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2011 - 2012 LEGISLATURE

2011 SENATE BILL 492

February 20, 2012 - Introduced by Senators LASEE, OLSEN and SCHULTZ,
 cosponsored by Representatives NYGREN, LEMAHIEU, BIES and A.
 OTT. Referred
 to Committee on Insurance and Housing.

1 **AN ACT** *to renumber* subchapter II (title) of chapter 616 [precedes
 2 616.71]; and
 3 *to create* 600.01 (1) (b) 12., 601.31 (1) (kr), subchapter III of
 4 chapter 616
 [precedes 616.50] and 628.02 (1) (b) 9. of the statutes; **relating to:**
 regulating
 certain service contracts and granting rule-making authority.

Analysis by the Legislative Reference Bureau

This bill imposes requirements on service contracts that are enforced by the Office of the Commissioner of Insurance (OCI). As discussed below, the bill defines the service contracts that are subject to the bill, creates exemptions from the bill's requirements, imposes requirements on providers of service contracts that are not exempt from the bill, and imposes other requirements.

Service contracts. The bill defines "service contract" as a contract or agreement for a separately stated consideration to perform, or provide indemnification for, the repair, replacement, or maintenance of property for the operational or structural failure of property that is due to a defect in materials or workmanship, accidental damage from handling, or normal wear and tear.

The definition includes contracts or agreements with or without additional provisions for incidental payment of indemnity under limited circumstances, including towing, rental, and emergency road service and road hazard protection.

The bill specifies that a contract or agreement for the following is a service contract: 1) repair, replacement, maintenance, or indemnification for damage resulting from a power surge or interruption; 2) repair, replacement, or indemnification for the operational or structural failure of motor vehicle parts or

systems that is brought about by the failure of an additive product to perform as represented; 3) repair or replacement of motor vehicle tires or wheels that are damaged by road hazards; and 4) removal of motor vehicle dents, dings, or creases that can be repaired by specified processes. In addition, the bill specifies that a contract or agreement for repairing motor vehicle windshield chips or cracks is a service contract, but a contract or agreement for replacing an entire windshield is not a service contract. Also, the bill specifies that a contract or agreement for repairing damage to the interior components of a motor vehicle caused by wear and tear is a service contract, but a contract or agreement for replacing any part or component of a motor vehicle's interior is not a service contract.

Exemptions. The bill exempts certain service contracts from the bill's requirements. A service contract is exempt if any of the following are satisfied: 1) the service contract is sold or offered for sale to a person who is not a consumer; 2) the service contract is for an inside wire protection plan associated with the offering of telecommunications, video, cable programming, or Internet access service; or 3) the service contract is offered by a public utility on its devices for transmitting service to customers. However, the third exemption applies only to the extent that the

service contract is regulated by the Public Service Commission.

The bill also exempts maintenance agreements and certain warranties from the bill's requirements. The bill defines "maintenance agreement" as a contract for a specified duration that provides for scheduled maintenance without including repair or replacement. The exemption for warranties covers warranties for certain products for preventing loss or damage to motor vehicles, as well as warranties for motor vehicle rustproofing, both of which are subject to regulation by OCI under current law. In addition, any other type of warranty is exempt if it satisfies all of the following: 1) the warranty is made solely by the manufacturer, importer, or seller of property or services without consideration; 2) the warranty is not negotiated or separated from the sale of the product or services; 3) the warranty is incidental to the sale of the product or services; and 4) the warranty guarantees indemnity for defective parts, mechanical or electrical breakdown, labor, or other remedial measures.

The bill also allows a person who holds a valid certificate of authority under OCI's rules regarding warranty plans to elect to either: 1) comply with the bill; or 2) exempt itself from the bill's requirements and continue to comply with those rules.

Regulation of providers. The bill regulates a "provider," which the bill defines as a person who is contractually obligated to the holder or purchaser of a service contract under the terms of the contract. Unless an exemption applies, the bill prohibits a person from acting as a provider without a license issued by OCI. An applicant for a license must pay an initial license fee of \$400 and an annual \$100 fee, unless OCI specifies different amounts by rule. An applicant must also submit copies of service contracts that it proposes to sell in the state. In addition, an applicant must provide documentation that the applicant does one of the following in order to assure

performance of its obligations under the service contracts that it sells in the state:

1) obtains a reimbursement insurance policy that satisfies certain specified requirements; or 2) provides OCI with a deposit of securities, an irrevocable letter

of credit, or a combination of the foregoing, in specified amounts.

The bill generally

defines "reimbursement insurance policy" as an insurance policy issued to a provider

that, in the event of the provider's nonperformance under its service contracts, will

pay or perform on behalf of the provider all covered contractual obligations or

services. To satisfy the requirements necessary to assure performance of the

provider's obligations under its service contracts a reimbursement insurance policy

must state that a service contract holder may file a claim with the insurer if the

provider does not perform its obligations within 60 days after the service contract

holder provides proof of loss; that the insurer will administer and pay claims if the

provider or the provider's designated administrator fails to do so; and that the

insurer may not terminate or refuse to renew the policy unless the insurer has

provided at least 60 days' written notice to OCI before terminating or not renewing

the policy.

The bill requires providers to do the following: 1) obtain OCI approval of service

contracts and comply with requirements regarding contract language; 2) make

specified disclosures in service contracts; 3) comply with requirements regarding

cancellation of service contracts and refunds; 4) provide sample service contracts

prior to purchase upon request; 5) provide receipts and copies of service contracts to

purchasers; 6) subject to OCI's approval, include independent appraisal and compulsory arbitration provisions in service contracts; 7) comply with

payment of

claims requirements that apply to insurers under current law; and 8) comply with

record-keeping requirements. The bill prohibits providers from using

certain terms regarding insurance in the provider's name, unless the provider used an otherwise prohibited term in its name prior to the bill's effective date, in which case the bill requires the provider to disclose that its service contracts are not insurance contracts. In addition, the bill prohibits a provider from making communications about service contracts that are false or misleading. For motor vehicle service contracts, the bill prohibits false or misleading statements regarding original equipment warranties or affiliation with motor vehicle manufacturers.

Other requirements. The bill also does the following:

1. Allows, but does not require, a provider to appoint a person, whom the bill refers to as an "administrator," to be responsible for administering service contracts and complying with the bill's requirements. A provider is generally liable for acts of an administrator regarding administration of the provider's service contracts, except that the bill allows a provider to avoid liability for certain false or misleading communications made by an administrator in cards, documents, or advertisements. The bill also requires an applicant for licensure as a provider to identify any administrators that the applicant has appointed, and requires administrators to register with OCI.

2. Exempts motor vehicle manufacturers, as defined in the bill, who offer service contracts from the following: 1) licensing by OCI; 2) registering administrators; 3) providing sample service contracts prior to purchase upon request; 4) providing receipts and copies of service contracts to purchasers; 5) assuring performance of obligations by obtaining a reimbursement insurance policy

or providing OCI with a deposit of securities or an irrevocable letter of credit; and 6) complying with record-keeping requirements.

3. Exempts service contract sellers from licensure or registration. The bill generally defines a "service contract seller" as a person, including a real

estate agent,
who is engaged only in the selling or soliciting of a service contract.

4. Subjects administrators, service contract sellers, and representatives of providers to the prohibition on false or misleading communications that applies to providers.

5. Prohibits any person from requiring the purchase of a service contract as a condition of a loan or sale of property, except for a person buying or selling a home, who may condition the purchase or sale on the procurement of a service contract covering the home.

6. Allows OCI to enforce the bill's requirements in the same manner that OCI enforces other insurance requirements under current law, including allowing OCI to conduct examinations of providers, administrators, service contract sellers, and other persons, and allowing OCI to commence actions for injunctions and temporary restraining orders.

7. Subjects persons who violate the bill to the same penalties that apply under current law to other violations of insurance requirements. The penalties include forfeitures of not more than \$1,000 and restitutionary forfeitures, as well as fines of not more than \$10,000, imprisonment for not more than three years and six months, or both.

For further information see the *state* fiscal estimate, which will be printed as an appendix to this bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

1 SECTION 1. 600.01 (1) (b) 12. of the statutes is created to read:
2 600.01 (1) (b) 12. Service contracts, as defined in s. 616.50 (11), or
3 providers,
4 service contract sellers, or administrators of service contracts under subch.
 III of ch.
 616.

5 **SECTION 2.** 601.31 (1) (kr) of the statutes is created to read:
6 601.31 (1) (kr) For processing and maintaining license records
7 under s. 616.54
8 (4), \$400 upon initial licensure and \$100 annually thereafter, unless the
commission
specifies a different amount by rule.

1 **SECTION 3.** Subchapter III of chapter 616 [precedes 616.50] of the
2 statutes is
3 created to read:

4 **SUBCHAPTER III**
5 **PROPERTY SERVICE CONTRACTS**

6 **616.50 Definitions.** In this subchapter:

- 7 (1) "Administration" includes any of the following activities
8 performed on
9 behalf of a provider:
 - 10 (a) Approving or disapproving claims, paying claims, or controlling
11 the claims
12 adjustment process.
 - 13 (b) Arranging for or controlling the purchase of insurance
14 associated with the
15 offering of service contracts.
 - 16 (c) Maintaining records or submitting filings required under this
17 subchapter
18 on behalf of a provider.
 - 19 (d) Collecting provider fees from service contract sellers and
20 remitting the
21 provider fees to the provider.
- 22 (2) "Administrator" means a person appointed by a provider under
23 s. 616.54
24 (1) to be responsible for any or all of the administration of service contracts
25 and
compliance with this subchapter.
- (3) "Commissioner" means the commissioner of insurance.
- (4) "Consumer" means an individual who buys other than for
purposes of resale
any tangible personal property that is distributed in commerce and that is
normally
used for personal, family, or household purposes and not for business or
research
purposes.
- (5) "Maintenance agreement" means a contract of a specified
duration that
provides for scheduled maintenance only and does not include repair or
replacement.

1 **(6)** "Motor vehicle manufacturer" means a person that does or
satisfies any of
2 the following:

3 (a) Manufactures or produces motor vehicles and sells motor
vehicles under its
4 own name or label.

5 (b) Is a subsidiary of the person that manufactures or produces
motor vehicles.

6 (c) Is a corporation that owns 100 percent of the person that
manufactures or
7 produces motor vehicles.

8 (d) Manufactures or produces motor vehicles and sells motor
vehicles under the
9 trade name or label of another person that manufactures or produces motor
vehicles.

10 (e) Does not manufacture or produce motor vehicles but, pursuant
to a written
11 contract, licenses the use of its trade name or label to another person that
12 manufactures or produces motor vehicles and that sells motor vehicles
under the
13 licensor's trade name or label.

14 **(7)** "Nonoriginal manufacturer's parts" means replacement parts
for property
15 that are not made for or by the original manufacturer of the property.

16 **(8)** "Provider" means a person that is contractually obligated to a
service
17 contract holder under the terms of a service contract.

18 **(9)** "Provider fee" means the consideration paid for a service
contract.

19 **(10)** "Reimbursement insurance policy" means any of the following:

20 (a) A policy of insurance issued to a provider under the terms of the
insured
21 service contracts issued or sold by the provider that, in the event of the
provider's or
22 administrator's nonperformance, will pay or perform on behalf of the
provider or
23 administrator all covered contractual obligations or services under the
terms of the
24 insured service contracts issued or sold by the provider.

1 (b) A policy of insurance issued to a provider that provides the
coverage
2 specified in par. (a) and additional coverage that does not conflict with par.
(a).

3 **(11)** "Service contract" means a contract or agreement for a
separately stated
4

4 consideration for a specific duration to perform the repair, replacement, or
5 maintenance of property, or to provide indemnification for the repair,
6 replacement,
7 or maintenance of property, for the operational or structural failure of
8 property, due
9 to a defect in materials or workmanship, accidental damage from handling,
10 or
11 normal wear and tear, with or without additional provisions for incidental
12 payment
13 of indemnity under limited circumstances, including towing, rental, and
14 emergency
15 road service and road hazard protection. "Service contract" includes a
16 contract or
17 agreement that provides for any of the following:

18 (a) The repair, replacement, or maintenance of property or
19 indemnification for
20 the repair, replacement, or maintenance of property for damage resulting
21 from a
22 power surge or interruption.

23 (b) The repair or replacement or indemnification for the repair or
24 replacement
25 of a motor vehicle for the operational or structural failure of one or more
parts or
systems of the motor vehicle brought about by the failure of an additive
product to
perform as represented.

(c) The repair or replacement of tires or wheels on a motor vehicle
damaged as
a result of coming into contact with road hazards including potholes, rocks,
wood
debris, metal parts, glass, plastic, curbs, or composite scraps.

(d) The removal of dents, dings, or creases on a motor vehicle that
can be
repaired using the process of paintless dent removal without affecting the
existing
paint finish and without replacing vehicle body panels, sanding, bonding, or
painting.

(e) The repair of motor vehicle windshield chips or cracks, but does
not include
the replacement of the entire windshield.

(f) The repair of damage to the interior components of a motor
vehicle caused
by wear and tear, but does not include the replacement of any part or
component of
a motor vehicle's interior.

6 (12) "Service contract holder" means a person who is the purchaser
7 or holder
8 of a service contract.

9 (13) "Service contract seller" means a person, including a real
10 estate agent, who
11 is engaged only in the selling or soliciting of a service contract, but who is
12 not acting
13 as a provider or involved in the administration of service contracts.

14 (14) "Warranty" means a warranty made solely by the
15 manufacturer, importer,
16 or seller of property or services without consideration, that is not negotiated
17 or
18 separated from the sale of the product or services, that is incidental to the
19 sale of the
20 product or services, and that guarantees indemnity for defective parts,
21 mechanical
22 or electrical breakdown, labor, or other remedial measures, such as repair
23 or
24 replacement of the property or repetition of services.

616.52 Applicability. (1) This subchapter does not apply to any of
the
following:

 (a) Warranties as defined in s. 616.50 (14) or s. 100.203 (1) (g) or
100.205 (1) (g).

 (b) Maintenance agreements.

 (c) Service contracts offered by public utilities on their devices for
the
transmission of public utility service to customers to the extent such service
contracts are regulated by the public service commission.

 (d) Service contracts sold or offered for sale to persons other than
consumers.

 (e) Service contracts for inside wire protection plans associated
with the
offering of telecommunications service, as defined in 196.01 (9m), video
service, as
defined in 66.0420 (2) (y), or Internet access service.

 (2) Motor vehicle manufacturer's service contracts on the motor
vehicle
manufacturer's products are exempt from this subchapter, except for ss.
616.56 (1)
to (3) and (6) to (16), 616.58, and 616.62, and motor vehicle manufacturers
offering
service contracts on the motor vehicle manufacturer's products are exempt
from
licensure under s. 616.54 (4).

- 9 (3) A person who holds a valid certificate of authority under s. Ins
10 15.01, Wis. Adm. Code may elect to do one of the following:
- 11 (a) Continue to operate in this state under the certificate of
12 authority. If the
13 person makes such an election, s. Ins 15.01, Wis. Adm. Code shall continue
14 to apply
15 to the person and this section shall not apply to the person.
- 16 (b) Apply for a license as a provider pursuant to s. 616.54 (4). If the
17 person is
18 licensed, this subchapter shall apply to the person and s. Ins 15.01, Wis.
19 Adm. Code
20 shall not apply to the person for any service contracts issued subsequent to
21 licensure.
- 22 **616.54 Requirements for doing business. (1) APPOINTMENT OF**
23 **ADMINISTRATOR.** A provider may, but is not required to, appoint an
24 administrator to
25 be responsible for any or all of the administration of service contracts and
 compliance
 with this subchapter. Except as provided in s. 616.58 (2) (b), a provider
 shall be liable
 for the acts of an administrator appointed by the provider to assist with the
 administration of the provider's service contracts to the extent such acts
 relate to the
 provider's service contracts offered in or from this state. No person may act
 as an
 administrator of service contracts sold in this state unless the person
 registers with
 the commissioner by providing the following information:
-
- 1 (a) The name, business address, and other information required by
2 the
3 commissioner for an employee or officer of the administrator that is
4 designated by
5 the applicant as the person responsible for the administration of service
6 contracts in
7 this state.
- 8 (b) The location of the administrator's home office.
- 9 (c) The names of the service contract providers for whom the
10 administrator
 performs administration.
- (2) RECEIPT AND COPY OF CONTRACT. A service contract may not be
 issued, sold,
 or offered for sale in this state unless the provider of the service contract
 has done
 all of the following:

11 (a) Provided a receipt for, or other written evidence of, the purchase
12 of the
13 service contract to the service contract holder.

14 (b) Provided a copy of the service contract to the service contract
15 holder within
16 a reasonable period of time from the date of purchase.

17 (3) SAMPLE CONTRACT. A provider shall provide a consumer with a
18 complete
19 sample copy of the service contract terms and conditions prior to the time of
20 sale upon
21 a request for the same by the consumer. A provider may comply with this
22 subsection
23 by providing the consumer with a complete sample copy of the terms and
24 conditions
25 or by directing the consumer to an Internet Web site containing a complete
sample
of the terms and conditions of the service contract.

(4) LICENSURE. (a) No person may act as a provider in this state
unless the
commissioner issues a license to the person under par. (c).

(b) A person seeking to act as a provider in this state shall submit
an application
for licensure with the commissioner consisting of all of the following:

1. The applicant's name.

2. The applicant's full business address.
3. The applicant's telephone number.
4. The name and full business address of a person in this state
designated for
service of process.
5. A copy of the service contracts proposed to be sold in this state
that comply
with s. 616.56.
6. Documentation of compliance with sub. (5).
7. The names of any administrator appointed by the applicant to
assist with
the administration of the provider's service contract business in this state.
8. An initial licensure fee in the amount specified in s. 601.31 (1)
(kr).

(c) Upon receipt of an application that complies with par. (b) as
determined by
the commissioner, the commissioner shall issue a license to the applicant.

(d) The information submitted with an applicant's application for
licensure
need only be updated by written notification to the commissioner if
material changes

15 occur in the license application on file with the commissioner.

16 (e) By March 31 of each year after issuance of a license under par.
17 (c), a provider shall pay the commissioner an annual fee in the amount specified in s.
18 601.31 (1) (kr).

19 (5) ASSURANCE OF PERFORMANCE; IN GENERAL . In order to assure the
20 faithful performance of a provider's obligations to its service contract holders, each
21 provider shall be responsible for complying with the requirements specified in sub.
22 (6) or (7).

23 (6) ASSURANCE OF PERFORMANCE; INSURANCE. (a) A provider may satisfy
24 sub. (5) by insuring all service contracts under a reimbursement insurance policy
25 that has been filed with and approved by the commissioner under s. 631.20, that is
issued by an insurer authorized to do business in this state, and that satisfies, at a
minimum,
all of the following:

1 1. The policy states that, if the provider covered under the policy
2 does not provide, or reimburse or pay for, a service that is covered under a service
3 contract insured under the policy within 60 days after a service contract holder
4 provides proof of loss, or in the event of the provider's insolvency or other financial
5 impairment, the service contract holder may file a claim with the insurer issuing the
6 reimbursement insurance policy for reimbursement, payment, or provision of the service.

7 2. The policy states that the insurer issuing the policy shall assume
8 full responsibility for administering and paying claims and other obligations
9 under service contracts insured under the policy if the provider or designated
10 administrator fails to do so.

11 3. The policy states that the insurer issuing the policy may not
12 terminate or refuse to renew the policy unless the insurer has provided a written notice
13 of termination or nonrenewal to the commissioner at least 60 days before the
14 date of the termination or, in the case of nonrenewal, the expiration of the policy.

15 (b) If a reimbursement insurance policy by which a provider is

satisfying this
16 subsection is terminated, cancelled, or not renewed for any reason, or if the
insurer
17 issuing the policy is not in compliance with applicable financial standards,
all of the
18 following apply:

19 1. The provider shall immediately notify the commissioner of the
termination,
20 cancellation, or nonrenewal of the policy, if applicable.

21 2. The provider shall cease selling service contracts in this state
until the
22 provider either files with the commissioner a new reimbursement insurance
policy
23 that covers its obligations under service contracts sold in the state and that
satisfies
24 the requirements under par. (a) or provides a deposit or irrevocable letter of
credit
25 in accordance with sub. (7).

1 3. If the commissioner so requests, the provider shall file with the
2 commissioner copies of its audited financial statements or financial
statements that
3 are certified as accurate by a corporate officer of the provider if the provider
does not
4 have audited financial statements.

5 (c) An insurer issuing a reimbursement insurance policy to a
provider is
6 considered to have received the premium for that insurance policy upon
payment by
7 a consumer of the fee for a service contract issued by the insured provider.

8 (d) The termination or nonrenewal of a provider's reimbursement
insurance
9 policy does not reduce the insurer's responsibility with respect to service
contracts
10 issued by the provider before the date of the termination or, in the case of
11 nonrenewal, the expiration of the policy.

12 (e) Nothing in this subsection prevents, or limits the right of, an
insurer that
13 issued a reimbursement insurance policy to seek indemnification from or
14 subrogation against a provider if the insurer pays or is obligated to pay the
service
15 contract holder any amount that the provider was obligated to pay under
the service
16 contract.

17 **(7) ASSURANCE OF PERFORMANCE; DEPOSIT OR IRREVOCABLE LETTER OF**
18 **CREDIT. (a)**

A provider may satisfy sub. (5) by providing security to compensate any service contract holder who sustains a loss due to the failure of the provider to perform its obligations under a service contract as a result of insolvency or other financial impairment. The commissioner shall approve the amount and form of the security.

(b) The security under this subsection shall be in one or a combination of the following forms:

1. A deposit of securities under s. 601.13 for the benefit of Wisconsin consumers.

2. An irrevocable letter of credit that is from a bank properly chartered by the federal government or any state, that is acceptable to the commissioner, and that is issued for a term of at least 5 years with provision for renewal 2 years before termination. The letter of credit shall be payable to the commissioner or the commissioner's designee for the benefit of Wisconsin consumers upon a finding by the commissioner that a provider is insolvent or financially impaired and unable to meet its obligations under service contracts issued in Wisconsin. The provider shall notify the commissioner in writing of the nonrenewal of a letter of credit within 30 days after receiving a notice of nonrenewal. No provider whose letter of credit has been nonrenewed may offer or sell or renew any service contract on or after the date of nonrenewal until the provider obtains security satisfying the requirements of this subsection or satisfies the requirements of sub. (6).

(c) The security under this subsection shall be not less than \$50,000 plus one of the following:

1. If the provider has not appointed an administrator under s. 616.54 (1), 15 percent of the provider fees collected from service contract holders for all unexpired service contracts in force in Wisconsin on January 1 of each year.

2. If the provider has appointed an administrator under s. 616.54 (1), 22.5 percent of the provider fees collected from service contract holders for all

unexpired
20 service contracts in Wisconsin on January 1 of each year.

21 (d) The security under this subsection shall continue until released
22 by the
23 commissioner pursuant to a finding that it is not necessary for the
24 reasonable
25 protection of Wisconsin consumers.

(8) FINANCIAL STATEMENTS. A provider using a deposit or irrevocable
letter of
credit as specified in sub. (7) to satisfy sub. (5) shall, by the end of the 5th
month

1 following the end of each fiscal year of the provider, submit
2 financial statements for
3 the fiscal year to the commissioner that are prepared on an accrual basis in
4 accordance with generally accepted accounting principles and that are
5 audited by an
6 independent certified public accountant.

(9) COMMISSIONER LIMITATION. Except for the requirements specified
in sub. (5),
no other financial security requirements shall be required by the
commissioner for
providers.

(10) PAYMENT OF CLAIMS. A provider shall be subject to and shall pay
claims
under a service contract in accordance with s. 628.46 (1) and (2).

(11) SERVICE CONTRACT SELLERS. A service contract seller is not
subject to
licensure or registration under this subchapter.

616.56 Form filing and required disclosures. (1) A service
contract may
not be marketed, sold, offered for sale, issued, made, proposed to be made,
or
administered in this state unless the service contract has been filed with
and
approved by the commissioner in a manner and format prescribed by the
commissioner. Service contracts shall be filed in the final printed format or
typed
facsimile exactly as they will be offered for issuance or delivery in this
state.

(2) Service contracts shall be written, printed, or typed in
commonly
understood language, shall be legible, appropriately divided, and captioned
by their
various sections, and their various sections shall be presented in a
meaningful

sequence. Contract filings shall be accompanied by a certificate of
compliance and
22 readability signed by an officer of the provider or administrator submitting
23 the
contract for review and approval.

1 **(3)** Service contracts shall contain the following statement printed
in bold and
2 capitalized type: "THIS CONTRACT IS SUBJECT TO LIMITED
REGULATION BY
3 THE OFFICE OF THE COMMISSIONER OF INSURANCE."

4 **(4)** Service contracts insured under a reimbursement insurance
policy
5 pursuant to s. 616.54 (6) shall contain a statement in substantially the
6 following
form: "Obligations of the provider under this service contract are insured
under a
7 service contract reimbursement insurance policy." The service contract
shall state
8 the name and address of the insurer; state that if a provider does not
provide, or
9 reimburse or pay for, a service that is covered under a service contract
within 60 days
10 after a contract holder provides proof of loss, or if the provider becomes
insolvent or
11 otherwise financially impaired, the contract holder may file a claim directly
with the
12 service contract reimbursement insurer for reimbursement, payment, or
provision
13 of the service; and state the instructions on how to file a claim.

14 **(5)** Service contracts not insured under a reimbursement insurance
policy
15 pursuant to s. 616.54 (6) shall contain a statement in substantially the
16 following
form: "Obligations of the provider under this service contract are backed by
the full
17 faith and credit of the provider."

18 **(6)** Service contracts shall state the name and address of the
provider, and shall
19 identify any administrator that is different from the provider, the service
contract
20 seller, and the service contract holder, if the name of the service contract
holder has
21 been furnished by the service contract holder. The identities of such parties
are not
22 required to be preprinted on the service contract and may be added to the
service

23 contract at the time of sale.

24 (7) Service contracts shall state the total purchase price and the
terms under
25 which the service contract is sold. The purchase price is not required to be
preprinted

1 on the service contract and may be negotiated at the time of sale
with the service
2 contract holder.

3 (8) Service contracts shall identify any applicable deductible
amount.

4 (9) Service contracts shall specify the merchandise and services to
be provided
5 and any limitations, exceptions, or exclusions.

6 (10) Service contracts covering motor vehicles shall state whether
the use of
7 nonoriginal manufacturers' parts is allowed.

8 (11) Service contracts shall state any applicable restrictions
governing the
9 transferability of the service contract.

10 (12) Service contracts shall state the terms, restrictions, or
conditions
11 governing cancellation of the service contract by the provider prior to the
termination
12 or expiration date of the service contract. A service contract may be
cancelled by a
13 provider only for nonpayment of the provider fee, material
misrepresentation by the
14 contract holder to the provider or administrator, or substantial breach of
duties by
15 the service contract holder relating to the covered product or its use. A
provider shall
16 comply with all of following when cancelling a service contract:

17 (a) The provider shall mail a written notice to the service contract
holder at the
18 last-known address of the service contract holder contained in the records
of the
19 provider at least 5 days prior to cancellation by the provider.

20 (b) The notice under par. (a) shall state the effective date of the
cancellation and
21 the reason for the cancellation.

22 (c) If a service contract is cancelled by the provider for a reason
other than
23 nonpayment of the provider fee, the provider shall refund to the service
contract
24 holder 100 percent of the unearned pro rata provider fee, less any claims

paid.

1 (d) A provider may charge a reasonable administrative fee for
2 cancellation,
3 which may not exceed 10 percent of the provider fee.

4 **(13)** Service contracts shall set forth all of the obligations and
5 duties of the
6 service contract holder, including the duty to protect against any further
7 damage and
8 any requirement to follow the owner's manual.

9 **(14)** Service contracts shall state whether or not the service
contract provides
for or excludes consequential damages or preexisting conditions. Service
contracts
may, but are not required to, cover damage resulting from rust, corrosion,
or damage
caused by a noncovered part or system.