

SENATE BILL REPORT

SB 6042

As of January 18, 2018

Title: An act relating to service contract providers.

Brief Description: Concerning service contract providers.

Sponsors: Senators Hobbs, Angel and Mullet.

Brief History:

Committee Activity: Financial Institutions & Insurance: 1/11/18.

Brief Summary of Bill

- Replaces the term "solvency" for service contract providers and protection product guarantee providers with a minimum net worth or stockholder's equity requirement of \$200,000 or more.
- Specifies how a company's net worth or stockholder's equity is calculated.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Staff: Jeff Olsen (786-7428)

Background: Service contract providers and protection product guarantee providers are regulated by the Office of the Insurance Commissioner (OIC). A service contract is a contract for a separately stated consideration and for a specified duration to perform the repair, replacement, or maintenance of property or to insure a person for the repair, replacement, or maintenance of property. A protection product guarantee means a written agreement by a protection product guarantee provider to repair or replace another product or pay incidental costs upon the failure of the product to perform pursuant to the terms of the protection product guarantee.

To provide assurance as to its financial viability, a service contract provider and a protection product guarantee provider applying for registration in Washington must submit the most recent audited annual financial statements, or if not available, the most recent financial statements which prove that the applicant is solvent.

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.

Summary of Bill: Solvency for a service contract provider or protection product guarantee provider is replaced with a minimum net worth or stockholder's equity requirement of \$200,000 or more.

A service contract provider that uses an insurance policy to assure the performance of its obligations to service contract holders must calculate the minimum net worth or stockholder's equity in accordance with generally accepted accounting principles as set forth by the financial accounting standards board. A service contract provider may elect to use statutory accounting principles in lieu of generally accepted accounting principles if it so chooses.

A service contract provider that does not use an insurance policy to assure the performance of its obligations to service contract holders must calculate the minimum net worth or stockholder's equity in accordance with generally accepted accounting principles as set forth by the financial accounting standards board. Certain assets that are not immediately available when calculating net worth or stockholder's equity must be excluded.

Items that may be included in a home service contract include plumbing, electrical, and heating and cooling systems, including items intended to be attached or installed on any real property.

Appropriation: None.

Fiscal Note: Not requested.

Creates Committee/Commission/Task Force that includes Legislative members: No.

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

Staff Summary of Public Testimony: PRO: This bill would get Washington laws for the service contract providers more in line with other states and provide more options for consumers and lower prices. The goal of the bill is to create consistency and certainty to the industry. Definitions are clarified and details are provided for how to calculate net worth.

OTHER: OIC supports some of the changes being proposed in the bill, but is seeking clarifying language. There is a concern about the calculation of net worth, the level of fiscal responsibility, and certain accounting principals that are too vague.

Persons Testifying: PRO: Mel Sorensen, Service Contract Industry Council; Property Casualty Insurers Association of America; Stephen McDaniel, Service Contract Industry Council.

OTHER: Lonnie Johns-Brown, Legislative Director, Office of the Insurance Commissioner.

Persons Signed In To Testify But Not Testifying: No one.