

# SENATE BILL REPORT

## HB 1704

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As Passed Senate, March 4, 2022

**Title:** An act relating to the regulation of service contracts and protection product guarantees.

**Brief Description:** Regulating service contracts and protection product guarantees.

**Sponsors:** Representatives Kirby, Vick, Ryu and Dufault.

**Brief History:** Passed House: 2/14/22, 97-0.

**Committee Activity:** Business, Financial Services & Trade: 2/22/22, 2/24/22 [DP].

**Floor Activity:** Passed Senate: 3/4/22, 46-2.

### Brief Summary of Bill

- Allows service contract providers and protection product guarantee providers to use more than one reimbursement insurance policy to cover their obligations and liabilities.

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## SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

**Majority Report:** Do pass.

Signed by Senators Mullet, Chair; Hasegawa, Vice Chair; Dozier, Ranking Member; Brown, Frockt, Lovick and Wilson, L.

**Staff:** Kellee Gunn (786-7429)

**Background:** Providing Proof of Financial Responsibility for Service Contracts and Protection Product Guarantees on Consumer Goods and Motor Vehicles. *Service Contracts.* Service contracts are agreements entered into to either provide, or compensate for, a certain repair, replacement, or maintenance of property when there is an issue due to a defect in materials, workmanship, or normal wear and tear.

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.*

To show financial responsibility to the state, service contract providers may choose one of the following options to ensure obligations and liabilities are paid:

- insure contracts with a reimbursement insurance policy or through a risk retention group;
- maintain a reserve account along with a security deposit, held by the Office of the Insurance Commissioner (OIC); or
- maintain or have a parent company with a maintained net worth of \$100 million.

*Protection Product Guarantees.* Protection product guarantees are written agreements to repair or replace a product upon failure of the product to perform under the terms of the guarantee. Protection product guarantee providers must insure contracts with a reimbursement insurance policy or through a risk retention group to show financial responsibility, in addition to other financial requirements.

Both service contracts and protection product guarantees are regulated by OIC.

Reimbursement Insurance Policies for Service Contract and Protection Product Guarantee Providers. Reimbursement insurance policies that insure service contracts and protection product guarantees must reimburse or pay on behalf of the provider all sums the provider is legally obligated to pay. Reimbursement policies must fully insure, rather than partially insure, the obligations of the service contract provider or protection product providers. These insurance policies may also be called commercial liability insurance products, or CLIPs.

**Summary of Bill:** Service contract providers and protection product guarantee providers may use more than one reimbursement insurance policy to cover their obligations and liabilities.

**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: It is important to note that these providers must show financial responsibility, which would not be changed with this bill. This bill would allow for insurance products to provide coverage in case of default of the provider, as well as first dollar reimbursement. This combines well within the regulatory environment. The Service Contract Industry Council has played a significant role in this. First dollar and default CLIPs will allow for service contracts to cover their obligations without having to dig into their operating revenue. By providing market flexibility to demonstrate financial responsibility in less costly ways, it will reduce consumer costs. The bill would also bring

Washington into closer alignment with other states' provisions regarding CLIP's.

CON: It is OIC's mission to protect consumers. The bill changes a law that the AGO requested in 1999. This bill does not define terms and processes. And section 3(1) is written so ambiguously that it is difficult to know if it is just meant to include both first dollar and default insurance. Allowing for default reimbursement policies erodes consumer protections established with first dollar policies, that require timely claims processing. And this will allow multiple parties to insure these service contracts. Adding additional parties to an already difficult process will only operate to cause complications and delays.

**Persons Testifying:** PRO: Mel Sorensen, Service Contract Industry Council; Lance Lozano, Service Contract Industry Council.

CON: Jon Noski, Office of the Insurance Commissioner; Michael Walker, Office of the Insurance Commissioner.

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