

BEFORE THE IOWA INSURANCE COMMISSIONER

IN THE MATTER OF)	Division Case No. 93409
)	
YOURPEOPLE, INC.,)	ORDER AND CONSENT
dba ZENEFITS FTW)	TO ORDER
INSURANCE SERVICES)	
NPN 17076225,)	
Respondent)	

NOW THEREFORE, upon motion of the Iowa Insurance Division (“Division”) and consent of Respondent YourPeople Inc., dba Zenefits FTW Insurance Services, pursuant to the provisions of Iowa Code Chapter 507B—Insurance Trade Practices and Iowa Code Chapter 522B—Licensing of Insurance Producers, the Commissioner enters the following consent order (“Order”):

I. PARTIES AND JURISDICTION

1. The Commissioner of Insurance, Doug Ommen, administers Iowa Code Chapter 507B—Insurance Trade Practices and Iowa Code Chapter 522B—Licensing of Insurance Producers pursuant to Iowa Code § 505.8. Commissioner Ommen has designated the Iowa Insurance Division to seek enforcement of these provisions.
2. YourPeople, Inc., dba Zenefits FTW Insurance Services, (“Respondent”) is a Delaware corporation with its principal place of business in San Francisco, California.
3. Respondent has a last-known business and mailing address of 303 2nd St., Suite 401, San Francisco, CA 94107.
4. Respondent is and has been licensed in the state of Iowa as a nonresident business entity producer since April 16, 2014 under Iowa Business Entity Producer Number 1002229027. Respondent is also licensed under National Producer Number 17076225.

5. From on or about January 1, 2014 through November 30, 2015, Respondent engaged in acts and practices within the state of Iowa constituting cause for probation, suspension, or revocation of its business entity producer license; cease and desist orders; and civil penalties or other relief under Iowa Code Chapters 507B and 522B, and rules adopted pursuant to these chapters.

II. FINDINGS OF FACT

6. Respondent applied for a business entity producer license with the Division by submitting through the National Insurance Producer Registry a uniform business entity application. In submitting the uniform business entity application, Respondent designated the Commissioner as an agent for service of process and designated Parker Conrad as the designated responsible licensed producer (“DRLP”).

7. Respondent offers a cloud-based software-as-a-service platform for small business customers that integrates the administration of human resources, payroll, and employee benefits. In addition to core human resources software functions which are free of charge to the public, customers may also elect to use Respondent as their insurance agent to service their insurance needs.

8. Respondent notified the Division on November 24, 2015 that it had become aware of licensing violations in numerous states, including Iowa.

9. On December 11, 2015, Respondent notified the Division that it had retained the accounting firm of PricewaterhouseCoopers (“PwC”) to conduct an independent review of Respondent’s compliance with licensing regulations and its systems of internal licensing controls.

10. The results of the PwC audit were detailed in a “Final Report” dated March 1, 2016 which was provided to the Division. Respondent reported that it had allowed unlicensed employees to sell, solicit, or negotiate insurance in Iowa during the period of January 1, 2014 through November 30, 2015.

11. The PwC Final Report stated that, during the relevant time period, there were twenty-six (26) problematic customer events in Iowa. These events were instances where an employee of Respondent was not properly licensed at the time of the transaction.

12. PwC’s review did not determine if an employee was licensed for the relevant lines of business, instead, they only determined if the employee had been issued an Iowa non-resident insurance producer license before the date of the insurance transaction in question.

13. Respondent lacked effective systems and controls to supervise and prevent licensing non-compliance issues.

14. Respondent allowed unlicensed employees to transact insurance on behalf of Respondent in Iowa and for which Respondent paid commissions or valuable consideration to some of its unlicensed employees.

15. Respondent has taken steps towards remediation and has implemented new controls to prevent future licensing violations. Respondent has taken the following corrective and remedial actions:

- a. Retained PwC to conduct an independent review of Respondent’s internal licensing controls;
- b. Self-reported findings to the Division;
- c. Made significant changes to the corporate structure, including appointing a new CEO, reconfiguring the Board of Directors, creating a compliance team and the position of

Chief Compliance Officer, and reprioritizing corporate values to put the customer before growth;

- d. Implemented new administrative and technical controls to its software platform to ensure that employees are properly licensed before engaging in the business of insurance in any given state;
- e. Implemented a new policy requiring each producer to complete fifty-two (52) hours of continuing education, including twelve (12) hours of ethics training; and
- f. Obtained non-resident Iowa insurance producer licenses for all current employees that performed the problematic customer events in Iowa.

16. PwC tested Respondent's newly implemented controls to assess their effectiveness during the third quarter of 2016. On Oct 13, 2016, Respondent provided PwC's "Licensing Control Assessment and Transaction Testing Report" to the Division. PwC concluded that the new licensing controls are adequately designed to prevent those activities which require licensure from being performed by employees who are not properly licensed.

17. Respondent cooperated fully with the Division in the course of the Division's investigation.

III. CONCLUSIONS OF LAW

COUNT I Unlicensed Activity

18. Iowa Code §§ 522B.2 and 522B.7 prohibits any person from selling, soliciting, or negotiating insurance in Iowa unless they have been issued an Iowa producer license for that line of insurance. (*See also* Iowa Administrative Code 191—10.3(1) and 10.5).

19. Iowa Code § 522B.11(3) states that the license of a business entity may be suspended, revoked, or refused if “an individual licensee’s violation was known or should have been known by a partner, officer, or manager acting on behalf of the business entity.”

20. Iowa Administrative Code 191—10.20(3) and 10.20(4) prohibit a company or representative from aiding and abetting a producer who is not properly licensed in selling, soliciting, or negotiating insurance and prohibit a person from acting as a producer through unlicensed persons.

21. On at least twenty-six (26) separate occasions, Respondent’s employees sold, solicited, or negotiated insurance in Iowa without first obtaining an Iowa non-resident insurance producer license.

22. Respondent, through its DRLP and as a supervising business entity, accepted insurance business from unlicensed individuals. Furthermore, as the supervising entity, Respondent failed to establish and enforce procedures to ensure that employees were properly licensed and to ensure that employee activities were being properly supervised.

23. Not only did Respondent accept insurance business from unlicensed individuals, but it also aided and abetted its employees in selling, soliciting, or negotiating insurance in Iowa without first obtaining an Iowa non-resident insurance producer license for the appropriate line of authority. Respondent employed and allowed unlicensed individuals to utilize Respondent’s place of business, equipment, and resources in order to conduct unlicensed insurance business in Iowa and Respondent generated revenue from for such activities.

24. Respondent’s acts and practices have been in violation of Iowa Code §§ 522B.2, 522B.7, and 522B.11(3), subjecting Respondent to probation, revocation or suspension of Respondent’s insurance producer and business entity licenses, the imposition of a civil penalty, and an order

requiring Respondent to cease and desist from engaging in the acts or practices alleged herein pursuant to Iowa Code §§ 522B.11, 507A, and 522B.17.

COUNT II

Using Dishonest Practices and Demonstrating Untrustworthiness

25. Under Iowa Code § 522B.11(1)(h), a license may be subject to probation, suspension, or revocation and civil penalties may be levied, as provided in section 522B.17, for using fraudulent or dishonest practices and for demonstrating untrustworthiness in the conduct of business.

26. Under Iowa Code § 522B.11(1)(b), a license may be subject to probation, suspension, or revocation and civil penalties may be levied, as provided in section 522B.17, for violating any insurance laws, including insurance laws of other states.

27. Respondent engaged in dishonest practices and demonstrated untrustworthiness in the insurance business by allowing unlicensed employees to sell, solicit, or negotiate insurance in Iowa and by lacking effective controls and procedures to ensure licensing compliance.

28. Respondent engaged in dishonest practices, demonstrated untrustworthiness, and violated insurance laws by aiding and abetting its employees to act as producers and perform acts constituting the business of insurance before being properly licensed in Iowa.

29. Respondent not only violated Iowa insurance laws, but also the insurance laws of numerous other states by permitting unlicensed producers to conduct the business of insurance in those respective states.

30. Respondent's acts and practices have been in violation of Iowa Code §§ 522B.11(1)(h) and 522B.11(1)(b) subjecting Respondent to probation, revocation or suspension of Respondent's insurance producer license, the imposition of a civil penalty, and an order requiring Respondent to cease and desist from engaging in the acts or practices alleged herein pursuant to Iowa Code §§ 522B.11 and 522B.17.

COUNT III
Unauthorized Commissions

31. Iowa Code § 522B.12 prohibits the payment of “a commission, service fee, brokerage, or other valuable consideration to a person for selling, soliciting, or negotiating insurance in this state if that person is required to be licensed under this chapter and is not so licensed.” The individual performing the service must hold a valid license for the relevant line of insurance at the time the service is performed. Iowa Administrative Code 191—10.14(1).

32. Respondent paid some of its unlicensed employees a commission, service fee, brokerage, or other valuable consideration for selling, soliciting, or negotiating insurance in Iowa.

33. Respondent’s acts and practices have been in violation of Iowa Code § 522B.12 subjecting Respondent to the imposition of a civil penalty and an order requiring Respondent to cease and desist from engaging in the acts or practices alleged herein pursuant to Iowa Code § 522B.17.

COUNT IV
Unfair Competition and Trade Practices

34. Under Iowa Code § 507B.3, a person is prohibited from engaging in any trade practice which is determined to be an unfair method of competition or an unfair act or practice in the business of insurance.

35. Under Iowa Code § 507B.6, a statement of charges may be served and a hearing held “whenever the commissioner believes that any person has been engaged or is engaging in this state in any unfair method of competition or any unfair or deceptive act or practice whether or not defined in section 507B.4, 507B.4A, or 507B.5.”

36. Respondent engaged in an unfair method of competition because its practice of selling, soliciting, or negotiating insurance through unlicensed individuals allowed Respondent to either avoid or delay paying the costs and fees associated with licensing their employees.

37. Respondent's acts also resulted in an unfair method of competition because Respondent was able to expand very quickly into the marketplace without having the usual costs and delays related to compliance with licensing regulations.

38. Respondent's acts and practices have been in violation of Iowa Code §§ 507B.3 and 507B.6 subjecting Respondent to the suspension or revocation of Respondent's insurance producer license, the imposition of a civil penalty and an order requiring Respondent to cease and desist from engaging in the acts or practices alleged herein pursuant to Iowa Code § 507B.7.

39. The Division has alleged, but the Respondent does not admit to and specifically denies the facts and conclusions of law as set forth in Count IV.

IV. ORDER

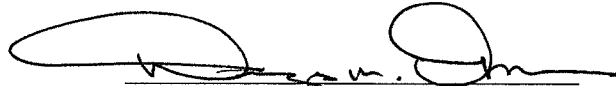
WHEREFORE, IT IS ORDERED pursuant to the powers granted the Commissioner of Insurance by Iowa Code Chapters 522B and 507B:

- A. Respondent shall within thirty (30) days of this order pay to the State of Iowa, Insurance Division, a civil penalty in the amount of \$26,000.00 payable to the Iowa Enforcement Fund to provide funds for insurance enforcement and education pursuant to Iowa Code §§ 505.8, 522B.11, 522B.17, and 507B.7;
- B. Failure of Respondent to pay the penalty within the specified time limit shall result in the immediate suspension of Respondent's license in Iowa for a period of thirty (30) days. Thereafter, Respondent may file an application for reinstatement of licensure with the Division. Respondent's license shall not be reinstated unless the Division

finds that all of the terms of this Order have been satisfied, that the circumstances for which the license was suspended no longer exist, and that the Respondent is otherwise eligible for licensure;

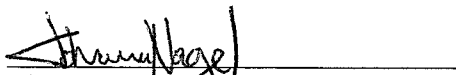
- C. Respondent shall cease and desist permitting, aiding, or abetting the sale, solicitation, or negotiation of insurance in the state of Iowa by individuals who are not properly licensed;
- D. Respondent is aware of its right to notice and a hearing on this matter, the right to be represented by counsel at a hearing, the right to present evidence and examine witnesses at a hearing, and the right to appeal from any adverse determination after a hearing. Respondent, by consenting to this Order, knowingly and voluntarily waives these rights.

SO ORDERED on the 22nd day of March, 2017.



DOUGLAS M. OMMEN
Iowa Insurance Commissioner

Respectfully submitted,



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Attorney for Iowa Insurance Division

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Attorney for Respondent

NOTICE OF PENALTIES FOR WILLFUL VIOLATION OF THIS ORDER

YOU ARE NOTIFIED that acting as an insurance producer, as defined in Iowa Code Chapter 522B, in violation of this Order, is a felony under Iowa Code § 507A.10, subjecting you to punishment of imprisonment, jail, fines, or any combination of custody and fines.

YOU ARE ALSO NOTIFIED that if you violate this order, your license may be subject to revocation and you may be subject to administrative and civil penalties pursuant to Iowa Code § 522B.17(3). The commissioner may petition the district court to hold a hearing to enforce the order as certified by the commissioner. The district court may assess a civil penalty against you in an amount not less than three thousand dollars but not greater than ten thousand dollars for each violation, and may issue further orders as it deems appropriate.

NOTICE REGARDING IMPACT OF ORDER ON EXISTING LICENSES

A final order of license revocation or a cease and desist order may adversely affect other existing business or professional licenses and result in license revocation or disciplinary action.

CONSENT TO ORDER AND AGREEMENT

I, Joshua G. Stein, as General Counsel of Respondent YourPeople Inc., dba Zenefits FTW Insurance Services, am authorized to enter into this Consent Order on Respondent's behalf. I have read, understood, and do knowingly consent to this Order in its entirety. By executing this consent, I understand that I am waiving Respondent's rights to a hearing, to confront and cross-examine witnesses, to produce evidence, and to judicial review.

I further understand that this Order is considered a final administrative action that may be reported by the Division to the National Association of Insurance Commissioners and to other regulatory agencies. I also understand that this Order is a public record under Iowa Code Chapter 22, which will be disclosed to other state regulatory authorities, upon request, pursuant to Iowa Code § 505.8(8)(d). I also understand that this Order will be posted to the Division's website and a notation will be made to the publicly available website record that administrative action has been taken against Respondent.

Dated this 16th day of March, 2017.

YOURPEOPLE INC. dba ZENEFITS FTW
INSURANCE SERVICES
By Joshua G. Stein

303 2nd St. #401, SF, CA 94107
Address of Signatory

Subscribed and sworn before me by Joshua G. Stein on this 16th day of MARCH, 2017.

Deeal Sapprasert O'Brien
Notary Public

