

State of Arizona  
Senate  
Fifty-third Legislature  
Second Regular Session  
2018

# SENATE BILL 1381

## AN ACT

AMENDING SECTIONS 20-1095, 20-1095.01, 20-1095.02, 20-1095.03 AND 20-1095.04, ARIZONA REVISED STATUTES; REPEALING SECTION 20-1095.06, ARIZONA REVISED STATUTES; AMENDING TITLE 20, CHAPTER 4, ARTICLE 11, ARIZONA REVISED STATUTES, BY ADDING A NEW SECTION 20-1095.06; AMENDING SECTION 20-1095.07, ARIZONA REVISED STATUTES; RELATING TO SERVICE COMPANIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 20-1095, Arizona Revised Statutes, is amended to  
3 read:

4 20-1095. Definitions

5 In this article, unless the context otherwise requires:

6 1. "Consumer" means a buyer other than for purposes of resale of  
7 any consumer product, any person to whom the product is transferred during  
8 the duration of an implied or written warranty or service contract  
9 applicable to the product and any other person who is entitled by the  
10 terms of the warranty or service contract or under applicable federal or  
11 state law to enforce against the warrantor or service company the  
12 obligations of the warranty or service contract. ~~★~~ Consumer also means  
13 the buyer, OWNER, LESSOR or seller of residential property.

14 2. "Consumer product" means any tangible personal property ~~which~~  
15 THAT is distributed in commerce and ~~which~~ THAT is normally used solely for  
16 personal, family or household purposes including any such property  
17 intended to be attached to or installed in any real property without  
18 regard to whether it is so attached or installed.

19 3. "Home warranty or home protection contract" means a service  
20 contract as defined in paragraph ~~8- 7~~, subdivision (b), ITEM (i) of this  
21 section.

22 4. "Mechanical reimbursement insurance" means an insurance policy  
23 issued to ~~a motor vehicle dealer to insure the performance of a motor~~  
24 ~~vehicle service contract to a consumer if the motor vehicle dealer or the~~  
25 ~~service contract administrator becomes insolvent or ceases to do business.~~  
26 ~~All such policies shall provide that all purchasers of motor vehicle~~  
27 ~~service contracts are covered if the motor vehicle dealer, the service~~  
28 ~~contract administrator or the insurer becomes insolvent or ceases to do~~  
29 ~~business.~~ AN OBLIGOR TO EITHER PROVIDE REIMBURSEMENT TO THE OBLIGOR UNDER  
30 THE TERMS OF THE INSURED SERVICE CONTRACTS ISSUED OR SOLD BY THE OBLIGOR  
31 OR, IN THE EVENT OF THE OBLIGOR'S NONPERFORMANCE, TO PAY ON BEHALF OF THE  
32 OBLIGOR ALL COVERED CONTRACTUAL OBLIGATIONS INCURRED BY THE OBLIGOR UNDER  
33 THE TERMS OF THE INSURED SERVICE CONTRACTS ISSUED OR SOLD BY THE OBLIGOR.

34 ~~5. "Motor vehicle service contract program" means contractual~~  
35 ~~documents, including service contract forms, claim forms and other forms,~~  
36 ~~used in connection with the sale of service contracts by motor vehicle~~  
37 ~~dealers.~~

38 ~~6.~~ 5. "Residential property" means a house, townhouse, condominium  
39 or other habitable structure ~~consisting of no more than four units which~~  
40 THAT is used principally as a residence.

41 ~~7.~~ 6. "Service company" OR "OBLIGOR" means any person ~~who performs~~  
42 ~~or arranges to perform services pursuant to a service contract which the~~  
43 ~~person issues~~ THAT IS CONTRACTUALLY OBLIGATED TO THE CONTRACT HOLDER UNDER  
44 THE TERMS OF THE SERVICE CONTRACT. SERVICE COMPANY DOES NOT INCLUDE A  
45 SERVICE CONTRACT ADMINISTRATION OR SELLER IF THE PERSON IS NOT

1 CONTRACTUALLY OBLIGATED TO THE CONTRACT HOLDER UNDER THE TERMS OF THE  
2 SERVICE CONTRACT.

3 ~~8.~~ 7. "Service contract":

4 (a) Means a written contract ~~for a prepaid separately stated~~  
5 ~~consideration to perform, over a fixed period of time or for a specified~~  
6 ~~duration, services relating to the maintenance or repair, including~~  
7 ~~replacement, of:~~

8 ~~(a) A consumer product.~~

9 ~~(b) All or any part of the structural components, the appliances or~~  
10 ~~the electrical, plumbing, heating, cooling or air conditioning systems of~~  
11 ~~residential property.~~ OR AGREEMENT FOR A SEPARATELY STATED CONSIDERATION

12 FOR ANY DURATION TO PERFORM THE REPAIR, REPLACEMENT OR MAINTENANCE OF A  
13 CONSUMER PRODUCT OR INDEMNIFICATION FOR REPAIR, REPLACEMENT OR MAINTENANCE  
14 FOR THE OPERATIONAL OR STRUCTURAL FAILURE OF A CONSUMER PRODUCT DUE TO A  
15 DEFECT IN MATERIALS, WORKMANSHIP, ACCIDENTAL DAMAGE FROM HANDLING, A  
16 POWER SURGE OR INTERRUPTION OR NORMAL WEAR AND TEAR, WITH OR WITHOUT  
17 ADDITIONAL PROVISIONS FOR INCIDENTAL PAYMENT OF INDEMNITY UNDER LIMITED  
18 CIRCUMSTANCES, INCLUDING TOWING, RENTAL AND EMERGENCY ROAD SERVICE AND  
19 ROAD HAZARD PROTECTION.

20 (b) INCLUDES A CONTRACT OR AGREEMENT SOLD FOR A SEPARATELY STATED  
21 CONSIDERATION FOR ANY DURATION THAT PROVIDES FOR ANY OF THE FOLLOWING:

22 (i) THE SERVICE, MAINTENANCE OR REPAIR, INCLUDING REPLACEMENT, OF  
23 ALL OR ANY PART OF STRUCTURAL COMPONENTS, APPLIANCES, ELECTRICAL,  
24 PLUMBING, HEATING, COOLING OR AIR CONDITIONING SYSTEMS OF RESIDENTIAL  
25 PROPERTY OR INDEMNIFICATION FOR THE SERVICE, MAINTENANCE, REPAIR OR  
26 REPLACEMENT.

27 (ii) THE REPAIR OR REPLACEMENT OF TIRES OR WHEELS ON A MOTOR  
28 VEHICLE DAMAGED AS A RESULT OF COMING INTO CONTACT WITH ROAD HAZARDS  
29 INCLUDING POTHOLES, ROCKS, WOOD DEBRIS, METAL PARTS, GLASS, PLASTIC, CURBS  
30 OR COMPOSITE SCRAPS.

31 (iii) THE REMOVAL OF DENTS, DINGS OR CREASES ON A MOTOR VEHICLE  
32 THAT CAN BE REPAIRED USING THE PROCESS OF PAINLESS DENT REMOVAL WITHOUT  
33 AFFECTING THE EXISTING PAINT FINISH AND WITHOUT REPLACING VEHICLE BODY  
34 PANELS, SANDING, BONDING OR PAINTING.

35 (iv) THE REPLACEMENT OF A MOTOR VEHICLE KEY OR KEY FOB IN THE EVENT  
36 THAT THE KEY OR KEY FOB BECOMES INOPERABLE OR IS LOST OR STOLEN.

37 (v) OTHER SERVICES OR PRODUCTS APPROVED BY THE DIRECTOR.

38 ~~9.~~ 8. "Service contract administrator" means ~~an entity which~~  
39 ~~agrees to provide contract forms, process claims and procure insurance for~~  
40 ~~and on behalf of a motor vehicle dealer in the performance of the~~  
41 ~~obligations pursuant to the motor vehicle service contract but which may~~  
42 ~~not itself perform actual repairs~~ A PERSON WHO IS RESPONSIBLE FOR THE  
43 ADMINISTRATION OF THE SERVICE CONTRACTS OR THE SERVICE CONTRACTS PLAN OR  
44 WHO IS RESPONSIBLE FOR ANY SUBMISSION REQUIRED UNDER THIS ARTICLE.

1           ~~10-~~ 9. "Warranty" means:

2           (a) Any written affirmation by a manufacturer or seller of fact or  
3 written promise made in connection with the sale of a consumer product  
4 ~~which~~ THAT relates to the nature of the material or workmanship and  
5 affirms or promises that the material or workmanship is free of defects or  
6 will meet a specified level of performance over a specified period of  
7 time.

8           (b) Any undertaking by a manufacturer or seller in writing in  
9 connection with the sale of a consumer product to refund, repair, replace  
10 or take other remedial action with respect to such a product if the  
11 product fails to meet the specifications set forth in the undertaking,  
12 which written affirmation, promise or undertaking becomes part of the  
13 basis of the bargain for purposes other than resale of such product and if  
14 there is no separate identifiable charge to the consumer.

15           Sec. 2. Section 20-1095.01, Arizona Revised Statutes, is amended to  
16 read:

17           20-1095.01. Service companies; permits; rules; application of  
18 laws

19           A. ~~No~~ A service company may NOT offer or issue a service contract  
20 unless the service company has qualified for and been issued a permit by  
21 the director.

22           B. EXCEPT FOR THE REGISTRATION REQUIREMENTS IN THIS ARTICLE  
23 APPLICABLE TO SERVICE COMPANIES, SERVICE COMPANIES AND RELATED SERVICE  
24 CONTRACT SELLERS, ADMINISTRATORS AND OTHER PERSONS THAT MARKET, SELL OR  
25 OFFER TO SELL SERVICE CONTRACTS ARE EXEMPT FROM ANY LICENSING REQUIREMENTS  
26 OF THIS TITLE AS A RESULT OF ACTIVITIES RELATED TO THE MARKETING, SELLING  
27 OR OFFERING OF SERVICE CONTRACTS.

28           ~~B-~~ C. The director shall adopt rules ~~and regulations which~~ THAT  
29 provide for the application for permit, renewal procedures, fees, refund  
30 of the unearned portion of the contract price and approval of forms.  
31 Service companies are subject to ~~the provisions of~~ chapter 1 of this  
32 title, EXCEPT SECTION 20-116, and ~~to~~ this article.

33           D. A PROVIDER SHALL PROVIDE A CONSUMER WITH A SPECIMEN COPY OF THE  
34 SERVICE CONTRACT TERMS AND CONDITIONS PRIOR TO THE TIME OF SALE UPON A  
35 REQUEST BY THE CONSUMER. A PROVIDER MAY COMPLY WITH THIS PROVISION BY  
36 PROVIDING THE CONSUMER WITH A COMPLETE SAMPLE COPY OF THE TERMS AND  
37 CONDITIONS OR BY DIRECTING THE CONSUMER TO A WEBSITE CONTAINING A COMPLETE  
38 SAMPLE OF THE TERMS AND CONDITIONS OF THE SERVICE CONTRACT.

39           Sec. 3. Section 20-1095.02, Arizona Revised Statutes, is amended to  
40 read:

41           20-1095.02. Exemptions; definition

42           A. This article, except for section 20-1095.09, does not apply to  
43 the following:

1           1. Warranties issued by manufacturers, builders or sellers on the  
2 actual items, structures or improvements that they manufacture, build or  
3 sell.

4           2. Service contract programs if a motor vehicle manufacturer OR  
5 MOTOR VEHICLE DEALER has financial responsibility for performance.

6           3. Warranties and service contracts issued by a corporation other  
7 than a manufacturer or seller in connection with consumer products that  
8 are distributed by the corporation if the issuing corporation:

9           (a) Is an affiliate of a consumer products manufacturer.

10           (b) By March 1 of each year submits to the director an  
11 independently audited financial statement in which at least one officer of  
12 the issuing corporation attests and a certified public accountant  
13 certifies that the issuing corporation has and maintains a net worth in  
14 excess of one hundred million dollars. Any information, documents and  
15 copies that are obtained by or disclosed to the director or any other  
16 person pursuant to this subdivision are not available for public  
17 inspection, except that the director may use this information in any  
18 proceeding relating to this article.

19           4. A service company that issues a service contract to persons  
20 other than a consumer.

21           5. A service company that is in the business of selling or  
22 servicing any one of the following, if the service contract only covers  
23 the actual item the service company sells:

24           (a) Appliances or electronic equipment, or both.

25           (b) Residential heating, cooling or air conditioning systems.

26           (c) Mechanical equipment, other than motor vehicles or their  
27 components.

28           6. A service company only to the extent that it is in the business  
29 of selling or servicing directly, or through other retailers, cell phones  
30 and other electronic personal communications devices and accessories.

31           7. Any person licensed pursuant to title 32, chapter 10, or not  
32 required to be licensed because exempt pursuant to section 32-1121,  
33 subsection A, paragraph 13 whose service contract only covers the actual  
34 items, structures or improvements that the person installs, constructs or  
35 builds.

36           8. A maintenance agreement of limited duration that provides for  
37 scheduled maintenance only and does not include repair or replacement.

38           B. The director may employ independent examiners pursuant to  
39 section 20-156 to review and analyze the financial statements that are  
40 submitted pursuant to subsection A, paragraph 3 of this section.

41           ~~C. A motor vehicle dealer who is licensed under title 28, chapter~~  
42 ~~10, who sells a service contract program approved by the director pursuant~~  
43 ~~to section 20-1095.06 and who notifies the director pursuant to section~~  
44 ~~20-1095.07 shall be exempt from the remainder of the requirements of this~~  
45 ~~article.~~

1 C. THE TYPES OF AGREEMENTS REFERRED TO IN SUBSECTION A OF THIS  
2 SECTION ARE NOT INSURANCE AND ARE NOT REQUIRED TO COMPLY WITH THE  
3 INSURANCE LAWS OF THIS STATE UNLESS A PROVISION IS MADE EXPRESSLY  
4 APPLICABLE IN THIS ARTICLE.

5 D. For the purposes of this section, "affiliate" means a  
6 corporation that is owned or controlled by or is under common control with  
7 a manufacturer.

8 Sec. 4. Section 20-1095.03, Arizona Revised Statutes, is amended to  
9 read:

10 20-1095.03. Qualifications for permit

11 A. The director shall not issue a permit to a service company  
12 unless all of the following conditions are met:

13 1. ~~If the applicant is a corporation,~~ The applicant is ~~a~~ solvent  
14 ~~corporation incorporated~~ AND ORGANIZED under the laws of this state or  
15 another state, district, territory or possession of the United States.

16 2. The applicant furnishes proof as necessary to the director that  
17 the directors and management of the service company are competent and  
18 trustworthy and are capable of successfully managing the service company's  
19 affairs in compliance with law.

20 3. The applicant EITHER:

21 (a) Files ~~cash, alternatives to cash or~~ a surety bond OR AN  
22 ALTERNATIVE TO A SURETY BOND as required by section 20-1095.04.

23 (b) IS INSURED BY A MECHANICAL REIMBURSEMENT INSURANCE POLICY  
24 ISSUED BY AN INSURER AUTHORIZED TO DO BUSINESS IN THIS STATE AND PROVIDES  
25 A COPY OF THE POLICY TO THE DIRECTOR.

26 4. The applicant is in compliance and continues to be in compliance  
27 with all applicable laws.

28 5. The applicant pays the initial fee prescribed in section 20-167.

29 B. This article does not require the director to determine the  
30 actual financial condition or claims practices of any service company,  
31 ~~motor vehicle dealer or service contract administrator.~~ The ~~approval of a~~  
32 ~~service contract program or the~~ issuance of a SERVICE COMPANY permit  
33 indicates only that the entity appears to be financially sound and to have  
34 satisfactory claims practices and that the director has no credible  
35 evidence to the contrary.

36 Sec. 5. Section 20-1095.04, Arizona Revised Statutes, is amended to  
37 read:

38 20-1095.04. Filing of surety bond, securities or bonds

39 A. To ~~assure~~ ENSURE faithful performance of its obligations to  
40 contract holders, every service company ELECTING TO COMPLY WITH SECTION  
41 20-1095.03, SUBSECTION A, PARAGRAPH 3, SUBDIVISION (a) ~~shall, prior to~~  
42 BEFORE the issuance of a permit, SHALL file with or for the benefit of the  
43 director ~~cash or alternatives to cash which~~ A SURETY BOND THAT COMPLIES  
44 WITH SUBSECTION C OF THIS SECTION AND THAT at all times ~~have~~ HAS a value  
45 of at least one hundred thousand dollars.

1 B. The service company may file alternatives to ~~cash such as~~  
2 ~~certificates of deposit purchased from a financial institution licensed to~~  
3 ~~conduct business in this state~~ A SURETY BOND IN THE FORM OF SECURITIES  
4 ELIGIBLE FOR THE INVESTMENT OF CAPITAL FUNDS OF DOMESTIC INSURERS UNDER  
5 THIS TITLE or bonds of the United States government.

6 C. ~~In lieu of the cash or alternatives to cash required by this~~  
7 ~~section, the applicant may file with the director~~ A surety bond ~~in the~~  
8 ~~amount required by~~ THAT IS FILED UNDER subsection A ~~which is~~ OF THIS  
9 SECTION MUST BE issued by a surety insurer licensed to do business in this  
10 state and ~~which is~~ MUST BE for the same purpose as required in  
11 subsection A OF THIS SECTION. The surety bond is subject to the approval  
12 of the director. The surety insurer shall not cancel the bond or subject  
13 the bond to cancellation unless thirty days' written notice is given to  
14 the director.

15 D. If ~~alternatives to cash are made in the form of certificates of~~  
16 ~~deposit or a~~ SECURITIES OR BONDS OF THE UNITED STATES GOVERNMENT ARE FILED  
17 AS AN ALTERNATIVE TO A SURETY bond, ~~it~~ THE SECURITIES OR BONDS shall be  
18 irrevocably pledged to the director. The service company is entitled to  
19 any accrued interest earned from the ~~alternatives to cash~~ SECURITIES OR  
20 BONDS.

21 E. The service company shall not impair or encumber the ~~cash,~~  
22 ~~alternatives to cash or~~ surety bond, SECURITIES OR BONDS OF THE UNITED  
23 STATES GOVERNMENT filed under this section and shall pledge the ~~cash,~~  
24 ~~alternatives to cash or surety bond~~ SAME to the director. The service  
25 company shall maintain the ~~cash, alternatives to cash or~~ surety bond,  
26 SECURITIES OR BONDS OF THE UNITED STATES GOVERNMENT in force until such  
27 time as all of the service company's contractual obligations to contract  
28 holders are fulfilled.

29 F. NOTWITHSTANDING SECTIONS 20-116 AND 35-155, A SERVICE COMPANY  
30 MAY NOT USE A CASH DEPOSIT TO COMPLY WITH THIS SECTION.

31 Sec. 6. Repeal

32 Section 20-1095.06, Arizona Revised Statutes, is repealed.

33 Sec. 7. Title 20, chapter 4, article 11, Arizona Revised Statutes,  
34 is amended by adding a new section 20-1095.06, to read:

35 20-1095.06. Required service contract disclosures

36 A. EACH SERVICE COMPANY HOLDING A SERVICE COMPANY PERMIT SHALL  
37 SUBMIT ALL SERVICE CONTRACT FORMS TO THE DIRECTOR FOR APPROVAL AT LEAST  
38 THIRTY DAYS BEFORE THE PROPOSED EFFECTIVE DATE OF THE FORM. A FORM MAY NOT  
39 BE USED UNTIL IT IS APPROVED BY THE DIRECTOR OR HAS BEEN ON FILE WITH THE  
40 DIRECTOR MORE THAN THIRTY DAYS.

41 B. THE DIRECTOR MAY NOT APPROVE A SERVICE CONTRACT IF:

42 1. THE SERVICE CONTRACT MAY BE CANCELED OR VOIDED DUE TO ACTS OR  
43 OMISSIONS OF THE SERVICE COMPANY OR ITS ASSIGNEES OR SUBCONTRACTORS FOR  
44 THEIR FAILURE TO PROVIDE CORRECT INFORMATION OR THEIR FAILURE TO PERFORM

1 THE SERVICES OR REPAIRS PROVIDED IN A TIMELY, COMPETENT AND WORKMANLIKE  
2 MANNER.

3 2. PARTS OR COMPONENTS REPAIRED OR REPLACED UNDER THE SERVICE  
4 CONTRACT ARE EXCLUDED.

5 3. THE SERVICE CONTRACT MAY BE CANCELED OR VOIDED BY THE SERVICE  
6 COMPANY OR ITS REPRESENTATIVES FOR ANY OF THE FOLLOWING REASONS:

7 (a) PREEXISTING CONDITIONS THAT WERE KNOWN OR THAT REASONABLY  
8 SHOULD HAVE BEEN KNOWN BY THE SERVICE COMPANY OR THE PERSON SELLING THE  
9 SERVICE CONTRACT ON THE SERVICE COMPANY'S BEHALF.

10 (b) PRIOR USE OR UNLAWFUL ACTS RELATING TO THE PRODUCT.

11 (c) MISREPRESENTATION BY EITHER THE SERVICE COMPANY OR THE PERSON  
12 SELLING THE SERVICE CONTRACT ON THE SERVICE COMPANY'S BEHALF.

13 C. SERVICE CONTRACTS MAY NOT BE ISSUED, SOLD OR OFFERED FOR SALE IN  
14 THIS STATE UNLESS THE SERVICE COMPANY HAS PROVIDED BOTH:

15 1. A RECEIPT FOR OR OTHER WRITTEN EVIDENCE OF THE PURCHASE OF THE  
16 SERVICE CONTRACT TO THE CONTRACT HOLDER.

17 2. A COPY OF THE SERVICE CONTRACT TO THE SERVICE CONTRACT HOLDER  
18 WITHIN A REASONABLE PERIOD OF TIME FROM THE DATE OF PURCHASE.

19 D. SERVICE CONTRACTS THAT ARE MARKETED, SOLD, OFFERED FOR SALE,  
20 ISSUED, MADE, PROPOSED TO BE MADE OR ADMINISTERED IN THIS STATE SHALL BE  
21 WRITTEN, PRINTED OR TYPED IN CLEAR, UNDERSTANDABLE LANGUAGE THAT IS EASY  
22 TO READ AND SHALL DISCLOSE THE FOLLOWING, AS APPLICABLE:

23 1. SERVICE CONTRACTS THAT ARE INSURED UNDER A MECHANICAL  
24 REIMBURSEMENT INSURANCE POLICY PURSUANT TO SECTION 20-1095.03, SUBSECTION  
25 A, PARAGRAPH 3, SUBDIVISION (b) SHALL STATE THE NAME AND ADDRESS OF THE  
26 INSURER AND CONTAIN A STATEMENT IN SUBSTANTIALLY THE FOLLOWING FORM:  
27 "OBLIGATIONS OF THE OBLIGOR UNDER THIS SERVICE CONTRACT ARE INSURED UNDER  
28 A MECHANICAL SERVICE CONTRACT REIMBURSEMENT INSURANCE POLICY".

29 2. SERVICE CONTRACTS THAT ARE NOT INSURED UNDER A REIMBURSEMENT  
30 INSURANCE POLICY PURSUANT TO SECTION 20-1095.03, SUBSECTION A, PARAGRAPH  
31 3, SUBDIVISION (b) SHALL CONTAIN A STATEMENT IN SUBSTANTIALLY THE  
32 FOLLOWING FORM: "OBLIGATIONS OF THE OBLIGOR UNDER THIS SERVICE CONTRACT  
33 ARE BACKED BY THE FULL FAITH AND CREDIT OF THE OBLIGOR".

34 3. SERVICE CONTRACTS SHALL STATE THE NAME AND ADDRESS OF THE  
35 OBLIGOR AND SHALL IDENTIFY AN ADMINISTRATOR IF DIFFERENT FROM THE OBLIGOR,  
36 THE SERVICE CONTRACT SELLER AND THE SERVICE CONTRACT HOLDER TO THE EXTENT  
37 THAT THE NAME OF THE SERVICE CONTRACT HOLDER HAS BEEN FURNISHED BY THE  
38 SERVICE CONTRACT HOLDER. THE IDENTITIES OF THESE PARTIES ARE NOT REQUIRED  
39 TO BE PREPRINTED ON THE SERVICE CONTRACT AND MAY BE ADDED TO THE SERVICE  
40 CONTRACT AT THE TIME OF SALE.

41 4. SERVICE CONTRACTS SHALL STATE THE TOTAL PURCHASE PRICE OF THE  
42 SERVICE CONTRACT. THE PURCHASE PRICE IS NOT REQUIRED TO BE PREPRINTED ON  
43 THE SERVICE CONTRACT AND MAY BE NEGOTIATED AT THE TIME OF SALE WITH THE  
44 SERVICE CONTRACT HOLDER.



1           5. SERVICE CONTRACTS SHALL STATE THE EXISTENCE OF A DEDUCTIBLE  
2 AMOUNT, IF APPLICABLE.

3           6. SERVICE CONTRACTS SHALL SPECIFY THE MERCHANDISE AND SERVICES TO  
4 BE PROVIDED AND ANY LIMITS, EXCEPTIONS OR EXCLUSIONS. EXCLUSIONS FROM  
5 COVERAGE SHALL BE IN BOLD-FACED TYPE. SERVICE CONTRACTS MAY, BUT ARE NOT  
6 REQUIRED TO, COVER DAMAGE RESULTING FROM RUST, CORROSION OR DAMAGE CAUSED  
7 BY A NONCOVERED PART OR SYSTEM.

8           7. SERVICE CONTRACTS COVERING AUTOMOBILES SHALL STATE WHETHER THE  
9 USE OF NONORIGINAL MANUFACTURERS' PARTS IS ALLOWED.

10          8. SERVICE CONTRACTS SHALL STATE ANY RESTRICTIONS GOVERNING THE  
11 TRANSFERABILITY OF THE SERVICE CONTRACT, IF APPLICABLE.

12          9. SERVICE CONTRACTS SHALL STATE THE TERMS, RESTRICTIONS OR  
13 CONDITIONS GOVERNING CANCELLATION OF THE SERVICE CONTRACT BEFORE THE  
14 TERMINATION OR EXPIRATION DATE OF THE SERVICE CONTRACT BY EITHER THE  
15 SERVICE COMPANY OR THE SERVICE CONTRACT HOLDER. AT A MINIMUM, A SERVICE  
16 CONTRACT SHALL PROVIDE FOR A PRO RATA REFUND AFTER DEDUCTING FOR BENEFITS  
17 PAID AND ADMINISTRATIVE EXPENSES ASSOCIATED WITH THE CANCELLATION. THE  
18 ADMINISTRATIVE EXPENSES MAY NOT EXCEED TEN PERCENT OF THE GROSS AMOUNT  
19 PAID BY THE SERVICE CONTRACT HOLDER FOR THE SERVICE CONTRACT.

20          10. SERVICE CONTRACTS SHALL SET FORTH ALL OF THE OBLIGATIONS AND  
21 DUTIES OF THE SERVICE CONTRACT HOLDER, INCLUDING THE DUTY TO PROTECT  
22 AGAINST ANY FURTHER DAMAGE AND ANY REQUIREMENT TO FOLLOW OWNER'S MANUAL.

23          11. SERVICE CONTRACTS SHALL DISCLOSE THE MATERIAL ACTS OR OMISSIONS  
24 OF THE CONTRACT HOLDER THAT CANCEL OR VOID COVERAGE, IF ANY.

25          12. A SERVICE CONTRACT MAY NOT EXCLUDE PREEXISTING CONDITIONS IF  
26 SUCH CONDITIONS WERE KNOWN OR SHOULD REASONABLY HAVE BEEN KNOWN BY THE  
27 SERVICE COMPANY OR THE PERSON SELLING THE SERVICE CONTRACT ON THE SERVICE  
28 COMPANY'S BEHALF.

29          E. BROCHURES AND OTHER ADVERTISING OR MARKETING MATERIALS ARE NOT  
30 REQUIRED TO BE FILED WITH OR APPROVED BY THE DIRECTOR.

31          Sec. 8. Section 20-1095.07, Arizona Revised Statutes, is amended to  
32 read:

33           20-1095.07. Sale of unapproved service contract; violation;  
34   classification

35           ~~A. Any licensed motor vehicle dealer, acting through its regularly~~  
36 ~~employed sales personnel, may sell any motor vehicle service contract~~  
37 ~~program approved pursuant to section 20-1095.06.~~

38           ~~B. Prior to commencing the sale of any approved service contract~~  
39 ~~program, the licensed motor vehicle dealer shall, by certified mail,~~  
40 ~~inform the director of the intent to sell the identified program. No fee~~  
41 ~~is required for such notification.~~

42           ~~C. The director shall maintain a file of all approved motor vehicle~~  
43 ~~service contract programs and a list of the motor vehicle dealers selling~~  
44 ~~a specific program.~~

1       ~~D.~~ A. A person who sells an unapproved ~~motor vehicle~~ service  
2 contract ~~program~~ is guilty of a class 2 misdemeanor.  
3       ~~E.~~ B. A ~~motor vehicle~~ service contract is not invalid solely by  
4 reason of not being approved as required by this article.  
5       ~~F.~~ ~~The director may adopt rules and regulations prescribing the~~  
6 ~~form of application for approval of a motor vehicle service contract~~  
7 ~~program, the form of surety bond, the criteria for the policy of~~  
8 ~~mechanical reimbursement insurance, refund of the unearned portion of the~~  
9 ~~contract price and to provide procedures for hearings in connection with~~  
10 ~~the disapproval of a motor vehicle service contract program.~~