Extended Service/Warranty Contracts \*Caution\* Advise for Administrators

Very few medical facility administrators question the financial ability of their vendors to honor the obligations for service & parts under their extended service contracts. Fewer administrators realize that, while the contracts may be written in a legal manor, the vendor may not be authorized to offer extended service/warranty contracts in their state.

Wait… what do you mean, not authorize to do business in my state(s)?

Many states (38) have adopted the NAIC (National Association of Insurance Commissioners) Service Contracts Model Act (#685) which creates a legal framework whereby service contracts are defined and sold within a state. The vendors of such contracts are typically registered with the Department of Insurance. While The Act addresses B2C contracts, many states have extended laws into B2B transactions. The Act helps define the terms and structure of the service contracts and establishes a process for the vendors to demonstrate financial responsibility.

Here’s the rub….Most vendors don’t know they are required to register and states don’t have a process to identify medical equipment vendors. If a vendor fails (bankrupt, death, disappearance), without the state oversight, facilities probably have no recourse. Facilities can lose the monies spent on your contract, must pay for service and parts out of pocket and have equipment down time when a vendor fails.

What can you do to **protect yourself**? A service contract vendor/manufacturer with assets over $100M net worth is usually automatically approved in each state. An administrator should be comfortable with these vendors/manufacturers. However, if working with an **independent vendor** or **small manufacturer**, ASK QUESTIONS/ GET PROOF about their financial condition and if they are registered (if applicable) with your state.

Another option is to consider **insurance**. The insurance company will attach your contracts (Mfg. or Independents) to their policy. The facility would pay the insurance company (and they usually cost 15-20% **LESS**) instead of paying the vendor directly. The insurance company in turn, pays the vendor for their time & materials as prescribed by contract while taking on the “insurance” risk of a major parts failure. Insurance companies have verifiable authorization and financials to protect your facility should a vendor fail. The insurance companies are typically vendor neutral, so you can usually switch vendors during the policy term which gives you additional flexibility for services.

For more detailed information read:

<https://www.naic.org/documents/prod_serv_jir_JIR-ZA-33-03-EL.pdf> for the NAIC abstract.

<https://www.naic.org/store/free/MDL-685.pdf> for the Service Contracts Model Act (#685) with State specific code reference guide.

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