

# EQUIPMENT CLAIM TIMES

## A Newsletter From Equipment Damage Consultants

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### Are Computer Extended Warranties Covered?

This is a question that has been answered differently by many claims representatives that we have worked with for the first time. Some have always allowed the cost of the extended warranty on a replacement computer to the same extent as the original unit, e.g., a three-year in home repair service. Other claims representatives have pro-rated the warranty cost based on the difference between the purchase date and the D.O.L.

However, the answer to this question is that computer, as well as most other electronics and appliance extended warranties, should not be considered a claimable cost. There are several reasons for this outlined below:

1) Most manufacturer and third party extended warranties are already cancellable and reimbursable on a prorated basis. Therefore, it is the Insured's responsibility to seek direct reimbursement after a computer loss from the owner of the extended warranty. HP and Sony computer and most camera and appliance extended warranties that we have reviewed contain a cancellation and refund term that allows cancellation of the contract at any time and for any reasons, with a refund of the prorated cost of the extended warranty. Dell, as usual, is somewhat different in their extended warranty policy. For Dell, the contract or service plan is fully refundable within the first 30 days, but cancellation after that time will result in the loss of a single year of the plan. Therefore, if a three year extended warranty was purchased by the Insured and the Dell computer was stolen/damaged in a coverable loss 60 days after purchase, Dell would only refund two-thirds (the 2nd and 3rd year) of the extended warranty cost.

This is the primary reason why extended warranties are not a claimable expense. In addition:

2) Extended warranties are formally considered service plans and thus are not actually covered property.

3) Extended warranties are informally considered insurance by the financial community as well as many computer repair services. When a problem occurs with the product, "claims" are sent into a "claims department" before or after repair of the unit. They simply cannot be called insurance because they would be subjected to requirements of individual State Insurance Departments. The fact is that almost all extended warranties are underwritten by one of four major or several additional specialty insurance companies. Claiming coverage of the extended warranty cost under a property claim would essentially be using the residential or commercial policy as re-insurance.

4) Extended warranties or service plans on computers or other electronics are very similar in terms and conditions as those offered on automobiles. Auto insurance does not cover the remaining cost of an extended warranty if the car is "totaled".

Since manufacturer and third party extended warranties are not subjected to the rigor of State Insurance Department requirements, we still must recommend reading the terms and conditions of the individual warranty or service plan prior to making any claims decisions.

It is interesting to note the difference between a manufacturer's limited warranty and an extended warranty. The initial warranty commonly only covers parts and labor to repair any manufacturer's defects with the product. The term of such warranties may be 30 days to several years, but for computers are usually one year in length. Of consideration here is that any manufacturer's limited warranty beyond 60 days is practically meaningless, since it is estimated that 95% of the failures that would occur (and can be shown to be) due to manufacturing defect will occur within 30 days of first use of the computer.

An extended warranty or service plan, on the other hand, can address repair or replacement costs associated with numerous additional causes of failure, including failures from wear & tear. Some also cover power surge and accidental damage "in excess of any other insurance coverage".

On a "buyer beware" note, we read the terms and conditions of an extended warranty plan from one un-named provider of residential electronic products that excluded original manufacture defect, accidental damage, lost or stolen products or parts, electrical surge, consumable parts, no problem found diagnoses, image burn, etc., etc. Great deal for the warranty provider, what else is left?

## Question from Last Newsletter

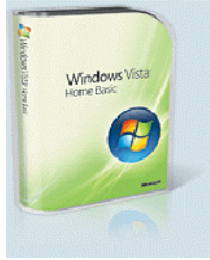
Submitted by Hope Tower of The Rockingham Group:

My question is about software compatibility? If an insured had XP on their computer, & then it was stolen, damaged, etc., the replacement computer most likely will have Vista as the OS. Even if they had the re-installment CD, will the software be compatible with the new OS?

EDC Reply: That is a great question that I have personal experience with, recently purchasing a new laptop pre-loaded with Vista (which is an onerous operating system). Most of my software, including MS Office 2003 and all other MS applications (of course) loaded and ran fine under Vista. However, my Adobe Acrobat program (PDF writer) would not function without upgrading to the current Adobe release. If I had to do it over again, I would have scrapped Vista and re-installed XP from the original installation disk.

Therefore, there are a couple of claim options here. Most computers can still be ordered with XP. I have noticed that even Dell and HP have recently started offering this option for many models through their on-line systems again. Even if the option is not available on-line, I have found that a phone call to a sales rep. will typically allow the purchase of computer with XP instead of Vista, usually at no additional charge (XP Home for Vista Home at least). The second option, for the computer-comfortable Insured, is to recommend re-loading XP to maintain their original software functionality.

In short, the new Vista OSS currently has no impact on computer claims. However, that will not last forever as XP will eventually become obsolete.



Please address any comments or questions on these articles via email to Mark Krzyzanowski at [mark@eqdamcon.com](mailto:mark@eqdamcon.com). Please also feel free to suggest newsletter article topics related to technology equipment and property claims.

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