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PCI Provides Consumer Tips on Buying Vehicle Service Contracts

CHICAGO – The Property Casualty Insurers Association of America (PCI), an insurance trade association representing companies that provide vehicle service contracts, strongly condemns the overly aggressive and potentially illegal marketing tactics of a few companies selling vehicle service contracts.

In light of Federal Trade Commission suits in federal court and attorneys general from around the country investigating a few companies for alleged unethical and misleading sales practices, PCI is coming forward with tips and information that can help consumers make sound decisions regarding the purchase of a vehicle service contract, sometimes referred to as an extended warranty.

"A vehicle service contract can be a wise investment," said Alex Hageli, director of personal lines for PCI. "During this challenging economic environment, consumers are looking for ways to make their dollar go farther and their budgets more bulletproof. They also are holding off on major purchases, such as new vehicles. Because the risk of major component failure increases with vehicle age, consumers may face unexpected expenses. Depending on a consumer's personal risk preference, a vehicle service contract may help defray these costs."

However, not all vehicle service contracts or the companies that provide them are the same. There are important differences that should be taken into consideration and PCI encourages consumers to shop around for the product and provider that best suits their needs.

"There is a lot of confusion due to the marketing practices of a few companies and consumers should be cautious regarding solicitations that violate the Do Not Call list or place undue pressure on them to make a purchase," said Hageli. "There are many reputable companies who offer these products and consumers would be well served to do their homework, when looking to make an investment in protecting their vehicle."

If a consumer is considering a VSC purchase, they should consider these top five questions:

- 1. *Is the contract easy to understand?*** Read the coverage terms before you purchase the contract. Companies that clearly state the scope of their coverage in the body of the contract are the ones with which consumers want to do business.
- 2. *Do the coverage terms and limits make sense for your personal situation?*** Every situation is unique, but there are a few basic questions every consumer should ask:
 - Does the term and mileage of the VSC make sense to you, considering how long you plan to own the vehicle or how you plan to use it?
 - Are you comfortable with the deductible that you would pay in the event of a loss?
 - Does the VSC offer additional benefits, such as rental coverage or trip interruption?

- Can you cancel the contract if you change your mind or sell the vehicle, and what sort of refund can you receive?

3. *Who is providing the coverage?* As a general rule, consumers should look for VSCs that give them the right to make a claim against a licensed insurance company, preferably with a financial strength rating of “Excellent” (A- or better) from A.M. Best Co. This is the rating agency for the insurance industry, and consumers can look up ratings at www.ambest.com.

Consumers also can ask how long the company has been in business. Companies that have been selling VSCs for many years not only have demonstrated a commitment to the product and the market, they also are focused on developing long-term, repeat customer relationships. This translates to better customer service.

4. *Is it easy to receive coverage benefits?* Is the repair process simple & convenient? Reputable VSC companies try to make the process of both purchasing and servicing the service contract as easy for the consumer as possible. Consumers should investigate how claims are paid. Does the VSC provider pay claims directly or does the consumer have to pay first and then seek reimbursement? Are there limitations on where vehicle can be repaired? A required reimbursement process, limitations on repair facilities and lengthy approval processes can all add complexity and time to the claims process.

5. *Are you comfortable with your provider?* Use your common sense. Make sure you are dealing with a nationally recognized company that has been in the business for a period of time that demonstrates a long-term commitment to the VSC product and their customers. Ask yourself if the price seems reasonable for the level of coverage you are getting. If it seems too good to be true, it probably is.

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association. PCI members write over \$176 billion in annual premium, 35.9 percent of the nation’s property casualty insurance. Member companies write 43.8 percent of the U.S. automobile insurance market, 29.6 percent of the homeowners market, 32.8 percent of the commercial property and liability market, and 38.4 percent of the private workers compensation market.

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