SENATE BILL REPORT
HB 1006

As of March 13, 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: Passed House: 1/30/25, 96-0.
Committee Activity: Business, Financial Services & Trade: 3/13/25.

Brief Summary of Bill

- Revises the type and number of reimbursement insurance policies that service contract providers and protection product guarantee providers may use to demonstrate financial responsibility.
- Adds other methods for service contract providers covering motor vehicles and protection product guarantee providers to demonstrate financial responsibility.
- Specifies when a consumer may apply directly to a reimbursement insurance company for payment or performance due.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: John Kim (786-7453)

Background: Service Contracts and Protection Product Guarantees. A service contract is a contract to perform or indemnify the repair, replacement, or maintenance of consumer products such as motor vehicles, appliances, computers, and electronic equipment. A service contract may be entered into at any time for consideration over and above the lease or purchase price of the property for any specific duration. Service contracts cover operational or structural failure due to a defect in materials or workmanship, or normal wear

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and tear, and may cover damage resulting from power surges and accidental damage from handling, with or without additional incidental payments for certain circumstances.

A protection product is a protective chemical, device, or system formulated or designed to make a specified loss or damage from a specific cause less likely to occur, an example being a paint protection coating. It does not include fuel additives, oil additives, or other chemical products applied to the engine, transmission, or fuel system of a motor vehicle. A protection product guarantee is a written agreement to repair or replace another product, or pay incidental costs upon the failure of the protection product to perform pursuant to the terms of the guarantee.

Registration of Service Contract Providers and Protection Product Guarantee Providers. A person who provides repair, replacement, maintenance, or indemnification coverage through a service contract must register with the Office of the Insurance Commissioner (OIC) as a service contract provider. Likewise, a person who provides coverage for repair, replacement, or payment of incidental costs through a protection product guarantee must register with OIC as a protection product guarantee provider.

The registration requirements do not apply to providers of warranties, maintenance agreements, service contracts purchased on property not for consumer use, vehicle mechanical breakdown insurance, and specified service contracts.

Financial Responsibility Requirements. A service contract provider or a protection product guarantee provider must demonstrate financial responsibility to OIC, or must assure the faithful performance of the provider's obligations to its service contract holders or protection product guarantee holders, respectively.

Financial responsibility requirements vary for service contract providers covering motor vehicles, service contract providers covering property other than motor vehicles, and protection product guarantee providers.

Service Contract Providers Covering Motor Vehicles. A service contract provider covering motor vehicles must insure all service contracts under a reimbursement insurance policy. The policy must be issued by an insurer meeting specified capital requirements. A single reimbursement insurance policy must reimburse or indemnify the service contract provider for all contractual obligations incurred by the provider under the terms of its insured contracts or guarantees. This type of coverage without a deductible is sometimes referred to as a full reimbursement or first dollar contractual liability insurance policy.

Service Contract Providers Covering Property Other than Motor Vehicles. A service contract provider covering property other than motor vehicles must demonstrate one of the following:

- it or its parent company maintains a net worth or stockholder's equity of at least $100 million;

- it maintains a funded reserve account for its service contract obligations of at least 40 percent of the gross consideration received, less claims paid, on the sale of the service contract for all in-force contracts, and places in trust with OIC a financial security deposit of at least 5 percent of the same or $25,000, whichever is greater; or
- it insures all service contracts under a full reimbursement insurance policy meeting the requirements.

Protection Product Guarantee Providers. A protection product guarantee provider must insure all protection product guarantees under a full reimbursement insurance policy, and must prove it maintains a minimum net worth or stockholder's equity of $200,000 and can pay its debts when due.

Summary of Bill: Types and Number of Reimbursement Insurance Policies. Rather than obtaining a full reimbursement insurance policy, a service contract provider or protection product guarantee provider may obtain one or more reimbursement insurance policies paying on behalf of the provider each contractual obligation incurred by the provider in the event of nonperformance by the provider or if the provider is unable to fulfill its contractual obligations to the consumer. This type of policy is sometimes referred to as a failure to perform contractual liability insurance policy.

A service contract provider or protection product guarantee provider is authorized to have more than one reimbursement insurance policy concurrently in force.

Financial Responsibility Requirements. Service contract providers covering motor vehicles and protection product guarantee providers may demonstrate financial responsibility through the same options as currently available for service contract providers covering property other than motor vehicles. Rather than insuring their obligations through reimbursement insurance policies, the providers may elect to demonstrate financial responsibility through either the funded reserve account and financial security deposit option or the $100 million minimum net worth or stockholder's equity option.

For a protection product guarantee provider, the minimum net worth or stockholder's equity requirement of $200,000 remains regardless of whether the provider opts to insure its obligations through reimbursement insurance policies, or elects the funded reserve account and financial security deposit option.

If a service contract provider covering motor vehicles elects to demonstrate financial responsibility through an option other than insuring its obligations, the service contract must contain a disclosure that obligations of the service contract provider under the contract are backed by the full faith and credit of the provider.

Payment or Performance Due Under Failure to Perform Policies. A failure to perform reimbursement insurance policy must state that if the provider does not provide the covered service or product within 30 days of proof of loss by the holder of the service contract or

protection product guarantee, the holder may apply directly to the reimbursement insurance company for payment or performance due. If the provider has ceased operation, the holder may apply directly without waiting 30 days.

Appropriation: None.

Fiscal Note: Available.

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: The OIC worked closely with the Service Contract Industry Council on the bill language. It gives flexibility to service contract providers in terms of the financial backing on the contracts they write, but also maintains strong consumer protections.

The Service Contract Industry Council supports the bill. It enhances the financial assurance requirements for these product providers, bringing it in line with most other states and ultimately improving market stability, provider risk management, and regulatory efficiency. It helps companies resist upward pressures on pricing, keeping these products affordable for consumers.

Persons Testifying: PRO: Travis Moore, Service Contract Industry Council; Tyler Langford, Office of the Insurance Commissioner.

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