

The California Department of Insurance provides essential guidance on Vehicle Service Contracts (VSCs) and Mechanical Breakdown Insurance (MBI), which are designed to cover future repair costs for various vehicles, including cars, motorcycles, ATVs, and boats. The obligor, responsible for paying covered repairs, can be a Vehicle Service Contract Provider (VSCP), a dealer, or an MBI provider. Consumers must understand the type of obligor involved, as it influences their rights and the provider's legal obligations. The Department advises against purchasing VSCs from unlicensed companies that may use misleading tactics, emphasizing that contracts should only be bought in person from licensed dealers. VSCPs must be licensed by the California Department of Insurance and have their promises backed by an authorized insurance company, which must be named in the VSC. If a VSCP fails to honor a claim, the backup insurance company is liable for payment. Dealer-obligor VSCs operate similarly but are backed by the dealer, who must also disclose the name of a backup insurer. Administrators managing claims and refunds must be licensed and can only adjust claims for dealer-obligor contracts.

While VSCs resemble insurance policies, they are distinct contracts between consumers and obligors, unlike insurance policies that are contracts with insurance companies. The pricing of VSCs is unregulated, allowing dealers to charge varying amounts, whereas MBI prices are regulated for fairness. MBI can be purchased online, but consumers must verify the licensing of the involved insurance company and agents. Key terms in repair agreements include the obligor, price, duration, coverage details, and claims procedures. VSCs typically last from one to ten years, covering various vehicle components, with broader agreements offering more extensive coverage. Consumers are encouraged to compare coverage specifics and exclusions when evaluating VSCs against MBIs to ensure adequate protection.

VSCs can be categorized as "exclusionary" contracts, covering all parts and services except those explicitly listed as "excluded," or as "specified parts" contracts, covering only listed parts. Coverage may include towing, rental car costs, lost key fobs, windshield damage, and tire repairs. However,

consumers must read the entire agreement, especially the "Exclusions" section, to understand what is not covered, as many mistakenly believe these agreements cover all potential breakdowns. Common exclusions include breakdowns due to lack of maintenance, overheating, improper fluids, and pre-existing conditions. For example, if an engine is damaged due to a cracked hose, the claim may be denied because the hose is not covered. Continuing to drive a vehicle after a warning light indicates a serious issue can also lead to claim denials due to negligence. Certain repairs related to wear and tear, seals, and gaskets may be excluded unless specified otherwise.

Policyholders are required to perform routine maintenance as outlined in the agreement and keep records to prove compliance; failure to do so can result in claim denials. In the event of a claim, it is essential to follow outlined procedures, including immediate reporting and possibly undergoing an inspection. If a claim is denied, the policyholder should seek clarification on the denial and may need to pay for inspections if the obligor refuses coverage. VSCs, while not insurance policies, must be backed by a licensed insurance company to protect consumers, and the backup insurer is responsible for reviewing and potentially covering claims if the obligor fails to pay. Consumers should check the financial strength of the backup insurer and ensure it is licensed.

New car warranties typically cover many repairs for a limited time, and consumers should be aware of these warranties before purchasing a VSC. It is recommended to read the entire contract carefully, especially the exclusions, and to take the contract home for further review. If a consumer decides to cancel the VSC, they may do so within a specified period for a refund. If a claim is denied, the policyholder should gather information on the denial and follow up with the obligor or claims administrator for resolution.

In addressing claim denials, policyholders should inquire about the specific provisions cited by the obligor or administrator and request evidence supporting the denial. It is advised to take detailed notes during these conversations and obtain written reasons for the denial, along with any

inspection reports. The policyholder should also gather information from the mechanic regarding their stance on the claim denial and seek to have this evaluation documented. If there is disagreement between the mechanic and the obligor, the policyholder should communicate this to the obligor, potentially arranging a conference call or re-inspection. Should the obligor continue to deny the claim, the policyholder may need to pay for repairs upfront and seek reimbursement later, ensuring prior authorization is obtained before proceeding with repairs. After repairs, an appeal letter should be drafted, referencing notes from conversations and including relevant documents such as estimates, invoices, and maintenance records. If the appeal is denied, the policyholder can seek assistance from the California Department of Insurance or consider legal action in small claims court for claims under \$10,000.

The document also addresses potential delays in repair authorization and completion, advising consumers to contact the backup insurance company or the Department of Insurance if unreasonable delays occur. It highlights the importance of understanding the coverage and exclusions of VSCs and MBIs, particularly regarding wear and tear. Consumers are encouraged to have used cars inspected before purchase and to ensure any existing issues are resolved to avoid pre-existing condition exclusions. Cancellation of VSCs is permitted under California law, with full refunds available if canceled within specified timeframes and conditions. If cancellation terms are not honored, the policyholder should contact the insurance company listed on the VSC and escalate to the Department of Insurance if necessary. The document concludes with reminders about the importance of understanding repair agreements, maintaining proper vehicle maintenance records, and knowing the resources available for consumer assistance, including the Department of Insurance and the Bureau of Automotive Repair.