
**Consumer Protection & Business
Committee**

HB 1704

Brief Description: Regulating service contracts and protection product guarantees.

Sponsors: Representatives Kirby, Vick, Ryu and Dufault.

Brief Summary of Bill

- Revises reimbursement insurance policy requirements applicable to service contract providers and protection product guarantee providers.

Hearing Date: 1/12/22

Staff: Michelle Rusk (786-7153).

Background:

The regulation of service contracts and protection product guarantees is governed by the Insurance Code in Title 48 (Code).

Service Contracts

A service contract is a contract or agreement entered into for consideration 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;
- the replacement of a motor vehicle key or key fob; and

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- other services approved by rule of the Insurance Commissioner (Commissioner).

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

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 for Service Contract and Protection Product Providers

Service contract and protection product guarantee providers are required to be registered with the Commissioner. The Commissioner may refuse a registration if he or she determines that the provider is not, among other things, financially responsible.

To satisfy the requirement that providers demonstrate their financial responsibility or assure the faithful performance of their obligations to contract and guarantee holders, providers may insure protection product guarantees and service contracts with a "reimbursement insurance policy." A reimbursement insurance policy is a policy of insurance issued to a provider to reimburse, or to pay on behalf of the provider, all contractual obligations a provider incurs under the terms of an insured contract or guarantee. Each policy must be filed with and be approved by the Insurance Commissioner.

Reimbursement Insurance Policies

A reimbursement insurance policy 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.

Reimbursement insurance policies issued, sold, or offered for sale in Washington must state that the insurer that issued the policy will reimburse or pay on behalf of the provider all sums the provider is legally obligated to pay.

Summary of Bill:

Reimbursement Insurance Policies

Reimbursement insurance policies insuring service contracts or protection product guarantees must either fully insure the obligations of a provider, or insure payment on behalf of a provider only in the event the provider is unable to perform on the service contract or protection product guarantee.

Reimbursement insurance policies issued, sold, or offered for sale in Washington must state that the insurer issuing the policy will either reimburse the provider, or pay on behalf of the provider if the provider is unable to perform under the contract or guarantee.

Obligations of Service Contract and Protection Product Guarantee Providers

Service contract and protection product guarantee providers may use one or more reimbursement insurance policies, issued by one or more insurers, to demonstrate financial responsibility or assure the faithful performance of the provider's obligations to contract and guarantee holders. Each reimbursement insurance policy or policies must be filed with and approved by the Commissioner.

Appropriation: None.

Fiscal Note: Requested on January 9, 2022.

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