

**DOMESTIC/FOREIGN INSURERS BULLETIN NO. 5
REGULATION OF SERVICE CONTRACT PROVIDERS**

September 17, 1997

GENERAL

In the past, the Department of Insurance has taken the position that most "service contracts," "extended warranties" and other similar products are not insurance for the purpose of regulation.

In recent years, the number and variety of service contracts available to consumers has exploded. With loss ratios often as low as 25%, the profits generated by the sale of these contracts often greatly exceed those allowed for traditional insurers regulated by the Department. I believe that for the protection of Delaware consumers, regulatory oversight of companies providing such products is long overdue.

It is now the position of the Department that many service contracts and similar products are "Insurance" as defined by Section 102(2) of the Insurance Code. At the same time, the Department recognizes that regulating companies as traditional property/casualty insurers may be cumbersome and counterproductive. The Department is therefore contemplating the introduction of legislation based upon the National Association of Insurance Commissioner model Service Contract Act in the upcoming legislative session.

Until such time as legislation is in place, or until the conclusion of the 139th General Assembly, the Department will not endeavor to regulate providers of service contracts, nor will it find such providers in violation of the Insurance Code.