

# SENATE BILL REPORT

## EHB 2309

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As of February 19, 2018

**Title:** An act relating to service contract providers.

**Brief Description:** Concerning service contract providers.

**Sponsors:** Representatives Kirby and Vick.

**Brief History:** Passed House: 2/12/18, 97-0.

**Committee Activity:** Financial Institutions & Insurance: 2/15/18.

### Brief Summary of Bill

- Modifies financial responsibility requirements for service contract providers and product protection guarantee providers by replacing the term "solvency" with a minimum net worth or stockholder's equity requirement of \$200,000 or more and the ability to pay debts when debts become due.

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### 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. 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. Providers of service contracts

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specifically relating to motor vehicles are subject to similar requirements as other service contract providers with some exemptions.

**Summary of Bill:** The solvency standard for service contract and product protection guarantee providers that insure their contracts is defined as providers that maintain a minimum net worth or stockholders' equity of \$200,000 or more, and the ability to pay its debts when debts become due. Minimum net worth shall be calculated in accordance with generally accepted accounting principles set forth by the financial accounting standards board or statutory accounting principles.

Service contract providers that maintain a funded reserve or maintain a net worth or stockholder's equity to prove financial responsibility shall use generally accepted accounting principles set forth by the financial accounting standards, but must exclude intangible assets. However, the accounting may include receivables from an affiliated company if the affiliated company provides a written irrevocable guarantee to assure repayment of all receivables, and the guaranteeing organization has a net worth of stockholder's equity in excess of \$100 million.

Wholly-owned subsidiaries of a motor vehicle manufacturer or import distributor is defined as a company that is ultimately owned, directly or indirectly, 100 percent, by single or multiple motor vehicle manufacturers or import distributors.

Plumbing, electrical, and heating and cooling systems are added to the list of items that are not prohibited from coverage under a service contract.

**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 industry has worked closely with the OIC to reach agreement on the issues and have an agreed upon bill that they request is moved from committee.

**Persons Testifying:** PRO: Mel Sorensen, Service Contract Industry Council; Property Casualty Insurers Association of America; Lonnie Johns-Brown, Office of the Insurance Commissioner.

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