House Engrossed

~~insurance; modeling organizations; predictive models~~
(now: insurance; modeling and data organizations)

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HOUSE BILL 2174

AN ACT

AMENDING SECTIONS 20-235, 20-341, 20-368, 20-370, 20-381, 20-387, 20-388, 20-390, 20-392, 20-393, 20-394, 20-396, 20-409 AND 20-3604, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION OF INSURANCE BUSINESS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 20-235, Arizona Revised Statutes, is amended to read:

20-235. Insurers; financial disclosure; requirements

A. The director may adopt rules which require each insurer licensed to write property or casualty insurance in this state to report its loss and expense experience, investment income, administrative expenses and other data, as he may require, for classes of risks which he may designate. Such reports shall be in addition to the annual statement required by section 20-223.

B. The department may designate one or more rate service organizations or ~~advisory organizations~~ MODELING AND DATA ORGANIZATIONS to gather and compile the experience and data.

C. The director by order may require an insurer authorized to transact insurance in this state to submit statistical and other financial data including the information prescribed in subsection A of this section in a form and content consistent with rules adopted pursuant to subsection A, with any model guideline, regulation, rule or act adopted by the national association of insurance commissioners or with the classification basis used by the insurer. The director shall prescribe the time period and form in which the data shall be submitted.

D. An insurer who fails to provide the information required under subsection C of this section is subject to payment of a late fee of not more than one hundred dollars for each day of delinquency. The director shall notify an insurer of late fees that it will incur as a result of noncompliance with this section at least ten days prior to the date any such late fees become due.

Sec. 2. Section 20-341, Arizona Revised Statutes, is amended to read:

20-341. Purpose of insurance rate regulation

A. The purpose of this article is to promote the public welfare by regulating insurance rates to the end that they shall not be excessive, inadequate or unfairly discriminatory, and to authorize and regulate cooperative action among insurers in rate making and in other matters within the scope of this article. Nothing in this article is intended to prohibit or discourage reasonable competition, or to prohibit or encourage, except to the extent necessary to accomplish the purpose stated in this section, uniformity in insurance rates, rating systems, rating plans or practices. This article shall be liberally interpreted to carry into effect the provisions of this section.

B. Where the rules and regulations of a rating bureau or ~~advisory organization~~ MODELING AND DATA ORGANIZATION conflict with the law, the rules and regulations do not apply.

Sec. 3. Section 20-368, Arizona Revised Statutes, is amended to read:

20-368. Modeling and data organizations

A. Every group, association or other organization of insurers, whether located within or outside this state, which assists insurers which make their own filings or rating organizations in rate making, by the collection and furnishing of loss or expense statistics, or by the submission of recommendations, but which does not make filings under this article, shall be known as ~~an advisory organization~~ A MODELING AND DATA ORGANIZATION.

B. Every ~~advisory organization~~ MODELING AND DATA ORGANIZATION shall file with the director:

1. A copy of its constitution, its articles of agreement or association or its certificate of incorporation and a copy of its bylaws, rules and regulations governing its activities.

2. A list of its INSURER members, IF APPLICABLE.

3. The name and address of a resident of this state upon whom notices or orders of the director or process affecting the ~~advisory organization~~ MODELING AND DATA ORGANIZATION may be served.

~~4. An agreement that the director may examine the advisory organization in accordance with the provisions of section 20-370.~~

C. If, after a hearing, the director finds that the furnishing of such information or assistance involves any act or practice which is unfair or unreasonable or otherwise inconsistent with the provisions of this article, he may issue a written order specifying in what respects such act or practice is unfair or unreasonable or otherwise inconsistent, and requiring the discontinuance of such act or practice.

D. No insurer which makes its own filings nor any rating organization shall support its filings by statistics or adopt rate making recommendations furnished to it by an ~~advisory organization~~ MODELING AND DATA ORGANIZATION which has not complied with this section or with an order of the director involving such statistics or recommendations issued under subsection C of this section. If the director finds the insurer or rating organization to be in violation of this subsection, he may issue an order requiring the discontinuance of the violation.

E. THIS SECTION DOES NOT PRECLUDE A MODELING AND DATA ORGANIZATION FROM FILING A MODEL PURSUANT TO SECTION 20-390, SUBSECTION C.

Sec. 4. Section 20-370, Arizona Revised Statutes, is amended to read:

20-370. Examinations of rating organizations

A. The director, as often as he deems it expedient, may make or cause to be made an examination of each rating organization licensed in this state~~, each advisory organization referred to in section 20-368~~ and each group, association or other organization referred to in section 20-369. The reasonable costs of such examination shall be paid by the rating organization~~, advisory organization~~ or group, association or other organization examined upon presentation to it of a detailed account of the cost.

B. The officers, managers, agents and employees of the rating organization~~, advisory organization~~ or group, association or other organization may be examined at any time under oath, and shall exhibit all books, records, accounts, documents or agreements governing its method of operation.

C. The director shall furnish two copies of the examination report to the organization, group or association examined and shall notify the organization, group or association that, within twenty days thereafter, it may request a hearing on the report or on any facts or recommendations in the report. Before filing the report for public inspection, the director shall grant a hearing to the organization, group or association examined.

D. The report of the examination, when filed for public inspection, shall be admissible in evidence in any action or proceeding brought by the director against the organization, group or association examined, or its officers or agents, and shall be prima facie evidence of the facts stated in the report.

E. The director may withhold the report of the examination from public inspection for such time as the director deems proper.

F. In lieu of the examination, the director may accept the report of an examination made by the insurance supervisory official of another state, pursuant to the laws of such state.

Sec. 5. Section 20-381, Arizona Revised Statutes, is amended to read:

20-381. Definitions

In this article, unless the context otherwise requires:

~~1. "Advisory organization":~~

~~(a) Means any person other than a single insurer who assists two or more insurers or rate service organizations in the making of rates by compiling and furnishing loss or expense statistics or other statistical information and data, or by the submission of recommendations as to rates, forms or supplementary rate information.~~

~~(b) Does not include a joint underwriting association, any actuarial or legal consultant, any employee of an insurer or insurers under common control or management or their employees or manager.~~

~~2.~~ 1. "Loss cost adjustment":

(a) Means that portion of a rate filed by an insurer with the director that includes the insurer's general expenses, total product expenses, taxes, licenses and fee expenses and underwriting profit and contingencies.

(b) Does not include loss adjustment expenses or prospective loss costs.

~~3.~~ 2. "Loss cost modification factor" means that rating factor filed by an insurer with the director for the purpose of modifying the rate service organization's prospective loss cost filing.

3. "MODELING AND DATA ORGANIZATION":

(a) MEANS ANY PERSON OTHER THAN A SINGLE INSURER WHO ASSISTS TWO OR MORE INSURERS OR RATE SERVICE ORGANIZATIONS IN THE MAKING OF RATES BY COMPILING AND FURNISHING LOSS OR EXPENSE STATISTICS OR OTHER STATISTICAL INFORMATION AND DATA, OR BY THE SUBMISSION OF RECOMMENDATIONS AS TO RATES, FORMS OR SUPPLEMENTARY RATE INFORMATION.

(b) DOES NOT INCLUDE A JOINT UNDERWRITING ASSOCIATION, ANY ACTUARIAL OR LEGAL CONSULTANT, ANY EMPLOYEE OF AN INSURER OR INSURERS UNDER COMMON CONTROL OR MANAGEMENT OR THEIR EMPLOYEES OR MANAGER.

4. "Prospective loss costs" means the historical aggregate losses and loss adjustment expenses filed by a rate service organization with the director on which a portion of a rate is based, adjusted through actuarial trending to a future point in time and developed to their ultimate values.

5. "Rate":

(a) Means that cost of insurance per exposure unit whether expressed as a single number or as a prospective loss cost with an adjustment to account for the treatment of expenses, profit and individual insurer variation in loss experience before any application of individual risk variations based on loss or expense considerations.

(b) Does not include the minimum premium.

6. "Rate service organization":

(a) Means any person other than a single insurer who assists insurers by compiling and furnishing loss or expense statistics and recommending, making or filing rates, forms or supplementary rate information.

(b) Does not include a joint underwriting association, any actuarial or legal consultant, any employee of an insurer or insurers under common control or management, or their employees or manager.

7. "Supplementary rate information":

(a) Means any manual or plan of rates, statistical plan, classification, rating schedule, minimum premium, schedule of fees, including membership fees charged by a reciprocal or mutual insurer, rating rule, rate related underwriting rule and other information used by an insurer in making rates.

(b) Does not include the final rate pages that combine the prospective loss costs with the loss cost adjustments.

Sec. 6. Section 20-387, Arizona Revised Statutes, is amended to read:

20-387. Delegation of rate making and rate filing obligations

A. An insurer may establish rates and supplementary rate information based on the factors in section 20-384 using, if desired, the recommendations of ~~an advisory organization~~ A MODELING AND DATA

ORGANIZATION, or rates and supplementary rate information prepared by a rate service organization, with average expense factors determined by the rate service organization or with such modification for its own expense and loss experience as the credibility of that experience allows.

B. An insurer may discharge its obligations pursuant to section 20-385 by giving notice to the director that it uses rates and supplementary rate information prepared by a designated rate service organization, with such information about modifications of the rates as is necessary to inform the director. The insurer's rates and supplementary rate information are those filed by the rate service organization, including any amendments to the rate as filed, subject to the modifications filed by the insurer.

C. Licensed rate service organizations, ~~advisory organizations~~ MODELING AND DATA ORGANIZATIONS and admitted insurers are authorized to exchange information and experience data with rate service organizations, ~~advisory organizations~~ MODELING AND DATA ORGANIZATIONS and insurers in this and other states and may consult with them with respect to rate making.

Sec. 7. Section 20-388, Arizona Revised Statutes, is amended to read:

20-388. Disapproval of rates

If the director finds that a rate is not in compliance with section 20-383, the director shall issue an order specifying in what respects it so fails and stating that, within thirty days after the order is issued, the rate is no longer effective. The order does not affect any contract or policy made or issued prior to the effective date of the order. The order shall be served immediately pursuant to section 20-151. Any insurer, rate service organization or ~~advisory organization~~ MODELING AND DATA ORGANIZATION may request a hearing pursuant to title 41, chapter 6, article 10, and the request for a hearing stays the effectiveness of the order as provided in section 20-162.

Sec. 8. Section 20-390, Arizona Revised Statutes, is amended to read:

20-390. Modeling and data organizations; filing with director

A. ~~An advisory organization~~ A MODELING AND DATA ORGANIZATION shall not conduct its operations in this state until it files with the director:

1. A copy of its constitution, charter, articles of organization, agreement, association or incorporation and a copy of its bylaws and any other rules or regulations governing its activities.

2. A list of its INSURER members and subscribers, IF APPLICABLE.

3. The name and address of one or more residents of this state upon whom notices, process affecting it or orders of the director may be served.

B. ~~An advisory organization~~ A MODELING AND DATA ORGANIZATION shall promptly file any amendments to a document required to be filed pursuant to this section.

C. A MODELING AND DATA ORGANIZATION MAY FILE WITH THE DIRECTOR MODELS TO BE USED BY INSURERS IN THIS STATE FOR MAKING RATES. THE DIRECTOR MAY REQUIRE THE MODELING AND DATA ORGANIZATION TO FILE SUPPORTING DATA OR ANY ADDITIONAL INFORMATION RELATED TO THE CONTENT OF THE MODEL AND THE OUTPUTS OF THE MODEL NECESSARY TO VERIFY THAT THE MODEL COMPLIES WITH THE REQUIREMENTS OF THIS TITLE.

D. MODELS, ANY SUPPORTING DATA OR ADDITIONAL INFORMATION REQUESTED BY THE DIRECTOR AND MODEL OUTPUTS FILED BY MODELING AND DATA ORGANIZATIONS PURSUANT TO SUBSECTION C OF THIS SECTION ARE CONFIDENTIAL AND NOT SUBJECT TO SUBPOENA OR TITLE 39, CHAPTER 1.

~~C.~~ E. It is unlawful for ~~an advisory organization~~ A MODELING AND DATA ORGANIZATION to engage in any unfair or unreasonable practice.

Sec. 9. Section 20-392, Arizona Revised Statutes, is amended to read:

20-392. Rate agreements among insurers prohibited

A. Except with respect to apportionment agreements among insurers approved by the director pursuant to section 20-395, an insurer shall not assume any obligation to any person, other than a policyholder or other insurers which, with it, are under common control or management or are members of a joint underwriting or joint reinsurance organization, to use or adhere to certain rates or rules. No person other than the director may impose any penalty or other adverse consequence for failure of an insurer to adhere to certain rates or rules.

B. Members and subscribers of rate service organizations or ~~advisory organizations~~ MODELING AND DATA ORGANIZATIONS may use the work products and services of such organizations as their individual judgment may dictate. Such use by two or more authorized insurers shall not be sufficient to support a finding that an agreement to adhere exists and may be used only for the purpose of supplementing direct evidence of such an agreement.

Sec. 10. Section 20-393, Arizona Revised Statutes, is amended to read:

20-393. Recording and reporting of experience

The director shall promulgate reasonable rules, including rules providing statistical plans, for use by all insurers in the recording and reporting of loss and expense experience, in order that the experience of such insurers may be made available to the director. No insurer may be required to record or report its experience on a classification basis inconsistent with its own rating system. An insurer may report its experience to any rate service organization or ~~advisory organization~~ MODELING AND DATA ORGANIZATION with which it affiliates.

Sec. 11. Section 20-394, Arizona Revised Statutes, is amended to read:

20-394. Examination of rate service organizations and joint underwriting and joint reinsurance organizations

The director, as often as considered necessary, may examine each rate service organization, each ~~advisory organization~~ MODELING AND DATA ORGANIZATION and each group, association or other organization filing pursuant to section 20-391. The director shall examine only those activities conducted pursuant to this article. The director may examine the officers, manager, agents and employees of such organizations at any time under oath. The organization examined shall pay the reasonable costs of the examination upon presentation to it of a detailed account of the costs. The organization examined shall exhibit all books, records, accounts, documents or agreements governing its method of operation. In lieu of the examination the director may accept the report of an examination made by the insurance supervisory official of another state, pursuant to the laws of such state.

Sec. 12. Section 20-396, Arizona Revised Statutes, is amended to read:

20-396. Hearing and judicial review

Any insurer, rate service organization or ~~advisory organization~~ MODELING AND DATA ORGANIZATION to which the director has issued an order or decision may request a hearing pursuant to title 41, chapter 6, article 10 and, except as provided in section 41-1092.08, subsection H, seek judicial review pursuant to title 12, chapter 7, article 6.

Sec. 13. Section 20-409, Arizona Revised Statutes, is amended to read:

20-409. Recognized surplus lines

A. If after a hearing the director finds that a particular insurance coverage or type, class or kind of coverage is not readily procurable from authorized insurers, the director may by order declare such coverage or coverages to be recognized surplus lines until the director's further order.

B. The order is subject to modification by the director. The director shall modify any coverage if the director determines that the coverage is no longer entitled to recognition as surplus lines after a hearing held on the director's initiative or on the request of any insurance producer, surplus lines broker, broker, insurer, rating or ~~advisory organization~~ MODELING AND DATA ORGANIZATION, or other person.

Sec. 14. Section 20-3604, Arizona Revised Statutes, is amended to read:

20-3604. Rules

A. The director may adopt rules pursuant to title 41, chapter 6 to carry out this article.

B. The rules may include regulation of reinsurance arrangements relating to any of the following:

1. Life insurance policies with guaranteed nonlevel gross premiums or guaranteed nonlevel benefits.

2. Universal life insurance policies with provisions resulting in the ability of a policyholder to keep a policy in force over a secondary guarantee period.

3. Variable annuities with guaranteed death or living benefits.

4. Long-term care insurance policies.

5. Any other life and health insurance and annuity products for which the national association of insurance commissioners adopts model regulatory requirements with respect to credit for reinsurance.

C. Any rule adopted pursuant to subsection B, paragraph 1 or 2 of this section may apply to any treaty that contains either or both:

1. Policies issued on or after January 1, 2015.

2. Policies issued before January 1, 2015, if risk pertaining to such pre-2015 policies is ceded in connection with the treaty, in whole or in part, on or after January 1, 2015.

D. Any rule adopted pursuant to subsection B of this section:

1. May require the ceding insurer, in calculating the amounts or forms of security required to be held pursuant to rules adopted by the department, to use the valuation manual adopted by the national association of insurance commissioners under section 11B(1) of the national association of insurance commissioners standard valuation law, including all amendments adopted by the national association of insurance commissioners and in effect on the date as of which the calculation is made, to the extent applicable.

2. Does not apply to cessions to an assuming insurer that ~~is licensed in at least twenty-six states or that is licensed in at least ten states and licensed or accredited in a total of at least thirty-five states and that~~ either:

(a) Meets the conditions prescribed in section 20-3602, subsection H in this state.

(b) Is certified in this state.

(c) Maintains at least $250,000,000 in capital and surplus as determined in accordance with the accounting practices and procedures manual and amendments adopted by the national association of insurance commissioners, excluding the impact of any allowed or prescribed practices, AND THAT IS EITHER:

(i) LICENSED IN AT LEAST TWENTY-SIX STATES.

(ii) LICENSED IN AT LEAST TEN STATES AND LICENSED OR ACCREDITED IN A TOTAL OF AT LEAST THIRTY-FIVE STATES.

E. The authority to adopt rules pursuant to subsection B of this section does not limit the department's general authority to adopt rules pursuant to subsection A of this section.