

Department of Legislative Services  
Maryland General Assembly  
2022 Session

**FISCAL AND POLICY NOTE**  
**Third Reader - Revised**

Senate Bill 697  
Finance

(Senator Beidle)

Economic Matters

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**Vehicle Laws - Mechanical Repair Contracts - Policies of Insurance**

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This bill requires an insurance policy of an obligor under a mechanical repair contract to provide certain coverage for contract nonperformance. The bill authorizes any such policy to be issued by a risk retention group as long as the risk retention group is (1) in full compliance with federal law; (2) in good standing in its domiciliary jurisdiction; and (3) properly registered under State law. This authorization is in addition to an existing authorization that insurance reserves may be maintained with an insurer authorized to do business in Maryland on an admitted or surplus lines basis. The bill also makes other conforming changes (*e.g.*, authorizing a purchaser of a mechanical repair contract to make a claim against any risk retention group issuing a policy or policies under the bill's authorization).

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**Fiscal Summary**

**State Effect:** The bill does not materially affect State finances or operations.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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**Analysis**

**Current Law:** A “mechanical repair contract” is defined as an agreement or contract sold by a licensed vehicle dealer, an obligor, or an agent under which the dealer or obligor agrees to perform specified services. The services generally pertain to the repair, replacement, or maintenance of a vehicle, including, among other things, towing, rental

and emergency road service, and road hazard protection. A mechanical repair contract may not provide indemnification for a loss caused by “perils that are commonly covered by comprehensive or collision provisions” of an auto insurance policy.

An “obligor” is defined as the person specified in a mechanical repair contract that is contractually obligated to perform the services set forth in the contract.

A “risk retention group” is defined as a corporation or other limited liability association, the primary activity of which consists of assuming and spreading all or part of the liability exposure of its members. Any such entity must meet specified requirements (*e.g.*, be formed under the laws of a state, Bermuda, or the Cayman Islands, be chartered and licensed as a liability insurance company and authorized to engage in the insurance business under the laws of a state, *etc.*).

At least 45 days before selling a mechanical repair contract, an obligor has to file the contract with the Insurance Commissioner. Each obligor also has to register with the Commissioner on an annual basis; that registration must include specified information – including the name and address of a designated agent authorized to accept service on behalf of the obligor in the State. The Commissioner may deny a registration to an applicant or refuse to renew, suspend, or revoke the registration of a registrant for specified misrepresentations and fraudulent activities – of the applicant, registrant, or an officer, director, or employee of the applicant or registrant. Instead of, or in addition to, suspending or revoking a registration, the Commissioner may impose on the obligor registrant a civil penalty of at least \$100 but no more than \$1,000 for each violation.

Unless the person is a licensed vehicle dealer, an agent, or a registered obligor (or an employee of any of those entities), a person that is not a registered obligor may not offer, sell, or negotiate a mechanical repair contract. The Insurance Commissioner may pursue an action against an unregistered person that offers a mechanical repair contract. Such a violator is guilty of a misdemeanor under the Maryland Vehicle Law and subject to a maximum penalty of a \$1,000 fine, one year imprisonment, or both; payment of restitution may also be imposed. Even so, the prepayment penalty set by the District Court is \$290.

#### *Other Prohibitions on Sellers of Mechanical Repair Contracts*

A person that is not a vehicle manufacturer (or subsidiary), distributor, factory branch, or dealer and who sells a mechanical repair contract is prohibited from making a false, deceptive, or misleading statement with respect to (1) the person’s affiliation or possession of specified information; (2) the expiration of a manufacturer’s original equipment warranty; or (3) a requirement that the vehicle owner register for a new mechanical repair contract in order to maintain coverage under the owner’s current mechanical repair contract or the manufacturer’s original equipment warranty.

In addition, the provisions of the Maryland Consumer Products Guaranty Act (Title 14, Subtitle 4 of the Commercial Law Article) apply to a mechanical repair contract sold in the State.

**Small Business Effect:** Any small business obligors that do not already have the coverage required by the bill will be required to do so and, therefore, may be meaningfully affected by the bill's requirements. Conversely, small businesses that are parties to mechanical repair contracts may benefit in the event of contract nonperformance.

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### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 926 (Delegate Valderrama) - Economic Matters.

**Information Source(s):** Maryland Insurance Administration; Maryland Department of Transportation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 23, 2022  
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