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Substantive Policy Statement 2025-03 (INS)¹

Service Contracts

Pursuant to Arizona Revised Statutes (“A.R.S”) §§ 41-1001(24) and 41-1091, the Arizona Department of Insurance and Financial Institutions (“Department”) issues this Substantive Policy Statement (“Bulletin”) to provide guidance regarding recently observed areas of potential noncompliance in rate and rule filings. This Bulletin is intended to promote a level playing field and provide regulatory certainty by uniform application of regulatory provisions.

I. Purpose

The purpose of this Bulletin is to address the growing number of instances in which unpermitted entities appear to be engaging in conduct that may require a permit issued by the Department under Arizona law. This Bulletin will outline all relevant laws and provide guidance to the industry.

II. Scope

This Bulletin is intended to advise any entities that may be issuing a service contract as defined under Arizona law within an insurance product without the required permit.

III. Background

The Department has observed, mainly through property and casualty insurance form filings, a number of insurance contracts that include coverages for individual consumer products that meet the definition of a service contract under Arizona law. See A.R.S. § 20-1095(7). The coverages are being provided by insurers that have not obtained the required permit to offer service contracts. See A.R.S. § 20-1095.01.

IV. Department Analysis

Under Arizona Law, a service contract “means a written contract or agreement for a separately stated consideration for any duration to perform, in whole or in part, the repair, replacement or maintenance, or indemnification for repair, replacement or maintenance, for the operational or structural failure of a consumer product due to a defect in materials, workmanship, accidental damage from handling, a power surge or interruption or normal wear and tear, with or without

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additional provisions for payment of indemnity including towing, rental and emergency road service, road hazard protection or roof leak.” A.R.S. § 20-1095(7)(a). Additionally, a consumer product is defined as “any property that is distributed in commerce, that is normally used for personal, family or household purposes, including any such property intended to be attached to or installed in any real property without regard to whether it is so attached or installed, and that becomes part of the intended usefulness of real property or that is typically transferred with real property as an integral functioning utility appliance or system.” A.R.S. § 20-1095(2). To offer service contracts in Arizona, an entity must be issued a service company permit by the director. A.R.S. § 20-1095.01(A).

The Department has observed insurance product filings in which insurers appear to offer service contract coverages within the insurance policy without first obtaining a permit as a service company. A.R.S. § 20-1095.01(A) requires any company, including insurers, that offers specific coverages for consumer products defined as a service contract under Arizona law to obtain a service company permit.

A. Department Position

The Department understands that some insurers may have provided service contract coverages in their insurance policies for some time without a service company permit. As the Department has not issued any previous guidance on this matter, the Department is aware that the industry may require more time to bring its practices into compliance with applicable Arizona laws. The Department also acknowledges that, based on the products it has reviewed, some insurers may need more time than others due to how the coverages were presented as well as concerns about managing consumer expectations. To find a collaborative solution, the Department is engaging all stakeholders and interested parties to determine a workable timeframe for potential solutions to ensure the insurance and service contract market participants are in compliance with Arizona law.

The Department will not take any official enforcement actions as it continues to work with the industry on finding solutions to this matter, or at the earliest, January 1, 2027. Accordingly, during this time period the Department will not reject an insurer’s form or rate filing on the basis that the insurer’s form or rate filing includes service contract coverages either within the policy form or as an endorsement or rider. Insurers that are currently issuing approved insurance products that include service contract coverages either within the policy form or as an endorsement or rider may continue to market, issue and renew such insurance products subject to this Bulletin.

V. Conclusion

The Department is committed to enforcing Arizona’s law in the least burdensome manner, providing regulatory certainty, and ensuring that industry practices align with Arizona’s statutes.

All previous communications or positions by the Department regarding compliance on the issues discussed herein shall be controlled by this Bulletin.

The Department is scheduling an initial meeting with all stakeholders interested in these issues in May 2025. All interested parties are invited to participate and provide comments and suggestions on these topics at the meeting.

The Department will provide specific instructions regarding the May meeting at a later date. Updates and information on how to participate in the meeting will be posted on the Department’s [website](#) closer to the set date.