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March 13, 2024

To: The Honorable Pamela Beidle
Chair, Finance Committee

From: Karen S. Straughn, Assistant Attorney General
Steven M. Sakamoto-Wengel, Consumer Protection Counsel for Regulation, Legislation
and Policy
Consumer Protection Division.

Re: Senate Bill 1040 – Consumer Protection – Automatic Renewals (SUPPORT)

The Consumer Protection Division of the Office of the Attorney General submits the following written testimony in support of Senate Bill 1040 submitted by Senators Gile, Beidle and Lam. This bill establishes protections for consumers who enter into a contract with an automatic renewal or a free trial period. Senate Bill 1040 will help to reduce the number of complaints from consumers who are stuck in contracts that renewed automatically without the consumers' knowledge.

There may be many benefits to automatic renewal contracts for both the buyer and the seller. If the parties are happy with the arrangement, the contract can continue with little effort by either side. Alternatively, however, the consumer may be caught by an automatically renewing contract, having simply not realized it was time for renewal. If proactive action is needed to cancel a contract, it may be more difficult to remember. Parties should be able to make a fully informed decision as to whether they want to continue to do business with each other rather than be surprised into another term of a contract they no longer wish to be in.

Under this bill, businesses selling contracts that make an automatic renewal must include a clear notice that the contract will renew if the consumer does not cancel. They must also provide the terms of the renewal as well as the means by which a consumer may easily cancel should they choose. If the length of the initial contract is for a year or more, notice must be provided between 15 and 45 days before the renewal date.

In addition, if companies offer a “free trial” as part of the automatic renewal, they must give the price that will be incurred and any changes that may occur after the free trial period ends. This notice must be provided between 3 and 15 days before the renewal.

Senate Bill 1040 is comparable to laws in effect in California and Maine, so the bill’s notice and cancellation provisions should not be substantially different from requirements that retailers are currently following. However, the Division has been discussing possible amendments to the bill with the sponsors and stakeholders to address concerns raised, including making sure month-to-month contracts do not have to give notice each month and that entities that comply with renewal standards set by their primary regulator are deemed to be in compliance.

By providing notice in advance and allowing a consumer to make an informed decision, both parties share the benefit of a healthy business relationship. For these reasons, the Consumer Protection Division asks that the Finance Committee return a favorable report on this bill.

cc: The Honorable Dawn Gile
The Honorable Clarence Lam
Members, Finance Committee