

**BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS**

IN THE MATTER OF:)
)
YOURPEOPLE, Inc., dba)
Zenefits FTW Insurance Services)
)
License No. 100108077)

AID No.

055

CONSENT ORDER

WHEREAS, the Arkansas Insurance Department (“the Department”) and YourPeople, Inc. dba Zenefits FTW Insurance Services (“Respondent”) hereby enter into this Consent Order subject to the review and approval of the Commissioner of the Department (“Commissioner”):

GENERAL STIPULATIONS

1. It is expressly understood that this Consent Order is subject to the Commissioner’s acceptance and has no force or effect until such acceptance is evidenced by the entry of the Commissioner.
2. This Consent Order is executed for the purpose of avoiding further administrative time, expense, and action with respect to this cause.
3. Respondent fully understands that this Consent Order will in no way preclude additional proceedings by the Commissioner against Respondent for acts and/or omissions unknown to the Commissioner that are not specifically addressed herein, or for facts and/or omissions that do not arise from the facts or transactions addressed herein.
4. After consultation with legal counsel, Respondent expressly waives all further procedural steps, and expressly waives all rights to seek judicial review of, or to otherwise

challenge or contest the validity of this Consent Order, the stipulations contained herein, and the consideration and entry of this Consent Order by the Commissioner.

5. This Consent Order is executed in the public interest, in the best interests of the parties hereto, and represents a compromise and settlement of the controversy between the parties. This Consent Order is executed for settlement purposes only.

6. By the signature affixed below, Respondent affirmatively states that this Consent Order has been freely entered into, and that no threats or promises of any kind have been made by the Commissioner, the Department, or any agent or representative thereof.

7. The parties affirmatively state their agreement to be bound by the terms of this Consent Order, and aver that no promises or offers relating to the circumstances described herein have been made, other than the terms of settlement set forth herein.

FINDINGS OF FACT

1. Respondent is a privately held company which offers a cloud-based software-as-a-service platform for business customers that integrates the administration of human resources, payroll, and employee benefits. Through this service, Respondent provides the sale of and access to insurance products.

2. In providing these insurance products, Respondent employs licensed insurance producers to sell and administer insurance plans for customers choosing to utilize Respondent as their insurance broker.

3. On approximately November 24, 2015, the Respondent notified all insurance regulators in the U.S., including the Department, that the company had identified and would be self-reporting a number of producer licensing compliance issues.

4. On approximately March 1, 2016, the Respondent provided the Commissioner with a report in which the Respondent disclosed ten (10) instances between January 1, 2014 and November 30, 2015 where it may have allowed unlicensed employees to sell, solicit or negotiate insurance in the state of Arkansas in violation of Arkansas law. The ten (10) self-reported violations include six (6) identifiable transactions (new policy sales and renewals), and four (4) presumed violations based on statistical sampling.

5. In nine (9) of the ten (10) reported violations, the producer had a license in his or her resident state but may not have secured a non-resident Arkansas license prior to the transaction. In one (1) of the reported transactions, a producer may not have acquired a resident producer license at the time of the transaction.

6. Respondent acknowledges the self-reported violations were a direct result of Respondent's rapid growth as a company and its failure to put in place compliance measures to ensure that all employees maintained the proper license.

7. Respondent has taken significant steps to: report its licensing violations; implement new controls to prevent the recurrence of violations; remediate past violations; professionally educate its producers; and, make fundamental changes in its corporate governance.

8. Zenefits retained a nationally recognized audit firm to independently assess the reports of its violations, as well as to evaluate the design of new administrative and technical licensing controls to ensure that employees who transact insurance business with customers have appropriate resident and non-resident insurance licenses. The audit firm tested the design of the new controls and determined that these controls are adequately designed to address the risk of sales activity being performed by agents without appropriate producer licensure.

9. To ensure that the controls were working as designed, Zenefits retained the same audit firm in the 3rd quarter of 2016 to review the operation of its licensing controls from March 1, 2016 to June 30, 2016. On October 13, 2016, Zenefits provided the audit firm's report of the effectiveness of the new controls to the State of Arkansas, which concluded that Zenefits' controls were operating as designed, with an effectiveness rate of 99.9 percent.

10. After having the efficacy of the new licensing controls tested by the audit firm, Zenefits released its updated controls as a free Salesforce app. This app, named "Licensing+", is available free of charge to any insurance brokerage that utilizes Salesforce as its customer relationship management system and allows third parties to implement the same systemic licensing controls that Zenefits developed and uses to maintain compliance with insurance producer licensing requirements. Zenefits did this in order to promote compliance within the industry.

11. Zenefits remediated its past violations by obtaining non-resident Arkansas insurance producer licenses for all current employees that performed the transactions in question.

12. To further the professional education of its licensed producers, the company has mandated that all of its producers complete fifty-two (52) credit hours of continuing education courses offered by the National Association of Health Underwriters ("NAHU"), including twelve (12) hours of ethics training, by the later of one year after the date of their hire or March, 2017.

13. Zenefits has made a series of fundamental changes to its corporate structure and leadership. Zenefits replaced its CEO, head of sales, and several other senior executives. The company reconstituted its Board of Directors, from a Board of four (4) members controlled by the CEO founder to a Board of six (6) members of which 2/3 of the votes are controlled by

outside directors. Further, the company created the position of Chief Compliance Officer and built out a significant compliance department.

14. Respondent has cooperated fully with the Department throughout the course of the Department's investigation.

APPLICABLE LAW

1. Ark. Code Ann. §§ 23-61-101 *et seq.*, assigns the responsibility for administration of the Arkansas Insurance Code to the Commissioner. The Department is the lawful agency through which the Commissioner administers the Arkansas Insurance Code and is authorized to bring this action for the protection of Arkansas consumers.

2. The Commissioner has jurisdiction over the parties and over the subject matter herein, pursuant to Ark. Code Ann. § 23-61-101 *et seq.* and specifically, § 23-64-201 *et seq.*

3. Ark. Code Ann. § 23-64-201(a) states that no insurance producer or insurer "shall permit any person not properly licensed under this chapter to solicit, sell, negotiate, engage, consult, or adjust in the business of insurance on behalf of the insurance producer [or] insurer..."

4. Ark. Code Ann. § 23-64-201(b)(1) prohibits a person from consulting, counseling, or advising others on matter of insurance needs or coverages under any insurance policy or contract of insurance unless that person is properly licensed under that section or has complied with the Arkansas Producer Licensing Model Act.

5. The Arkansas Producer Licensing Model Act is codified at Ark. Code Ann. § 23-64-501 *et seq.* Ark. Code Ann. § 23-64-503 states that "[a] person shall not sell, solicit, or negotiate insurance in this state for any class or classes of insurance unless the person is licensed for that line of authority..."

6. Ark. Code. Ann. § 23-64-216(a)(1) and § 23-64-512(a)(2) authorizes the Commissioner to revoke the license of any producer for violating any insurance laws or regulations.

7. Ark. Code Ann. § 23-64-216(d)(1) authorizes the Commissioner "...to impose upon the licensee an administrative penalty in the amount of up to one thousand dollars (\$1,000) per violation or, if the commissioner has found willful misconduct or willful violation on the part of the licensee, up to five thousand dollars (\$5,000) per violation."

8. Ark. Code Ann. § 23-64-216(d)(2) authorizes the Commissioner to augment the administrative penalty "by any amount equal to any commissions received by or accruing to the credit of the licensee for any transaction related to the proceeding against the licensee."

CONCLUSIONS OF LAW

1. Respondent has self-reported ten (10) instances in which its producers may have sold, solicited, or negotiated insurance in violation of Ark. Code Ann. § 23-64-201(a) and § 23-64-503, or advised potential customers on matters of insurance in violation of Ark. Code Ann. § 23-64-201(b)(1).

ORDER

NOW THEREFORE, on the basis of the foregoing and the admission by Respondent of the jurisdiction of the Commissioner, the Commissioner finds that the Respondent has consented to the entry of this Consent Order and the following Order is appropriate and consistent with the public interest.

IT IS HEREBY ORDERD AND JOINTLY AGREED that:

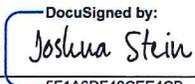
1. Respondent shall pay a monetary penalty of six thousand two hundred fifty dollars (\$6,250) within thirty (30) days of the date of this Order.

IT IS SO ORDERED THIS 19th day of July 2017


ALLEN KERR
INSURANCE COMMISSIONER
STATE OF ARKANSAS

APPROVED FOR ENTRY:

7/17/2017
Date

DocuSigned by:

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Joshua Stein
General Counsel
Your People, Inc. dba Zenefits FTW Insurance Services