

State Insurance Regulatory Actions Serve as Warning

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Recent regulatory actions against **Zenefits**, a cloud-based software company, demonstrate the importance for companies to be properly licensed where they are conducting business. Zenefits has reached regulatory settlements with at least 17 states.

The actions include:

- Dismissing its former CEO and creating a compliance team.
- Confirming that all employees who could potentially do insurance business in Texas are licensed.
- Implementing new controls to ensure that transactions are handled only by employees with the required license.
- Paying for an independent review of past transactions.

MISSOURI: The Missouri Department of Insurance recently announced a Voluntary Forfeiture Agreement with Zenefits, a technology company that offers a cloud-based, software services platform for small business customers that integrates the administration of human resources, payroll, and employee benefits. Zenefits is also licensed as an insurance producer in all 50 states and the District of Columbia. Per the Voluntary Forfeiture Agreement, Zenefits agreed to pay a penalty of \$62,000 for alleged violation of unlicensed activity in Missouri by individual Zenefits employees.

CALIFORNIA: In November 2016, California insurance regulators fined Zenefits \$7,000,000 for alleged violations of law that include allowing unlicensed employees to sell insurance in California. The penalty assessed by the California Insurance Department against Zenefits was the largest assessed by any of the state insurance departments investigating the company, and according to the California Insurance Department, the penalty is one of the largest penalties for licensing violations ever assessed in the California Insurance Department's history.

WASHINGTON: In Washington, the Washington Office of Insurance Commissioner fined Zenefits \$100,000 in October 2016 for employing unlicensed producers to sell insurance in Washington. In addition to the \$100,000 fine, the Washington Office of Insurance Commissioner also ordered Zenefits to cease free distribution of its employee benefit software, noting the tactic violates the prohibition on illegal inducements under Washington insurance law.

TEXAS: In October 2016, the Texas Department of Insurance fined Zenefits \$550,000 for using unlicensed staff to sell and administer insurance plans from 2014 through late 2015. According to the Texas Department of Insurance, Zenefits has taken steps to come into compliance with Texas law, including:

1. Dismissing its former CEO and creating a compliance team.
2. Confirming that all employees who could potentially do insurance business in Texas are licensed.
3. Implementing new controls to ensure that transactions are handled only by employees with the required license.
4. Paying for an independent review of past transactions.



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