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COMMONWEALTH OF PENNSYLVANIA  
HOUSE OF REPRESENTATIVES  
HOUSE INSURANCE COMMITTEE

STATE CAPITOL  
ROOM 140  
HARRISBURG, PENNSYLVANIA

THURSDAY, JUNE 5, 2008  
10:00 A.M.

PUBLIC HEARING ON  
HOUSE BILL 351

BEFORE:

- HONORABLE ANTHONY M. DELUCA, CHAIRMAN
- HONORABLE NICHOLAS A. MICOZZIE
- HONORABLE VINCE BIANCUCCI
- HONORABLE SCOTT W. BOYD
- HONORABLE RON BUXTON
- HONORABLE JOHN R. EVANS
- HONORABLE FLORINDO J. FABRIZIO
- HONORABLE NICK KOTIK
- HONORABLE STEVEN R. NICKOL

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ALSO PRESENT:

RICHARD SPEESE, EXECUTIVE DIRECTOR (D)  
LISA KUBEIKA, RESEARCH ANALYST

BRENDA S. HAMILTON, RPR  
REPORTER - NOTARY PUBLIC

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## P R O C E E D I N G S

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CHAIRMAN DELUCA: Good morning, ladies and gentlemen. I want to welcome you to the House Insurance Committee meeting today on House Bill 351, which is the Service Contract Act providing for the regulation of service contracts.

The purpose of this act is to create a legal framework within which service contracts may be marketed, sold, offered for sale, issued, made, and proposed or -- to be administration -- and administered in the Commonwealth.

Although our agenda this morning is limited to a couple of testifiers, I thought it would be a good idea for the Insurance Committee members to gain an understanding of what service contracts are and, equally important, what they are not.

I introduced this bill in order to protect the consumers who purchase service contracts on appliances, computer equipment, and the like -- and the like who expect -- and the individuals who expect when something breaks the service contractor will fix the problem.

1           What I have seen, however, indicates  
2           that consumers sometimes are purchasing service  
3           contracts and when the time comes to use the  
4           repair services, the company does not deliver on  
5           the promise to repair. When this occurs, it is  
6           not clear where the consumer is to turn for  
7           assistance.

8           This bill attempts to clarify what  
9           service contracts are and what they are not. It  
10          makes it clear they are not insurance products.

11          As many of you know, the Senate has  
12          passed Senate Bill 1254, which simply delineates  
13          that service contracts are not insurance products  
14          and, therefore, are exempt from regulations as  
15          insurance.

16          Let me also state that I consider that  
17          bill to be wrong. I have no quarrels with this  
18          distinction. In fact, my bill generally makes  
19          the same distinction.

20          However, I believe we need to do more  
21          than just clarify this issue. In my bill service  
22          contract providers would have to register with  
23          the Insurance Department and, as these hearings  
24          progress, we might find other avenues where we  
25          would put this language. We also are looking at

1 the Department of State and the Attorney  
2 General's Office.

3 And, most importantly, in order to  
4 assure they will be able to provide their legal  
5 obligations under the contract, they are  
6 responsible to show they have the wherewithal to  
7 do so. They would have to have an insurance  
8 policy or bond or maintain a funded reserve  
9 account in order to ensure the services will be  
10 provided when needed by consumers.

11 I believe it's important that we go  
12 further than just stating these contracts are not  
13 insurance. We need to take this opportunity to  
14 further protect our constituents, the twelve  
15 million Pennsylvanians who reside in the  
16 Commonwealth of Pennsylvania, the individuals who  
17 purchase these products in good faith.

18 Today I look forward to our discussion  
19 to educate the committee and hope the members of  
20 the committee will take this opportunity to learn  
21 more about these products and the need to provide  
22 some protection for consumers.

23 Let me state I am willing to continue  
24 the discussions with the service contract  
25 industry, which we will hear from today, in order

1 to make this legislation better, and I am  
2 certainly willing to meet with any interested  
3 parties to further redefine this bill, to make it  
4 a better piece of legislation for the consumers  
5 of the Commonwealth of Pennsylvania.

6 Now, before I start with the testifiers,  
7 I want to introduce my good friend and the  
8 Republican Chairman, Nick Micozzie, who evidently  
9 we stole his sign or misplaced it. It's not  
10 here. But we'll have another one made.

11 But Representative Micozzie and myself  
12 have been very compatible. We are interested in  
13 the consumers out there.

14 And, Representative Micozzie, if you'd  
15 like to say a few words.

16 REPRESENTATIVE MICOZZIE: That shows you  
17 what happens. I mentioned about my sign. That  
18 what happens when you go to the minority. They  
19 do a lot of things. They take your sign.

20 I'm here to listen to the testimony. I  
21 read -- I read some of it and I want to hear the  
22 remarks. Thank you.

23 CHAIRMAN DELUCA: I'd like also, from my  
24 left, for the members to introduce themselves.

25 REPRESENTATIVE KOTIK: Representative

1 Nick Kotik, Allegheny County.

2 REPRESENTATIVE BIANCUCCI: Vince  
3 Biancucci, Beaver County.

4 REPRESENTATIVE FABRIZIO: Flo Fabrizio,  
5 Erie County.

6 REPRESENTATIVE BOYD: I'm Scott Boyd  
7 from Lancaster County.

8 REPRESENTATIVE EVANS: John Evans from  
9 Erie and Crawford.

10 REPRESENTATIVE NICKOL: Steve Nickol  
11 from Adams and York Counties.

12 REPRESENTATIVE BUXTON: Ron Buxton from  
13 Dauphin County.

14 CHAIRMAN DELUCA: And this is Rick  
15 Speese, my executive director.

16 The first individual -- and I also want  
17 to state as a fact that we have contacted other  
18 individuals to testify before this committee on  
19 this issue.

20 But evidently two things. They probably  
21 don't want to go on record opposing this type of  
22 legislation, because I don't know how they  
23 possibly in good faith could stand the press that  
24 they would receive about protecting the consumers  
25 of the Commonwealth of Pennsylvania.



1           I want to say that at the outset of this  
2 hearing. And I want to commend the individuals  
3 who testify here today and certainly I understand  
4 that one individual came from St. Louis. Am I  
5 correct on that?

6           MR. TIMOTHY MEENAN: Kansas City.

7           CHAIRMAN DELUCA: Kansas City. I want  
8 to thank you very much for taking -- you took the  
9 time to come here from Kansas City while we had  
10 individuals who couldn't take the time because  
11 they fear it's not in their public interests.

12          REPRESENTATIVE MICOZZIE: You probably  
13 wanted to get away from the weather.

14          CHAIRMAN DELUCA: The first individual  
15 to testify is Arthur Chartrand. He's an attorney  
16 with the law office.

17          Tim, are you going to speak separate or  
18 are you coming up here?

19          MR. MEENAN: I'll speak separate, after  
20 he's spoken.

21          CHAIRMAN DELUCA: All right. Thank  
22 you.

23          Welcome, Art. And, again, I want to  
24 thank you for taking time out of your busy  
25 schedule to come all the way here.

1 MR. ARTHUR CHARTRAND: Thank you very  
2 much, Mr. Chairman. My name is Art Chartrand. I  
3 represent the National Home Service Contract  
4 Association. You've seen our letterhead. It's  
5 Olathe, Kansas. That's Kansas City by any other  
6 name.

7 We're glad to be here. We're glad to go  
8 on the record. We've been very happy to work  
9 with Chairman DeLuca and other members of the  
10 committee we've met over time to deal with this  
11 issue as we are in every state. I think it's  
12 going to be a great process.

13 We're a nonprofit trade organization.  
14 We serve the home service contract providers in  
15 this country and consumers interests around the  
16 country.

17 Our member companies provide a simple  
18 agreement, to service, repair, or replace normal  
19 household consumer products and appliances for  
20 one simple annual fee.

21 We hire local licensed, guaranteed  
22 Pennsylvania contractors to perform all our  
23 work. We remain fully regulated, we believe, and  
24 in compliance with the various statutes in the  
25 state of Pennsylvania, the Consumer Protection

1 Acts in the state of Pennsylvania, and various  
2 regulations in the state of Pennsylvania.

3 The concern is that -- that we have is  
4 that our industry is made up of a very, very  
5 diverse group of different industries. We have  
6 providers that offer service contracts and  
7 extended warranties on new products and new  
8 retail products that are offered through  
9 retailers. There are automobile service  
10 contracts that are out there, and then there are  
11 also various home service contracts that are out  
12 there, and different combinations of all the  
13 above.

14 The one key thing, as Chairman DeLuca  
15 indicated, that we have in common is that we're  
16 not insurance. That was decided by NAIC in  
17 1995. These are not contracts of insurance and  
18 we want to make sure the consuming public  
19 understands these are not contracts of  
20 insurance.

21 We do just the opposite of what an  
22 insurance contract does. Insurance contracts  
23 would never take care of a product that failed  
24 due to normal wear and tear. That's always  
25 excluded.

1           On the other hand, we don't take care of  
2 any sort of things like fire, wind storm, hail,  
3 vandalism, collision, anything -- fortuitous acts  
4 that would occur under an insurance contract.

5           The other thing is that we don't really  
6 provide a warranty. Some players in the industry  
7 may provide something that's akin to a warranty,  
8 but at least in the home service contract area  
9 and most service contracts, we don't manufacture  
10 or sell the product. Warranty is more of a  
11 generic and historical name.

12           Realtors, if you go to buy a home these  
13 days, and say there's a home warranty on it, if  
14 it's not a brand new home, where it might be a  
15 true home warranty, they're often referring to  
16 our industry, just because they've historically  
17 called this a home warranty, because we weren't  
18 defined by statute until the last 20 years.

19           So that's an important distinction. We  
20 are our own industry, and that's what the NAIC  
21 decided in 1995. So this is a new industry.  
22 It's the service contract industry.

23           The reason we started to work with  
24 Chairman DeLuca and many of you is simply because  
25 people confuse who we are. It's as simple as

1 that.

2           Several years ago there was a very  
3 needed -- and I compliment the Chairman for his  
4 work on looking at people who provide home health  
5 care services. These are people dealing with  
6 human bodies and people, and particularly the  
7 concern was how they prey on the seniors.

8           That's not our industry at all. We  
9 don't have any -- we deal with dishwashers and  
10 air-conditioners and appliances, so -- but the  
11 key is often people will confuse what those  
12 terms -- terms are.

13           Chairman DeLuca and others suggested, as  
14 they have in other states, you need to define  
15 your industry. And so that's what we sought out  
16 to do.

17           Yes, some states have adopted a model  
18 law, which yours is somewhat based upon. There  
19 are about twenty-some states in the past that  
20 have adopted that. It has proved to some  
21 futility in places.

22           I think in our opinion most states  
23 simply have -- find it's simply not necessary.  
24 There are plenty -- of any issues that have come  
25 up, at least in the home service contract

1 industry in the last 20 years, there's plenty of  
2 authority under your existing -- in most states,  
3 existing state consumer protection acts to deal  
4 with those sorts of issues.

5 And that's what we still support. And  
6 we work with states if they want to pass a  
7 regulatory bill to do so.

8 Unfortunately, the practical matter is  
9 that our industry has grown so diverse that a  
10 one-size-fits-all bill just doesn't seem to  
11 work.

12 While we may support it, other interests  
13 may want all kinds of -- very powerful interests  
14 may want all kinds of exclusions. The  
15 communications industry, who is not here today, I  
16 don't think, wants to be excluded from these  
17 bills and it ends up with a bill that really  
18 doesn't do anything. And there are actually  
19 protections under your Consumer Protection Act.

20 Therefore, while we think the effort  
21 under 351 was laudable, time has shown most  
22 states in recent days, in 15 of them in the  
23 last -- almost seven years have been passing  
24 bills simply saying, you know, if we need to  
25 regulate home service, we'll pass a home service

1 bill. If we need to regulate automobile service  
2 contracts, we'll pass an automobile service  
3 contract bill. If we need to regulate retail  
4 service contracts, let's pass a bill tailored for  
5 that industry.

6 But in the meantime, the more important  
7 thing is our industry at least be defined. And  
8 so that is why we would like, as an alternative,  
9 Senate Bill 1254 simply defines our industry. It  
10 says we're not insurance. It creates -- it does  
11 provide consumer protection there so that -- it's  
12 assuming the public knows we're not insurance and  
13 if nothing else we would like to see that bill  
14 get passed so we at least get that much done.

15 If this committee would like to work  
16 with us in the future to develop a bill strictly  
17 dealing with home services and the issues that  
18 might arise there, we certainly would entertain  
19 that.

20 So those are my prepared comments.  
21 Really appreciate it. Appreciate the work of the  
22 committee and it's been marvelous to work with  
23 Chairman DeLuca over the last few years trying to  
24 get something done in this area. Appreciate it.

25 CHAIRMAN DELUCA: Thank you. Thank you,

1 Art.

2 Let me ask you. You say there are  
3 protections, and I have seen this industry  
4 growing. Okay. And certainly we have -- I know  
5 out in the west we've had problems with appliance  
6 stores who have gone out of business and the  
7 individuals who have bought service contracts  
8 were stuck.

9 Now, what protection? I understand  
10 about the -- the fair trade laws and all that  
11 kind of stuff, but what protections do the  
12 individuals have when they buy these contracts,  
13 and they're getting bigger and bigger. You can  
14 buy a contract on anything anymore. TVs are very  
15 expensive today, especially with the plasma and  
16 LCD TVs and that there. What protection does  
17 somebody have who buys it off a company? The  
18 company goes bankrupt, they haven't done anything  
19 wrong, they just haven't -- they really  
20 haven't -- they went out of business.

21 Now, tell me, what protection does the  
22 Attorney General have and what position does the  
23 Attorney General have? Because they didn't  
24 commit a crime. They went out of business. Now  
25 they go through bankruptcy. These people are at



1 the end of the line to get their money. They  
2 can't wait to get that TV or whatever that  
3 appliance they've paid maybe 2,000, \$3,000 for.  
4 So where do they go?

5 MR. CHARTRAND: Mr. Chairman, members of  
6 the committee, an excellent question. I would  
7 answer it this way.

8 I spent most of my life in the -- in the  
9 insurance regulatory committee. I was an  
10 attorney with the National Association of  
11 Insurance Commissioners.

12 We have -- the insurance industry is  
13 probably the most heavily regulated industry in  
14 America. Doesn't stop companies from going belly  
15 up.

16 It does not -- it does not -- all the  
17 rules, laws, and regulations don't stop some  
18 fly-by-night and some spurious company being out  
19 there and taking some consumers. And the  
20 insurance industry has always been easy pickings  
21 because of all the cash involved in that industry  
22 to do that.

23 You know what? I guess what I've seen  
24 over the years is passing laws and regs does not  
25 keep that from happening, number one.

1           The second thing, and I think the  
2           important thing you point out, Chairman DeLuca,  
3           is that if there's a problem in the retail  
4           service industry, then laws should be crafted to  
5           deal with -- and those are, by the way, on brand  
6           new products. As you mention, LCDs and all  
7           that.

8           My industry deals with used products.  
9           It's -- it's -- we're a home service. We --  
10          we're kind of like hiring the people to cut your  
11          lawn or to spray for your bugs or to clean your  
12          house.

13          We come out and -- just on an annual  
14          basis and take care of your appliances and  
15          household systems. We're in a very different  
16          industry.

17          So if our industry has become a problem,  
18          our view is focus some laws and regs on us. If  
19          that new product retail industry is a concern to  
20          you, we would suggest draft a law dealing just  
21          with that -- that particular issue.

22          If the automobile industry, which has  
23          had its problems, has a need, then draft a law  
24          dealing with the automobile industry. Not to try  
25          to draft -- because the claims issues, the

1 solvency issues, the product issues, the  
2 interaction with the consumer, is total -- is  
3 very, very different on the new product retail  
4 extended warranty, which is what those are,  
5 service contract than they are under home. By  
6 and large we empathize with that issue.

7 One other comment I would make, and I  
8 work -- I'm a consumer. I'm concerned about  
9 that, too, and I don't mean to be too long in my  
10 answer, Mr. Chairman.

11 CHAIRMAN DELUCA: No. That's all  
12 right.

13 MR. CHARTRAND: Is that those are some  
14 risks consumers can take. It's unfortunate. You  
15 went out and spend \$200 on an extended warranty  
16 on a new TV and the retailer that sold that to  
17 you took the money and went belly up.

18 Most consumers, it's unfortunate, but  
19 the attorney -- if there was fraud, the Attorney  
20 General's got plenty of authority there. It's  
21 unfortunate that it happens, but I think it's  
22 got -- for me, it's an issue that I think we can  
23 probably live without government regulation.

24 Now, if it's your life carrier, if you  
25 spent money with your life insurance, that's a

1 whole different deal in my boat. With your  
2 automobile carrier, with your health insurance  
3 company, all those issues where we really need  
4 proactive and try -- and guarantee funds to try  
5 to keep those companies from going belly up.

6 Any -- any company that -- that goes  
7 belly up and takes consumers' money, whether it's  
8 your dry cleaner or your local gift shop, it's  
9 unfortunate, but do you need a specific  
10 government regulation, aside from the consumer  
11 protection acts just to deal with it?

12 Our view is that other states have shown  
13 it just hasn't been really necessary.

14 CHAIRMAN DELUCA: Tell us how your --  
15 your business works. Do you insure anything  
16 after somebody buys something?

17 MR. CHARTRAND: No. The home service --

18 CHAIRMAN DELUCA: I mean warranty. Do  
19 you extend -- do you warranty anything? Can I  
20 buy a warranty policy for something off of you?

21 MR. CHARTRAND: One of our member  
22 companies would sell you a home service contract  
23 on your house right now if you wanted one.

24 CHAIRMAN DELUCA: What does that cover?

25 MR. CHARTRAND: It covers your major

1 household appliances and systems. What that  
2 typically means is your air conditioning, your  
3 heating units, plumbing, electrical wiring, your  
4 major appliances, dishwasher, garbage disposal.

5 If you have a pool, you can add the pool  
6 pump onto it. If you have a septic system, you  
7 can often add that on as an optional item. Most  
8 of your major household systems and appliances.

9 These have traditionally been  
10 sold when a house -- excuse me.

11 CHAIRMAN DELUCA: Sure.

12 MR. CHARTRAND: I use my hands a lot. I  
13 apologize.

14 When a house is being sold. But you can  
15 buy one right now and put one on your home and it  
16 gives you a set budget. It gives you a budget --

17 CHAIRMAN DELUCA: Can I go in that  
18 business?

19 MR. CHARTRAND: In?

20 CHAIRMAN DELUCA: What do I have to do  
21 to open up a business like that?

22 MR. CHARTRAND: And I would --

23 CHAIRMAN DELUCA: No, I'm sorry. What  
24 do I have to do to open a business? Is there any  
25 regulations that I have to follow?

1           MR. CHARTRAND:  And I'd be careful not  
2   to speak directly to the state of Pennsylvania,  
3   because I'm sure the Chairman and the members  
4   know this better than I do, what you have to do.

5           But certainly there filings you have to  
6   make with the Secretary of State.  There are  
7   things you have to do in any state.  Plus you  
8   subject yourself to the Attorney General's  
9   authority under your many consumer protection act  
10  laws.

11           And so we are much like any other  
12  industry out there, service industry, and I think  
13  you pointed out one important thing,  
14  Mr. Chairman.  This is a growing industry.  This  
15  isn't just run by all the big guys out there  
16  somewhere in another -- when we developed and  
17  studied this issue at the NAIC we wanted to be  
18  very careful.

19           We never took any sort of effort that  
20  would chill small businesses from getting going  
21  and small businesses from starting in and  
22  providing home services.

23           Typically they're provided by most -- by  
24  many of the large national providers.  But there  
25  are certainly many things you have to do in terms

1 of complying with your existing Pennsylvania  
2 statutes to go into business.

3 CHAIRMAN DELUCA: What I'm trying to  
4 allude to, but I mean there's really not a,  
5 quote, bond. I don't really have to register.

6 As you know, we dealt with that home  
7 service contract. We took \$565,000 off of poor  
8 senior citizens who thought they had an  
9 affordable home service contract. You remember  
10 that, don't you?

11 MR. CHARTRAND: Yes, Mr. Chairman.

12 CHAIRMAN DELUCA: We have people who  
13 still didn't get their money even though the  
14 Attorney General sued. They were out the money.

15 But let me ask you this. Is it NAIC's  
16 position that we only specify that these are not  
17 insurance contracts?

18 MR. CHARTRAND: The NAIC did adopt a --  
19 a model law in 1995, which requires registration,  
20 would require some sort of financial assurance,  
21 three different types, and consumer disclosures.

22 But when the NAIC did that they -- when  
23 they adopt model laws they adopt them in the  
24 sense you -- you have to adopt this state and  
25 you've been through that on the --

1 CHAIRMAN DELUCA: No.

2 MR. CHARTRAND: You've seen that through  
3 the accreditation process.

4 CHAIRMAN DELUCA: Right. I understand.

5 MR. CHARTRAND: They also adopt laws  
6 that are saying, if you feel this is a problem in  
7 your state, here's our collective wisdom. That's  
8 how the NAIC model service contract was adopted.

9 Most of the commissioners at the time  
10 said I'm not sure we want anything to do with  
11 this. This is not an insurance product.

12 But we had a task force working for two  
13 or three years. Let's adopt this model. It  
14 presents a good work product in the state.

15 We don't object to a regulatory  
16 approach, Mr. Chairman. We do not object, and  
17 we've supported laws in 22 states to --  
18 registration, posting some financial assurance,  
19 and agreeing to the consumer disclosures.

20 What we've found is all of our industry  
21 already complies with all the consumer  
22 disclosures.

23 All the financial assurance in the  
24 world, no matter how many mechanisms, you don't  
25 guarantee that that -- unless you're going to



1 subject them to your guarantee funds. And I  
2 haven't seen a state yet willing to do that.

3 Simply registering is -- is never a bad  
4 idea, and I don't know that anyone would oppose a  
5 simple registration. We support it.

6 I'm just not sure that the rest of --  
7 even your domestic industry would support it. If  
8 they would, we would.

9 We don't ever support though,  
10 Mr. Chairman, a bill that would say regulate just  
11 us and we're going to exempt everybody else in  
12 the world.

13 CHAIRMAN DELUCA: No, I understand  
14 that.

15 MR. CHARTRAND: If -- if communication  
16 companies and retailers, anybody else who is  
17 politically powerful come in and say, that's fine  
18 for those guys, but we're the good guys. We're  
19 not -- then we have to say, hey. No. That's as  
20 far as our -- we -- we only support good laws and  
21 good regulations.

22 We have a practical side to us that says  
23 we'll support what's adoptable and what the state  
24 feels is appropriate for its interests.

25 CHAIRMAN DELUCA: And I commend you for

1 that and the thing -- the only thing that I  
2 can -- and I understand these other ones who  
3 don't want to have any -- any type of  
4 legislation. We keep hearing about too many  
5 regulations and all that. Until they have a  
6 problem with their industry, then they want some  
7 regulations and that there.

8           But doesn't this keep some of the  
9 fly-by-nighters out? We're not talking about a  
10 great deal. I mean even if we have to, say,  
11 register, we have to have a bond or something  
12 like that, we -- my notary has to have a bond.  
13 She doesn't collect anybody's money. All right.

14           MR. CHARTRAND: But the --

15           CHAIRMAN DELUCA: Yet she has to be  
16 bonded. Now it doesn't make sense to me that if  
17 somebody can take my money and take any other  
18 constituent's money, and -- and I'm not saying  
19 that they've done anything.

20           Because the only reason the Attorney  
21 General gets involved is if there's fraud or  
22 something like that or if he feels he can recoup  
23 some of the money, but they're at the end of the  
24 list, the people that have a warranty. They  
25 really never -- they really never recoup their

1 money in bankruptcy or anything like that. And I  
2 understand about that.

3 But if there was a fund out here that  
4 those individuals could go to, certainly  
5 wouldn't -- wouldn't that be beneficial for the  
6 consumers?

7 MR. CHARTRAND: Mr. Chairman, members of  
8 the committee, I suppose in an ideal world that  
9 probably would be better for the consumers. I  
10 think for us it's how far do we do it.

11 There are many industries.  
12 Mr. Chairman, I have lawn service. Fortunately I  
13 can afford one. They offer me a deal at the  
14 beginning of the summer. And I cut so much grass  
15 when I was growing up, I just won't cut grass  
16 anymore. They offer us a deal at the beginning  
17 of the summer, and it says, here, you pay us in  
18 advance; we'll give you a discount. They do it.  
19 If they don't I'm probably out that money.

20 Do we have a special law regulating  
21 those sorts of home services?

22 CHAIRMAN DELUCA: That's what we're  
23 regulating now.

24 MR. CHARTRAND: I understand that. But  
25 this dealing -- there are people -- home cleaning

1 services operate the same way. Home pest control  
2 companies operate the same way.

3 We're just another home service  
4 company. We charge a fairly modest annual fee,  
5 350 to \$500. We take care of all your home  
6 appliances. You call us, a 1-800 number. We  
7 send a guaranteed contractor out.

8 We're not a panacea for everything. We  
9 fit a niche in the home services industry. A lot  
10 of people don't -- can't fix things anymore.

11 Is it possible one of our players could  
12 go belly up? Yeah. And there have been a few  
13 very small players.

14 But a consumer may be out a few hundred  
15 dollars, but they have alternates. And, again,  
16 it just doesn't, in our view, bear the need to  
17 put together an administration and guarantee  
18 funds or that sort of thing to guarantee that one  
19 of our members would never go out of business.

20 I don't like any consumer to get hurt.

21 CHAIRMAN DELUCA: Yeah. Thanks. Thank  
22 you, Art.

23 Any other questions? Representative  
24 Biancucci.

25 REPRESENTATIVE BIANCUCCI: Just a

1 technical question, and I don't -- I don't know  
2 if you can answer it. Let's say I purchase an  
3 appliance today. I go in and they tell me it has  
4 a one-year warranty and then they offer me a  
5 three-year service contract.

6 My question to you is, is it unnecessary  
7 to have a three-year service contract the first  
8 year or does it kick in at the end of their  
9 one-year warranty? So in essence am I getting  
10 four years or three years, if you can even answer  
11 that?

12 MR. CHARTRAND: It's an excellent  
13 question, Mr. Chairman, member of the committee,  
14 Representative.

15 First off, professionally, I don't  
16 represent that industry. Personally, I -- it  
17 probably depends upon -- upon the contract.

18 Again, the home service contract  
19 industry doesn't sell those product. We cover  
20 existing -- your home, whole house products.  
21 That's the retail extended warranty industry.

22 I think Mr. Meenan represents some of  
23 those so he might be able to answer that question  
24 better.

25 But I think that's the point I was

1 wanting to make, is a lot of people tend to focus  
2 on the retail industry and confuse it with the  
3 home service industry. Or they'll take a look at  
4 the auto industry and confuse it with the retail  
5 industry. It's a huge diverse industry.

6 And our view is, if the retail industry  
7 is a concern to you, let's pass a law dealing  
8 with them. If our home service contract industry  
9 is a concern to you, let's pass a law. If the  
10 automobile service contract, you get the -- I'm  
11 being redundant. Sorry.

12 CHAIRMAN DELUCA: Any other comments?  
13 Representative Boyd.

14 REPRESENTATIVE BOYD: Thank you,  
15 Mr. Chairman.

16 So if I'm clear in specifically what  
17 your industry does, I could retain your services  
18 for an annual fee of roughly how much?

19 MR. CHARTRAND: Annual average is  
20 somewhere between 350 to \$550, depending on what  
21 part of the country you live in.

22 REPRESENTATIVE BOYD: What would that  
23 get me?

24 MR. CHARTRAND: You would have a  
25 one-year contract. You would have an 800 number

1 to call, one of our -- to any of our member  
2 companies that's involved and they -- if -- if it  
3 was a covered appliance or system, usually it's  
4 your heating, your air conditioning, plumbing,  
5 electrical systems, dishwasher, garbage -- major  
6 household appliances and systems that tend to -  
7 they would dispatch a local Pennsylvania licensed  
8 contractor out to either service that item and  
9 fix it, service it, repair it, or, if need be,  
10 replace it.

11 REPRESENTATIVE BOYD: At that point free  
12 of charge? So for \$550 if my \$8,000 Carrier heat  
13 pump went out, you guys couldn't fix it, you'd  
14 replace it?

15 MR. CHARTRAND: If they had to. There  
16 is a service fee. Just like utilization in any  
17 industry, typically it's about \$50, a service fee  
18 to have someone come out to take a look.

19 But if it could not be repaired, it  
20 would be replaced. And they often are.

21 REPRESENTATIVE BOYD: And it's a  
22 one-year contract typically? So it's not like  
23 the consumer's putting up -- you know, buying a  
24 lifetime guarantee on something? It's -- it's --  
25 I mean you brought up pest service. I have

1 Terminix because I have pests. I pay \$350, I  
2 think, at the beginning of the year. If they  
3 would go belly up, I'm out the 350 bucks.

4 MR. CHARTRAND: That would be correct.

5 REPRESENTATIVE BOYD: So it's a similar  
6 situation. I'm buying a service contract, not an  
7 extended warranty on any specific -- and you said  
8 system. Does it cover things like Chairman  
9 DeLuca brought up, televisions, one of the five  
10 plasma TVs that the chairman has in his home?

11 MR. CHARTRAND: If I could get an  
12 invitation for the Super Bowl.

13 REPRESENTATIVE BOYD: He's got a great  
14 big screen.

15 MR. CHARTRAND: Mr. Chairman,  
16 Representative, typically not. We don't cover  
17 consumer electronics typically. Each member has  
18 options in their contracts to put on. If you  
19 have a hot tub, that's an optional coverage. If  
20 you have a pool, spa.

21 We typically don't cover electronics and  
22 computers. That's a different industry in  
23 general. So the answer would be -- would be no.

24 REPRESENTATIVE BOYD: Okay. Thank you,  
25 Mr. Chairman.



1 CHAIRMAN DELUCA: Thank you,  
2 Representative Boyd.

3 Any other comments? Representative  
4 Nickol.

5 REPRESENTATIVE NICKOL: Yes. Thank  
6 you.

7 Two questions. The chairman spoke to  
8 Senate Bill 1254, which I'm not familiar with,  
9 but I gather from his explanation it simply  
10 clarifies that the Insurance Department isn't  
11 responsible for service contracts. They're not a  
12 insurance product.

13 Are those -- I gather those provisions  
14 have been passed in a number of states. Are they  
15 a clarification of law to protect the Insurance  
16 Department or are they protection for your  
17 industry from the Insurance Departments that are  
18 kind of overly aggressive in these areas?

19 MR. CHARTRAND: Mr. Chairman,  
20 Representative, excellent question.

21 1254 does a little more than that and it  
22 defines what our industry is so people aren't  
23 confused. It says a service contract of any  
24 type, and this includes the entire industry, the  
25 service, repair, replacement due normal wear and

1     tear, et cetera, et cetera is not a contract of  
2     insurance.

3             That's important. Because we had a  
4     history in this country up to 20 years ago where  
5     no one knew what these contracts were, and a lot  
6     of them got lumped into the insurance laws  
7     because no one knew what to do with them.

8             At least in terms of home service  
9     contracts, all states now have, either by law,  
10    interpretation, or regulation, have indicated the  
11    home service contracts are not contracts of  
12    insurance.

13            That is, we believe, to protect  
14    everyone. And, most importantly, it protects the  
15    consumer, because it is a statement by the state  
16    saying that this type of an agreement is not a  
17    contract of insurance.

18            In fact, a lot of states that passed  
19    those have required us, and we gladly put on our  
20    contracts, this is not a contract of insurance.

21            We don't want people to think they're  
22    buying a contract of insurance when they're  
23    buying one of our service contracts. So it's --  
24    we believe it's to protect everyone.

25            REPRESENTATIVE NICKOL: With that kind

1 of clarification, would it be beneficial in that  
2 there wouldn't be any gray areas as to who you  
3 would go to with a complaint, the Insurance  
4 Commissioner, who has jurisdiction over insurance  
5 products, and the Attorney General, who does not  
6 have, but has jurisdiction over consumer  
7 products?

8 MR. CHARTRAND: Mr. Chairman,  
9 Representative, that would be correct. It  
10 provides that clarification. Rather than going  
11 and researching 30-year-old AG opinions and old  
12 yellow case law and making up your own decision  
13 as to what this is, it lets the commissioner know  
14 what his line of authority is.

15 It settles the issue once and for all.  
16 Let's the Attorney General know that this is not  
17 a contract of insurance. Let's the consumers  
18 know it's not a contract of insurance. So no one  
19 has to guess anymore.

20 And so that's why we support 1254 at  
21 a -- as a minimum approach. We just need it to  
22 define our industry.

23 Again, we'll support other regulation if  
24 it becomes or proves necessary as well.

25 REPRESENTATIVE NICKOL: Some years ago I

1 recall there was a problem with health care clubs  
2 going belly up and people who had paid an annual  
3 fee essentially being left high and dry.

4           And as I recall, the General Assembly  
5 took action, passed a law and one of the  
6 requirements is, I believe, that those health  
7 care clubs have to post bonds to have some --  
8 some financial assurance available in the event  
9 that they do go bankrupt that the people who made  
10 those payments could have a chance to recover  
11 some of their money.

12           You had talked about states that have  
13 registration. And if I recall correctly, you  
14 said that often the registration requires the  
15 posting of financial assurance.

16           Would that posting be a requirement,  
17 that they have financial assurance, such as a  
18 bond, or is that just a posting to show evidence  
19 where they do have financial assurance to back  
20 them up in the event of a bankruptcy or something  
21 unexpected?

22           MR. CHARTRAND: Mr. Chairman,  
23 Representative, maybe all the above and none of  
24 the above.

25           The requirement was designed -- and

1 there's three options in the NAIC model and I  
2 think in your bill as well. It was designed to  
3 allow big, as well as small, operators either to  
4 post a bond in reserves, to have some sort of  
5 insurance company backing, which just passes the  
6 risk on to somewhere else, or to have a very  
7 large, significant net worth.

8 I guess over time, since there are more  
9 insurance companies by far that have gone belly  
10 up than service contract companies, since even  
11 companies like Enron go belly up overnight, and  
12 since bonds are very hard to collect on even in  
13 the best case those sometimes look better than  
14 they are in reality.

15 The fact is any industry out there can  
16 take your money and go belly up the next day.  
17 For us the question has been, when does it  
18 justify the state or the government to get  
19 involved to protect the consumer?

20 And we really empathize. We don't want  
21 to see any -- any company go belly up and we  
22 don't want to see the consumer out a dollar.

23 The fact is it happens. It happens in  
24 every industry in America. And unlike -- this is  
25 a very voluntary, luxury product. If you want to

1 look, it's a very optional product. You don't  
2 have to buy a service contract in any of these  
3 industries.

4 And if it happens, lessons are learned.  
5 And it doesn't happen that often. Passing it on  
6 to some other industry is just -- practical  
7 experience in the last 20 years has shown us it  
8 hasn't done that much good.

9 The consumer protection acts that are  
10 already there have appeared to be more of a  
11 threat than these model laws.

12 But we don't -- I want to make it  
13 clear. We do not oppose registration or bond or  
14 reserve requirement as long as it applies to  
15 everyone in every industry who's involved in this  
16 business and there aren't exemptions for everyone  
17 out there.

18 REPRESENTATIVE NICKOL: Are there open  
19 thresholds? Are they -- for example, if I lose  
20 several hundred dollars because someone inspects  
21 my home for termites, goes belly up, and I  
22 prepaid for a contract, you know, that's within  
23 the rates of tolerance. After all, I've got six  
24 kids and I'm consistently shelling out small  
25 amounts of money like that unexpectedly.

1           If you're talking several thousand  
2 dollars, though, it's a much more significant  
3 impact.

4           Do many of the states who do look at  
5 something like this that are requiring bonds  
6 separate out those who are, you know, kind of  
7 within a tolerable range of loss versus those  
8 that are a more significant loss such as several  
9 thousand dollars?

10           MR. CHARTRAND: Mr. Chairman,  
11 Representative, somewhat indirectly in that  
12 several of the states have simply passed laws  
13 dealing with auto.

14           Auto have -- typically can get into the  
15 thousands of dollars for some of these and there  
16 have been some large insolvencies in that  
17 industry.

18           Some of them have just exempted out of  
19 home service, because you're dealing with a  
20 contract of 350 to the \$550 range, and, at any  
21 given time, keeping in mind that if the company  
22 did go belly up, they've already been providing  
23 services, so their unearned service fee is  
24 usually only about, on average, half of that, so  
25 you're talking several hundred dollars is the

1 most loss someone is out.

2 Now, they may be out an expectation  
3 level. We understand that. The fact of the  
4 matter is there have been very few home service  
5 contract companies that have gone out of  
6 business.

7 There was a very small one in Louisiana  
8 just a few months ago. Our industry tried to  
9 respond voluntarily to help those people out. It  
10 just doesn't happen that often.

11 And I guess with the amount of state  
12 resources, do you really want to commit your  
13 Insurance Department or your Attorney General to  
14 another proactive bill rather than saying we've  
15 got some laws in place to keep fraud from  
16 occurring.

17 And, as we've found, if someone is going  
18 to go out and take advantage and commit fraud,  
19 like happened in maybe the health club area, and  
20 I wouldn't ever want to even remotely compare my  
21 industry to the home -- to the -- to those -- to  
22 the health clubs, is there's very little you can  
23 do to stop it. It's -- it's something you have  
24 to deal with after the fact unfortunately.

25 REPRESENTATIVE NICKOL: As I recall in



1 the 18 years I've served, the only significant  
2 complaints I've received were with regard to one  
3 auto insurance -- I mean one dealer with regard  
4 to coverage for autos, and there you're talking  
5 about serious amounts of money. The Attorney  
6 General ended up prosecuting, but they weren't  
7 able to recover enough money to really compensate  
8 people for their losses in that case.

9 MR. CHARTRAND: Mr. Chairman,  
10 Representative, it's not my intention to knock at  
11 all what is a very, I think, good industry, the  
12 automobile service contract industry, or a very  
13 good industry, the retail service contract  
14 company at all. They provide a service for  
15 consumers consumers can afford and want that sort  
16 of convenience whether -- if they want to pay for  
17 it or not.

18 My only point is those are different --  
19 very different industries. The only thing we  
20 have in common is it's not insurance. Clearly  
21 not insurance. And if you have an issue with  
22 that industry, take a look at that industry,  
23 because the solutions for that problem, the  
24 solution for the home health -- or the health  
25 clubs, the solutions for home care providers, the

1 solutions for retail service contracts on  
2 covering your 5 LCDs are different than they are  
3 for a home service contract company.

4 REPRESENTATIVE NICKOL: Thank you.

5 REPRESENTATIVE KOTIK: Mr. Chairman,  
6 just one quick question. How many members do you  
7 have within the Commonwealth? Membership in the  
8 Commonwealth.

9 MR. CHARTRAND: Of our members that are  
10 based in Pennsylvania?

11 REPRESENTATIVE KOTIK: Yes.

12 MR. CHARTRAND: I don't believe we have  
13 any but we have probably thousands, collectively,  
14 of licensed contractors that our members  
15 utilize.

16 REPRESENTATIVE KOTIK: Thank you.

17 CHAIRMAN DELUCA: Thank you very much.  
18 Thank you for coming here to testify.

19 MR. CHARTRAND: Thank you for the  
20 questions. I appreciate it.

21 CHAIRMAN DELUCA: The next individual to  
22 testify is Tim Meenan, Service Contract Industry  
23 Council.

24 Tim, welcome.

25 MR. TIMOTHY MEENAN: Thank you,

1 Mr. Chairman. My name is Tim Meenan. I  
2 represent the Service Contract Industry Council.

3 It's an honor to be here today. My  
4 parents live in a 120-year-old house that it was  
5 homesteaded by our family in Punxsutawney  
6 originally back in the 1880s.

7 And I can tell you that I traveled from  
8 Tallahassee today where the weather was  
9 definitely hotter and I am probably the leader of  
10 the club down there for celebrating Groundhog  
11 Day. So we have a lot in common.

12 And, of course, the number one question  
13 in Tallahassee is when will Bobby Bowden retire?  
14 And we say, the day after Joe Paterno retires.

15 But, anyway, thank you for your  
16 indulgence.

17 Our trade association, also known as the  
18 SCIC, Service Contract Industry Council, is the  
19 national trade association for automobile, home,  
20 and consumer goods service contract companies.

21 It's been around since the late 1980's.  
22 We have over 45 companies that probably  
23 collectively in those three spaces provide 80  
24 percent of the service contracts sold in  
25 America.

1           The idea of the model act in the late --  
2           in the mid 1990's came about because you have in  
3           most states a definition of indemnity, or  
4           insurance, that is very broad. It's an agreement  
5           to pay a specified amount on a determinable  
6           contingency.

7           And if you think about it, that -- that  
8           kind of a broad definition gives any regulator  
9           the ability to say, wow, isn't what you do  
10          insurance? Just like when Sony puts a warranty  
11          on your TV, that's an agreement to pay a  
12          specified amount on a determinable contingency.

13          So our goal has been to sort of educate  
14          legislators, work with legislators, and come up  
15          with a program that provides balanced regulation,  
16          which we support, but also recognizes that there  
17          are differences between warranty and indemnity.

18          And probably the key difference is --is  
19          that for the most part, with a few tiny  
20          enhancements that your bill, good bill, does  
21          include, as well as the Senate bill here, for the  
22          most part deal with defects from inside the  
23          product covered.

24          There are a couple of enhancements that  
25          go beyond and we'll talk about those if you would

1 like. But that's -- that's the key distinction.

2           Some of the trends that -- I would say  
3 nationally that really do help the majority of  
4 the consumers here in Pennsylvania go as -- go  
5 like this. Most service contracts take --  
6 getting outside of the home warranty industry, in  
7 the auto, in the consumer goods place -- market  
8 space, most of them are insured.

9           There is an insurance company that  
10 issues something, a contractual liability  
11 policy. It's a commercial policy to the provider  
12 or some call him the administrator and that  
13 policy covers a hundred percent of claims  
14 exposure throughout the United States.

15           Our members include insurers that issue  
16 those. In fact, we have one good company called  
17 Ace that's located here in Pennsylvania.

18           They include administrators. We have --  
19 we have auto manufacturers and consumer products  
20 manufacturers. We have retailers.

21           So our members are across the spectrum  
22 of who provide these products.

23           We -- we have been in favor of balanced  
24 regulation because, quite frankly, it's helped  
25 our industry. Over time some of the

1 enhancements, such as clear disclosure in your  
2 contracts, what is covered, what is not covered,  
3 is such a basic thing that I would be surprised  
4 that anybody wouldn't do that.

5           But because so many states require that,  
6 the fact is that most providers, not every  
7 provider, most providers have national programs.  
8 In other words, there's one company that works  
9 with Best Buy and Best Buy wants a seamless  
10 product and issues the same piece of paper to a  
11 customer in all 50 states. They don't want to  
12 offer one piece of paper in Pennsylvania and  
13 another piece of paper in Texas.

14           So those laws passed in other states  
15 really very, very much in a large way benefit  
16 you. So other examples include a free look  
17 period. We're very much in favor of the fact  
18 that you may go to an automobile dealership.  
19 You're making a lot of decisions that day. You  
20 walk out with a car. You walk out with  
21 financing. You walk out with pinstripping and  
22 the Sirius satellite radio. But you also may  
23 have chosen an included warranty.

24           We're -- our contracts put in a 30- or  
25 60-day, depending upon the program, free-look

1 program. You can go back. You can look at it.  
2 If you decide later on in that period you don't  
3 like it, you get a hundred percent of your money  
4 back.

5 Beyond that, we have mandatory  
6 cancellation provisions. And, again, I think  
7 you'll find that the national programs, the  
8 majority of service contracts sold in  
9 Pennsylvania, all have this. Even though they  
10 technically wouldn't need to, they do. So the  
11 other is cancellation provisions.

12 If you wait until after the free-look  
13 period, if you bought a -- let's say, a five-year  
14 car extended warranty or service contract and you  
15 sell your car after two or three years, you can  
16 turn that service contract back in and get a pro  
17 rata refund.

18 So if you paid \$500 for the service  
19 contract, after three years, you'd get two --  
20 \$200 back of the unexpended portion.

21 It's good business sense and it -- and  
22 it has made our product, I think, more consumer  
23 friendly and it's something that I think is more  
24 embraceable.

25 We do have products that -- that start

1 on the first day you buy the car or buy the big  
2 screen TV and run for different terms.

3 BY I would say in the consumer goods space, they  
4 tend to go from two to five years, with probably  
5 the majority of consumer goods service contracts  
6 covering a -- a three-year period.

7 In the auto area, we probably start more  
8 at the three-year period and go as long as seven  
9 years. And that's because obviously the  
10 financing of motor vehicles has now gone longer.  
11 People are keeping their cars longer in this  
12 economy and as the car ages, you certainly have  
13 more of a chance for claims.

14 So I think we're here today to say that  
15 while our -- our -- our main -- if you asked us  
16 what we would really like, we would love a bill  
17 that defines it and lets us out.

18 But we are also here to say that we will  
19 work with you over the longer term to look at  
20 your good bill and -- and -- and help you make  
21 that become law.

22 I would tell you, too, what Art said is  
23 very true. You will be inundated by groups. I  
24 see that the retailers' testimony says let  
25 certain retailers out. Well, our trade



1 association was formed after a company that you  
2 all may have heard of awhile back in -- in the  
3 late '80s or early '90s, Crazy Eddie.

4           You know, Crazy Eddie was a pretty big  
5 outfit and so, you know, the idea that the bigger  
6 they are it just means the harder they fall, I  
7 mean we stand for financial solvency. That's why  
8 most of our members insure their products.

9           On the other hand, some of our members  
10 insured their products with Reliance Insurance  
11 Company, which was a very large insurance company  
12 that went under.

13           And what happens in an insolvency in the  
14 auto space and the brown-and-white goods space  
15 usually goes like this. If the service contract  
16 provider goes under, your auto dealer usually is  
17 in a pretty tough spot.

18           And I can tell you there was a -- a  
19 company that went under in Nebraska a number of  
20 years ago and every auto dealer in Nebraska paid  
21 those claims. The fact is they paid those  
22 claims. Nobody's claim went unpaid.

23           Others that have gone under have had the  
24 insurance company kick in and pay those claims  
25 when they -- when the retailer is gone.

1           We -- we think that there's good  
2     protections in place and we appreciate the  
3     opportunity to testify here today.

4           CHAIRMAN DELUCA: Let me ask you  
5     something, Tim. Since there's not a lot of  
6     problems -- I hear there's not a lot of problems,  
7     the way I hear, and what I heard John testify,  
8     and hearing you testify, I'm just a little  
9     confused.

10           Not a lot of problems, yet we need to  
11    pass legislation specifying that this is not  
12    insurance. Why -- why the retailers are not  
13    interested in it? They have no problems. They  
14    never came to me saying they want to clarify this  
15    is not insurance.

16           I mean why do we need to do anything?  
17    If there's not a lot of problems out there, you  
18    guys don't have a lot of problems, I don't know  
19    why we need to specify it's not insurance.

20           If we don't have any problems, why are  
21    we doing anything? Tell me that.

22           MR. MEENAN: That's -- that's a very  
23    good question, Mr. Chairman. Your state has a  
24    specific ruling, which I would call incipient  
25    agency policy, that if you ask them what is the

1 status of service contracts in Pennsylvania, they  
2 will say it needs to be something called dealer  
3 obligated.

4 Dealer obligated means that the piece of  
5 paper technically should be between the car  
6 dealer and the customer or the retail store and  
7 the customer for it not to be insurance. If a  
8 third-party obligated company were to come in,  
9 your department would say that -- that kind of a  
10 program is not allowable.

11 There are tax reasons why that's not  
12 good for a car dealer or good for a retailer.  
13 That's why the major programs, the major retail  
14 stores around the country and the major auto  
15 manufacturers tend to outsource their service  
16 contract programs to third-party companies.

17 So there's that technical issue of not  
18 wanting to be a dealer obligor state. That list  
19 of states have shrunk down to just a small  
20 handful. So that is something that we --  
21 frankly, your bill would cure that problem for us  
22 and so would the Senate Bill.

23 CHAIRMAN DELUCA: Thank you.

24 Any questions? Thank you very much. I  
25 want to thank both of you --

1 MR. MEENAN: Thank you.

2 CHAIRMAN DELUCA: -- for coming and  
3 testifying. This meeting is now adjourned.  
4 Thank you.

5 (The following are written remarks  
6 submitted to the Committee from Brian A. Rider,  
7 President and CEO of the Pennsylvania Retailers  
8 Association.)

9 Chairman DeLuca and Chairman Micozzie,  
10 On behalf of the Pennsylvania Retailers  
11 Association (PRA), I would like to thank you for  
12 the opportunity to offer these comments regarding  
13 House Bill 351 to the House Insurance Committee.

14 The PRA is comprised of retail merchants  
15 across Pennsylvania who engage in the retail sale  
16 of all types of merchandise to consumers  
17 throughout the Commonwealth. As such, a portion  
18 of the PRA's membership is concerned over House  
19 Bill 351's proposed impact on their operations.

20 Under House Bill 351, the type of  
21 activity which would be regulated is a small  
22 portion of the PRA member's regular activity.  
23 Accordingly, the activity does not warrant an  
24 extra layer of review where there have been few  
25 consumer problems reported regarding payment on

1 claims made under service contracts purchased  
2 from larger retailers. It should be noted that  
3 the PRA supports Senate Bill 1254, P.N. 1841 in  
4 its current form, which addresses service  
5 contracts as not being regulated as an insurance  
6 product.

7           Unlike some of the proposed entities to  
8 be regulated by House Bill 351, the sale of  
9 service contracts is not the core function or  
10 basis of the large retailers' operations. A  
11 small portion of total sales come from the sale  
12 of service contracts versus other retail goods or  
13 products sold.

14           Because the sale of service contracts is  
15 not the core business, the potential claims on  
16 the service contract portion of the retailers'  
17 business are small enough versus total assets  
18 available that these retailers would have  
19 sufficient capital available to make payment on  
20 the claims owed. Numerous, larger,  
21 non-automotive retailers have sufficient capital  
22 to pay claims for service contracts offered on  
23 goods sold by such larger retailers.

24           Therefore, the PRA would respectfully  
25 suggest an amendment to House Bill 351 for review

1 and consideration (attached). The PRA recommends  
2 that larger retailers be exempt from the  
3 requirements of House Bill 351, as provided in  
4 the attached amendment. These larger retailers  
5 have sufficient total assets to allow for  
6 payments of service contract claims made on items  
7 sold. As such, regulation of their activity to  
8 ensure payment of claims could be better spent in  
9 those consumer areas where service contract  
10 claims payment has been much more problematic.

11 We appreciate this opportunity to  
12 present the view of the PRA to the House  
13 Insurance Committee on House Bill 351. Please do  
14 not hesitate to contact us if you have any  
15 questions regarding this proposed amendment.

16 Thank you for your continued support of  
17 the retail industry in Pennsylvania.

18 (The proceedings were concluded at  
19 10:50 a.m.)  
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I hereby certify that the proceedings  
and evidence are contained fully and  
accurately in the notes taken by me on the  
within proceedings and that this is a correct  
transcript of the same.

\_\_\_\_\_  
Brenda S. Hamilton, RPR  
Reporter - Notary Public