

Katie Hobbs  
Governor

Barbara D. Richardson  
Director

## Substantive Policy Statement 2025-02 (INS)<sup>1</sup>

### Advisory and Rate Service Organizations

Pursuant to Arizona Revised Statutes (“A.R.S”) §§ 41-1001(24) and 41-1091, the Arizona Department of Insurance and Financial Institutions (“Department”) issues this Substantive Policy Statement (“Bulletin”) to provide guidance regarding recently observed areas of potential noncompliance in rate and rule filings. This Bulletin is intended to promote a level playing field and provide regulatory certainty by uniform application of regulatory provisions.

#### I. Purpose

The purpose of this Bulletin is to address the growing number of instances in which unregistered or unlicensed entities appear to be engaging in conduct that may require a permit or license issued by the Department under Arizona law. This Bulletin will outline all relevant laws and provide guidance to the industry.

#### II. Scope

This Bulletin is intended to advise any entities that may be assisting two or more insurers in the making of rates by compiling and providing to the insurers statistical information and data without a registration and to provide notice to all insurers on the utilization of and requirements relating to the services provided by unregistered or unlicensed entities under Arizona law.

#### III. Background

The Department has observed, through rate filings, several entities that appear to be assisting insurers in the making of rates by providing statistical information and data, including predictive models with developed relativities, that are used or adopted by the insurer to establish rates without being registered or licensed as an advisory or rate service organization as required under Arizona law. See A.R.S. §§ 20-368 and 20-389.

#### IV. Department Analysis

Under Arizona law, an advisory organization “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.” A.R.S. § 20-381. To

---

<sup>1</sup> This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona Administrative Procedure Act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under section 41-1033, Arizona Revised Statutes, for a review of the statement.

conduct the business of an advisory organization in Arizona, the entity must file certain documents with the Department. A.R.S. §§ 20-390(A) and 20-368(B). Insurers making their own filings, or rating organizations, cannot support their filings by statistics or adopt rate-making recommendations furnished by an advisory organization that has not complied with A.R.S. § 20-368(D).

Additionally, rate service organization “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.” A.R.S. § 20-381(6). Rate service organizations are prohibited from providing any service related to the rates of any insurance, and any insurer may not utilize the services of a rate service organization unless the organization has obtained a license from the Department. A.R.S. § 20-389.

The Department has observed instances of unregistered entities appearing to provide technical assistance to insurers related to rate-making. The entities in question provide technical assistance to insurers by selling statistical information and data, including predictive models that provide relativities or segmentation/scores, to generate rating factors used by insurers in the making of rates. To operate as an advisory or rate service organization, an entity must comply with all applicable statutory requirements pursuant to A.R.S. Title 20, Chapter 2, Articles 4 and 4.1.

### A. Department Position

The Department understands that rate development in the insurance industry has evolved significantly with the use of complex predictive models that incorporate large amounts of consumer data resulting in complex algorithms to establish the ultimate premium charged to an insured. As the changes evolve, the Department is aware that the industry may require more time to comply with applicable Arizona laws. To find a collaborative solution, the Department is engaging all stakeholders and interested parties to determine a workable timeframe or other solution aimed at ensuring the insurance industry is compliant with Arizona law.

The Department will not take any official enforcement actions as it continues to work with the industry on finding solutions to this matter, or at the earliest, January 1, 2027. Accordingly, during this time period the Department will not reject an insurer's rate or rule filing on the basis that the insurer's rate or rule filing utilizes statistical information and data, including predictive models, provided by an entity that is not registered with or licensed by the Department as an advisory or rate service organization.

### V. Conclusion

The Department is committed to enforcing Arizona's law in the least burdensome manner, providing regulatory certainty, and ensuring that industry practices align with Arizona's statutes.

All previous communications or positions by the Department regarding compliance on the issues discussed herein shall be controlled by this Bulletin.

The Department is scheduling an initial meeting with all stakeholders interested in these issues in May 2025. All interested parties are invited to participate and provide comments and suggestions on these topics at the meeting.

The Department will provide specific instructions regarding the May meeting at a later date. Updates and information on how to participate in the meeting will be posted on the Department's [website](#) closer to the set date.