

# HOUSE BILL REPORT

## HB 1006

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**As Passed House:**

January 30, 2025

**Title:** An act relating to regulating service contracts and protection product guarantees.

**Brief Description:** Regulating service contracts and protection product guarantees.

**Sponsors:** Representatives Ryu, McClintock and Reeves.

**Brief History:**

**Committee Activity:**

Consumer Protection & Business: 1/14/25, 1/21/25 [DP].

**Floor Activity:**

Passed House: 1/30/25, 96-0.

**Brief Summary of Bill**

- Modifies financial responsibility provisions for protection product guarantee providers and service contract providers for motor vehicles.
- Makes changes to requirements for reimbursement insurance policies used by service contract providers and protection product guarantee providers.

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### HOUSE COMMITTEE ON CONSUMER PROTECTION & BUSINESS

**Majority Report:** Do pass. Signed by 15 members: Representatives Walen, Chair; Hackney, Vice Chair; McClintock, Ranking Minority Member; Dufault, Assistant Ranking Minority Member; Abbarno, Berry, Corry, Donaghy, Kloba, Morgan, Reeves, Ryu, Santos, Steele and Volz.

**Staff:** Megan Mulvihill (786-7304).

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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 part of the legislation nor does it constitute a statement of legislative intent.*

**Background:**

Service Contracts and Protection Product Guarantees.

The regulation of service contracts and protection product guarantees is governed by the Insurance Code (Code). Service contract providers, protection product guarantee providers, and providers of service contracts on motor vehicles (providers) are required to be registered with the Office of the Insurance Commissioner (Commissioner) and meet requirements under the Code, including demonstrating financial responsibility or otherwise assuring the faithful performance of their obligations to contract and guarantee holders.

*Service Contracts.*

A service contract is an agreement over and above the lease or purchase price of property, for any specific duration, for the repair, replacement, or maintenance of property. A service contract includes various service agreements for, among other things: the removal of certain dents, dings, or creases on a motor vehicle; the repair or replacement of tires and/or wheels as a result of damage caused by road hazards; and the replacement of a motor vehicle key or key fob. The holder of a service contract may return and void the contract within specified time periods and obtain a refund.

Providers of service contracts specifically relating to motor vehicles are subject to similar requirements as other service contract providers, with some variations.

*Protection Product Guarantees.*

A "protection product" is a substance, device, or system that is designed to protect another product from damage, such as a coating intended to protect paint from sun damage. A protection product guarantee is a written agreement to replace or repair the product that the protection product was designed to protect or pay incidental costs resulting from its damage.

Financial Responsibility.

Providers are required to register with the Commissioner, who may refuse a registration upon a determination that the provider has not, among other things, met the Code's financial responsibility requirements. The Code specifies ways different providers may demonstrate financial responsibility or otherwise assure the faithful performance of their obligations:

<b>Service Contract Providers</b>	<b>Protection Product Guarantee Providers</b>	<b>Providers of Service Contracts on Motor Vehicles</b>
1. Insure all service contracts under a reimbursement insurance policy. 2. Maintain a funded	1. Insure all protection product guarantees under a reimbursement insurance policy.	1. Insure all service contracts on motor vehicles under a reimbursement insurance policy.

<p>reserve account and place a financial security deposit in trust with the Commissioner, subject to specified requirements.</p> <p>3. Maintain, or its parent company maintains, a net worth of stockholder's equity of at least \$100 million.</p>		
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Reimbursement Insurance Policies.

A reimbursement insurance policy is a policy of insurance issued to a provider to reimburse or pay on behalf of the provider all contractual obligations incurred by the provider under the terms of a service contract or protection product guarantee issued or sold by the provider. A policy must be filed with and approved by the Commissioner.

The following requirements apply to reimbursement insurance policies:

1. Policies issued, sold, or offered for sale in Washington must state that the insurer issuing the policy will reimburse or pay on behalf of the provider all sums the provider is legally obligated to pay, or provide the service the provider is legally obligated to perform under the contract or guarantee.
2. Policies must fully insure the provider's obligations under a service contract or protection product guarantee, rather than partially insure or insure only in the event a provider defaults and is unable to perform its obligations under a contract or guarantee.
3. Policies must also state that the holder is entitled to apply directly to the reimbursement insurance company for payment or performance.

**Summary of Bill:**

Financial Responsibility.

The following changes are made to financial responsibility requirements under the Code:

1. Separate financial responsibility requirements for protection product guarantee providers and providers of service contracts on motor vehicles are stricken.
2. Protection product guarantee providers and providers of service contracts on motor vehicles are made subject to the same options for demonstrating financial responsibility as the general service contract providers.
3. The option to satisfy financial responsibility with a reimbursement insurance policy is modified to allow for insuring each service contract or protection product guarantee under a reimbursement insurance policy.

A motor vehicle service contract that is not insured under a reimbursement insurance policy must state: "Obligations of the service contract provider under this contract are backed by the full faith and credit of the service contract provider."

#### Reimbursement Insurance Policies.

The definition of "reimbursement insurance policy" is modified to include an insurance policy issued to a provider to pay on the provider's behalf each contractual obligation incurred in the event of a provider's nonperformance or if the provider is unable to fulfill its contractual obligations to the consumer. A provider may have more than one reimbursement insurance policy concurrently in force.

The following changes are made to reimbursement insurance policy requirements:

1. Policies issued, sold, or offered for sale in Washington must state that the issuing insurer will either: (a) reimburse the provider; or (b) in the event of nonperformance by the provider or the provider is unable to fulfill its contractual obligations to the consumer, the insurer will pay on behalf of the provider all sums the provider is legally obligated to pay or provide the service the provider is legally obligated to perform.
2. Providers may use one or more reimbursement insurance policies, and the reimbursement insurance policy or policies must either: (a) fully insure a provider's obligations; or (b) insure only in the event of a provider's default or failure to perform.
3. A new requirement is established that if a reimbursement insurance policy only pays or provides benefits in the event of a provider's nonperformance, or when the provider is unable to fulfill its contractual obligations, then the policy must also state that in the event a covered service or product is not provided by the provider within 30 days of proof of loss by the holder, the holder is entitled to apply directly to the reimbursement insurance company for payment or performance due. If the provider has ceased operation, the holder may apply directly to the reimbursement insurance company for payment or performance due without waiting 30 days.

If a provider is using multiple reimbursement insurance policies, each policy must be filed with the Commissioner to satisfy the provider's financial responsibility requirements.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

#### **Staff Summary of Public Testimony:**

(In support) Service contracts are thought of as extended warranties by consumers, but these

are different than warranties backed by a manufacturer. Service contracts are purchased separately to provide for the repair or replacement of one's device, appliance, or a key component of one's car, for example. Commonly, service contracts are backed by reimbursement insurance policies. This legislation authorizes service contract and protection product guarantee companies to back their products by more than one reimbursement policy. This enables better risk management. It also authorizes reimbursement for failure to perform, which enables providers to better manage upward pressure on pricing. The legislation creates parity and consistency for financial insurance requirements between vehicle, home, and consumer goods service contracts. The changes provide greater flexibility for these products and can reduce the cost for consumers who wish to purchase service contracts or protection product guarantees. These enhancements are consistent with protections in other states and can help lead to a more stable market and reduced cost. The changes are good for consumers, allowing providers to purchase first dollar, full reimbursement policies and requiring disclosures to consumers when motor vehicle service contracts are backed by the full faith and credit of the service contract versus insured with a reimbursement insurance policy. Consumers are also provided with a clear pathway to seek reimbursement in the event of nonperformance or default. All elements are key and protect consumers.

(Opposed) None.

**Persons Testifying:** Representative Cindy Ryu, prime sponsor; Tom Keepers, Service Contract Industry Council; Travis Moore, Service Contract Industry Council; Rory Paine-Donovan, Office of the Insurance Commissioner; and Tyler Langford, Office of the Insurance Commissioner.

**Persons Signed In To Testify But Not Testifying:** None.