

SENATE BILL REPORT

SHB 2886

As Reported By Senate Committee On:
Commerce, Trade, Housing & Financial Institutions, February 24, 2000

Title: An act relating to service contracts.

Brief Description: Making regulation of service contracts applicable to service contracts on consumer purchases only.

Sponsors: House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Barlean, Keiser, Benson and Hatfield).

Brief History:

Committee Activity: Commerce, Trade, Housing & Financial Institutions: 2/22/2000, 2/24/2000 [DP].

SENATE COMMITTEE ON COMMERCE, TRADE, HOUSING & FINANCIAL INSTITUTIONS

Majority Report: Do pass.

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

Staff: Dave Cheal (786-7576)

Background: Many merchants sell service contracts covering the personal property being sold. Service contracts are agreements to repair, replace, or maintain merchandise for a given period of time. Service contracts offer protections in addition to any guarantees that are offered under the warranties provided by the manufacturers, importers, or sellers of merchandise.

In 1999 the Legislature passed a law regulating service contracts. Persons selling service contracts in Washington are required to first register with the Insurance Commissioner. Service contract providers must give consumers a written receipt and a copy of the service contract. The service contract must be written in plain language, must contain certain disclosures, must describe the process for obtaining service and filing a claim, and must state the consumer's duties under the contract. The contract cannot require out-of-state adjudication. Consumers are allowed to return service contracts for a full refund within 20 days of the date the service contract was mailed to them, within ten days of delivery, or within a longer period of time as specified in the service contract. If a claim has been made on the service contract within that period, the contract may not be returned. If the purchase price is not remitted to the consumer within 30 days of the return of the service contract, the service contract provider must pay the consumer a 10 percent penalty per month until the money is refunded.

In addition, service contract providers must ensure the reliability of the contracts they sell by doing one of the following: (1) insuring the contracts under reimbursement insurance policies; (2) maintaining a reserve account of at least 40 percent of the gross receipts of service contract sales and depositing financial security with the Insurance Commissioner; or (3) maintaining a net worth or stockholders' equity of \$1,000,000, and upon request, providing the Insurance Commissioner with a copy of its most recent Securities and Exchange Commission filings.

Summary of Bill: The laws regulating service contracts apply to service contracts related to consumer purchases only. A consumer is an individual purchasing a product primarily for personal, household, or family use.

Appropriation: None.

Fiscal Note: Not requested.

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

Testimony For: The service contract protections were enacted for the benefit of consumers and should not apply to items being sold by one business to another business.

Testimony Against: None.

Testified: Rep. Barlean; Mark Triplett, NC Machinery, NW Cat Dealers (pro); Sally Gustafson, Attorney General Consumer Protection (neutral).