

Individual State Agency Fiscal Note

Bill Number: 1928 S HB	Title: Service contracts	Agency: 160-Office of Insurance Commissioner
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years	0.0	0.4	0.2	0.2	0.2
Account					
Insurance Commissioners Regulatory Account-State 138-1	0	75,208	75,208	69,752	69,752
Total \$	0	75,208	75,208	69,752	69,752

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Section 2(2) requires service contracts on motor vehicles and protection product guarantee providers to comply with the same financial responsibility requirements as service contract providers in order to demonstrate its financial responsibility or assure the faithful performance of its obligations to its holders. One of the following methods is allowed to be used to demonstrate financial responsibility or assure faithful performance:

- a) Insure each protection product guarantee under a reimbursement insurance policy issued by an insurer holding a certificate of authority from the Office of Insurance Commissioner (OIC) or an OIC registered risk retention group.
- b) Maintain a funded reserve account for its obligations under its protection product guarantees issued and outstanding in this state; and place in trust with the OIC a financial security deposit.
- c) Maintain, or its parent company maintains, a net worth or stockholder's equity of at least \$100,000,000.

Section 4(1) requires reimbursement insurance policies to state that the insurer that issued the reimbursement insurance policy shall either reimburse the provider or, in the event of nonperformance by the provider or the provider is unable to fulfill its contractual obligations, the consumer.

Section 4(4) requires reimbursement insurance policies to state that in the event the covered service or product is not provided by the service contract provider or protection product guarantee provider within 30 days of proof of loss by the service contract or protection product guarantee holder, the service contract holder or product protection guarantee holder is entitled to apply directly to the reimbursement insurance company for payment or performance due. If the service contract provider or protection product guarantee provider has ceased operation, then the holder may apply directly to the reimbursement insurance company for payment or performance due without waiting the 30 days.

Section 6(2)(b)(ii) requires service contracts on motor vehicles not insured under a reimbursement insurance policy to contain a statement in substantially the following form: "Obligations of the service contract provider under this contract are backed by the full faith and credit of the service contract provider."

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Section 2(2) requires service contracts on motor vehicles and protection product guarantee providers to comply with the same financial responsibility requirements as service contract providers in order to demonstrate its financial responsibility or assure the faithful performance of its obligations to its holders. One of the following methods is allowed to be used to demonstrate financial responsibility or assure faithful performance:

- a) Insure each protection product guarantee under a reimbursement insurance policy issued by an insurer holding a certificate of authority from the Office of Insurance Commissioner (OIC) or an OIC registered risk retention group.
- b) Maintain a funded reserve account for its obligations under its protection product guarantees issued and outstanding in this state; and place in trust with the OIC a financial security deposit.
- c) Maintain, or its parent company maintains, a net worth or stockholder's equity of at least \$100,000,000.

Section 2 will require the OIC to develop and apply new review standards for motor vehicles service contract and protection product guarantee provider registration applications to ensure compliance with the new requirements of financial

responsibility or assuring faithful performance. The OIC currently receives approximately 25 motor vehicles service contract and protection product guarantee provider registration applications each year. These moderately complex registration applications take an average of 85 hours for application review each. Because of the methods allowed to be used to demonstrate financial responsibility or assure faithful performance, the OIC assumes that each provider applicant will require an additional 3 hours of application review requiring 75 hours (25 applicants x 3 hours) per year of a Functional Program Analyst 3 beginning in FY2025.

Section 4(1) requires reimbursement insurance policies to state that the insurer that issued the reimbursement insurance policy shall either reimburse the provider or, in the event of nonperformance by the provider or the provider is unable to fulfill its contractual obligations, the consumer.

Section 4(4) requires reimbursement insurance policies to state that in the event the covered service or product is not provided by the service contract provider or protection product guarantee provider within 30 days of proof of loss by the service contract or protection product guarantee holder, the service contract holder or product protection guarantee holder is entitled to apply directly to the reimbursement insurance company for payment or performance due. If the service contract provider or protection product guarantee provider has ceased operation, then the holder may apply directly to the reimbursement insurance company for payment or performance due without waiting the 30 days.

Section 4 will require the OIC to develop and apply new review standards for property and casualty form and rate filings. It will require reviews of multiple default reimbursement insurance policies, in lieu of a single first-dollar reimbursement insurance policy. The OIC currently receives approximately 15 form filings and 25 rate filings for single first-dollar reimbursement insurance policies each year and assumes that the number will double because of this bill. These moderately complex filings take an average of 4 hours for form filings review and 4 hours for rate filing review each requiring 60 hours (15 form filings x 4 hour) of a Functional Program Analyst 3 and 25 rate filings each year requiring 100 hours (25 rate filings x 4 hours) of an Actuary 2 beginning in FY2025.

Section 6(2)(b)(ii) requires service contracts on motor vehicles not insured under a reimbursement insurance policy to contain a statement in substantially the following form: "Obligations of the service contract provider under this contract are backed by the full faith and credit of the service contract provider." The OIC will be required to review every motor vehicle service contract form filing to ensure the required language is included in the contract. The OIC currently receives approximately 295 motor vehicle service form filings each year and assumes that it will take an additional 5 minutes of review per form filing requiring 25 hours (295 x 5 minutes) of a Functional Program Analyst 3 beginning in FY2025.

The provisions of Sections 4 and 6 will lead to an increase in enforcement actions, including the potential for enforcement in situations in which a carrier does not comply with the requirements within the bill. The OIC anticipates an average of an additional 2 enforcement cases per year to address compliance issues. For purposes of this fiscal note, it is assumed that enforcement actions will require the equivalent of approximately 40 hours per case requiring 80 hours (2 cases x 40 hours) per year of an Insurance Attorney beginning in FY2025. In addition, OIC anticipates one-time costs in FY2025, of 40 hours of an Insurance Attorney to provide advice related to this statutory change and its reconciliation with existing statutes and regulations.

Sections 1 through 6 will require "normal" rulemaking in FY 2025 to update and align Chapter 284-110 WAC, Service Contracts and Protection Product Guarantees with the new statute. This rulemaking will correct statutory references/citations, reflect the revisions in financial responsibility requirements for providers of vehicle service contracts and protection product guarantees, provide clarity and guidance on identifying and locating reimbursement insurers, and outline the proper thresholds for claim processing.

Ongoing Costs:

Salary, benefits and associated costs for .10 FTE Functional Program Analyst 3; .08 FTE Insurance Attorney; and .06 FTE Actuary 2.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2024	FY 2025	2023-25	2025-27	2027-29
138-1	Insurance Commissioners Regulatory Account	State	0	75,208	75,208	69,752	69,752
Total \$			0	75,208	75,208	69,752	69,752

III. B - Expenditures by Object Or Purpose

	FY 2024	FY 2025	2023-25	2025-27	2027-29
FTE Staff Years		0.4	0.2	0.2	0.2
A-Salaries and Wages		45,780	45,780	42,306	42,306
B-Employee Benefits		14,386	14,386	13,496	13,496
C-Professional Service Contracts					
E-Goods and Other Services		15,042	15,042	13,950	13,950
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	0	75,208	75,208	69,752	69,752

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2024	FY 2025	2023-25	2025-27	2027-29
Actuary 2	142,056		0.1	0.0	0.1	0.1
Functional Program Analyst 3	78,468		0.1	0.1	0.1	0.1
Functional Program Analyst 4	86,712		0.1	0.0		
Insurance Attorney	95,652		0.1	0.0	0.1	0.1
Senior Policy Analyst	116,148		0.2	0.1		
Total FTEs			0.4	0.2	0.2	0.2

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Sections 1 through 6 will require “normal” rulemaking in FY 2025 to update and align Chapter 284-110 WAC, Service Contracts and Protection Product Guarantees with the new statute. This rulemaking will correct statutory references/citations, reflect the revisions in financial responsibility requirements for providers of vehicle service contracts and protection product guarantees, provide clarity and guidance on identifying and locating reimbursement insurers, and outline the proper thresholds for claim processing.