State of Vermont
Department of Banking, Insurance,
Securities and Health Care Administration
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For consumer assistance
[Insurance] 800-964-1784
[Securities] 877-550-3907
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Insurance Division Notice
June 21, 2006

To: **SERVICE CONTRACT PROVIDERS CURRENTLY REGISTERED IN VERMONT**

Re: **VERMONT GUIDELINES FOR SUBMITTING PROOF OF FINANCIAL STABILITY**

Notice

Effective July 1, 2006, as a result of amendments to Title 8 V.S.A. §4249, Vermont's registered service contract providers (SCP's) must provide proof of financial stability and are required to submit and keep current documentation of their financial stability and compliance to the statute.

Accordingly, all currently registered service contract providers must submit one of the following to the Department by September 30, 2006 or risk having their registration revoked or suspended:

(1) **Deposit and Reserve Account:** SCP's must submit a surety bond (on the form permitted by the Department), securities of the type eligible for deposit by an authorized insurer in Vermont, cash or letter of credit in value not less than five percent (5%) of the gross annual consideration from all service contracts issued and in force, but in no case less than $25,000. The deposit must be accompanied by a calculation justifying the amount of the deposit. Additionally, SCP's must provide evidence that a funded reserve account, specifically designated for the benefit of Vermont contract holders, exists. The evidence may be a properly titled bank or custodial statement. The reserve amount value should equal at least forty percent (40%) of all consideration received, less claims paid, for Vermont in force contracts. A calculation that demonstrates the proper amount of the reserve account must also be provided.

(2) **Insurance Policy**: SCP's must submit a copy of a service contract reimbursement policy indicating that **all** of its contracts are insured. The policy must be issued by an insurer that files an annual financial statement with the National Association of Insurance Commissioners (NAIC) prepared in accordance with the accounting practices and procedures required or permitted by their domiciliary regulatory authority. The insurers must also have filed a corresponding audit report that reflects capital and surplus of $5,000,000.00 or more, written premiums not exceeding three times capital and surplus over the most recent five years and have had profitable operations over the most recent five years.

(3) **Financial Statement and Guaranty**: SCP's must submit a copy of the provider's financial statement or, if the provider's financial statement is consolidated with those of a parent company or affiliate, the provider's parent company or affiliate's financial statement, for the most recent calendar year which shows a net worth of the provider or its parent company or affiliate of at least $50 million. If the statement is not for the registered provider, the guaranty agreement required by §(a)(3)(b), must also be submitted.

In the future, service contract providers will be required to submit their documentation on the following occasions:

--When they initially register,
--When a material change occurs during their three-year registration period and
--Upon renewal of their registration.

Failure to provide the documentation will result in the provider not being permitted to sell contracts in Vermont.

The amended law is contained in House Bill 678 (H.678) which can be accessed online at: http://www.leg.state.vt.us/docs/legdoc.cfm?URL=/docs/2006/acts/ACT122.HTM

Documents should be submitted/addressed to:

Vermont Department of Banking, Insurance,
Securities and Health Care Administration
Insurance Division, Company Licensing Section
89 Main Street
Montpelier, VT 05620-3101

Questions can by addressed to Kenneth L. McGuckin at 802-828-2470 or CompLic@BISHCA.State.VT.US.