

SERVICE CONTRACT INDUSTRY COUNCIL

TESTIMONY IN SUPPORT OF HOUSE BILL 926 (VEHICLE LAWS – MECHANICAL REPAIR CONTRACTS – INSURANCE RESERVES)

The Service Contract Industry Council (SCIC) is a national trade association that works with lawmakers across the country to develop fair and uniform regulation to protect consumers, and is an advocate for the regulation of the service contract industry. SCIC member companies, which include prominent manufacturers, insurers, retailers, providers and administrators of service contracts, collectively offer approximately 80 percent of all appliance, consumer electronics, home and vehicle service contracts sold in the U.S.

A mechanical repair contract is an optional product that a car owner may purchase to cover repairs and replacements if there is an operational or structural failure of the car. The sale of mechanical repair contracts is regulated under §15-311.2 of the Transportation Article, which includes the requirement a company that sell mechanical repair contracts (called an “obligor”) register with the Maryland Insurance Administration and provide proof that it carries insurance (a Commercial Liability Insurance Policy, also referred to as a “CLIP”) to back the payment of its obligations under the mechanical repair contracts it has in force.

HB 926 would clarify that the insurance requirement is satisfied in one of two ways: (1) a CLIP that pays all claims that the obligor has failed to pay in accordance with the contract (a default CLIP), or (2) a CLIP that pays all claims without a default by the obligor (a first dollar CLIP). Both types of CLIPs fully protect consumers and ensure that their claims will be paid in the same timely manner in accordance with the contract, and the MIA will still review to make sure the policy provides this protection. Over 30 states allow both types of CLIPs to satisfy the insurance requirement.

HB 926 would also allow the CLIP to be issued by a risk retention group properly registered with the MIA in addition to an authorized insurer.

SCIC supports HB926 with the following clarifying amendment: On page 3, in line 10, strike “The reserves” and insert “EACH POLICY OF INSURANCE USED TO SATISFY SUBPARAGRAPH (B)(1)”; and strike “maintained with” and insert “ISSUED BY”.

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