

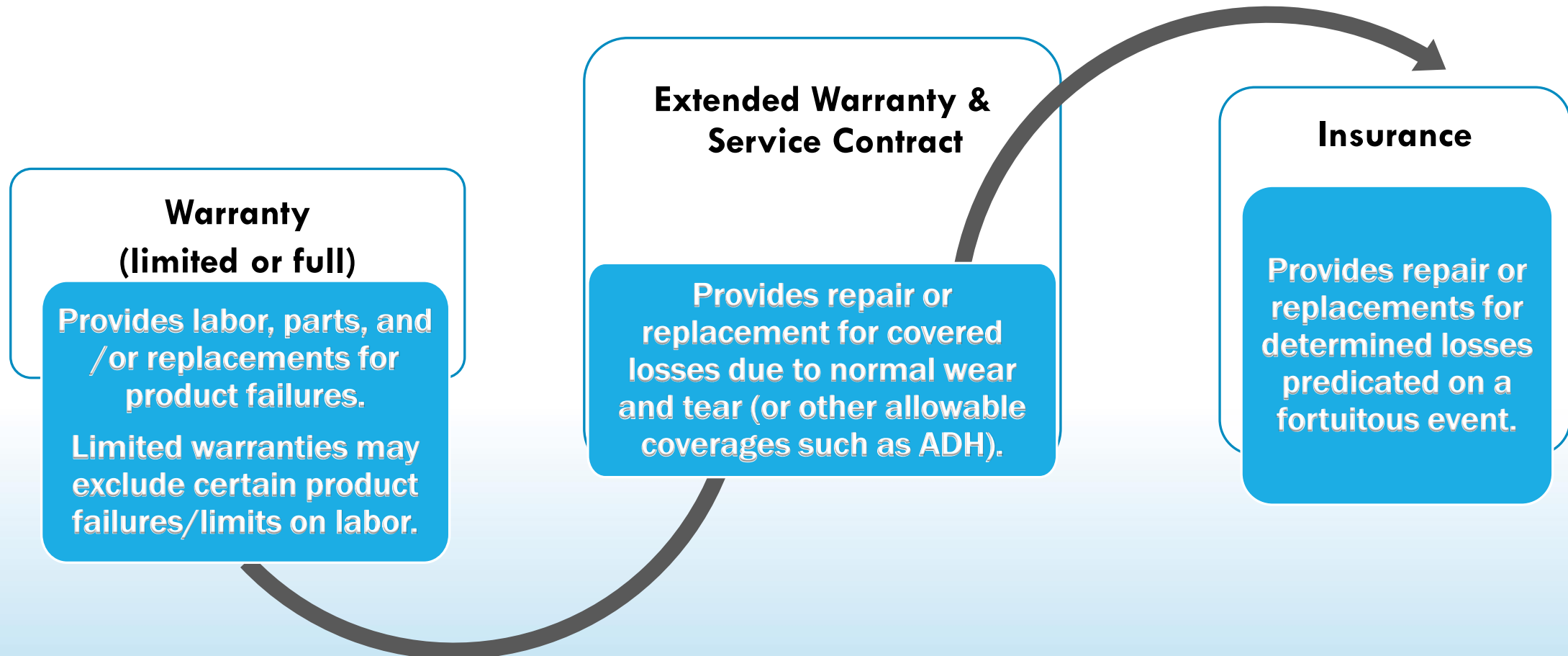


INTRODUCTION AND OVERVIEW OF WARRANTY LEGISLATIVE & REGULATORY LANDSCAPE

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Warranty Week

REGULATORY SPECTRUM



Coverage depends on the specific language of the contract. Different regulatory requirements will apply to different coverage offerings.

REGULATORY FRAMEWORKS

Warranty

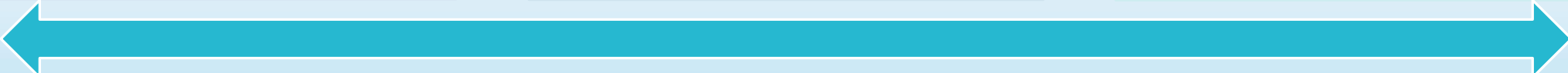
- Regulatory requirements applicable to **formation and sale**
- **No financial adequacy or licensing** requirements
- Coverage is offered **by the seller or manufacturer** to guarantee the quality of the product sold
- Limited Warranties will provide **only specifically stated coverage**. Full warranties will provide complete coverage for the product.
- Regulated on a **state (UCC) / federal / international level (CISG)**

Extended Warranty & Service Contract

- Regulatory requirements applicable to **sale and fulfillment**
- **Financial adequacy and licensing** requirements in most states (obligor)
- Service contracts are offered **by a third party**; separately stated consideration
- Coverage provides **protection in the event of a breakdown due to normal wear and tear** (or other specific permitted coverages such as ADH as provided by different state laws)
- Regulated on a **state level** with varying degrees of regulatory obligations

Insurance

- Significant compliance requirements for the **sale and fulfillment of insurance**
- **Licensing requirements for everybody involved** in the sale, solicitation, and issuance of insurance
- Insurers are **heavily regulated to ensure financial stability**
- Insurance is offered by a **third party** and can provide coverage **for any specified risk predicated on a fortuitous event**
- Majority of regulation is on a **state level**



Depending on the specific language of the contract, products can move from one regulatory framework to another. This changes the regulatory requirements which apply.

WARRANTIES

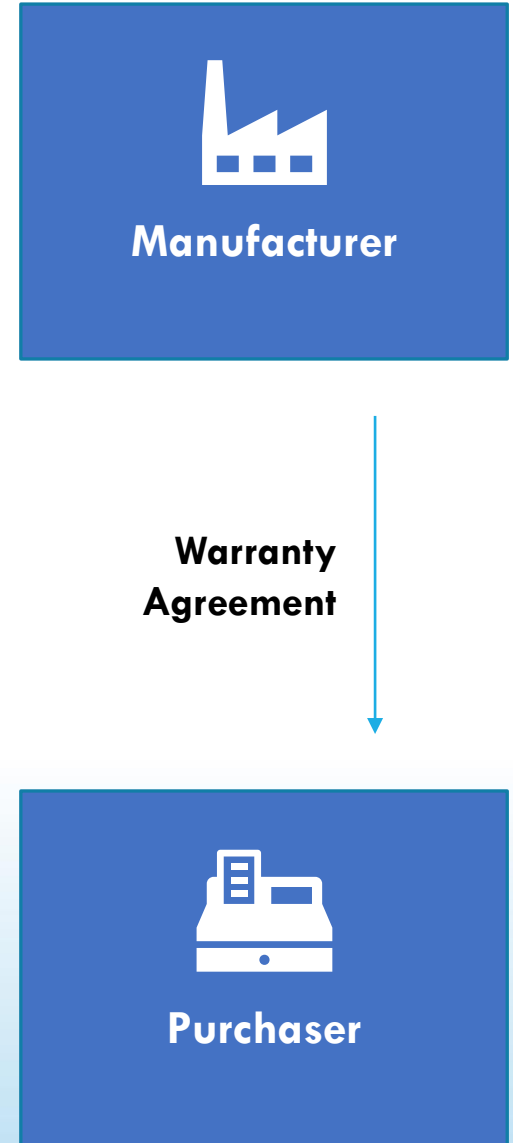
An undertaking by the seller, made alongside the formation of the contract, that a certain fact about the goods is or will be as stated or promised.

The cost of the warranty is included in the purchase price of the product.

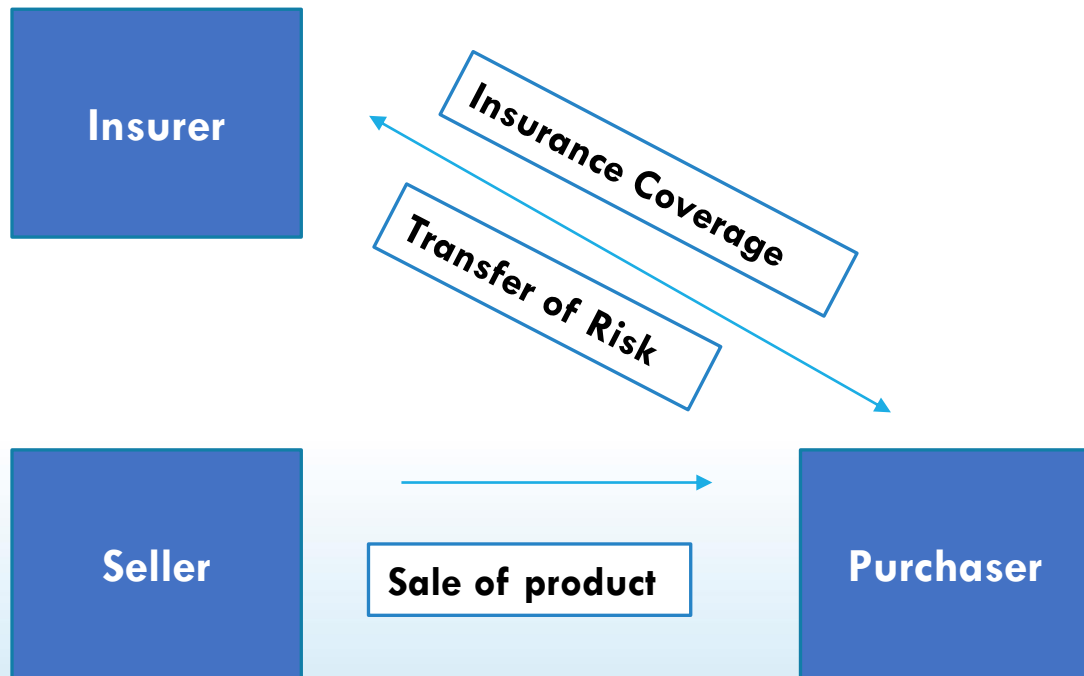
Consists of a two-party transfer of risk from the manufacturer / distributor to the purchaser.

Governed by the UCC / CISG and federal laws such as Mag Moss.

Most are issued as limited warranties based upon manufacturer or industry specifications. These provide specific limitations to the coverage offered. This can include limitations on coverages for labor costs or for repair/replacement amounts and usually vary over the life/term of the limited warranty.



INSURANCE



- The transfer of risk whereby the third-party agrees to pay a predetermined amount upon the occurrence of a specified fortuitous event.
- Consists of a three-party transaction.
- Is typically governed by state law (with some federal exceptions).

SERVICE CONTRACT & EXTENDED WARRANTY

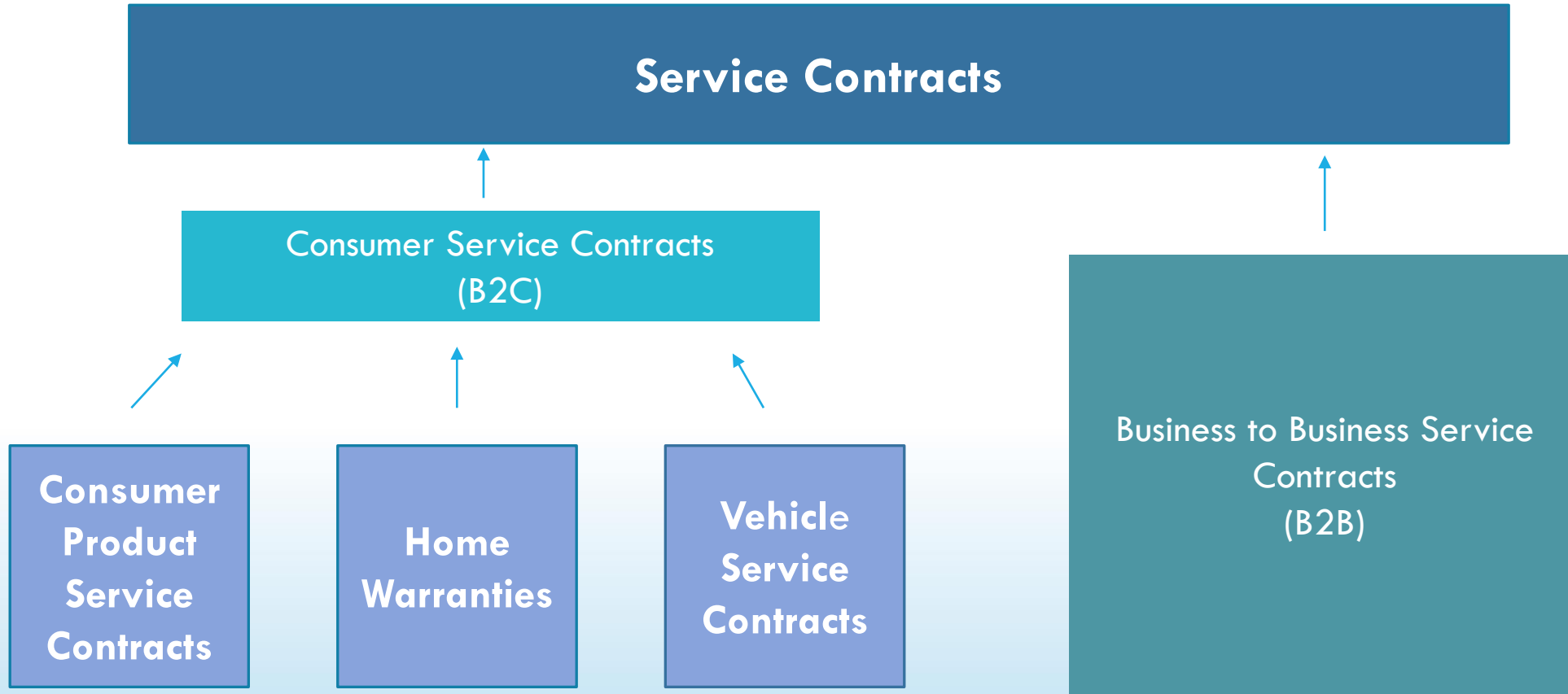
Service contracts are a kind of “quasi-insurance.”

- The service contract provider assumes the risk of indemnifying the contract holder for the cost of repairing or replacing property covered by the service contract for a separate charge.
- Service contracts may only cover loss due to a defect in materials or workmanship, or normal wear and tear but may include coverage for accidental damage from handling and other benefits where specifically authorized.
- Service contracts cannot cover loss from theft or loss. This would cause the contract to be one of insurance.

Service contracts would be regulated as insurance except as are specifically carved out of the insurance code in most states (at least consumer) and regulated separate from insurance.



TYPES OF SERVICE CONTRACTS



PRINCIPLE ACTORS IN SERVICE CONTRACT PROGRAMS



Manufacturer

Creator of good the product is issued on



Customer

Purchaser of good



Administrator

Entity responsible for administering service contract claims



Seller

Seller of product to customer



Obligor

Entity accepting risk for coverages offered by service contract



Insurer

If required, entity accepting ultimate risk from obligor on service contracts

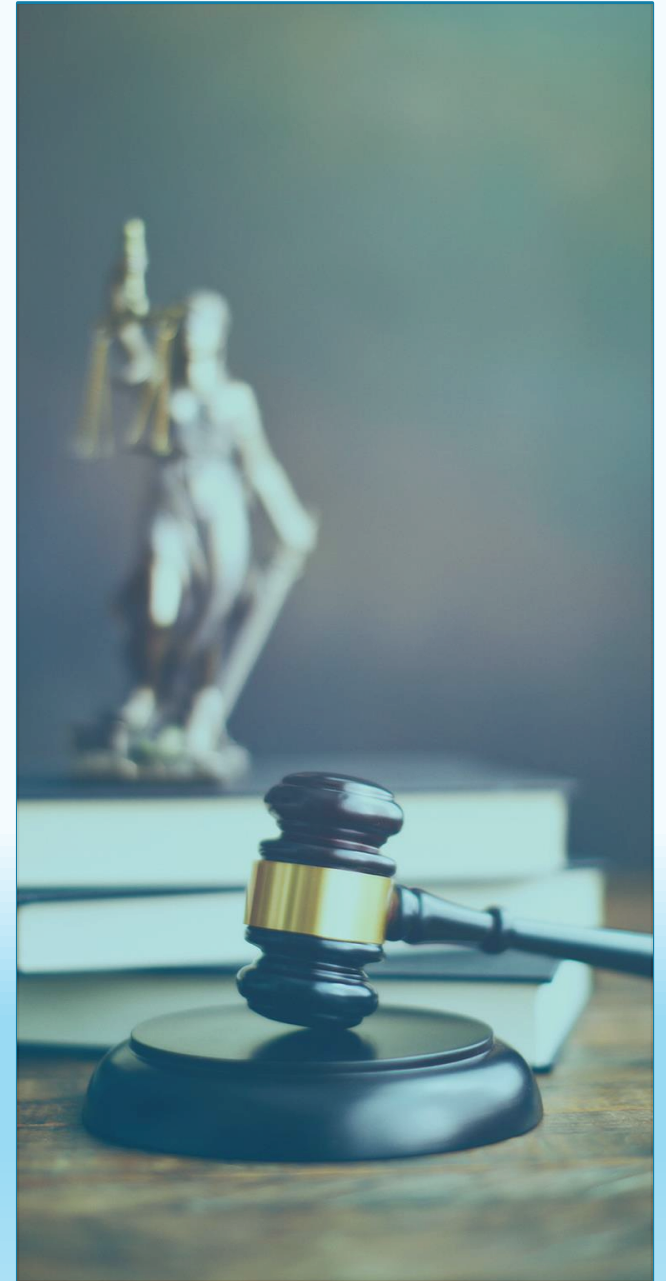
SERVICE CONTRACTS & EXTENDED WARRANTIES

The NAIC passed a model law for the regulation of service contracts in 1995. This model law focused on service contracts issued to consumers.

Seven states have adopted the model law. The other states either have more stringent or more lenient regulatory structures.

The model law provided:

- Exemptions for warranties;
- Carve outs from regulation under the insurance code;
- Requirements for demonstrating financial adequacy; and
- Registration/licensing requirements.



TYPES OF CONSUMER SERVICE CONTRACTS



Consumer Product Service Contracts

A consumer service contract is an offering to repair or replace consumer products in the event of damage due to normal wear and tear, or an offer to extend the manufacturer's warranty for a separate fee, or both.

Typical coverage will include protection for electronic devices, furniture, and other small household consumer goods.



Vehicle Service Contracts (VSC)

A vehicle service contract is an offering to repair or replace components of a motor vehicle (including tires and wheels) in the event of damage due to normal wear and tear, or an offer to extend the manufacturer's warranty for a separate fee, or both.

Typical coverage will include protection for windshields, tires, wheels, key fobs, or mechanical components.



Home Warranties

A home warranty is an offering to repair or replace the systems or structural components of a home in the event of damage due to normal wear and tear, or an offer to extend the builder or manufacturer's warranty for separate fee, or both.

Covers items found within the home such as HVAC, refrigerators, and other appliances

Specific coverages may be limited by the regulating state's definition of a "service contract."

B2B SERVICE CONTRACTS



The model law provides for an exemption from both insurance and service contract regulations for service contracts offered or sold to persons other than “consumers.”



Businesses are thought to be sophisticated parties who do not need the protections typically offered to consumers.



A number of states do not define tie the service contract definition to a product offered to a consumer or provide a specific exemption for B2B contracts.



If not specifically exempted from the insurance code, commercial service contracts may then be treated as an insurance product, subjecting programs to complete insurance regulation.

STATE REGULATION OF SERVICE CONTRACTS

States have a variety of different regulations for service contracts which vary widely from state to state.

State Regulation Example A:

- Strict financial reporting requirements
- Prior approval of all forms used in the state
- Licensing requirements for administrators, sellers, and obligors of service contracts
- Applicability of all or significant portions of insurance code

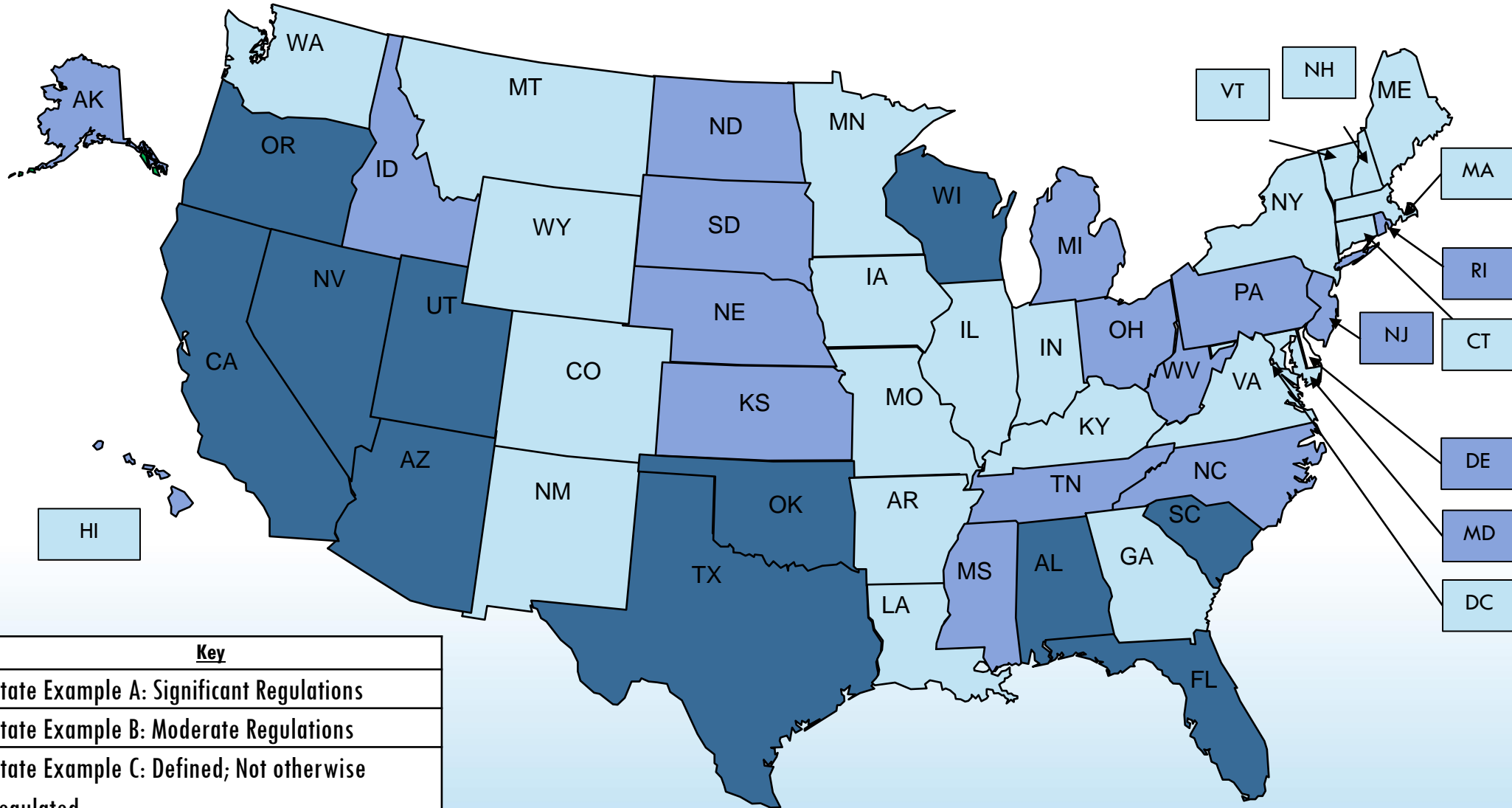
State Regulation Example B:

- Financial adequacy demonstration requirement upon application for license
- Required disclosures in service contracts, but no form filing
- Licensing only for service contract providers

State Regulation Example C:

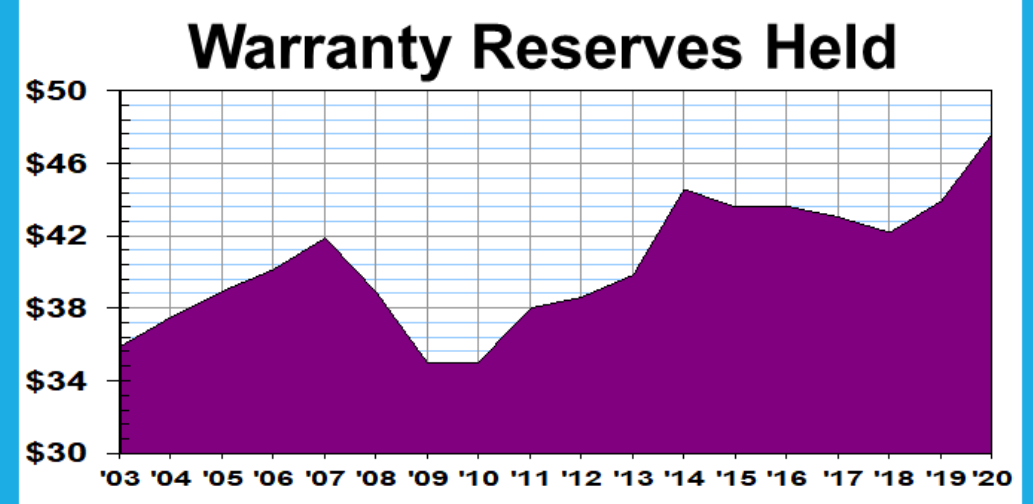
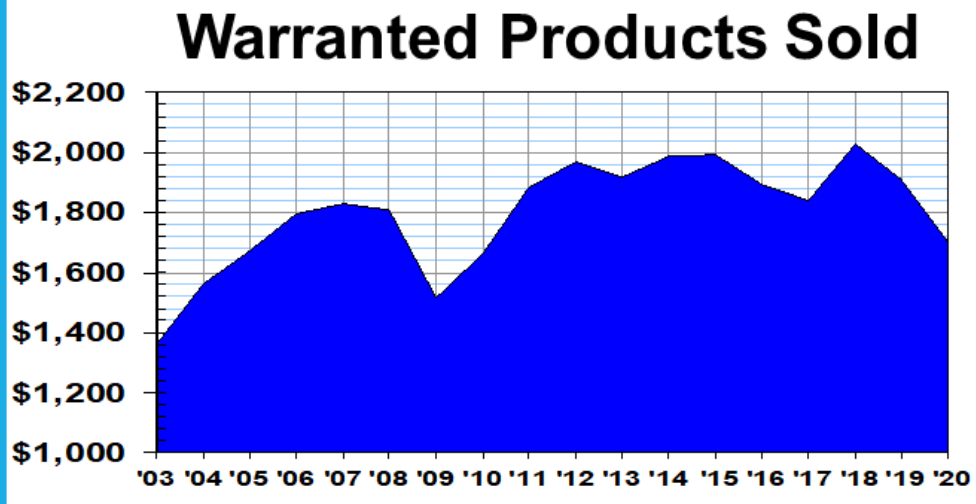
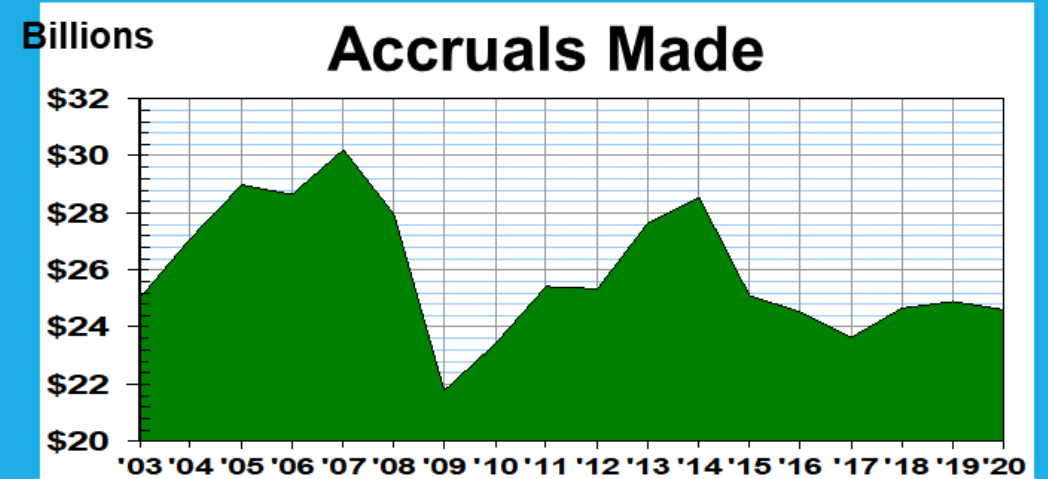
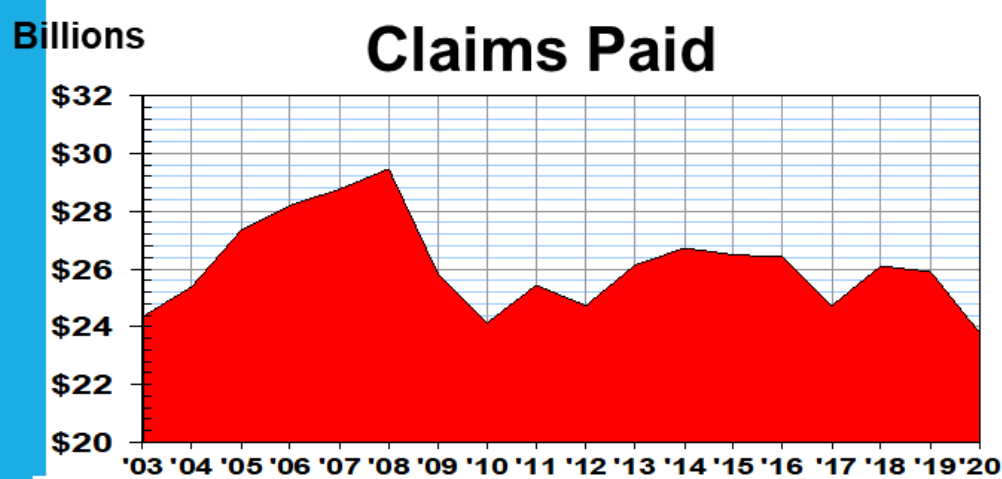
- Carved out of insurance code
- No other applicable regulations or requirements

STATE REGULATION OF SERVICE CONTRACTS

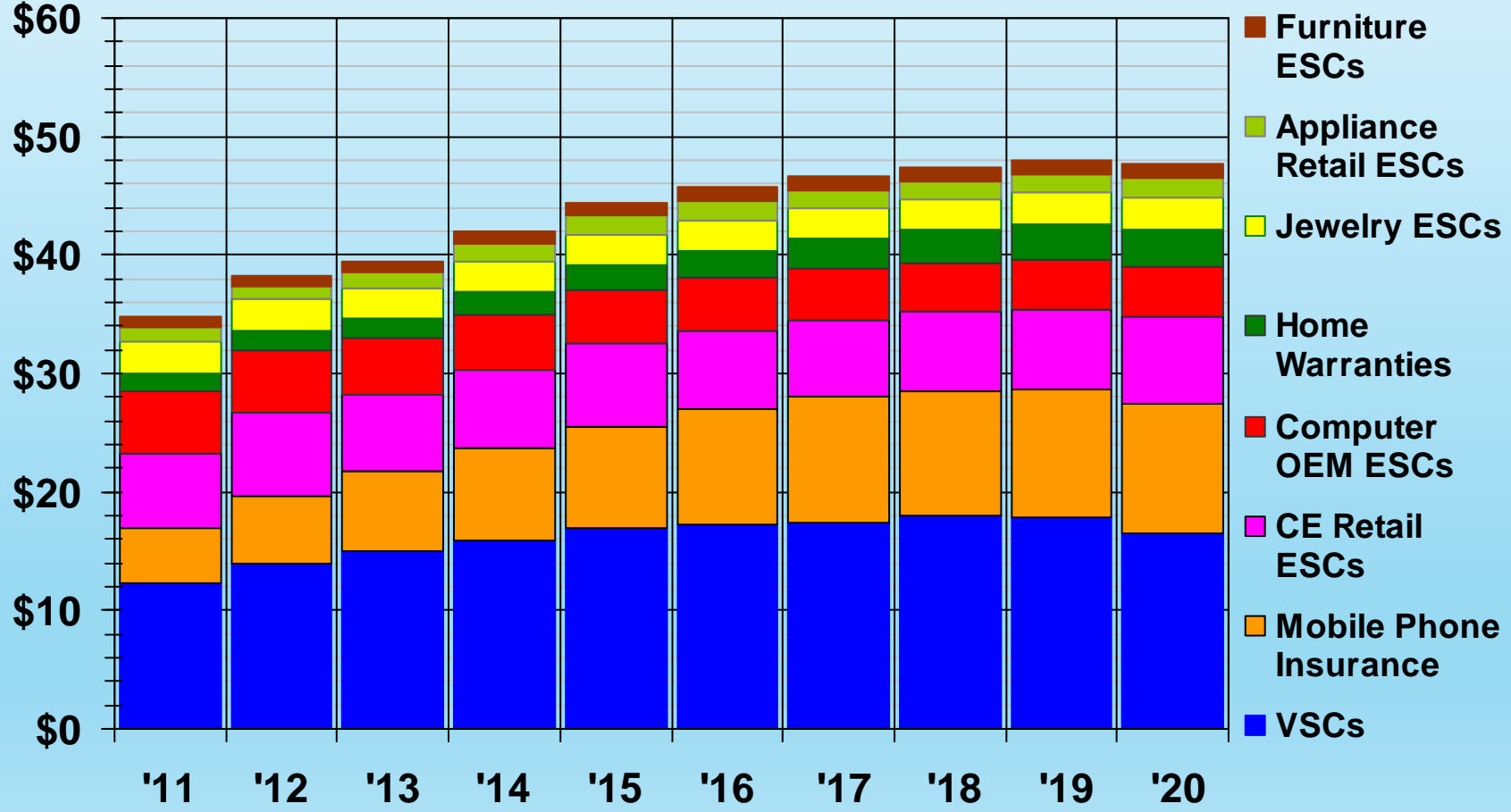


Disclaimer: This is intended to provide a high-level overview and not be taken as legal or regulatory advice. Distinctions between consumer, vehicle, or home service contracts are not made.

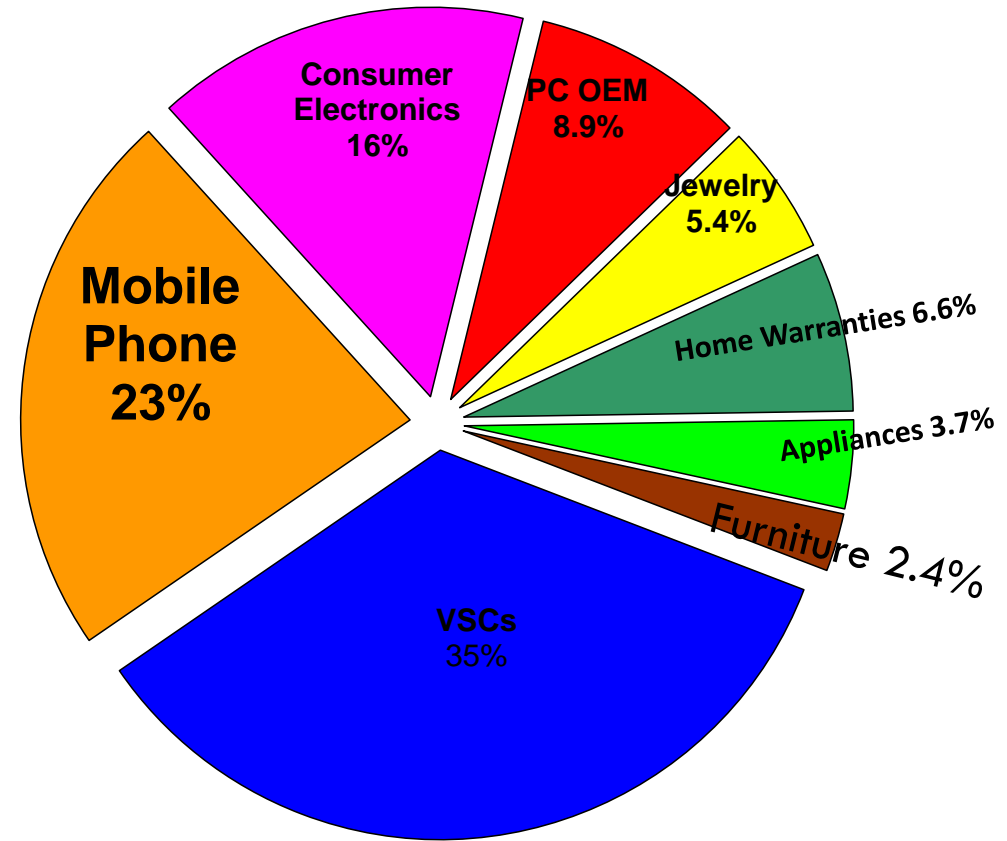
ALL U.S.-BASED MANUFACTURERS PRODUCT WARRANTY METRICS, 2003-2020



U.S. RETAIL EXTENDED WARRANTIES PREMIUMS PAID BY U.S. CONSUMERS, 2011-2020

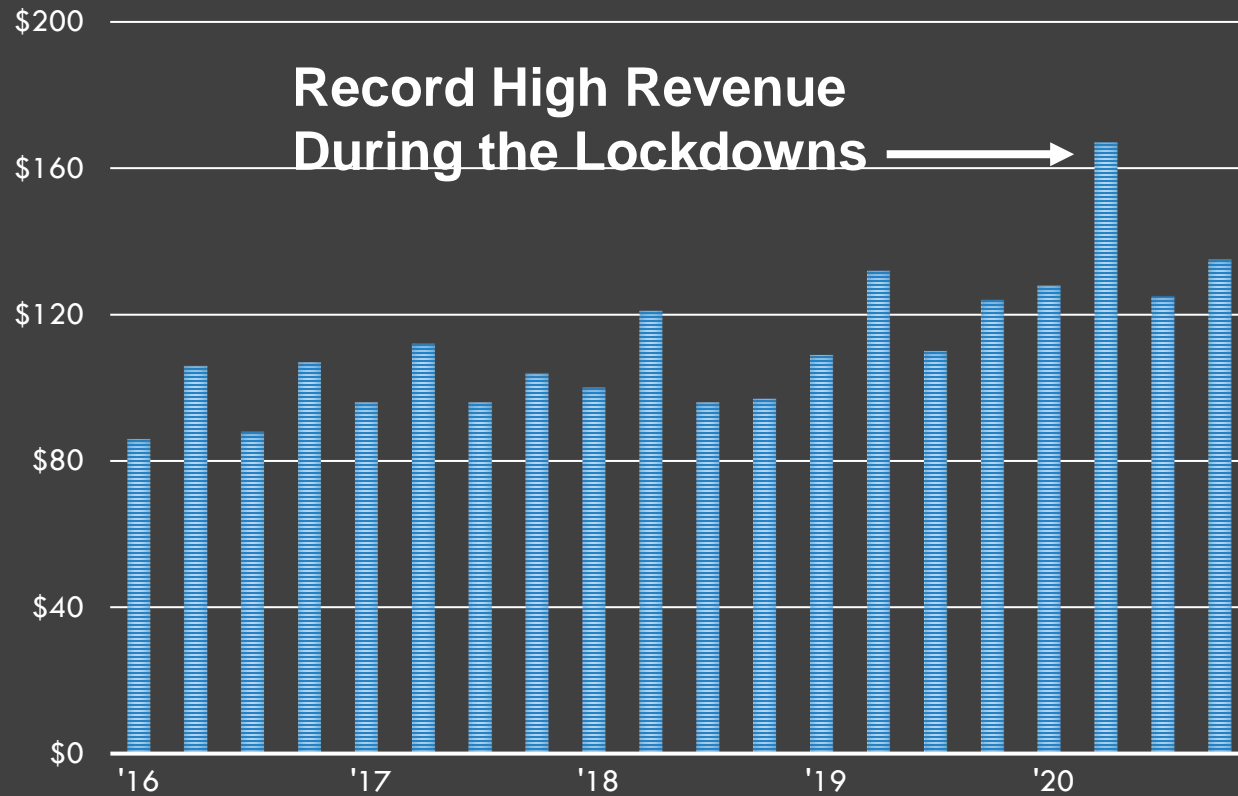


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\$47.7 B**

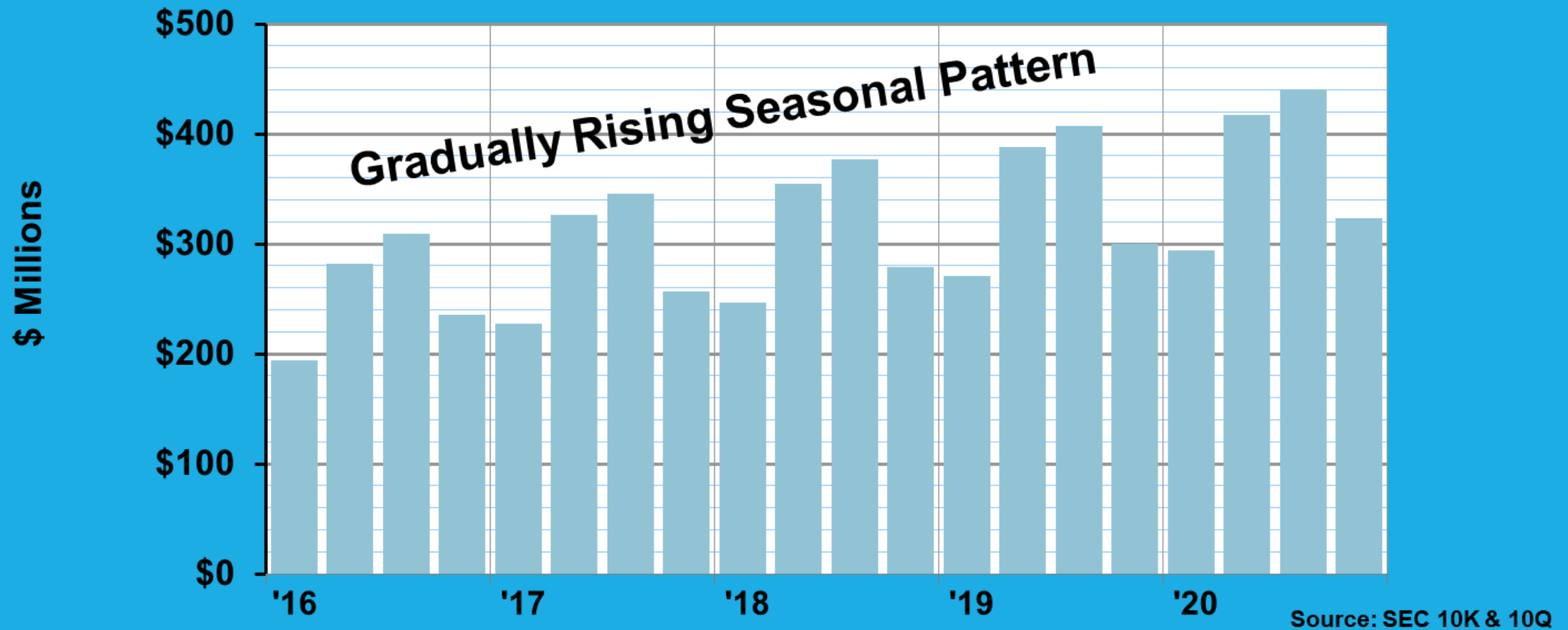


U.S. EXTENDED WARRANTY MARKET PREMIUMS PAID BY U.S. CONSUMERS, 2020

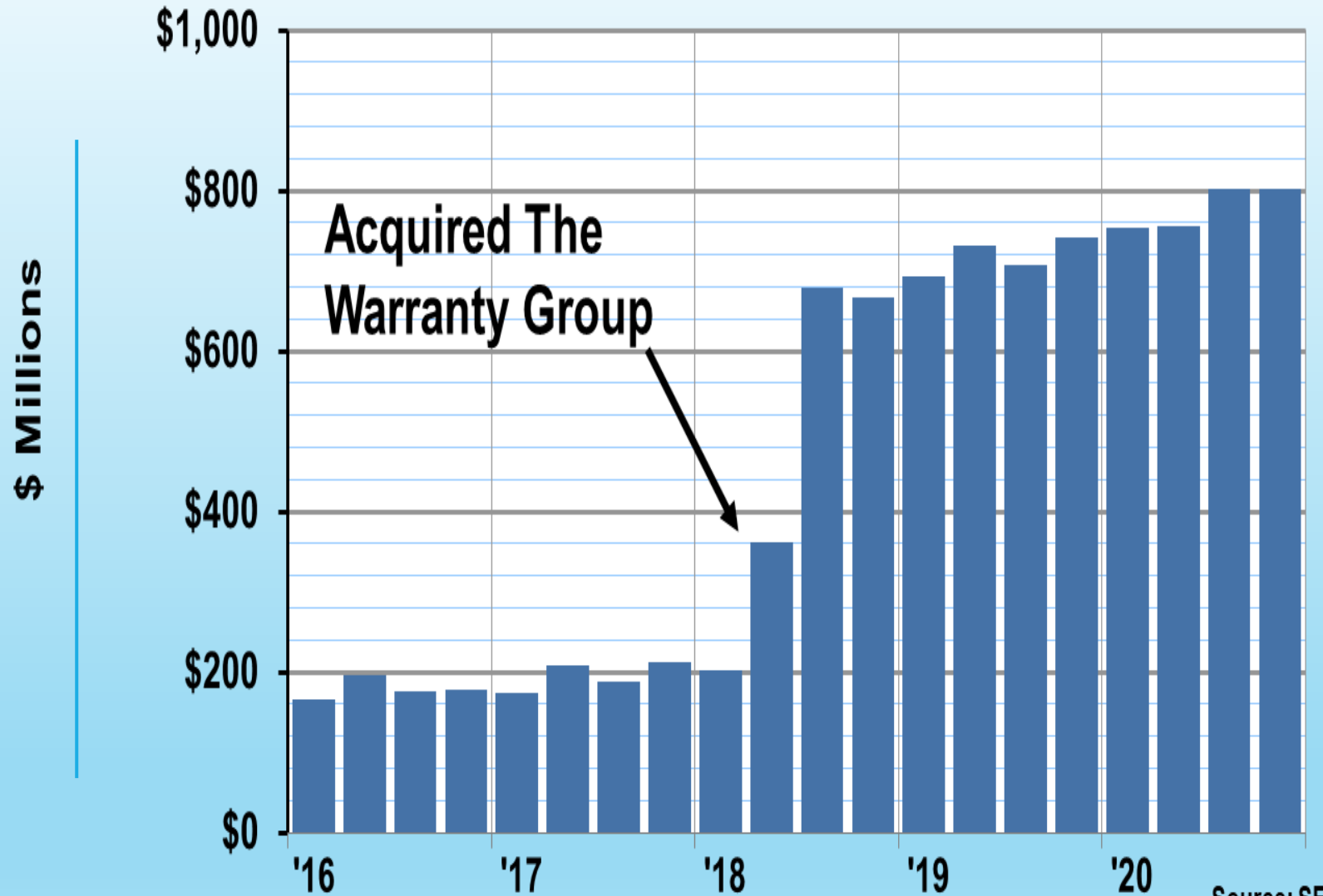
LOWE'S COMPANIES INC. APPLIANCE PROTECTION PLAN SALES, 2016-2020



AMERICAN HOME SHIELD HOME WARRANTY REVENUE, 2016-2020



ASSURANT INC. VEHICLE SERVICE CONTRACT SALES, 2016-2020



Source: SEC 10K



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Thank You

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