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Before you or your customers sign on with
an automotive service warranty company,
be sure that everyone understands
what is — and isn't — covered.

By Mark Giammalvo
Contributing Editor

If you were to ask me where most of my phone time is spent lately, I would not say it was with my family, friends or even my customers. Like many service providers, I am spending a greater amount of time dealing with warranty adjusters. With the advent of more customers purchasing after-market warranties, I find that I am getting to know more warranty adjusters on a first-name basis.

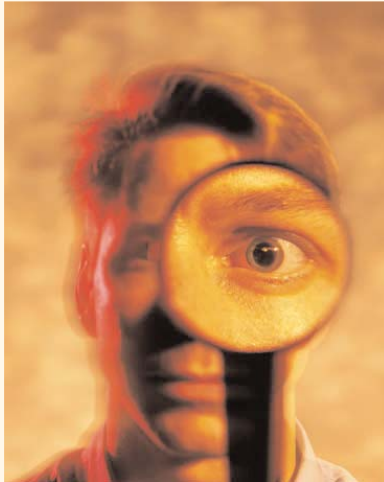
Understanding the policies of these warranty companies can be a little challenging to the first-time caller, too. Quite often, I will ask for a copy of the customer's warranty contract or "certificate of coverage" before I speak to an adjuster. This helps avoid what can frequently be a 30-minute or greater wait on hold. Generally, the contract clearly states what is, and is not, covered. However, sometimes there can be foggy areas within the contract.

For the most part, today's automotive service contracts come in two versions: the "stripped" and the "loaded" models. Let's examine some of the common provisions you will find in each type of coverage. However, remember that each warranty company has its own specific coverage limitations for policies, and both the service provider and customer should understand them thoroughly.

BARE BONES

In some of these stripped contracts, the owner is required to add chemicals, which are supplied by the warranty company, to the engine, transmission and differential fluids. In these contracts, only "lubricated components" are covered. The warranty company is basically stating that their chemicals are warranting and protecting the lubricated parts against failure. In these types of con-

tracts, covered lubricated parts typically include crankshaft, bearings, oil pump, timing gears, camshafts, internal transmission and differential components. For additional fees, a customer can add protection to cover the A/C compressor, water pump, radiator, power steering pump, fuel pump, fuel injectors and a few other items.



In these types of "bare bones" contracts, many customers are surprised to learn that the head gasket is not covered. The warranty adjuster will be quick to point out that it is not a lubricated component. Generally, gaskets and seals are only covered if they have to be replaced in accordance with a covered components failure. In other words, a head gasket is only

covered if the gasket must be removed as part of a procedure to service a covered lubricated component.

These warranties usually have a labor cap of \$50 per hour. Diagnosis is not covered, and it is the customer's responsibility, as well as taxes, fluids and Freon. The labor often is capped at the flat-rate book time. Recently, I have seen cases where the adjuster looks in several flat-rate guides and pays the lowest time found.

As a shop owner, you may want to request that the vehicle owner pay any unapproved difference, such as the difference between the labor rate cap and the shop's labor rate, if higher. Also, if the shop is not a flat-rate shop or does not agree to the time given, the customer may be billed for this difference as well. Just make sure to clear up that point before performing any work. Our shop sometimes will "eat" this difference, but only if we sold the warranty to the customer.

Rental car expense is strictly limited to a verifiable parts delay and is not allowed for delays caused by shop scheduling issues. The cap on rental cars is normally a total of \$90, which is figured to be a three-day max-

covered portion of the diagnostic work (if any) (Read appendix 1) (Read appendix 2) (Read appendix 3) (Read appendix 4) (Read appendix 5) (Read appendix 6) (Read appendix 7) (Read appendix 8) (Read appendix 9) (Read appendix 10) (Read appendix 11) (Read appendix 12) (Read appendix 13) (Read appendix 14) (Read appendix 15) (Read appendix 16) (Read appendix 17) (Read appendix 18) (Read appendix 19) (Read appendix 20) (Read appendix 21) (Read appendix 22) (Read appendix 23) (Read appendix 24) (Read appendix 25) (Read appendix 26) (Read appendix 27) (Read appendix 28) (Read appendix 29) (Read appendix 30) (Read appendix 31) (Read appendix 32) (Read appendix 33) (Read appendix 34) (Read appendix 35) (Read appendix 36) (Read appendix 37) (Read appendix 38) (Read appendix 39) (Read appendix 40) (Read appendix 41) (Read appendix 42) (Read appendix 43) (Read appendix 44) (Read appendix 45) (Read appendix 46) (Read appendix 47) (Read appendix 48) (Read appendix 49) (Read appendix 50) (Read appendix 51) (Read appendix 52) (Read appendix 53) (Read appendix 54) (Read appendix 55) (Read appendix 56) (Read appendix 57) (Read appendix 58) (Read appendix 59) (Read appendix 60) (Read appendix 61) (Read appendix 62) (Read appendix 63) (Read appendix 64) (Read appendix 65) (Read appendix 66) (Read appendix 67) (Read appendix 68) (Read appendix 69) (Read appendix 70) (Read appendix 71) (Read appendix 72) (Read appendix 73) (Read appendix 74) (Read appendix 75) (Read appendix 76) (Read appendix 77) (Read appendix 78) (Read appendix 79) (Read appendix 80) (Read appendix 81) (Read appendix 82) (Read appendix 83) (Read appendix 84) (Read appendix 85) (Read appendix 86) (Read appendix 87) (Read appendix 88) (Read appendix 89) (Read appendix 90) (Read appendix 91) (Read appendix 92) (Read appendix 93) (Read appendix 94) (Read appendix 95) (Read appendix 96) (Read appendix 97) (Read appendix 98) (Read appendix 99) (Read appendix 100)

imum at \$30 per day.

Often, these warranties can be purchased in terms of either three-years/36,000-miles or four-years/48,000-miles. Because of surcharges for 4x4 and “exotic” cars, such as Volvo, Acura or BMW, these warranties can range in purchase price from \$400 to \$750. These contracts will typically have a \$3,000 single repair cap and a \$4,000 maximum cap per life of the contract. In essence, the customer has purchased a limited-component/limited-time \$4,000 insurance policy. If the car needs a \$2,800 transmission, the customer only has \$1,200 left on the policy for all future repairs. Few customers learn of this limit until they have had two large repairs and have to dig into their wallets.

HIGH-END

The loaded high-end contracts can offer much greater protection, as well as longer terms. Many of these contracts will cover items that the vehicle’s original warranty covered. In these types of contracts, no chemicals are required to be added to the fluids. Terms of these high-end contracts can be as long as seven-year/100,000-miles and can cost upwards of \$1,800. They may have a \$100, \$50 or zero deductible depending on what the customer authorizes at purchase.

Often the customer will purchase what is known as a \$50 “disappearing deductible.” This is a deductible that is waived if the repairs are done by the dealer or shop that sold the contract. If you sell warranties, this is a neat way for your shop to participate in not only reducing the customer’s future repair expense but to provide an incentive for the customer to return to your facility for the repairs.

These high-end contracts are extensive and can cover all major lubricated mechanical components, including gasket failures. In addition, coverage often will include power door locks, power antenna, power windows, power seats, cruise control, gauges, ABS sensors, ABS pump, ABS modulator, starter, alternator, wiper motor, wiring harnesses and hand-operated switches.

STRIPPED vs. LOADED Comparing typical service warranties

“STRIPPED” OR LOW-END	TERMS AND COST	“LOADED” OR HIGH-END
Typically three-years/36,000-miles or four-years/48,000-miles. Surcharges for 4x4 and “exotics” like Volvo, Acura mean prices range from \$400 to \$750		As long as seven-year/100,000-miles and can cost upwards of \$1,800. May have \$100, \$50 or zero deductible. “Disappearing deductible” common if repair done by shop selling warranty
A/C compressor, water pump, radiator, power steering pump, fuel pump, fuel injectors and a few other items often covered at extra cost	COVERAGE NOTES	Coverage can be extensive including most electronics. Can include all major lubricated mechanical components.
Not covered unless replacement is needed due to a covered repair.	HEAD GASKET	Often covered.
Owner may be required to add chemicals supplied by the warranty company, to cover “lubricated components.”	CHEMICAL ADDITIVE REQUIREMENTS	Typically no chemical additives required.
Typical labor cap of \$50 per hour. Time amounts capped at flat-rate book time.	LABOR	Typically no per-hour cap. Labor time amounts are still paid out based on the flat-rate manual.
Not covered.	DIAGNOSIS	Typically one hour of diagnostic time per invoice regardless of number of specific complaints.
Strictly limited to a verifiable parts delay. Typical cap of \$90 or \$30 per day.	RENTAL CAR	Typically, \$30 per 8-hours of repair time to \$150/breakdown. Additional days for verifiable parts delay. Towing cap of \$50/occurrence.
Typically a \$3,000 single repair cap and a \$4,000 total cap per life of the contract.	PAYOUT LIMITS	The limit of all repairs during the contract typically equal to the price paid for the car or current NADA “trade-in” value of the car.

These contracts also will pay for diagnostic time. Generally, they allow one hour of diagnostic time per invoice. Meaning that, no matter how many complaints are on the repair order, the diagnostic time for the invoice caps at one hour. The customer either lives with that or holds off and has you open up another repair order at a later date for the second problem. Labor time amounts are still paid out based on the flat-rate manual. However, these contracts often do not have a labor cap on what you charge per hour. I have seen cases where some facilities will charge a slightly higher labor rate to these warranty companies to help offset their time waiting on the phone for adjuster approval. It makes sense to me because the adjuster is not likely to approve an extra 40 minutes of labor waiting on hold for them. You might say that automotive service personnel have learned to be just as crafty as the warranty personnel.

Limits of liability on these contracts are generally a “once repair” that is equal to the current National Auto Dealers Association (NADA) “trade-in,” or wholesale, value of the car. The limit of all covered repairs during the contract will typically be equal to the price paid for the car. This is always disclosed on the warranty contract at time of purchase.

Rental car expense typically is expanded to include a rate of \$30 for every “eight-hour portion of labor time required to complete a covered repair, up to a maximum of \$150 per breakdown.” An additional two days rental is allowable if there is a verifiable parts delay. Towing is paid at a maximum benefit of \$50 per occurrence.

I’LL DO THIS ... IF YOU’LL DO THAT

In both types of contracts the customer has to satisfy certain obligations for the warrantor. The customer must change the

oil at least every six months or 5,000 miles, whichever comes first or at the interval stated by the vehicle manufacturer. The timing belt must be replaced at the interval recommended by the manufacturer.

The customer must maintain and provide all maintenance documentation in the event the warrantor requests it. The service facility must obtain authorization from the warrantor prior to beginning any repair. Again, they pay towing at a maximum benefit of \$50 per occurrence.

EXCLUSIONS

Typical coverage exclusions include

- A gradual reduction in performance due to day-to-day routine operation.
- Breakdowns caused by lack of proper fluids.
- Pre-existing damage and breakdowns prior to contract purchase.
- A breakdown caused by overheating, rust or corrosion.
- Breakdowns caused by racing, fire, freezing, lightning, earthquakes, windstorms, hail, water, acts of public enemy or any government authority.
- All parts not covered by the original manufacturer's warranty.
- C/V joint boots, spark plugs, ignition wires, distributor cap, rotor, batteries, filters, fluids, wiper blades, brake pads, brake shoes, rotors, drums, suspension alignment procedures, tires, wheel balancing procedures, shocks, exhaust (other than manifold), glass, lamps, bulbs, moldings, trim, upholstery, paint, sheet metal, framework, welds, aftermarket accessories, non-factory radio, sunroof and alarm systems.
- To my surprise, all navigation systems, even factory-installed, are not covered. Not a very nice exclusion to the guy buying a used 2000 Acura 3.2 TL with navigation.
- Any vehicle with a snowplow or any vehicle that has been used to plow snow is not covered.

Be aware that often sales tax is up to the whim - or lack of knowledge - of the adjuster. We probably process about 50 aftermarket warranty claims per year. In all of the claims we processed in 2002, not once was the Massachusetts parts sales tax covered. So far, in nine claims this year, they covered the tax on every one except the most recent claim. When I questioned the adjuster about it, and informed him that the company paid the sales tax in the past, he gave me one of those standard responses: "If an adjuster paid sales tax in the past, it was paid in error." Well, I guess those other nine adjusters were all mistaken.

FINAL POINTS


In closing, here are a few other considerations to keep in mind. Most of these aftermarket warranties have a cool way of getting around some repairs. Be sure to look in the "Exclusions" section of the contract for this clause: "Any cost or other benefit for which the vehicle manufacturer has announced its responsibility through any means including public recalls or factory service bulletins." If you ask me, that statement protects the war-

rantor from about half of all the repairs out there.

Let's face it: Half of the items we fix are called out in a service bulletin. The only light at the end of the tunnel on this subject is the fact that not all adjusters take the time to look up the service bulletins. In other words, if you're not asked, don't tell. Case in point: For a while, the warranty adjusters were paying for the late 1990s model GM 3.8-liter engine cooling leak that required redesigned intake manifolds. However, in a recent attempt to call that repair in for a customer, the adjuster promptly replied: "No way, we've paid for too many of those. It's a service bulletin now anyway, and we don't cover repairs listed in bulletins."

I guess it took them a while, but they finally figured it out. I think once the adjusters see a large pattern of the same failures coming in they investigate to see if it's outlined in a bulletin. If it is, they are off the hook for that repair on that model car forever.

Finally, expect some resistance by the adjusters from time to time over parts pricing. Sometimes the adjusters will put a price cap on parts such as A/C compressors and alternators. Sometimes the price is less than even the cheapest aftermarket part we can find. When I challenge the adjusters, they give me a toll-free phone number of a company that they claim I can purchase the part from at reasonable price. Now you have a problem in that there is not much room given for your parts markup. Unfortunately, that's a case where the customer should be billed the difference. Perhaps the smarter customers will complain enough to the warranty company to get the difference back.

Working with warranty companies can be a headache, but it also can provide a boost to your shop's customer retention efforts. You and your customers will benefit when you both understand the limitations of the policy and the fine print of the exclusions. Hopefully, we've also given you some insight in how to handle your future phone conversations with aftermarket warranty adjusters. 

OUT ON A LIMB

For those of you who have seen premature timing belt failures on Mazdas, generally the customer is out on a limb. On many Mazda 626 models, the timing belt can fail outside the Mazda warranty, yet inside the aftermarket warranty. In these instances, the aftermarket warranty adjuster points to the factory as being at fault since the belt did not make it to the first specified interval. Customer assistance at Mazda rarely results in any help from them, in my experiences. In the end, the customer pays for the belt. Generally, they do not cover maintenance items anyway, but this can be a troublesome loophole that you, as the service provider, are left explaining to your customer.

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