

SENATE BILL REPORT

SB 5030

As Reported by Senate Committee On:
Financial Institutions, Economic Development & Trade, January 17, 2019

Title: An act relating to service contract providers.

Brief Description: Concerning service contract providers.

Sponsors: Senators Mullet and Wilson, L..

Brief History:

Committee Activity: Financial Institutions, Economic Development & Trade: 1/15/19, 1/17/19 [DPS].

Brief Summary of First Substitute 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.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Majority Report: That Substitute Senate Bill No. 5030 be substituted therefor, and the substitute bill do pass.

Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Wilson, L., Ranking Member; Braun, Das and Hobbs.

Staff: Kellee Gunn (786-7429)

Background: Service contract providers and protection product guarantee providers are regulated by the Office of the Insurance Commissioner (OIC). A service contract, also known as an extended warranty, is a contract for a specified duration to perform a repair, replacement, or maintenance of property or to insure a person for a repair, replacement, or maintenance of property.

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.

A protection product guarantee is a written agreement to repair or replace a 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 provider of either a service contract or a protection product guarantee applying for registration in Washington must submit the most recent financial statements to the OIC that prove the applicant is solvent. Providers of service contracts specifically relating to motor vehicles are subject to similar requirements as other service contract providers with some exemptions.

Summary of Bill (First Substitute): The solvency standard for service contract and product protection guarantee providers is defined as maintaining a minimum net worth or stockholders' equity of \$200,000 or more, and the ability to pay its debts when debts become due.

The service contract providers or protection product guarantee providers whose insurers maintain a funded reserve or maintain a net worth or stockholder's equity of at least \$15 million, or between \$10 and \$15 million, must use generally accepted accounting principles set forth by the Financial Accounting Standards Board to calculate minimum net worth to prove financial responsibility. All other service contract providers or protection product guarantee providers shall use the same accounting principles to calculate minimum net worth to prove financial responsibility, but must exclude all intangible assets including affiliated companies. Those same providers may choose to use statutory accounting principles in lieu of generally accepted accounting principles. However, certain service contract providers may include receivables from affiliated companies if the affiliated company provides a written irrevocable guarantee to assure repayment of all receivables to the service contract provider and the guaranteeing organization has a net worth or stockholder's equity in excess of \$100 million and submits a statement from a certified public accountant attesting that the net worth or stockholder's equity of the guaranteeing organization meets or exceeds the requirements.

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.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE COMMITTEE (First Substitute): Makes a technical change to resolve a drafting error.

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 on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: This is not a new issue. It was before the Legislature last year as ESHB 2309, and it passed the House of Representatives without opposition. This bill is identical to ESHB 2309. This bill provides statutory clarity around the definition of solvency and net worth and defines it as having over \$200,000 of net worth. This has been negotiated with the OIC and approved by the stakeholders. OIC supports this legislation and has negotiated with the industry. This legislation is consistent with other states' laws and will increase competition in this state.

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

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