

Delaceys of Huddersfield

Servicing ties removed from new car warranties

OFT action gets greater choice for consumers over new car servicing

85/04 14 May 2004

All major makes of new car in the UK will in the future be sold without servicing ties as part of their warranties, following action by the OFT.

The remaining manufacturers whose new car warranties included servicing ties have all now lifted their servicing restrictions (see note 1). Consumers will now be able to choose freely where they have their new car serviced.

The move comes after an OFT study into new car warranties (see note 2) found that the 'dealer-based extended warranties' (see note 3) offered by many manufacturers included terms requiring that new cars be serviced at a garage belonging to the manufacturer's franchised dealer network, limiting consumers' ability to choose where to have their car serviced.

The OFT recommended that the industry lift these ties to improve consumer choice and aid the development of more effective competition in the car after-sales market.

John Vickers, OFT Chairman, said:

'The car industry's response to the OFT's recommendations to remove servicing restrictions is good news. Consumers should now benefit from increased choice and competition between franchised and independent garages.'

The lifting of the ties has avoided the possibility of formal action by the OFT under EC competition law (see note 4).

Franchised dealers have been carrying out around 90 per cent of servicing of cars up to three years old. However, servicing at franchised dealers is typically more expensive than servicing at independent garages, averaging £199 and £116 respectively, without any apparent difference in the quality of the service offered.

When getting a car serviced consumers are advised to shop around and only use reputable garages that will carry out servicing work in line with the car manufacturer's service schedules. Car maintenance records must be completed and receipts for work should be retained in case problems with a warranty claim arise.

The OFT also encourages consumers to compare warranties when looking for a new or nearly-new car to make sure they get the best overall deal possible. The consumer advice leaflets 'Buying a new car?' and 'How to get a better deal from your garage' are available by telephone from 0870 60 60 321.

NOTES

1. Manufacturers who had servicing restrictions and lifted them following the OFT's recommendations were: Citroen, Ford, BMW, Volkswagen, Peugeot and DaimlerChrysler. Renault and MG Rover removed their servicing restrictions before the OFT study was published.

2. The OFT published a study into the effect of car warranties on the car after-sales market in December 2003. At the time of the OFT study about half of all new cars were sold with warranties that included servicing restrictions. The OFT found that customers were often unaware of the options available to them when choosing a garage, and that over two thirds of customers assumed that their warranty would be invalidated if they used an independent garage, even where this was not the case. The quoted estimates of cost for car servicing are from the Department of Trade and Industry's mystery shopping research, Car Servicing and Repairs, DTI URV02/1293 (2000), and assume one service per year.

3. The costs of after-sales service and repairs on average equate to about 40 per cent of the lifetime cost of a car. Over 2.5 million new cars are sold in the UK every year. All new cars come with a manufacturer's warranty, generally running for one to three years, covering the premature failure of components due to manufacturing defects. Many manufacturers also offer, at no additional charge, 'dealer-based extended warranties' that take the total period of cover to three years. Under the terms of many of these extended warranties, and some manufacturers' warranties, the car had to be serviced at a garage belonging to the manufacturer's franchised dealer network.

4. In its report the OFT said that it would consider taking formal action under Article 81 of the EC Treaty if the industry did not take satisfactory steps to meet OFT's recommendations on servicing restrictions. National competition authorities such as the OFT have been empowered directly to apply the EC competition rules since 1 May.