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7
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9 Insurance Commissioner

10
11 **BEFORE THE INSURANCE COMMISSIONER**
12 **OF THE STATE OF CALIFORNIA**

13 In the Matter of the License and Licensing
14 Rights of:
15 **PARKER ROUSE CONRAD,**
16 Respondent.

17 File No. BE201600691

18 **ACCUSATION**

19 The Insurance Commissioner of the State of California in his official capacity alleges that:

20 **JURISDICTION AND PARTIES**

21 1. The California Department of Insurance ("CDI"), brings this matter before the
22 Insurance Commissioner of the State of California ("Commissioner"). The Commissioner is the
23 principal government regulator of insurance in California, pursuant to California Insurance Code
24 Section 12900 et. seq.

25 2. This proceeding is governed by the California Administrative Procedures Act,
26 pursuant to California Government Code Section 11500 et. seq.

27 3. Respondent PARKER ROUSE CONRAD ("CONRAD") was issued a California
28 resident insurance producer license on September 14, 2012 (License No. 0I03422). CONRAD'S
license authorized him to act as an accident and health agent, life-only agent, property broker-agent,
and casualty broker-agent. On March 16, 2018, CONRAD submitted notices of termination of all his
company appointments and his license is currently inactive pursuant to California Insurance Code

1 Section 1704. The Commissioner retains jurisdiction pursuant to California Insurance Code Section
2 1743.

3 BACKGROUND

4 4. YourPeople, Inc., doing business as Zenefits FTW Insurance Services ("Zenefits"),
5 was formed in 2012. Zenefits has held a California resident business entity insurance producer
6 license since October 1, 2013 (License No. 0148811). CONRAD was identified in licensing
7 applications submitted by Zenefits as the only designated responsible licensed producer endorsed to
8 transact on behalf of Zenefits.

9 5. CONRAD was a co-founder of Zenefits and acted as the company's Chief Executive
10 Officer from the company's inception in 2012, until his resignation on or about February 7, 2016. At
11 all relevant times alleged herein, CONRAD held a seat on Zenefits' board of directors and
12 maintained more than a 10% ownership interest in Zenefits. By virtue of his position as Chief
13 Executive Officer, his seat on the board of directors, and his ownership interest in Zenefits,
14 CONRAD was a "controlling person" of Zenefits within the meaning of California Insurance Code
15 Section 1668.5(b).

16 FACTUAL ALLEGATIONS

17 VIOLATIONS INVOLVING THE UNLICENSED TRANSACTION OF INSURANCE

18 6. At all relevant times alleged herein, Zenefits provided businesses with a cloud-based
19 software platform to manage human resources, payroll, as well as benefit functions with a focus on
20 health insurance coverage. Zenefits offered its software to users free of charge and earned revenue
21 when customers selected Zenefits to act as their insurance broker of record. As broker of record,
22 Zenefits assisted its customers with the purchase and administration of group health insurance
23 policies. In return, Zenefits earned commissions from insurers.

24 7. Zenefits' employees who offered, sold, or serviced insurance products in California
25 were required to hold an insurance license under California Insurance Code Section 1631. Prior to
26 December 2015, Zenefits' employees solicited, negotiated, and sold at least 8,118 insurance policies
27 to customers located in California. Of this total, at least 1,994 insurance policies were sold by
28 employees who lacked the proper license to transact insurance as required by California Insurance

1 Code Section 1631.

2 8. By virtue of his position as Chief Executive Officer, his seat on the company's board
3 of directors, and his ownership interest, CONRAD was a controlling person of Zenefits, and as such,
4 was responsible for the unlicensed activities of company employees and aided and abetted those
5 employees in said unlicensed activities. As a controlling person of the company, he knew, or should
6 have known, the licensing status of employees who transacted insurance on the company's behalf.
7 Conrad directly hired, or approved the hiring of, employees who subsequently engaged in the
8 unlicensed transaction of insurance on behalf of Zenefits. He also provided employees with access to
9 Zenefits' office space and resources which enabled the unlicensed transactions to occur.

10 9. For a period of time, CONRAD was the only designated responsible insurance
11 producer for Zenefits. As the sole designated responsible insurance producer, CONRAD was the
12 only person licensed and endorsed to sell insurance on the company's behalf. As such, all unlicensed
13 transactions during that time were made through CONRAD'S license and endorsement.

14 VIOLATION OF PRE-LICENSING EDUCATIONAL REQUIREMENTS

15 10. To secure a resident accident and health and life-only insurance producer license in
16 California, applicants are required to pass a licensing exam. Before taking the licensing exam, such
17 applicants are required under California Insurance Code Section 1749 to complete a total of 52 hours
18 of pre-licensing study in an approved course.

19 11. Newly hired Zenefits' employees were provided with information concerning the
20 producer licensing examination. Said employees were also referred or directed to enroll in an
21 approved online course offered by a specific third party education provider ("Third Party Provider")
22 for purposes of satisfying the aforementioned 52 hour pre-licensing education requirement.

23 12. CONRAD created a software program ("Macro") which made it possible for Zenefits'
24 employees to complete the aforementioned online pre-licensing education course in less than the 52
25 study hours mandated by Insurance Code Section 1749. The Macro worked to modify the software
26 program that operated the online pre-licensing education course offered by the Third Party Provider.
27 The Third Party Provider's online course used a timer to track users' study hours. The Macro's sole
28 purpose was to keep the timer running, whether or not the users were at their computers studying the

1 material, thereby enabling Zenefits' employees to spend less than the 52 hours of pre-licensing study
2 as required for licensure.

3 13. Beginning in June 2013, CONRAD disseminated the Macro to one or more employees
4 of Zenefits along with instructions for its use. The Macro was ultimately distributed to
5 approximately 100 employees before its dissemination was discontinued. The Macro enabled those
6 employees to circumvent the pre-licensing educational hourly study requirements mandated by
7 Insurance Code Section 1749.

8 PRIOR REGULATORY ACTIONS

9 14. On October 26, 2017, the Securities and Exchange Commission ("SEC") accepted an
10 offer of settlement submitted by CONRAD and Zenefits in connection with an Administrative
11 Proceeding in SEC File Number 3-18263. Under the settlement, the SEC issued an Order Instituting
12 Cease-and-Desist Proceedings, pursuant to Section 8 of the Securities Act of 1933. In its Order, the
13 SEC found that CONRAD and Zenefits violated Section 17(A) (2) of the Securities Act by obtaining
14 funding from investors based on material misstatements or omissions. The misstatements or
15 omissions involved a failure to disclose to prospective investors that CONRAD had created the
16 Macro allowing company employees to spend fewer hours completing the pre-licensing education
17 hours than required under California Insurance Code. CONRAD and Zenefits also failed to disclose
18 to prospective investors that CONRAD and Zenefits were allowing employees to transact insurance
19 without holding the required insurance producer license. Consequently, CONRAD and Zenefits were
20 ordered to cease-and-desist from committing further violations of the Securities Act. In addition,
21 CONRAD was ordered to pay a civil monetary penalty in the amount of \$160,000.00, as well as
22 \$350,000.00 in disgorgement and \$23,692.39 in prejudgment interest. Zenefits was ordered to pay a
23 separate civil monetary penalty in the amount of \$450,000.00.

24 15. On April 24, 2017, in File Number 11587, the Texas Department of Insurance
25 ("TDI") concluded an enforcement action against CONRAD by issuance of Consent Order Number
26 2017-5044. The TDI found that Zenefits performed the acts of an agency without first obtaining an
27 agency license in violation of the Texas Insurance Code. CONRAD was found to be a controlling
28 shareholder and licensed officer for Zenefits. As such, he was subject to discipline in connection

1 with Zenefits' violations of the Texas Insurance Code. CONRAD was ordered to pay a \$35,000.00
2 administrative penalty by the TDI.

3 **STATUTORY ALLEGATIONS**

4 16. The facts as alleged in paragraphs 1 through 15, above, show that CONRAD has
5 engaged in conduct which constitutes grounds for the Commissioner to suspend or revoke his license
6 and licensing rights pursuant to subdivisions (b),(e),(j), and (n) of California Insurance Code Section
7 1668 in conjunction with Section 1738.

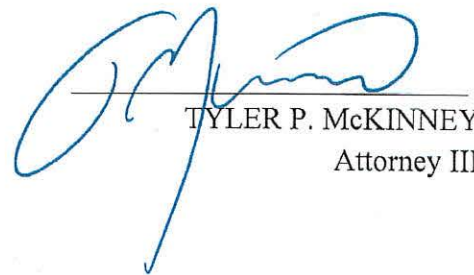
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9 Dated: May 4, 2018

CALIFORNIA DEPARTMENT OF INSURANCE

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12 By:



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