

HB 1626 -- Motor Vehicle Service Contracts

Sponsor: Yates

This bill changes the laws regarding motor vehicle service contracts and product service agreements.

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 AGREEMENT

The bill:

- (1) Prohibits any person from issuing or selling a product service agreement without registering and paying a fee with the Director of the Department of Insurance;
- (2) Requires providers of service agreements 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 \$1 million; or
 - (d) A reimbursement insurance policy covering 100% of the service agreement obligations;
- (3) Prohibits provider fees collected from being subject to premium taxes and exempts the person selling the agreement from other state licensing laws if all requirements are met;
- (4) Requires providers of service agreements 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 agreements 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 agreement that the provider was obligated to pay; and

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