HB 221 -- Service Contracts

Sponsor: Yates

This bill changes the laws regarding service contracts.

MOTOR VEHICLE SERVICE CONTRACTS

The bill:

(1) Defines “fronting company” as a dealer that authorizes a third-party administrator or provider to use its name or business to evade or circumvent a sale, an offer for sale, or a solicitation of a sale of a service contract to a consumer;

(2) Prohibits an unlicensed motor vehicle or boat dealer from selling a motor vehicle service contract to a consumer;

(3) Prohibits a dealer from acting as a fronting company; and

(4) Creates penalties for violation of these provisions.

PRODUCT SERVICE CONTRACTS

The bill:

(1) Prohibits any person from issuing or selling a product service contract without registering and paying a fee with the Director of the Department of Insurance, Financial Institutions, and Professional Registration;

(2) Requires providers of service contracts to maintain at least one of the following:

(a) A funded reserve account of at least 40% of gross consideration received less claims paid;

(b) A financial security deposit with the department director of at least 5% of the gross consideration received less claims paid;

(c) A net worth of $100 million; or

(d) A reimbursement insurance policy covering 100% of the service contract obligations;

(3) Prohibits provider fees collected from being subject to premium taxes and exempts the person selling the contract from other state licensing laws if all requirements are met;

(4) Requires providers of service contracts to furnish a written

statement to the consumer outlining their obligations and conveying terms and restrictions. Misleading advertising is prohibited;

(5) Requires providers of service contracts to maintain accurate records of every transaction for a period of at least three years after the specified period of coverage has expired. Records must be made available to the department upon request;

(6) Prohibits insurers who issue reimbursement insurance policies from terminating a policy without notifying the director. Insurers have the right to seek indemnification against a provider if the insurer pays amounts under the service contract that the provider was obligated to pay; and

(7) Creates penalties for violation of the provisions of the bill.