# HOUSE RESEARCH

## Bill Summary

**FILE NUMBER:** H.F. 933 **DATE:** March 9, 2007

**Version:** First engrossment

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**Subject:** Vehicle protection products

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## Overview

This bill would regulate warranties that are provided in connection with the sale of "vehicle protection products," which are products installed on a motor vehicle to prevent or reduce losses due to theft or vandalism. The main effect of the bill is to clarify that these warranties are not insurance and are not to be regulated as insurance, and to specify how they are to be regulated instead.

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1 **Short title.** Says that this bill may be cited as "the Vehicle Protection Product Act."

2 **Definitions.** Defines 11 terms. The most significant one is the definition of "vehicle protection product," which makes it clear that this term refers to devices designed to be installed on a motor vehicle to prevent damage due to theft or vandalism, such as alarm systems; body part marking; steering, pedal and ignition locks; and satellite tracking devices.

3 **Scope and exemptions.** (a) Requires sellers, warrantors, and administrators of vehicle protection products to comply with this bill, which will be its own new chapter of Minnesota Statutes.

(b) Exempts vehicle protection products from all other insurance laws, except one law that applies to settlement of claims under service contracts.

(c) Says that service contract providers who do not sell vehicle protection products are not subject to this new chapter and that vehicle protection products are not subject to chapter

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59B, which regulates some service contracts.

(d) Says that warranties, indemnity agreements, and guarantees that do not involve vehicle protection products are not subject to this chapter.

4 **Registration and filing requirements of warrantors.** Requires warrantors (companies that warrant the product to consumers, which is an insurance type of risk) to register with the commissioner of commerce and provide certain information to the commissioner, including proof of "financial responsibility" (meaning that the warrantor would be able to pay claims on the warranties). Proof of financial liability must be either a copy of a warranty reimbursement insurance policy that meets the requirements of sections 5 and 6 of this bill, or proof that the company, or its parent company, has a net worth of at least $50 million. Permits the commissioner to charge the warrantor a registration fee to offset the department's costs, not to exceed $250 annually.

5 **Financial responsibility.**

**Subd. 1. General requirements.** Requires that a warrantor registering with the commissioner provide proof of financial responsibility under either subdivision 2 or 3 of this section. Provides that no other financial security or financial standard is required.

**Subd. 2. Warranty reimbursement insurance policy.** Says that one way a warrantor may prove financial responsibility is to show coverage under a warranty reimbursement insurance policy issued by an insurance company authorized to do business in this state, which commits the insurance company to pay 100 percent of whatever the warrantor is liable for under the warranties issued on the vehicle protection products. (This removes insurance risk from the warrantor.)

**Subd. 3. Network or stockholder's equity.** Says that one way a warrantor may prove financial responsibility is for the warrantor or its parent company to maintain a net worth or stockholders' equity of at least $50 million. States the required proof of that financial strength. If the warrantor relies on the financial strength of its parent company to meet this requirement, requires that the parent company guarantee payment of the warrantor's obligations under its warranties in this state.

6 **Warranty reimbursement insurance policy requirements.** Provides standards that must be met for a warranty reimbursement insurance policy issued in this state. Requires that such an insurance policy cover all obligations of the warrantor to pay money or provide services, permit a warranty holder to file a claim directly with the insurance company if the warrantor does not pay the claim within 60 days of receiving proof of loss, consider premiums as received by the insurance company from the warrantor if the warrantor collected a payment from the customer regardless of whether the warrantor actually paid the insurance company the premium or notified the insurance company of the issuance of the warranty, and protect the customer and the warrantor from harm as a result of cancellation of the policy by the insurance company.

7 **Disclosure to warranty holders.** States ten disclosures that warrantors must make to customers in the warranty.

8 **Prohibited acts.** Prohibits a warrantor from using in its name, contracts, or literature words that might give the customer the impression that the warranty is an insurance product. Prohibits a warrantor or a vehicle protection product seller (such as an auto dealer), from

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requiring purchase of a vehicle protection product as a condition of getting financing for purchase of the vehicle.

**9** **Recordkeeping.** Requires warrantors to keep records of their transactions. Gives the commissioner authority to examine those records.

**10** **Commissioner's powers and duties.** Gives the commissioner of commerce authority to examine the records of warrantors and administrators. Gives the commissioner authority to enforce this chapter, using the commissioner's regular enforcement tools and procedures.

**11** **Applicability.** Says that this bill may not be used to imply that anyone did anything wrong before it becomes effective.

**12** **Effective date.** Makes the bill effective January 1, 2008.