

Senate Engrossed House Bill

~~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)

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

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

4 20-235. Insurers; financial disclosure; requirements

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

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

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

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

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

30 20-341. Purpose of insurance rate regulation

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

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

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

3 20-368. Modeling and data organizations

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

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

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

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

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

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

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

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

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

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

40 20-370. Examinations of rating organizations

41 A. The director, as often as he deems it expedient, may make or
42 cause to be made an examination of each rating organization licensed in
43 this state, ~~each advisory organization referred to in section 20-368~~ and
44 each group, association or other organization referred to in section
45 20-369. The reasonable costs of such examination shall be paid by the

1 rating organization, ~~advisory organization~~ or group, association or other
2 organization examined upon presentation to it of a detailed account of the
3 cost.

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

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

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

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

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

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

27 20-381. Definitions

28 In this article, unless the context otherwise requires:

29 ~~1. "Advisory organization":~~

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

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

38 ~~2.~~ 1. "Loss cost adjustment":

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

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

1 ~~2.~~ 2. "Loss cost modification factor" means that rating factor
2 filed by an insurer with the director for the purpose of modifying the
3 rate service organization's prospective loss cost filing.

4 3. "MODELING AND DATA ORGANIZATION":

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

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

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

17 5. "Rate":

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

23 (b) Does not include the minimum premium.

24 6. "Rate service organization":

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

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

32 7. "Supplementary rate information":

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

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

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

42 20-387. Delegation of rate making and rate filing obligations

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

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

5 B. An insurer may discharge its obligations pursuant to section
6 20-385 by giving notice to the director that it uses rates and
7 supplementary rate information prepared by a designated rate service
8 organization, with such information about modifications of the rates as is
9 necessary to inform the director. The insurer's rates and supplementary
10 rate information are those filed by the rate service organization,
11 including any amendments to the rate as filed, subject to the
12 modifications filed by the insurer.

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

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

21 20-388. Disapproval of rates

22 If the director finds that a rate is not in compliance with section
23 20-383, the director shall issue an order specifying in what respects it
24 so fails and stating that, within thirty days after the order is issued,
25 the rate is no longer effective. The order does not affect any contract or
26 policy made or issued prior to the effective date of the order. The order
27 shall be served immediately pursuant to section 20-151. Any insurer, rate
28 service organization or ~~advisory organization~~ MODELING AND DATA
29 ORGANIZATION may request a hearing pursuant to title 41, chapter 6,
30 article 10, and the request for a hearing stays the effectiveness of the
31 order as provided in section 20-162.

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

34 20-390. Modeling and data organizations; filing with director

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

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

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

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

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

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

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

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

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

18 20-392. Rate agreements among insurers prohibited

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

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

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

36 20-393. Recording and reporting of experience

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

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

3 20-394. Examination of rate service organizations and joint
4 underwriting and joint reinsurance organizations

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

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

19 20-396. Hearing and judicial review

20 Any insurer, rate service organization or ~~advisory organization~~
21 MODELING AND DATA ORGANIZATION to which the director has issued an order
22 or decision may request a hearing pursuant to title 41, chapter 6, article
23 10 and, except as provided in section 41-1092.08, subsection H, seek
24 judicial review pursuant to title 12, chapter 7, article 6.

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

27 20-409. Recognized surplus lines

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

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

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

41 20-3604. Rules

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

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

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

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

6 3. Variable annuities with guaranteed death or living benefits.

7 4. Long-term care insurance policies.

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

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

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

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

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

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

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

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

32 (b) Is certified in this state.

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

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

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

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