

# SENATE BILL REPORT

## SB 6624

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As Reported by Senate Committee On:  
Financial Institutions, Housing & Insurance, February 3, 2010

**Title:** An act relating to defining normal wear and tear for a motor vehicle for the purpose of a service contract.

**Brief Description:** Defining normal wear and tear for a motor vehicle for the purpose of a service contract.

**Sponsors:** Senators Berkey and Parlette.

**Brief History:**

**Committee Activity:** Financial Institutions, Housing & Insurance: 1/26/10, 2/02/10, 2/03/10 [DPS, DNP, w/oRec].

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### SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

**Majority Report:** That Substitute Senate Bill No. 6624 be substituted therefor, and the substitute bill do pass.

Signed by Senators Berkey, Chair; Hobbs, Vice Chair; Franklin, McDermott and Parlette.

**Minority Report:** Do not pass.

Signed by Senator Schoesler.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Benton, Ranking Minority Member.

**Staff:** Diane Smith (786-7410)

**Background:** Service contracts are regulated by the Office of Insurance Commissioner (OIC). Service contracts are agreements whereby the customer buys what functionally is insurance for repairs, replacement, or maintenance of property, for operational or structural failure due to a defect in materials or workmanship, or normal wear and tear.

The company that is obligated to the customer under the service contract, called the service contract provider, must register with the OIC. It is also required to demonstrate its financial responsibility or assure its faithful performance under the contract.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

There are three options for the service contract provider to comply with this requirement. It may insure its service contracts with a reimbursement insurance policy; maintain a reserve account that includes at least 40 percent of the gross consideration received for all service contracts and give the Insurance Commissioner a financial security deposit of at least 5 percent of the gross consideration received; or maintain or have its parent company maintain, a net worth of stockholders' equity of at least \$100 million.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Recommended Substitute):** The definition of service contract is amended to include contracts to repair or replace tires, wheels , or both, due to road hazards. Tire or wheel manufacturers and motor vehicle manufacturers are exempt from regulation of service contracts by the OIC.

**EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, HOUSING & INSURANCE COMMITTEE (Recommended Substitute As Passed Committee):** Two clarifications are made. Sellers who commit to repair a product, when that promise is without charge, do not have to register with OIC. Road-hazard insurance for tires and wheels may be sold separately, regardless of whether another product has been sold at the same time.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony on Proposed Substitute As Heard in Committee:**  
PRO: These products should be subject to service contract laws and solvency guarantees. They don't compete with admitted insurance products. Without this bill, there is no specific authority for these benefits to be made available.

OTHER: Car dealers do sell this product. The bill requires evidence of financial responsibility. This would be appropriate if there were evidence of a problem. This bill removes dealer-provided products from the market. What about dealers who provide this benefit without charge?

**Persons Testifying:** PRO: Mel Sorensen, Service Contract Industry Council; Drew Bouton, OIC.

OTHER: Scott Hazlegrove, Washington State Auto Dealers Association.