covered, but it turns out I wasn't	11
Parts and labour were covered for different durations, so I was still covered for one, but not the other.	10
Those responsible for the repair of my product could not get the proper parts.	10
I thought my product was protected against normal wear and tear.	8
Those responsible for the repair of my product could not find a qualified service technician near me.	7
None of these events happened to me.	52

Note: 1,267 respondents

With the longer time frame and the elimination of the “most recent” qualifier, participants reported more examples of extended protection difficulties. Slightly more than half of participants reported none of these enumerated incidents. The totals exceed 100% because participants could select more than one incident.

The same participants were then asked about a list of possible responses to difficulties or dissatisfaction with extended protection coverage.

Table 25

Courses of Action and Reaction from Consumers

Q: Asked of extended protection purchasers, past or present. Over the past 10 years, have you taken any of these actions during or after a dispute regarding an extended protection contract?

Statement / Action	%
I have stopped using a particular retailer or manufacturer because they didn't fulfill what they promised.	22
I told friends and family never to buy from this manufacturer or retailer again.	22
I have complained to the manufacturer even though I knew the manufacturer's warranty had expired.	11
I used a public social media to express my displeasure and seek advice.	8
I complained to government consumer protection authorities.	3
I sought legal action or at least consulted a lawyer about alternatives	3
I complained to my province's insurance regulator	2
None of the above	61

Note: 1,267 respondents

About 8% sought or contemplated any official action to resolve the circumstances. The vast majority opted either for “silent” protests such as avoiding a manufacturer or merchant, or a shared protest with friends, manufacturers or social media. Again, the totals exceed 100% because participants could select more than one response.

Survey participants were given a list of seven statements that further evaluated product knowledge, attitudes and experiences.

Table 26

Attitudes About Extended Protection

Q: Asked of extended protection purchasers, past or present. For each of the following statements, indicate your level of agreement.

Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %	Don't Know %
A. In general, extended protection will provide me coverage if my product is damaged in a fire.	9	16	23	21	31
B. I have purchased extended coverage for a product and then forgotten I did so.	11	25	23	36	5
C. If I sell something I own during the period of extended protection, I can generally transfer that protection as part of the transaction.	12	26	21	10	30
D. I am more likely to purchase extended protection for Items I purchase on line than in store.	5	13	43	29	10
E. Extended protection is a factor in determining the brand of product I purchase.	7	25	36	27	4
F. Extended protection is a factor in determining where I purchase products.	8	23	36	30	3
G. I have been persuaded to purchase extended protection by a particularly effective salesperson at the retailer.	17	40	22	19	2

Note: 1,267 respondents.

Statements A and C evaluated product knowledge and a significant portion of participants selected “don’t know”. For statement A, 25% thought (incorrectly) that extended protection would cover their item in case of a fire and another 31% weren’t sure. Statement C is generally true, as most agreements have provisions that allow consumers to transfer extended protection if the item protected is being sold privately. A slight majority selected the correct answer.

Statements B and G were more about personal experiences. More than half of participants agreed that they had been persuaded to purchase protection by a retailer salesperson, and more than a third agreed that they had likely

forgotten that they had purchased extended protection for an item they had purchased.

The other three statements, D E and F, evaluated attitudes and behaviours. Fewer than 20% of participants said they were more likely to protect online purchases, while fewer than a third said that extended protection was a factor in the brand or retailer at which they made product purchases. These statements were tested in part for comparison purposes against some of the other statements tested earlier in the survey.

The penultimate question evaluated a series of statements about protections offered by manufacturers and retailers.

Table 11

Attitudes about Retailers and Manufacturers				
Q: Asked of extended protection purchasers, past or present. For each of the following statements, indicate your level of agreement.				
Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %
A. Manufacturers that offer their own extended protections (AppleCare, for example) make me more confident about the quality of their products.	16	57	21	6
B. Retailers that establish their own service providers (Best Buy's Geek Squad, for example) make me more likely to shop there.	8	50	31	11
C. I am aware whether the extended protection I buy is the responsibility of the merchant, the manufacturer or a third-party provider.	15	55	24	6
D. If something goes wrong with a product for which I have purchased extended protection, I usually start by calling the retailer.	21	56	18	4
E. Consumers are better off when extended protection is purchased from the product manufacturer than the retailer.	14	52	30	4
F. Consumers are better off when extended protection is purchased from the retailer than the product manufacturer.	7	43	39	11

Note: 1,267 respondents

The results show that participants valued extended protections from manufacturers more highly than those offered from retailers, though both AppleCare and Best Buy have positive impressions on consumers. While 70% of consumers profess they know where to call if there is a problem, the vast majority (77%) begin the service process by contacting the retailer. There are instances such as Apple, in which the manufacturer and retailer are the same entity, but most contracts provide the third-party provider as the point of contact for claims.

Statements E and F were also split questions – each participant was only asked one of these two contradictory statements. Note that the net effect is that participants seem to think extended protection is more valuable from

manufacturers than retailers, but the affirmation bias is clearly in evidence as well, as the 66-34 manufacturer preference becomes a 50-50 result when the wording is reversed.

The survey ended with another set of statements for evaluation. These statements were asked of all 2,000 participants. For participants who had not ever purchased protection, it was the only question asked after the question about their attitudes.

Table 27

Consumer Attitudes About Products and Protection

Q: Asked of all participants. For each of the following statements, indicate your level of agreement.

Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %	Don't Know %
A. My province's consumer protection legislation provides for a warranty, even if the product does not come packaged with one.	14	18	13	5	50
B. It makes sense to buy extended protection because it's like other insurance. It's a small price today to protect against a much larger loss/cost.	11	34	34	17	5
C. Extended protection contracts are essentially insurance, and should be regulated the same way as other forms of insurance.	33	45	8	2	11
D. Extended protection is part of a product purchase and should be regulated the same way as other retail transactions	35	43	10	3	10
E. Merchants only sell extended protection because it makes them more money. So it's not going to be to my advantage to buy it.	35	43	14	2	5
F. I would be more inclined to purchase extended protection at a retailer if I had a choice of plans from which to choose.	18	46	19	9	8
G. Money received from consumers for future service obligations should be set aside for that purpose and kept separate from other funds in case the vendor declares bankruptcy.	45	35	7	2	11
H. I use Consumer Reports (Protegez Vous) and other resources to research extended protection coverages.	13	26	28	25	9

Note: 2,000 respondents.

Statement A was the only overt “product knowledge” question asked in this set, and half the participants responded that they did not know if their

province provided warranty protection on new product purchases, even if one was not specifically included at the point of purchase.

Statement H was intended to test for use of external resources to help research extended protection coverages, to see if this kind of information created a meaningful distinction between responses to any of the other questions in the survey.

Statements B, C and D evaluate the views on extended protection as insurance, and whether participants thought the industry should be regulated similar to other insurance policies. While a slim majority of participants disagreed that it made sense to purchase extended protection because it was like insurance, the majority did agree that it was essentially insurance and should be regulated as such. Statement D was intended to be somewhat contradictory to statement C, but both statements were given to all participants. Support for regulating extended protection similar to other retail purchases was almost identical for the support for it to be regulated like insurance. To most participants it is likely that the distinction between the two statements was lost. The main takeaway seems to be that participants see extended protections as a purchase worthy of regulatory protection of some sort, but have not developed a preference about what type.

Statement G was in a similar vein, related to the protections that might be offered to consumers. There was very strong support for the idea that consumer extended protection pre-payments should be kept separately from other funds in the event a merchant declared bankruptcy. Though Sears was not named in the question, this is essentially the Sears Canada scenario.

A statement similar to Statement E was asked in an earlier question solely for non-purchasers of protection. The results are very similar when protection purchasers are included in the sample. Agreement to disagreement is about 5 to 1 to the notion that merchants only offer extended protection to make more money, therefore it must be against the consumer to purchase it.

Statement F provides an evaluation of support for one possible trend, which is the ability of consumers to select from multiple protection providers at any retailer. There was some support that this might increase the likelihood of extended protection purchase.

Demographic Breakdowns

Beyond the specific questions about purchases and extended protections, the survey also gathered basic information about participants. This allows an examination of how age, household income, province of residence and other basic characteristics affect consumers' views and behaviours. Here are some findings about how the basic demographic information influences results.

(Note that for these sections, references might be made to abbreviated question or statement wordings. "Product Knowledge" might refer to a set of questions throughout the survey that reflect specific factual statements, for example.)

Demographics – Province

The number of respondents from some provinces is small, limiting the reliability of some data. Researchers evaluated aggregated results from the four Atlantic Canada provinces. Figures from Manitoba and Saskatchewan were aggregated as well.

Quebec showed the most consistent deviations from the rest of Canada around multiple topics. Quebec participants generally did better on some of the knowledge-based questions throughout the survey. For the specific question about knowledge about whether their province has legislation that effectively provides a warranty on all purchases, 67% of Quebec residents agreed or strongly agreed. No other province scored above 24%. This outcome, and others, show that there is some level of consumer awareness of Quebec's legislated warranty protection.

Table 12

Provincial Comparison of Warranty Protection

Q: Asked of all participants. "My province's consumer protection legislation provides for a warranty, even if the product does not come packaged with one."

Statement	Strongly agree %	Somewhat agree %	Somewhat disagree %	Strongly disagree %	Don't Know %
National	14	18	13	5	50
Atlantic Provinces	3	11	12	9	65
Quebec	38	29	7	1	24
Ontario	7	17	15	6	55
Manitoba/Saskatchewan	9	16	13	8	54
Alberta	5	10	15	8	61
British Columbia	5	15	14	6	60

Note: 2,000 respondents.

The legislated support of warranty requirements likely influences many of the other areas where Quebec participant attitudes differed. Quebec residents are less likely to purchase extended protections on all product categories tested, had the highest percentage of "don't ever buy" respondents, showed more faith in manufacturers' warranties and valued the benefits of extended protection less highly than other provincial residents throughout multiple questions. They also showed stronger support for the "if the store is offering it, it must be to my disadvantage" statements.

Manitoba and Saskatchewan participants were more likely to purchase extended protection in most product categories, and were above average on each.

Alberta residents were more likely to have once purchased protection but no longer do so.

Gender

Men were more likely than women to make purchases in all categories except for furniture and carpet. There is no meaningful difference between the sexes in the frequency with which they purchase extended protection.

Men show higher self-assessed personal financial knowledge and throughout the survey are more likely to select the “extreme” alternatives, less likely to respond they did not know, and more likely to take all of the enumerated possible actions related to bad experiences with extended protections.

Men are also more likely to agree with statements that products today last longer, while women are more likely to think products today are not as robust as they used to be. Women are more likely to purchase extended protections for higher priced items, more likely to think the prices of extended protection are reasonable, and say that there are products for which they always purchase extended protections.

Women did slightly better than men on the knowledge questions in the survey, but not by a large extent and primarily because they were more likely to select “don’t know” than choose incorrectly.

Age

The participants were subdivided into six groups based on age: 18-24, 25-34, 35-49, 50-64, 65-74 and 75+, with 35-49 being the most populated and the two extreme groupings having the smallest sample sizes. Though only marginally relevant to the study, the breakdown of product purchases by age is interesting. The 18-24 grouping was the most likely to have purchased a smartphone in the past three years. Those 25-34 were most likely to have purchased home furniture and carpeting. Those 35-49 were the most likely to purchase home entertainment, and those aged 50-64 were most likely to have purchased outdoor furniture and tools.

The two extremes – the youngest and the oldest – are most likely to purchase extended protection across all product categories. As a general rule, younger consumers are:

- More likely to purchase extended protection on online purchases.
- More likely to be persuaded to purchase it by a sales representative.
- More likely to purchase it if there was greater choice at a retailer.
- More likely to support the “it’s a small price today” argument in favour of extended protection.

- More likely to take all of the actions listed if they feel wronged by an extended protection plan.

Older consumers are more likely to:

- Agree that the manufacturers warranty covers the most important period
- Believe that extended protection should be regulated like other product purchases
- Support the isolation of prepaid protection amounts from other funds in the event of a merchant bankruptcy.

Self-assessed financial knowledge increases with age, and older participants did moderately better at the product knowledge questions.

Older consumers are more meticulous with their warranty information, extended warranty information and less likely to say that they've purchased extended protection and then forgotten they had done so.

Education

Participants were segmented into three categories, based on their highest level of formal education: high school or lower, college/CEGEP or university and post-graduate. Participants with higher levels of education are less likely to purchase extended protection, and, of the non-purchasers, more are in the "won't ever buy them" category. These patterns are small but persistent across all product categories.

There was little relationship indicated between education level and self-assessed financial knowledge. Those with higher education generally did better on the product knowledge questions, but were also more likely to be persuaded into taking extended protection by a retail salesperson.

Participants with higher education were more likely to agree that merchants only sell extended protection because it makes money, and thus is against consumer interests, and are also less likely to believe that new household durable products are "better than ever".

Household income

The survey participants were broken into five groups for the purposes of income analysis: those with annual household incomes under \$50,000, from \$50,000 to \$75,000, from \$75,000 to \$100,000, from \$100,000 to \$150,000, and those above \$150,000. Each group contained from 270 to 350 participants. The largest group of 420 participants declined to provide income information.

The purchase rate of products in all categories increases with income. As income rises, extended protection purchase is less likely on appliances. Otherwise, there are some anomalies – those in the \$100,000 to \$150,000 category are more likely to purchase extended protection on telephones for example – but no patterns that relate to income.

Self-assessed financial knowledge increases with income, but the product knowledge questions show no pattern. Those with higher incomes are more likely to agree with statements like “it makes more sense to buy a new one” as a reason to not purchase protection, and are more likely to believe they have effective coverage through home insurance and credit cards. Belief that the manufacturer’s warranty covers the most important period also rises with income, as do the percentage of participants who think the cost of extended protection is not reasonable.

Higher-income participants are more likely to make a claim for coverage, but income does not seem to relate to satisfaction of the resolution.

Question interrelationships

Similar to the demographic analysis, the survey results were also analyzed for interrelationships between questions. The answers to one specific question can be used to identify a group of respondents, and how this group answers other questions can often be revealing. For example:

- Do consumers who believe that household durables don’t last as long as they used to buy protection more or less frequently than those who believe household durables last longer than ever?
- Do consumers who “never buy” protection and those who used to buy but no longer do have different reasons for not doing so?

- Do consumers who understand that Home Depot's protection is different from Sears' protection make different choices or think pre-paid protection funds should be kept distinct in the case of merchant bankruptcies?
- Is there a relationship between purchase satisfaction and the purchase of extended protections?

There are hundreds of these relationships to consider. Here are summaries of the different groups of participants and other questions for which those groups answers were evaluated. Reliability of results decreases as smaller samples are examined, and many of the questions posed found no interesting patterns.

Through a number of questions, the participants could be broken into four groups:

1. Those that have purchased extended protection on at least one product in the past three years (597 participants).
2. Those who sometimes purchase extended protection, but have not done so in the past three years (358).
3. Those who used to purchase protection but no longer do so (312).
4. Those that have never purchased extended protection (733).

Here is how "purchasers" and 'non-purchasers" compared on certain questions.

Product purchases

Participants who purchase extended protection are more likely to purchase products in every single category in the survey. There is not a single exception. For example, a total of 78 participants purchased protection on indoor furniture or carpet in the past three years. Those 78 participants were more likely to purchase smartphones, computers, lawn equipment, televisions and major appliances than the overall survey participants. The other three groups

of participants are almost universally below the average of product purchases in all categories.

Satisfaction

Overall satisfaction for recent purchases is quite high, so high that it is difficult to find a relationship between product satisfaction and extended protection. For all product categories, survey participants rated their satisfaction with the most recent purchase either strongly satisfied or satisfied at least 93% of the time. This makes statistically significant variances hard to find. Nonetheless, using a distinction between ‘extremely satisfied’ and ‘satisfied’, consumers who purchased extended protection on their computers, home entertainment and smartphones expressed slightly higher levels of satisfaction than those who did not. Satisfaction for those who purchased extended protection on indoor furniture and carpet, as well as those that purchased protection on products that fell into the “other” category (jewellery, exercise equipment, etc.) is lower than those who did not. For other products, (appliances) there is no measurable difference in satisfaction.

The results are less conclusive than U.S. reports that show higher product satisfaction for customers that purchase extended protection.

Loyalty

Other U.S. surveys have shown that consumers who purchase extended protection are more loyal to both brands and retailers when purchasing replacement products. Results from this exercise show the same. Participants who purchased extended protection on their most recent purchase were more likely to purchase the same brand and use the same retailer than consumers who did not purchase protection.

That said, apart from the category of smartphones, loyalty to both brand and retailers was quite low. Smartphones (68%) were the only category for which participants reported the same brand more than 50% of the time, or via the same retailer (63%)

The loyalty shown may reflect the consumer, not the decision to purchase extended protection. Consumers who purchase extended protection are more brand loyal on all the products they buy, not just the products for which they

purchase extended protection. They are also more retailer loyal on all the products they buy than consumers who do not purchase protection.

Product knowledge and attitude

Protection purchasers are more likely to believe (incorrectly) that extended protection generally covers accidental damage, products damaged in a fire, that replacement items issued during the extended protection period are also covered and that extended protection covers the same things as manufacturer's warranty. Participants who never purchase extended protection more frequently provided the "correct" answer to those questions. Results on the outcome of extended protection customers should a retailer such as Home Depot or Lowe's go out of business showed protection purchasers scored slightly better, but the difference between categories was small. Protection purchasers were more likely to agree that extended protection could be transferred to the new owner if the item were sold privately.

Over the different product knowledge questions, the "never buy" segment generally demonstrated the highest level of knowledge, but the differences are small.

For the question about current product durability, there was no meaningful difference in the responses of the group evaluating the statement "Home appliances and durable goods such as refrigerators and televisions don't last as long as they used to." However, when phrased the opposite way, "Home appliances and durable goods such as televisions and lawnmowers are made to last longer than ever", protection purchasers were actually more inclined to agree with that statement than the other groups. This appears a bit incongruous, but perhaps it speaks to the point that extended purchase protection is more dependent on the consumer than the product, and more on emotion than logic.

Protection purchasers were more likely to agree with the idea that there was an inverse relationship between protection costs and product quality. ("If (extended protection) is inexpensive compared to the product price, the product is probably very reliable."). But there was no substantive difference

between attitudes expressed by the different groups to the “it probably makes more sense to buy a new device than repair an old one” statement.

Final questions

The survey ended with a list of eight statements for all participants to express their level of agreement or disagreement. Some of these questions produced notable points of differentiation among the groups.

The statement “It makes sense to buy extended protection because it’s like other insurance. It’s a small price today to protect against a much larger loss/cost,” was much more strongly supported by protection purchasers and non-purchasers that still occasionally buy than the non-buyers. This isn’t surprising, given the wording of the statement.

Protection purchasers expressed stronger support for both the “it should be regulated like insurance” and the “it should be regulated like other goods at the point of sale”. Although this is potentially a contradiction, it could also mean that consumers that purchase extended protection are just more likely to expect some legislated protections than non-purchasers.

The statement “Merchants only sell extended protection because it makes them more money, so it’s not going to be to my advantage to buy it” was much more strongly supported by those that never buy protection. Disagreement was strongest from protection purchasers.

Support for the statement “I would be more inclined to purchase extended protection at a retailer if I had a choice of plans from which to choose” was strongest among protection purchasers. Still, 45% of the “never buy” group and 60% of the “used to buy” group expressed some level of agreement to that statement,

The statements “My province’s consumer protection legislation provides for a warranty, even if the product does not come packaged with one”, “Money received from consumers for future service obligations should be set aside for that purpose and kept separate from other funds in case the vendor declares bankruptcy” and “I use Consumer Reports (Protegez Vous) and other resources to research extended protection coverages” had little or no difference in response breakdowns among the four types of respondents.

Purchaser across categories

One of the most interesting interrelationships discovered in the survey was that consumers who purchase protection on one type of product are about three times more likely to purchase protection on other products.

Table 6

Protection Purchases Across Categories

How frequently do consumers who purchase protection on one good also choose to purchase protection on other products?

Product Category	% of Consumers	% of Protection Purchasers
Major appliances – refrigerators, ovens, washer or dryer	23	60
Personal computers – desktops, laptops, touchscreen pads	18	51
Home entertainment – televisions, home theatre, stereo	16	41
Smartphones/cellphones	21	60
Tools, lawn equipment, barbecue, outdoor furniture	4	13
Indoor furniture or carpet	10	27
Other products – jewelry, musical instruments, exercise equipment	8	23

Note: 2,000 respondents

For clarity, 21% of participants indicated they purchased extended protection on their most recent smartphone/cellphone purchase. But of those people, more than half *also* purchased extended protection on their most recent computer, and nearly half on their most recent major appliance, far above the rates of the overall sample (18 and 23% respectively). The table indicates that 60% of participants who purchased protection on at least one product type in the past three years purchased protection on smartphones/cellphones.

Of all the factors evaluated in the project, the most significant identified determinant of whether a consumer purchased protection on a particular product was whether or not they had purchased protection on any other product.

This would suggest that consumer beliefs are more important than the product being protected or any specific measure of the protection program offered. It also supports some of the behaviour finance theories that there are particular consumers who have values (loss aversion, regret aversion) that make them more likely to buy, regardless of price or feature differentiation.

Protection Purchasers

There were two classes of protection purchasers, those that had purchased it in the past three years, and those that had not, but indicated that they do periodically buy extended protections. These two groups were asked to evaluate six different statements to help identify distinctions between the two groups.

The three statements more strongly supported by current purchasers were “I like that I don’t have to worry about finding parts and technicians with extended protection, I know who to call”, “The cost of extended protection is generally reasonable” and “There are some products for which I would always purchase extended protection.”

There is no measurable difference in the satisfaction of the resolution of the most recent claim for service between current purchasers and the “not recently” purchasers.

Protection Non-Purchasers

There are two classes of “non-purchasers” those that have never purchased extended protections, and those that once did, but no longer do.

The survey tested six different statements with these groups. For three of the six statements, there was a difference between the attitudes of the two groups. Those who never buy protection were more likely to agree that they already had some protection through their credit card, that the manufacturers warranty covered the most important period, that the coverage wouldn’t be

offered if it wasn't to the store's advantage and therefore must be to the consumer's disadvantage.

Past Experiences

Participants who had purchased extended protection in the past but no longer do so were included in a set of questions about past experiences.

Provided with a list of seven statements about various unpleasant or unsatisfactory experiences with extended program coverage, the "used to buy, no longer do" participants reported higher incidences of all seven experiences, ranging from "I inquired about a service claim but was told that my particular situation was not covered" (29% agreement compared to 20% for the sample at large) to "Those responsible for the repair of my product could not get the proper parts." (13% vs 10%). The largest gap was to the statement "The sales person told me I would be covered, but it turns out I wasn't", experienced by 21% of the "used to buy, no longer do" group, compared to 11% of overall participants.

This suggests that there is a link between past service claims experiences and the current attitudes of those who elect not to purchase extended protections any longer.

Asked about seven different potential actions after unsatisfactory experiences, the "used to buy, no longer do" group also were much more likely to take each of the seven actions, such as 32% who stopped using a particular retailer or manufacturer because they didn't fulfil their obligations (versus 22% of the overall sample) and 30% who told friends and family not use a particular manufacturer or retailers again (versus 22% of the overall sample.)

Distinctions by Self-Assessed Financial Knowledge

There does not appear to be a relationship between self-assessed financial knowledge and the decision to purchase extended protection, other than those with low knowledge are more likely to respond that they can't recall if they have done so, and more likely to admit they purchased extended coverage and forgot they did so.

Satisfaction with the outcome of the most recent claim increases with self-assessed financial knowledge, though the number of service requests does not.

The high knowledge participants claim they read extended protection information before making purchase decisions, while the lower rated are more likely to listen than read. The higher self-assessed are more likely to keep the warranty and extended warranty information.

On the objective knowledge questions about extended protection, there is a small inverse relationship between self-assessed knowledge and correct answers. Because the majority of participants answered incorrectly to the questions, the tendency of those with lower self-assessed financial knowledge to answer that they didn't know answers to some questions actually boosted scores.

That same effect resulted in one particularly perplexing result, the higher knowledge participants showed stronger agreement with both the statements that household durables are made to last longer than ever, *and* that they don't last as long as they used to.

Otherwise, those with higher levels of self-assessed financial knowledge are:

- More likely to agree that extended protections must benefit vendors and thus be detrimental to consumers.
- Less likely to agree that extended protections are “a small price today to protect against a larger potential loss”.
- More likely to agree that extended protection costs are reasonable, that there are some products for which they always purchase protection and more likely to see value in telephone and software support of some extended protection plans.
- More likely to take all of the listed actions if they have an unsatisfactory extended protection experience.
- Less likely to purchase extended protections for online purchases.
- More likely to agree that extended protection funds should be kept separate in case of vendor bankruptcy.

Distinctions by general attitudes towards extended protection

Participants were asked to evaluate a number of statements about extended protection before they were asked about purchasing extended protection.

Some of those questions were about “product knowledge”, objective facts about typical extended protection contracts. In one example, participants were split into two groups, with each half group asked whether extended protections purchased through Lowe’s or Home Depot would still be honoured if the retailer were to go bankrupt. Echoing the Sears scenario, this was designed to test whether consumers understood that the contracted protections were offered by a third party and underwritten by an insurer, rather than self-financed like Sears. Consumers who gave the ‘correct’ answer to the Lowe’s/Home Depot question were more likely to give an incorrect answer to the other product knowledge questions. Those who understood that the purchased protections would still be honoured in a retailer bankruptcy were more likely to purchase extended protection .

In a similar manner, participants were also asked whether household durables last longer than ever today, or whether they don’t last as long as they used to. Consumers who agreed that things lasted longer than ever were *more* likely to purchase extended protection on every product listed. Consumers who agreed that things don’t last as long as they used to showed no meaningful difference in protection purchases compared to the overall sample.

Miscellaneous

Consumer satisfaction with the resolution of a service claim was lowest on claims initiated through third parties, and highest on claims initiated at retailers. Sample sizes were quite small. This supports the idea that retailers value the customer relationship more strongly than a dispassionate third party.

Participants who indicated that extended protection was a factor in determining the brand of a purchase showed no statistical difference in brand choices of replacement items purchased. Similarly, participants who indicated that extended protection was a factor in determining the vendor of a purchase

showed no statistical difference in vendor choices of replacement items purchased.

Participants who agreed that manufacturer protections add confidence don't show any measurable brand loyalty on replacement items. Participants who agreed that retailer protections added confidence did show a small measure of higher retailer loyalty than the overall sample.

Participants who indicated they have been persuaded to purchase extended protection by a salesperson are less likely to make a request for service, but have no difference in service claim satisfaction.

There was no measurable relationship between the answers of questions about whether extended protections should be regulated like insurance or regulated like other product purchases and answers to questions about the vendor bankruptcy scenarios. Nor was there any relationship with the decision to purchase or not purchase extended protection.

There was, however, a relationship between the answer to the two questions. Participants who believed extended protection was essentially insurance and should be regulated as such were also more likely to think it should be regulated like other product purchases, and vice versa. These questions were intended to test an "either/or" attitude, but the responses indicate a preference for regulatory protection, with no particular choice shown between the two alternatives.

Participants who agreed that multiple options would make them more likely to purchase extended protections were already more likely to purchase extended protection. Those that didn't ever buy protection were the least likely to agree with the multiple options offer.

Participants who agreed that extended protection payments should be held apart in the case of a merchant bankruptcy are more likely to believe that consumers would be out of luck in the case of a Home Depot or Lowe's bankruptcy, and are more likely to think extended protection is only offered because it is to the vendor's advantage.

Those who claimed to use *Consumers Reports* or other means to learn about extended protections are overall slightly less satisfied with all purchases, more likely to purchase extended protections, more likely to show brand and retailer loyalty on replacement purchases, did worse than average on most of

the product knowledge questions and are more likely to agree that consumer durables last longer than ever.

Consumers who know where their product warranty information is at all times are more likely to purchase extended protection on products, and more likely to know exactly where their extended warranty information is kept. There is no measurable effect on satisfaction of claims.

Appendix D

History of Warranty

This is a more detailed review of the history of warranties, extended warranties and service contracts in Canada. A synopsis appears in the main body of the report.

Three types of warranty

Product warranties, when they came first to be acknowledged in English courts, were limited to what a seller expressly promised in writing – hence the notion of “express warranty” (Loomba 2005). Legal action was confined to fraud: in reality misrepresentation. In the nineteenth century – the age of mass manufacture – the notion of an “implied warranty” emerged fitfully (Sutherland 1984 33). It was based on the impossibility of consumers knowing how to evaluate increasingly complex products, or being able to inspect every purchase before it was delivered. Initially, judges were at pains not to interfere with the freedom of contract. With an implicit warranty, courts came to hold that regardless of the written terms of the contract, consumers could expect that the products they bought were of merchantable quality – saleable, or free from defect – and fit for their intended purchase (Sutherland 1984 43). This was codified in the 1893 English Sale of Goods Act, which formed a template for Commonwealth legislation. While contract law cases suggest that durability is part of the bargain, the extended warranty makes explicit what may be latent in implied warranties (Sutherland 1984; 20, 48, 72, 107)

The history of extended warranties is bound up with the history of warranties – since the one appears to supplement the other. While the major influence on Canadian law stems from the United Kingdom, commercial innovations easily wash over the southern border from the United States, along with legal and regulatory repercussions. This applies especially to

extended warranties, which appear to have been unknown in Britain before 1981 (Taylor 1986). On the other hand, the Canadian Bar Association and the Ontario Law Reform Commission have been influenced by U.S. cases and legislation on contracts and the Uniform Law Conference of Canada meets with its U.S. counterpart. (Sutherland 1984 128).

Early History

As North Americans came home from the Second World War, industries that had been turned over to military production retooled for the consumer market.

Production expanded at a break-neck pace, coupled with intense price competition. Quality seemed a lesser concern and that was reflected in express warranties. Until 1960, for example, the standard warranty on a Ford automobile was 90 days or 4,000 miles – the same as it had been for the Model A 30 years before. In 1960, auto manufacturers introduced one-year, 12,000-mile warranties for the next model year. Two years later, they doubled their offering, led by Chrysler – at the time beset with quality concerns. Chrysler upped the ante again, with a five-year, 50,000-mile warranty on the power train. One result, which reflects the “market signal” concept of warranties, was a 40% increase in market share. (Priest 1981; OLRC 1972)

Some historians have referred to Chrysler's effort as an “extended warranty” though it is doubtful it would meet the criteria that now defines such offerings: an add-on price for additional coverage at the point of sale. (Flink 1990) Indeed, U.S. courts held that any offering by a manufacturer is a warranty, rather than a service agreement or extended warranty (McLemore 1975). Still, the warranty wars proved short-lived: repair costs, together with legislative safety and environmental mandates, were too much as Detroit tried to hold the line on prices – at least until competition from imports heated up again.

The history of appliance warranties shows a similar ambiguity. A G.E. Dealer is reported to have offered the first “extended warranty” – a five-year service plan – in 1934, for a refrigerator in its mid-priced consumer lineup. (Warranty Week, Feb 3, 2004) Interestingly, two years later the *New York*

Times reported that the National Retail Furniture Association objected to manufacturers “extending” warranties on refrigerators beyond two years because they would be forced to extend their credit periods to a similar duration and because there was no guarantee the manufacturers would remain in business that long. (June 28 1936 9) It preferred one-year warranties. Days before, the National Retail Dry Goods Association had registered similar objections, urging a one-year warranty instead. (June 24 1936: 40)

Despite that, by 1940, a five-year warranty seemed standard, adding \$5 at purchase to a \$109.95 refrigerator. (NYT 23 Nov 1960: 7) Yet, by 1944, wholesalers anticipating a post-war sales surge recommended paring the warranty to a year – and standardizing repairs. While the \$5 charge might seem to pay for additional protection, in fact, in 1958 a court ruled that such plans (which covered the freezing unit), since they were actually compulsory, were therefore not insurance but part of the warranty and therefore subject to excise tax. (Harvard Law Review 1958)

New products became popular consumer items in the immediate aftermath of the war, among them, television sets. RCA is reported to have offered an extended warranty or service contract in the 1940s. (NYT Aug. 28, 1980:H31). As other businesses sought entry into the service contract market, however, they were warned off by the New York Attorney-General's ruling that third-party warranties were insurance if they were not offered by a manufacturer or dealer. Curiously, this left untouched independent contractors retailing service contracts for refrigerators and air conditioners. (NYT Jul 24, 1949: 4) Retailers forgoing warranties was soon to be cited by appliance manufacturing executives in the rising tide of consumer complaints about quality in the late 1950s. (NYT Jul, 1 1960: 28)

Department stores also entered this market, with Sears Roebuck and Montgomery Ward initially offering service contracts on televisions (Caudill & Garman 1994). By the early 1970s, extended warranties had become a well-established business for U.S. appliance makers and retailers. (Spahn 1996)

The Consumer Revolt

While the post-war expansion satisfied some consumer desires, production quality and the byzantine terms of the warranties provoked ire. By 1968, consumer complaints reached such a volume that President Lyndon Johnson established two cabinet-level task forces on warranties, one for appliances, the other for autos. Each called for clear warranty language, the elimination of contractual disclaimers that belied advertised claims and for warrantors to make good on their promises. (NYT Jan 9 1969: 12) Different parts of a product might be covered for differing periods – or not covered at all. That is, if one could understand the warranty. It is in this context that the competing notion of a warranty – not a mechanism to signal quality but instead a means to limit liability – comes to the fore. (Priest 1981)

The Commerce Department's general counsel under Richard Nixon put these concerns into words:

“Often warranties are cluttered with disclaimers couched in legal jargon reminiscent of ancient documents. This, of course, results from the traditional, dual nature of the warranty which serves not only as a marketing tool and a benefit of the purchase, which is the consumer's main concern, but also as a legal instrument to protect the manufacturer.” (Lynn 1970)

At the time, three separate warranty bills were wending their way through Congress.

The Magnusson-Moss *Warranty Act* came into effect in 1975. The act distinguished between “limited” and “full” or “written” warranties. The latter, whose provisions also applied to service contracts, were bound by 13 conditions, among them: “the warrantor under section 104 must agree to repair without charge the product to conform with the warranty; no limitation may be placed on the duration of any implied warranty; the consumer must be given the option of a refund or replacement if repair is unsuccessful and consequential damages may be excluded only if conspicuously denoted. Additionally, and most significantly, the Act provides that a warrantor cannot disclaim any implied warranty.” (Roberts 1978: 1849)

Regulatory Ambiguity

While many welcomed the new transparency, there were two flaws. “A merchant can circumvent these requirements by simply not offering any written warranty. By so doing, the merchant can negate not only all express warranties but also the implied warranties.” (Roberts 1978 1848) Nor did the Act override other legislation, such as state versions of the 1952 Uniform Commercial Code. The UCC specifies warranties of merchantability (2-314) and fitness of purpose (2-315), but also permits disclaimers. (2-326). (Weiner 1988)

Insofar as individual states chose to treat extended warranties as insurance, they were exempt from the federal statute. The prevailing view after Magnusson-Moss went into effect was that service contracts are not insurance, since they do not indemnify a fortuitous risk, and rather simply protect against wear and tear. (Chartrand 2017)

For a long time, the National Association of Insurance Commissioners (NAIC) agreed. Then, in 1995, they changed their mind. What forced the change was a series of high-profile bankruptcies in the electronics industry. The first, EWC Electronics in Florida in 1991, stranded 1 million contracts, 290,000 in Florida, and left \$60 million in debts.

Florida added Chapter 634 to its insurance code in 1991 specifically to regulate “service warranty associations” – third parties offering extended warranties. (Spahn 1995) EWC was not the only significant bankruptcy, nor was Florida the only jurisdiction to take action. California gave its Bureau of Electronic and Appliance Repair Home Furnishings and Thermal Insulation authority to regulate service contracts in 1994, after modifications to the state's Song-Beverly *Consumer Warranty Act*, the first U.S. effort at “lemon-law” legislation, in 1970.

California's legislation is similar to but not identical with the Model Act created by the National Association of Insurance Commissioners – which now covers the majority of states. NAIC was in a situation where:

“Whether by accident or possibly even by design, the EW industry exists as something of a 'regulatory orphan.' While possessing several insurance-like characteristics (and generally perceived as such by consumers), EWs and their traditional system of distribution also possess some salient characteristics that

inhibit regulatory and judicial authorities from recognizing them as insurance. Despite this lack of formal recognition as insurance, the regulation of the EW industry has curiously fallen to the state insurance departments. (NAIC 2014: 2)

Meanwhile in Canada

In Canada, the process was a little bit different, in part because consumer legislation is largely the purview of the provinces and territories. Concerned about consumer credit, some provinces had already enacted Consumer Protection Acts by the late 1960s. And the federal government, in a first, established a consumer affairs ministry. But by and large, consumer protection was focused on door-to-door sales, consumer credit and repossession, according to a 1968 *Globe and Mail* roundup. (May 2, 1968: B5)

Similar to the U.S. marketplace from the late 1960s, Canada also had an upswing in complaints about defective products, both autos and appliances. Ontario was moved to direct the Ontario Law Reform Commission, in 1970, to examine warranties specifically. It held:

“There is a substantial amount of evidence, however, that in some industries, notably the automobile industry, quality control has declined and that in their desire to produce an ever larger volume of units, manufacturers are releasing on the market an unacceptably high percentage of defective products. The problem is compounded by the inability or unwillingness of some industries to live up to the terms of their warranties and the absence of adequate facilities to service the ever-growing number of consumer products.” (OLRC 1972 15)

Sadovnika (2014) noted the important role played by organized consumer movements, in this instance the Consumers’ Association of Canada in criticizing the “ineffective enforcement provisions of warranty legislation and lamented that consumer protection agencies often lacked the personnel, authority and expertise required to ensure warranties were honoured.” Ziegel (1974) cited that “between 1968 and 1971, government agencies received 11,250 consumer complaints covering warranties for product categories ranging from appliances and electrical equipment to food and furnishing, to apparel and motor vehicles.”

The OLRC also found that that neither the *Sale of Goods Act* (which it examined in a 1979 report), nor recent consumer protection legislation were adequate to the changed world of mass-produced consumer products:

'The *Sale of Goods Act* is largely divorced from present day commercial and consumer realities. It proceeds from the fictitious premise that the parties are bargaining from positions of equal strength and sophistication and it uses concepts to describe and distinguish between different types of obligations that are now obsolete and difficult to apply. It supplies a framework of remedies for breaches of the seller's obligations that are unrelated to practical realities. Especially serious is the Act's preoccupation with the bilateral relationship between the seller and the buyer, which totally ignores the powerful position of the manufacturer in today's marketing structure. This results, at least in the Anglo-Canadian law, in shielding the manufacturer from contractual responsibility to the consumer. By the same token the law has largely ignored the impact of manufacturers' express warranties and the defects in their contents and administration. Finally, our sales law is private law and it has failed to provide any meaningful machinery for the redress of consumer grievances. This last weakness is perhaps the most serious of all weaknesses, for as has been frequently observed, a right is only as strong as the remedy available to enforce it." (OLRC 1972: 23)

Given the complexity consumers found in seeking redress, the commission recommended a separate *Consumer Products Warranties Act*. The *Sale of Goods Act* would continue to regulate sales in general, while the *Consumer Protection Act*, was already packed with a diverse range of topics. Instead, in being solely concerned with warranties, the new Act would:

"consist of the following principal parts:

- A statement of the warranty obligations of the seller and manufacturer of a consumer product;
- A code of basic guidelines for the contents of express performance warranties and their administration;
- Machinery for the resolution of warranty disputes ; and
- General provisions for the administration of the Act." (OLRC 1972: 24)

Nevertheless, its reform efforts seem to have been limited, as a 1981 commentary indicated. (Axworthy 1980; Ramsay 1981). A bill was introduced in the Ontario legislature in 1977, but died on the order paper when the government fell. Nevertheless, the Commission did have some influence on Saskatchewan's *Consumer Products Warranties Act* and New Brunswick's *Consumer Warranty and Liability Act*. (Axworthy 1980)

Reform efforts since seem stalled. The Ontario Law Reform Commission pursued investigation into the *Sale of Goods Act* and its recommendations

eventuated in a *Uniform Sale of Goods Act*, which has yet to be adopted by the provinces and territories, with the exception of New Brunswick. (OLRC 1979; ULCC 1982)

Appendix E

Canadian Legislation

This is a more detailed analysis of the state of Canadian warranty legislation. A synopsis appears in the main body of the report, and a history of the development of warranty legislation is included in Appendix D.

Overview

In Canada's federal system, the regulation of warranties, as with other civil matters, falls to the provinces and territories. The federal role is limited to such things as prosecuting fraudulent practices. Among the provinces, warranties have chiefly been the purview of provincial *Sale of Goods Acts*, a British template introduced in 1893 that achieved Canada-wide status with its adoption by Ontario in 1920, and in Quebec, the Civil Code. (OLRC 1979; 18) Some of the warranty protections offered by this legislation have been augmented by consumer protection acts, which sometimes also include language referring to extended warranties.

In other instances, extended warranties may be treated as insurance under a province's insurance act. For the most part, extended warranties are a regulatory orphan, sometimes acknowledged, sometimes assimilated to a pre-existing subject of legislation, and sometimes outside the legislative framework.

Extended warranties as insurance

The three westernmost provinces, British Columbia, Alberta and Saskatchewan have acted to harmonize their Insurance Acts, modelling them in part after the Federal Insurance Act, in part under the press of a 2003 Supreme Court judgment that declared B.C.'s legislation "outmoded". (BC 2010)

While all three provinces treat extended warranties as insurance, either through their *Insurance Act* or regulations, they do so in different ways, and

each has exemption clauses that effectively remove most extended warranties from insurance legislation.

In B.C., extended warranties are known as product warranty insurance, defined as “contracts which undertake to indemnify another person for a loss by: Repairing a product or vehicle; Replacing the broken parts of a product or vehicle; or Reimbursing the cost of repairs made to a product or vehicle.” (BC 2006)

However, they are exempt from insurance regulation if offered by the manufacturer or retailer of the product, or a wholly-owned subsidiary of either, where the insurance is incidental to a product sale. Equally, the manufacturer or retailer must be the administrator of the plan. (BC 2006; McMillan 2005)

Alberta similarly calls extended warranties product warranty insurance – a change instigated by a tax ruling – defined as “insurance not incidental to any other class of insurance against loss of or damage to personal property other than a motor vehicle under which an insurer undertakes to pay the costs of repairing or replacing the personal property.” (Cassells 2012) Warranty sellers are exempt, however, if the product is a household appliance and “if the total compensation payable for the insurance is \$200 or less,” or the obligor is the manufacturer or retailer and the warranty contract is incidental to the sale of the product. This exemption does not apply to subsidiaries or affiliates of the manufacturer or retailer. (Alberta 2001; McMillan 2005)

In Saskatchewan, extended warranties are generally regarded as insurance and the province enumerates three classifications: extended third-party warranties, which are “programmes that are administered by an entity other than the manufacturer, retailer or underwriting insurer;” extended warranties, which are offered by an insurer; and finally, manufacturer or retailer extended warranties. (Saskatchewan 2017; McMillan 2005)

With this latter class, Saskatchewan also specifies an exemption for “warranties that cover only manufacturers defects or the quality of the product and that are underwritten by a manufacturer or retailer are not insurance, but may be subject to consumer protection legislation.” In particular, insurance regulations “do not apply to manufacturer or retailer

extended warranties for consumer electronic goods and household appliances.”

These exclusions seem to reflect a convention in Anglo-American jurisprudence that where a manufacturer or dealer offers a warranty, it cannot be insurance, however much it might resemble a similar offering by a third-party. (McLemore 1975)

For example, in the Alberta tax case that led to the inclusion of an explicit class of product warranty insurance in the *Insurance Act*, Justice Cote questioned whether extended warranties fit the definition of insurance as understood within the insurance business itself.

“The insurer does not cover risk of bad workmanship or design, nor materials supplied by the insured. (Some bonding companies issue performance bonds sometimes having that effect, but no one argues that analogy here.) Closely connected with that and overlapping is another insurance industry practice. Typically the policy is worded so as not to cover simple failure of or loss of the very item insured from internal causes. The guarantees in issue here are the opposite. They cover only product failure as a result of defects in materials or workmanship of the very item sold. And they call only for repair or (sometimes) replacement.” (Fasken 2011)

Key here is the definition of insurance common to all provincial statutes:

“... the undertaking by one person to indemnify another person against loss or liability for loss in respect of certain risk or peril to which the object of the insurance might be exposed, or to pay a sum of money or other thing of value on the happening of a certain event ... (Fasken 2011)

Similar doubts had arisen in a Quebec judgment concerning automobile extended warranties. The Quebec Court of Appeal noted:

“A warranty relates to a defect in the goods sold and the person giving the warranty has an economic interest in the fact that the consumer is purchasing the goods, as is the case for a manufacturer, a distributor and a merchant. What is more, these persons have a legal obligation to warrant that the goods are free of latent defect. On the other hand, insurance is provided by someone who is not required to warrant the quality of the goods on account of the role played in putting them on the market

and whose principal activity consists in risk speculation.” (Canadian Underwriter 2008)

In any case, given the exemptions in insurance laws in the three westernmost provinces, the *Insurance Act* may not provide much help, as Saskatchewan's reference to consumer protection makes clear. Instead, we must turn to the laws governing consumer sales and consumer protection.

Extended Warranties and Consumer Protection Acts

Provincial statutes on consumer protection were for the most part enacted in the late 1960s and early 1970s. Consumer protection legislation generally lays out in more detail the implicit warranties that have emerged in common law jurisprudence, including warranties of title, fitness for purpose, and merchantability, the later sometimes spelled out to encompass durability. Importantly, and in contrast to other legislation, these warranties cannot be disclaimed through an express or written warranty (in Quebec, “conventional warranties”).

In provinces outside of Quebec, consumer protection legislation takes its lead from the *Sale of Goods Act*, a harmonized statute that is rooted in Britain's 1893 *Sale of Goods Act*.

Ontario's Act, for example, gives three implicit warranties, plus a clause barring their repudiation:

“1. Where the buyer, expressly or by implication, makes known to the seller the particular purpose for which the goods are required so as to show that the buyer relies on the seller's skill or judgment, and the goods are of a description that it is in the course of the seller's business to supply (whether the seller is the manufacturer or not), there is an implied condition that the goods will be reasonably fit for such purpose, but in the case of a contract for the sale of a specified article under its patent or other trade name there is no implied condition as to its fitness for any particular purpose.

2. Where goods are bought by description from a seller who deals in goods of that description (whether the seller is the manufacturer or not), there is an implied condition that the goods will be of merchantable quality, but if the buyer has examined the goods, there is no implied condition as regards defects that such examination ought to have revealed.

3. An implied warranty or condition as to quality or fitness for a particular purpose

may be annexed by the usage of trade.

4. An express warranty or condition does not negative a warranty or condition implied by this Act unless inconsistent therewith." (R.S.O. 1990, c. S.1, s. 15.)

Other provinces' legal language may be more expansive, or more succinct, but the two basic ideas, fitness and merchantability, are common to all. And these two ideas are sufficiently close to one another that, in Britain, the one defines the other. (Sutherland 1984: 150)

The Ontario Law Reform Commission made recommendations on revising the *Sale of Goods Act*, heavily influenced by the U.S. *Uniform Commercial Code*, in 1979. [OLRC 1979] That formed a template for the Uniform Law Conference of Canada's 1981 *Uniform Sale of Goods Act*. It reduced implied warranties to three: title, merchantability, and fitness of purpose, defined as durability. To date, only one province, New Brunswick, has adopted it – or rather, parts of it – since the implied warranties section remains substantially the same as Ontario.

Not all consumer legislation makes reference to warranties. British Columbia, Alberta, Nova Scotia, Prince Edward Island, and Newfoundland have none. Saskatchewan, Manitoba, Quebec and New Brunswick all have more extensive reference to warranties than is contained in their sales codes (or in Quebec, the Civil Code). Notably, Quebec and New Brunswick both make explicit reference to durability, while Quebec, Manitoba and Saskatchewan include extended warranties.

Saskatchewan adds a detailed warranty of durability:

(g) that the consumer product and all its components are to be durable for a reasonable period, having regard to all the relevant circumstances of the sale, including: (i) the description and nature of the consumer product; (ii) the purchase price; (iii) the express warranties of the retail seller or manufacturer; and (iv) the necessary maintenance the consumer product normally requires and the manner in which it has been used; (h) if the consumer product normally requires repairs, that spare parts and repair facilities will be reasonably available for a reasonable period after the date of sale of the consumer product." (Saskatchewan 1978)

It is also one of two jurisdictions outside of Quebec to incorporate extended warranties directly into its legislation. It specifies:

4.1) If an additional written warranty accompanies or is attached to a consumer product sold by a retail seller, the retail seller is deemed to be a warrantor respecting the additional written warranty regardless of whether or not the additional written warranty is given by another warrantor.” (Saskatchewan 2013)

Manitoba also has a clause on extended warranties that places obligations on sellers:

“Warranty contract liability

[58.2\(1\)](#) Notwithstanding any provision in a contract to service or repair goods including an extended warranty contract, and subject to subsection (2), the seller of the contract is liable to the buyer for the performance of all obligations under the contract to service or repair the goods, whether or not the seller is a party to the contract and whether or not the seller received a fee, commission or other remuneration for selling the contract.” (Manitoba 2017)

Quebec has the most comprehensive treatment of warranties and extended warranties. Extended warranties are explicitly excluded from its *Insurance Act*. (McMillan 2005) Its functional equivalent of the *Sale of Goods Act*, the Civil Code, governs contracts in general, but excludes consumer contracts, which are regulated under the *Consumer Protection Act*. (UC 2012: 24) It lays out warranties of fitness or quality and durability. It also stipulates that parts and repair facilities should be reasonably available.

Perhaps the most significant aspect of Quebec's legislation is that merchants must explain the terms of the “legal” or statutory warranty before attempting to sell an extended warranty:

“228.1. Before proposing to a consumer to purchase a contract that includes an additional warranty on goods, the merchant must inform the consumer orally and in writing, in the manner prescribed by regulation, of the existence and nature of the warranty provided for in sections 37 and 38.

In such a case, the merchant must also inform the consumer orally of the existence and duration of any manufacturer’s warranty that comes with the goods. At the request of the consumer, the merchant must also explain to the consumer orally how to examine all of the other elements of the warranty.

Any merchant who proposes to a consumer to purchase a contract that includes an additional warranty on goods without first providing the information mentioned in this section is deemed to have failed to mention an important fact, and therefore to have used a practice prohibited under section 228.”

In consumer literature, Quebec further refines the “additional warranty.”

“The extended warranty. This warranty extends the duration of the [warranty that is offered free of charge by the merchant or the manufacturer](#). This type of warranty is honoured by the merchant that sold the appliance to you or the manufacturer that made it.

The “insurance” type of warranty. This protection is additional to the warranty that is offered free of charge by the merchant or the manufacturer. It is usually honoured by a third party.”

<https://www.opc.gouv.qc.ca/en/consumer/good-service/goods/appliance/warrantie/additional/>

Provincial Breakdown

Here is a province-by-province breakdown of the relevant sections of each province’s *Insurance Act*, *Sales of Goods Act*, *Consumer Protection Acts*, consumer outreach and responsible agency.

Alberta

Insurance Act: Product warranty insurance

Sale of Goods Act: 16(1) quality or fitness; 16 (2) reasonably fit; 16 (4) merchantable quality; 16 (6) quality or fitness

Consumer Protection: no mention

Consumer Outreach: Canadian Consumer Handbook

Agency: Service Alberta

British Columbia

Insurance Act: Product warranty insurance

Sale of Goods Act: 18 quality or fitness; 18 (a) reasonably fit; 18 (b) merchantable quality 18(c) durable; 18 (d) quality or fitness

Consumer Protection: no mention

Consumer Outreach: Blog
Agency: Consumer Protection BC

Manitoba

Insurance Act: Not applicable

Sale of Goods Act: 16 quality or fitness

Consumer Protection: 58(1) (c) merchantable quality; (h) fitness; 58 (10) mediation; 58.2(1) extended warranties

Consumer Outreach: webpage includes implicit and extended warranties and seller's obligation for repairs

Agency: Consumer Protection Office

New Brunswick

Insurance Act: Not applicable

Sale of Goods Act: 20 quality or fitness

Consumer Protection: 10(1)(a) quality, fitness; 11 fitness; 12 durability

Consumer Outreach: webpage rights summary

Agency: Financial and Consumer Services Commission

Newfoundland and Labrador

Insurance Act: Not applicable

Sale of Goods Act: 16 quality or fitness; 16 (a) reasonably fit; (d) quality or fitness

Consumer Protection: 35.13(1) applicable warranties to be disclosed before offering additional warranty in a distance sale

Consumer Outreach: CCH

Agency: Service NL

Nova Scotia

Insurance Act: Not applicable

Sale of Goods Act: 17 quality or fitness 17 (a) reasonably fit; 17 (b) merchantable quality; 17 (c) quality or fitness

Consumer Protection: 326 (3) (e) reasonably fit; (h) merchantable quality; (j) durable

Consumer Outreach: webpages on purchaser rights

Agency: Access Nova Scotia

Ontario

Insurance Act: Not applicable

Sale of Goods Act: 15 quality or fitness; (1) reasonably fit;(2) merchantable quality; (3) quality or fitness

Consumer Protection: 9 (2) quality of goods per Sale of Goods Act; 21 future performance agreements

Consumer Outreach: webpage on warranties, including extended warranties

Agency: Consumer Protection Ontario

Prince Edward island

Insurance Act: Not applicable

Sale of Goods Act: 16 quality or fitness; (a) reasonably fit; (b) merchantable quality; (c) quality or fitness

Consumer Protection: No mention

Consumer Outreach: No mention

Agency: Consumer Services

Quebec

Insurance Act: Excluded

Sale of Goods Act: 1726 free of latent defects;

Consumer Protection: 37 fit for the purpose; 38 durable in normal use for a reasonable length of time; replacement parts available; 49 shipping costs;

Consumer Outreach: three webpage articles on warranties, including additional warranties by Educaloi, a registered charity; articles in French on Office de la protection du consommateur website, including extended warranties

Agency: Office de la protection du consommateur

Saskatchewan

Insurance Act: Three classes

Sale of Goods Act: 16 quality or fitness; (1) reasonably fit;(2) merchantable quality; (3) quality or fitness

Consumer Protection: statutory warranties:19 (d) acceptable quality; (e) reasonably fit; (g) durable; (h) spare parts reasonably available; 24 (1) additional written warranty makes retailer warrantor

Consumer Outreach: webpage on warranty rights, including durability

Agency: Financial and Consumer Affairs Authority of Saskatchewan

Yukon

Insurance Act: Not applicable

Sale of Goods Act: 15 quality or fitness; (a) reasonably fit; (b) merchantable quality; (c) quality or fitness

Consumer Protection:Statutory warranties: 58(1) (e) merchantable quality; (h) reasonably fit

Consumer Outreach: CCH

Agency: Department of Community Services

Northwest Territory

Insurance Act: Not applicable

Sale of Goods Act: 18(1) quality or fitness; 18(1)(a) reasonably fit; (c) quality or fitness

Consumer Protection:70 (1) (e) merchantable quality; (h) reasonably fit

Consumer Outreach: No mention

Agency: Municipal and Community Affairs

Nunavut

Insurance Act: Not applicable

Sale of Goods Act: 18(1) quality or fitness; 18(1)(a) reasonably fit; (c) quality or fitness

Consumer Protection:28

Consumer Outreach: webpage statement of consumer rights

Agency: Department of Community and Government Services

Appendix F

International Laws

Because of the close commercial ties, U.S. laws and practices are integral to understanding the environment of Canadian extended protections. But what about other markets? Here are short summaries of the basic rules and practices in Australia, the United Kingdom and France.

Australia

Australian consumer law is contained in the *Competition and Consumer Act 2010*, administered by the Australian Competition and Consumer Commission (ACCC).

Extended warranties are generally considered financial products because they are used by consumers to manage financial risks. However, this provision generally does not apply to third-party warranty providers. But extended warranties may amount to contracts of insurance, and are more likely to be viewed as insurance if:

- They are provided by a third party to the sale of the goods, rather than the manufacturer or retailer
- The customer is entitled to benefits described if they have a valid claim, rather than just a right to have their claim considered
- It covers additional costs and losses such as accidental damage or theft
- It covers normal wear and tear. (Australian Securities and Investments Commission).

Insurance sales need additional authorization.

General consumer protection provisions prohibit misleading or deceptive conduct, making false or misleading representations related to promotion of financial services and the sale of goods. Consumer law also sets out rights that provide consumers with certain remedies if there is a problem with their

goods or services. These remedies may include repair, replacement or refund, or in some cases, compensation for damages and loss.

Merchants cannot misrepresent the consumer's rights under the consumer guarantees or lead consumers to pay additional fees for rights they already have under the guarantees. These misrepresentations may involve a breach of the *ASIC Act*, Australian Consumer Law provisions or both.

Recent ACCC actions have led warranty providers to revise sales materials, improve staff training and be subject to additional monitoring of their sales practices. Under court enforceable undertakings, Domestic & General Services, and Yoogalu will improve selling practices and follow similar undertakings made with Lumley and Virginia Surety Company Inc to ensure more Australian retailers receive compliance training and have selling practices monitored in the future. (Halliday 2017)

United Kingdom

The *Consumer Rights Act 2015* (CRA 2015) provides protection such that if goods bought from a retailer aren't of satisfactory quality, fit for purpose and as described, consumers have the right to return them and get a full refund within 30 days. Between 30 days and six months, the burden of proof sits with the retailer. It is up to them to prove that the consumer caused the problem with the goods. Otherwise, retailers have to repair or replace the goods or provide a refund if that's not possible.

After six months, the burden of proof shifts to the consumer, who has to prove that faults are *not* because of misuse or general wear and tear. Consumers have up to six years from purchase to take a claim to small claims court and reclaim the cost of repair of the product.

These protections are apart from whatever warranty comes from the manufacturer or retailer at the time of sale.

Under the Supply of Extended Warranties on Domestic Electrical Goods Order 2005, extended warranty purchasers must be provided with a number of pieces of information, including their statutory rights, cancellation rights, consumer rights if the company goes out of business, notice of the 45-day calling off period, and the price of extended protection must be displayed

alongside the electrical item when on display in the store and advertised. (In Brief)

France

French sellers of consumer goods are obligated to guarantee the goods for a period of two years after their delivery. The ‘burden of proof’ that the goods are suitable for normal use rests with the seller for the entire two years (except for second-hand goods, where the burden of proof switches after six months).

Sellers must first offer a repair or replacement, according to the consumer’s wishes free of charge. If that’s impossible, a refund or reduction of the purchase price may be available. The law is unclear, however, whether the repaired or replaced product is covered by a new guarantee. (Your Europe)