

**HB419 INTRODUCED**



1      HB419  
2      11SPTZZ-1  
3      By Representatives McCampbell, Ellis  
4      RFD: Insurance  
5      First Read: 10-Feb-26



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4     SYNOPSIS:

5                 Under existing law, service contract providers,  
6     who administer or sell contracts to cover the repair,  
7     maintenance, or replacement of a purchased good, are  
8     required to register with the Commissioner of Insurance  
9     and their registration fees are paid into the State  
10    Treasury to the credit of the Service Contract  
11    Revolving Fund.

12                This bill would require all service contract  
13    provider registration fees to be paid into the State  
14    Treasury to the credit of the Special Examination  
15    Revolving Fund.

16                This bill would clarify that any adjustment in  
17    the service contract provider registration fee is in  
18    accordance with changes in the Consumer Price Index  
19    under existing law.

20                This bill would also require any unencumbered  
21    and unexpended balance remaining in the Service  
22    Contract Revolving Fund to be transferred to the credit  
23    of the Special Examination Revolving Fund.

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26                A BILL

27                TO BE ENTITLED

28                AN ACT



29  
30         Relating to insurance; to amend Section 8-32-3, Code of  
31         Alabama 1975; to require all service contract provider  
32         registration fees to be paid into the State Treasury to the  
33         credit of the Special Examination Revolving Fund in lieu of  
34         the Service Contract Revolving Fund; to clarify any service  
35         contract provider registration fee adjustment is in accordance  
36         with changes in the Consumer Price Index under existing law;  
37         to require any unencumbered and unexpended balance remaining  
38         in the Service Contract Revolving Fund to be transferred to  
39         the credit of the Special Examination Revolving Fund; and to  
40         amend Sections 8-32-1 and 8-32-5, Code of Alabama 1975, to  
41         make conforming changes.

42         BE IT ENACTED BY THE LEGISLATURE OF ALABAMA:

43             Section 1. Section 8-32-3, Code of Alabama 1975, is  
44         amended to read as follows:

45             "§8-32-3  
46                 (a) Either the provider or its designee shall:  
47                     (1) Provide a receipt for, or other written evidence  
48                     of, the purchase of the service contract to the contract  
49                     holder.

50                 (2) Provide a copy of the service contract to the  
51                     service contract holder within a reasonable period of time  
52                     from the date of purchase.

53                 (b) A provider may, but is not required to, appoint an  
54                     administrator or other designee to be responsible for any or  
55                     all of the administration of service contracts and compliance  
56                     with this chapter.



57 (c) Each provider of service contracts sold in this  
58 state shall file a registration with the commissioner on a  
59 form prescribed by the commissioner. Each provider shall pay  
60 to the commissioner a fee in the amount of two hundred dollars  
61 (\$200) annually, or as otherwise adjusted pursuant to Section  
62 41-1-11. All fees collected shall be ~~paid into a special~~  
63 ~~revolving fund to be set up by the State Treasurer referred to~~  
64 ~~as the "Service Contract~~ deposited into the State Treasury to  
65 ~~the credit of the Special Examination~~ Revolving Fund. ~~"The~~  
66 ~~Service Contract Revolving Fund shall be used in the~~  
67 ~~supervision and examination of providers and otherwise in the~~  
68 ~~administration of this chapter; provided however, that nothing~~  
69 ~~in this section shall be construed to mean that all of the~~  
70 ~~expenses of supervision and examination of providers and in~~  
71 ~~the administration of this chapter incurred by the State~~  
72 ~~Insurance Department shall come from the Service Contract~~  
73 ~~Revolving Fund.~~

74 (d) All funds now or hereafter deposited in the State  
75 Treasury to the credit of the Service Contract Revolving Fund  
76 shall not be expended for any purpose whatsoever unless the  
77 same shall have been allotted and budgeted in accordance with  
78 the provisions of Sections 41-4-80 to 41-4-96, inclusive, and  
79 41-19-1 to 41-19-12, inclusive, and only in the amounts and  
80 for the purposes provided by the Legislature in the general  
81 appropriation bill, other appropriations bills or this  
82 chapter.

83 (e) There is hereby appropriated for the fiscal year  
84 ending September 30, 1998, from the Service Contract Revolving



85 ~~Fund to the State Department of Insurance those amounts as~~  
86 ~~deemed necessary to carry out the provisions of this chapter~~  
87 ~~as determined by the Commissioner of Insurance.~~

88 ~~(f)~~ (d) In order to assure the faithful performance of a  
89 provider's obligations to its service contract holders, each  
90 provider shall be responsible for complying with the  
91 requirements of one of the following subdivisions:

92 (1) Insure all service contracts under a reimbursement  
93 insurance policy issued by an insurer authorized to transact  
94 insurance in this state or issued pursuant to Chapter 10,  
95 Title 27.

96 (2) Do both of the following:

97 a. Maintain a funded reserve account for its  
98 obligations under its service contracts sold and outstanding  
99 in this state. The reserves shall be based on the loss  
100 experience of the provider as certified by an actuary or, at  
101 the election of the provider, the reserves shall be 30 percent  
102 of the aggregate provider fees for all service contracts sold  
103 and then in force. The reserve account shall be subject to  
104 examination and review by the commissioner.

105 b. Place in trust with the commissioner a financial  
106 security deposit, having a value of not less than five percent  
107 of the aggregate provider fees, less claims paid, for all  
108 service contracts sold and then in force, but not less than  
109 twenty-five thousand dollars (\$25,000) consisting of one of  
110 the following:

111 ~~(i)~~1. A surety bond issued by an authorized surety.

112 ~~(ii)~~2. Securities of the type eligible for deposit by



113 authorized insurers in this state.

114 ~~(iii)~~3. Cash.

115 ~~(iv)~~4. A letter of credit issued by a qualified  
116 financial institution.

117 ~~(v)~~5. Another form of security prescribed by  
118 regulations issued by the commissioner.

119 (3) Do both of the following:

120 a. Maintain a net worth or stockholders' equity of one  
121 hundred million dollars (\$100,000,000).

122 b. Upon request, provide the commissioner with a copy  
123 of the financial statement of the provider included in its  
124 most recent annual report on Form 10-K or Form 20-F filed with  
125 the Securities and Exchange Commission (SEC) within the last  
126 calendar year, or if the provider does not file with the SEC,  
127 a copy of the audited financial statements of the provider,  
128 which shows a net worth of the provider of at least one  
129 hundred million dollars (\$100,000,000). A consolidated Form  
130 10-K, Form 20-F, or audited financial statements shall meet  
131 the requirements of this chapter for the provider if it shows  
132 a net worth or stockholders' equity of the provider of at  
133 least one hundred million dollars (\$100,000,000) and there  
134 shall be no requirement of a parent company guarantee,  
135 reimbursement insurance, or other form of financial stability  
136 requirement. However, if the Form 10-K, Form 20-F, or audited  
137 financial statements of the parent company of the provider are  
138 filed to meet the provider's financial stability requirement  
139 because the provider's net worth or stockholders' equity of  
140 the provider is not at least one hundred million dollars



141       (\$100,000,000) ~~–~~ or because the net worth or stockholders'  
142       equity is not determinable from the consolidated Form 10-K,  
143       Form 20-F<sub>1</sub> or audited financial statements of the parent  
144       company, then the parent company shall agree to guarantee the  
145       obligations of the provider relating to service contracts sold  
146       by the provider in this state.

147           ~~(g)~~ (e) Service contracts shall require the provider to  
148       permit the service contract holder to return the service  
149       contract within no less than 20 days of the date the service  
150       contract was mailed to the service contract holder or within  
151       no less than 10 days of delivery if the service contract is  
152       delivered to the service contract holder at the time of sale.  
153       Upon return of the service contract to the provider within the  
154       applicable time period, if no claim has been made under the  
155       service contract prior to its return to the provider, the  
156       service contract is void and the provider shall refund to the  
157       service contract holder the full purchase price of the service  
158       contract including any premium paid for any applicable  
159       reimbursement insurance policy. Any refund due a service  
160       contract holder may be credited to any outstanding balance of  
161       the account of the service contract holder, and the excess, if  
162       any, shall be refunded to the service contract holder. The  
163       right to void the service contract provided in this subsection  
164       ~~(g)~~ is not transferable and shall apply only to the original  
165       service contract purchaser, and only if no claim has been made  
166       prior to its return to the provider. A 10 percent penalty per  
167       month shall be added to a refund that is not paid or credited  
168       within 45 days after return of the service contract to the



169 provider.

170 ~~(h) In the event~~ (f) If the original service contract  
171 holder makes a written demand for cancellation of a service  
172 contract pursuant to the terms of the service contract, the  
173 provider shall refund to the service contract holder the  
174 unearned portion of the full purchase price of the service  
175 contract, including the unearned portion of any premium paid  
176 for any applicable reimbursement insurance policy. Any refund  
177 due a service contract holder may be credited to any  
178 outstanding balance of the account of the service contract  
179 holder, and the excess, if any, shall be refunded to the  
180 service contract holder. If the original contract purchaser or  
181 a contract holder elects cancellation, the provider may retain  
182 an administrative fee of up to twenty-five dollars (\$25) for  
183 issuance of the service contract if ~~such the~~ fee is provided  
184 for in the service contract; however, this amount may not be  
185 deducted ~~in the event if~~ the service contract is terminated  
186 pursuant to ~~the provisions of~~ subsection ~~(g)~~ (e).

187 ~~(i)~~ (g) (1) Provider fees are not subject to premium  
188 taxes.

189 (2) Premiums for reimbursement insurance policies are  
190 subject to applicable taxes.

191 ~~(j)~~ (h) Except for the registration requirement in  
192 subsection (c), providers, administrators, and other persons  
193 marketing, selling, or offering to sell service contracts for  
194 providers are exempt from any licensing requirements of this  
195 state.

196 ~~(k)~~ (i) Providers are not required to comply with any



197 provision of Title 27."

198       Section 2. Any unencumbered and unexpended balance  
199      remaining in the Service Contract Revolving Fund on October 1,  
200      2026, shall be transferred to the credit of the Special  
201      Examination Revolving Fund.

202       Section 3. Sections 8-32-1 and 8-32-5 of the Code of  
203      Alabama 1975, are amended to make conforming changes to read  
204      as follows:

205       "§8-32-1

206       (a) The purpose of this chapter is to create a  
207      framework to regulate service contracts sold to consumers in  
208      this state.

209       (b) The following are exempt from Sections 8-32-2 to  
210      8-32-12, inclusive, of this chapter:

211       (1) Warranties.

212       (2) Maintenance agreements.

213       (3) Warranties, service contracts, or maintenance  
214      agreements offered by electric, gas, water, or telephone  
215      utilities on their transmission devices.

216       (4) Service contracts sold or offered for sale in  
217      commercial transactions.

218       (5) Service contracts sold or offered for sale to  
219      persons other than consumers.

220       (6) Service contracts sold at the point of sale, or  
221      within 60 days of the original purchase date of the property,  
222      which cover tangible property where the tangible property for  
223      which the service contract is sold, has a purchase price of  
224      two hundred and fifty dollars (\$250) or less, exclusive of



225 sales tax.

226 (c) Manufacturer's service contracts on the  
227 manufacturer's products and service contracts sold or offered  
228 for sale by Alabama electric cooperatives, and their  
229 subsidiaries and affiliates, including without limitation,  
230 affiliates managed or controlled by electric cooperatives, are  
231 required to comply only with Section 8-32-3(a), Section  
232 8-32-3~~(g)~~(e), Section 8-32-5(a), Section 8-32-5(d)~~to~~ through  
233 (n)~~, inclusive~~, Section 8-32-6, Section 8-32-10(a), and  
234 Section 8-32-10(c)~~to~~ through (f)~~, inclusive~~, as applicable,  
235 of this chapter.

236 (d) The types of agreements referred to in subsections  
237 (b) and (c) are not insurance for any purpose including,  
238 without limitation, compliance with the Alabama Insurance  
239 Code."

240 "§8-32-5

241 (a) Service contracts sold or offered for sale in this  
242 state, in their entirety, shall be written, printed, or typed  
243 in eight point type size, or larger, and shall comply with the  
244 requirements set forth in this section, as applicable.

245 (b) Service contracts insured under a reimbursement  
246 insurance policy pursuant to~~subdivision (1) of subsection (f)~~  
247 ~~or~~ Section 8-32-3(d) (1) shall contain a statement in  
248 substantially the following form:

249 "Obligations of the provider under this service  
250 contract are guaranteed under a service contract reimbursement  
251 insurance policy."

252 If the provider fails to pay or to provide service on a



253 claim within 60 days after proof of loss has been filed, the  
254 service contract holder is entitled to make a claim directly  
255 against the reimbursement insurance company. The service  
256 contract shall state the name and address of the reimbursement  
257 insurance company.

258 (c) Service contracts not insured under a reimbursement  
259 insurance policy pursuant to ~~subdivision (1) of subsection (f)~~  
260 ~~or~~ Section 8-32-3 (d) (1) shall contain a statement in  
261 substantially the following form:

262 "Obligations of the provider under this service  
263 contract are backed by the full faith and credit of the  
264 provider."

265 (d) Service contracts shall state the name and address  
266 of the provider~~r~~ and shall identify any administrator, the  
267 service contract seller, and the service contract holder to  
268 the extent that the name and address of the service contract  
269 holder has been furnished by the service contract holder.  
270 Neither the name of the service contract seller nor other  
271 provisions are required to be preprinted on the service  
272 contract and may be added to the service contract at the time  
273 of sale.

274 (e) Service contracts shall state the purchase price of  
275 the service contract, the term of the service contract and any  
276 applicable renewal provisions. Neither the purchase price nor  
277 any other provisions are required to be pre-printed on the  
278 service contract and may be negotiated at the time of sale  
279 with the service contract holder.

280 (f) If the provider will reimburse the contract holder



281 for repair work performed by third parties and if prior  
282 approval of repair work is required:; (i) the service contract  
283 shall state the procedure for obtaining prior approval and for  
284 making a claim, including a toll-free telephone number for  
285 claim service;; and (ii) if the service contract provides  
286 services essential to public health, safety, or welfare, the  
287 service contract shall either provide for 24-hour telephone  
288 assistance, or state the procedure for obtaining emergency  
289 repairs performed outside of normal business hours.

290 (g) Service contracts shall state the existence of any  
291 deductible amount.

292 (h) Service contracts shall describe the property upon  
293 which the services are to be provided, the services to be  
294 provided,, and any limitations, exceptions, or exclusions to  
295 the services to be provided.

296 (i) Service contracts shall state whether the use of  
297 non-original manufacturer's parts is allowed.

298 (j) Service contracts shall state any restrictions  
299 governing the transferability of the service contract.

300 (k) ~~Service contracts~~ A service contract shall state  
301 the terms, restrictions, or conditions governing cancellation  
302 of the service contract prior to the termination or expiration  
303 date of the service contract by either the provider or by the  
304 service contract holder. The provider of the service contract  
305 shall mail a written notice to the service contract holder at  
306 the last known address of the service contract holder  
307 contained in the records of the provider at least five days  
308 prior to cancellation by the provider. Prior notice is not



309 required if the reason for cancellation is nonpayment of the  
310 provider fee or a material misrepresentation by the service  
311 contract holder to the provider relating to the covered  
312 property or its use. The notice shall state the effective date  
313 of the cancellation and the reason for the cancellation.

314 (1) Service contracts shall set forth the obligations  
315 and duties of the service contract holder relating to the  
316 property covered by the service contract.

317 (m) Service contracts shall state whether or not the  
318 service contract provides for or excludes consequential  
319 damages or preexisting conditions, to the extent applicable.

320 (n) Service contracts may contain other provisions as  
321 determined by the provider."

322 Section 4. This act shall become effective on October  
323 1, 2026.