

# SENATE BILL REPORT

## SB 5869

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As Passed Senate, March 13, 1999

**Title:** An act relating to regulating service contracts.

**Brief Description:** Regulating service contracts.

**Sponsors:** Senators Prentice, Hale and Winsley; by request of Attorney General.

**Brief History:**

**Committee Activity:** Commerce, Trade, Housing & Financial Institutions: 3/2/99, 3/2/99 [DP].

Passed Senate, 3/13/99, 43-0.

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### SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

**Majority Report:** Do pass.

Signed by Senators Prentice, Chair; Shin, Vice Chair; Benton, Gardner, Hale, Heavey, Rasmussen, T. Sheldon, West and Winsley.

**Staff:** Dave Cheal (786-7576)

**Background:** Many retailers sell service contracts on such merchandise as household appliances and electronics in addition to the warranty provided by the manufacturer of the product. If the retailer goes out of business before the expiration of the contract, the consumer may have a contract that is worthless.

**Summary of Bill:** Service contract providers, whether retailers or independent sellers of service contracts, must assure performance under the contract by one of two means: (1) insuring all contracts under a reimbursement insurance policy issued by an approved insurer, or (2) maintaining a funded reserve account to cover its obligations under all service contracts it issues in the state. Reserve accounts are secured by a deposit held in trust by the Insurance Commissioner. Service contract issuers with a net worth of \$100 million or more may satisfy the security requirement by filing their own, or their parent company's most recent Form 10-K filed with the Securities and Exchange Commission, or audited financial statements.

Reimbursement insurance policies must ensure all obligations under the service contract, rather than insure only in the event of contract provider default. Service contracts are required to contain certain important information such as how to file a claim, whether the insured must look to the provider or an insurer for reimbursement under the policy, and the procedure for obtaining emergency repairs.

Service contract providers must register with the Insurance Commissioner, maintain certain reporting requirements, and renew their registration annually. The commissioner may

revoke or suspend a contact provider's registration for violations of the statute, rules or orders issued under the act, and assess a fine of up to \$2,000. Violations of the act are also violations of the Consumer Protection Act, which provides consumers with a private right of action, and allows the state to bring enforcement actions.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Testimony For:** Retailers sometimes offer service contracts on products they sell in addition to the manufacturers warranty. Consumers pay for these contracts, which sometimes become worthless if the retailer or other service contract seller goes out of business before the end of the contract term. This has happened in Washington, costing consumers a great deal of money.

**Testimony Against:** None.

**Testified:** PRO: Christine O. Gregoire, Attorney General; Jim Tompkins, OIC; Jan Gee, Washington Retail Association.