**Part III - Section I – Appendix O**



**PROGRESS REPORT TO MEMBERSHIP ON PRODUCER LICENSING**

**STATE ASSESSMENTS MARCH 16, 2009**

***Overview of NAIC/Industry Producer Licensing Coalition Outreach and***

 ***Summary of 2008 Action Items***

1. **INTRODUCTION**

This report provides an update on all aspects of the NAIC’s producer licensing strategy, including the work of the NARAB (EX) Working Group, the Producer Licensing (D) Working Group and the National Insurance Producer Registry to address the key findings and recommendations arising from the 2008 Producer Licensing Assessment, a comprehensive, membership-wide on-site assessment of each state’s laws and processes. It also provides an overview of the Producer Licensing Coalition and its recent regulator/industry team outreach efforts, general outcomes of this effort and recommended next steps for continued progress and momentum. The report demonstrates the tremendous progress made by the members, both individually and collectively, since the NAIC first undertook the producer licensing strategic initiative in May 2007 to further achieve compliance with NAIC reciprocity and uniformity standards and improving the licensing process for resident and nonresident producers across the nation.

The Producer Licensing Coalition, which is a joint group of Commissioners, producer licensing regulators, and industry representatives, recently completed outreach to forty- two several state insurance departments for purposes of identifying the support needed to achieve remaining producer licensing reforms. The outreach effort was a logical next step in the NAIC’s producer licensing reform strategy. Industry trade representatives were given the opportunity to actively engage Commissioners and their staff on issues of concern to their members. This interactive dialogue highlighted areas requiring support from the industry and legislature for successful implementation, and provided the opportunity for the respective Departments to gauge the level of industry support, indifference or opposition to certain reform efforts. This report summarizes these efforts and provides recommendations for areas of focus in 2009.

1. **SUMMARY OF 2008 ACTION ITEMS**
	1. **Overview of Producer Licensing Assessment**

In Fall 2007, the NAIC, at the request of the membership, with the support of the Coalition, and with the assistance of a dedicated team of producer licensing regulators, completed a membership-wide, comprehensive producer licensing assessment. In three short months, 12 state insurance regulators, along with ten NAIC staff, divided into teams of three and conducted on-site visits to 50 states, the District of Columbia and Puerto Rico to review certain components of a state’s producer licensing laws, practices and processes. This effort also involved significant preparation by the state’s licensing staff as well as active participation by the Commissioners and their senior department officials.

In February 2008, the NAIC published the Producer Licensing Assessment Aggregate Report of Findings (Aggregate Report) which outlined the key findings, conclusions and recommendations for next steps. The Aggregate Report provided a national picture of the state of producer licensing and identified those areas of success as well as roadblocks in achieving full reciprocity and uniformity compliance.

It also recommended areas for targeted improvement. The Aggregate Report provided the groundwork for several significant projects and initiatives assigned by the NAIC Executive (EX) Committee and managed by the Market Regulation and Consumer Affairs (D) Committee.

* 1. **Implementation of Aggregate Report Recommendations**
		1. ***NARAB Working Group***

One of the significant initiatives stemming from the producer licensing assessment was to reconstitute the NARAB (EX) Working Group, to evaluate whether certain non- reciprocal states were eligible for reciprocity certification based on changes to their laws and regulations governing non-resident licensing. In 2008, the NARAB (EX) Working Group certified as reciprocal the District of Columbia, Montana, Indiana, Missouri, New Mexico and Tennessee based on the reciprocity standard outlined in the 2002 Report of the NARAB Working Group: Certification of States for Producer Licensing Reciprocity (2002 NARAB Report).1 Forty-seven jurisdictions are now recognized by the NAIC as

having met the reciprocity mandates of the Gramm-Leach-Bliley Act (GLBA). A map of the states currently certified as reciprocal is attached as **Appendix I**.

The NARAB Working Group formed last year was also charged to evaluate whether certain state requirements imposed upon non-residents and not necessarily addressed in the 2002 NARAB Report impact the reciprocity requirements of federal law or fall under the GLBA savings clause. Recognizing that both the producer licensing industry and producer licensing regulation have significantly evolved and modernized since 2002, the NAIC members willingly and voluntarily undertook this effort to carefully scrutinize possible additional reciprocity issues that exist today. In June 2008, the Working Group adopted a set of recommendations identifying five issues as potential violations of GLBA:

* Requiring an underlying life license prior to the issuance of a non-resident variable life license;
* Requiring the designated responsible producer to be licensed or appointed prior to the issuance of a non-resident business entity license;
* Requiring a non-resident business entity to submit articles of incorporation;
* Requiring individuals seeking a fraternal non-resident license to have an accident/health license and have a fraternal certificate from a company; and
* Requiring non-resident producers to renew licensure annually, while resident producers renew biennially.

The Working Group is currently considering preliminary recommendations on several additional possible GLBA issues, including among others, (1) requiring foreign corporations to register to do business and provide proof of foreign corporation registration and (2) requiring non-resident applicants to obtain a non-resident general or major lines license prior to the issuance of a surplus lines license.

A key finding in the Aggregate Report was disparate business entity licensing laws, regulations and practices and the need for standardization. The NARAB Working Group was charged with developing recommendations for simplifying and standardizing the business entity licensing process. The new Producer Licensing (EX) Task Force is currently gathering information on each of the practices identified for standardization and expects to provide a full set of recommendations in 2009.

1 Because the original working group dissolved in 2004, the District of Columbia and Montana had not been formally certified as reciprocal by an NAIC committee though both received recommendations for reciprocity certification from the NAIC Legal Division.

* + 1. ***Producer Licensing Working Group***

In 2008, the Producer Licensing (D) Working Group was charged with further evaluating many of the Aggregate Report’s findings and recommendations, including identifying which Uniform Licensing Standards should be considered professional licensing standards and which Uniform Licensing Standards were not generally supported by local industry organizations at the state legislative level. The professional standards adopted by the NAIC Executive (EX) Committee and Plenary in September 2008 were based on the Uniform Licensing Standards and covered four basic areas:

1. Legal authority to enter into contracts;
2. Education and initial testing for minimum competency;
3. Background checks for moral character; and
4. Ongoing commitment to professional conduct.

These standards go far beyond a code of conduct and are fundamental requirements found in many other professions, such as securities brokers, real estate agents and attorneys.

The Working Group also provided a candid assessment of barriers to implementation of uniform standards finding it is not always local opposition to implementation of the standards, but general lack of support due to other legislative priorities or inability to create sufficient industry/legislative interest.

The Producer Licensing Working Group spent considerable time in 2008 modifying the interpretive guidance associated with the Uniform Licensing Standards. The Aggregate Report found some inconsistent interpretations of what constituted compliance and noncompliance for certain Uniform Licensing Standards, especially those with low compliance. The Working Group provided very useful recommendations on minor adjustments to certain standards and guidance for purposes of establishing additional means of achieving uniformity, such as acknowledging compliance for states that conduct a background check based on either a paper or electronic fingerprinting process. The revisions to the standards provided detailed benchmarks for states to evaluate compliance and curtail inconsistencies in interpreting and applying standards. The Working Group completed several other important assignments including creating new uniform standards and interpretive guidance regarding the commercial lines multi-state exemption and commission sharing exemption, both contained in the Producer Licensing Model Act (“PLMA”).

The Working Group also developed and adopted a comprehensive licensing manual, the NAIC State Producer Licensing Handbook, to provide guidance to state insurance departments and regulated entities on how to administer a producer licensing program. It is based on the PLMA, the Uniform Licensing Standards and all guidelines adopted through the NAIC Executive (EX) Committee and Plenary. The Handbook will assist regulators in continued movement towards uniformity in procedures among the states and offer “best practices.”

* 1. **National Insurance Producer Registry**

In 2008, the National Insurance Producer Registry (NIPR) completed the all-state electronic solution for Address Changes (ACR) and implemented the final state achieving 100% participation. This accomplishment stands out because ACR was introduced in July 2007, and by the end of 2008, NIPR had processed over 910,432 address changes. NAIC/NIPR also introduced the breakthrough product Attachment Warehouse. The Warehouse electronically receives, stores, and shares with the states licensing-related documents submitted by applicants in response to “yes” answers to background questions on the Uniform License Application. Producers and authorized submitters no longer have to fax or mail a copy of the required documentation to every state in which they are applying for or renewing a resident or non-resident license. States receive an electronic notice alerting them to check the Warehouse for the required documentation. Future plans include expanding use of the Warehouse to support regulatory requirements related to the notification and reporting of regulatory actions. The Attachment Warehouse was well- received, garnering nearly 1,900 electronic submissions in the first four months of release.

Much progress was made in meeting NIPR’s long-term goal of being the one-stop shopping solution for producers and companies. The focus this year was to expand the on-line licensing options to include selected limited and other lines. NIPR also concentrated on offering electronic processing for business entities. Overall, considerable progress was achieved, with many more products being added for several states. As of January 31, 2009, the following states are now in production with NIPR products:

* Non-Resident Licensing for Individuals – 49 states;
* Non-Resident Licensing for Business Entities – 34 states;
* Non-Resident Renewals for Individuals – 39 states;
* Non-Resident Renewals for Business Entities – 18 states;
* Resident Licensing for Individuals – 19 states;
* Resident Licensing for Business Entities – 16 states;
* Resident Licensing Renewals for Individuals – 17 states;
* Resident Licensing Renewals for Business Entities – 13 states;
* Appointment Renewals – 7 states;
* Electronic Funds Transfer for State Fees – 47 states;
* Address Change Requests – all states; and
* Attachments Warehouse – all states.
	1. **Producer Licensing Coalition**

In June 2007, the NAIC/Industry Producer Licensing Coalition was formed as a partnership of regulators and national trade organizations, to focus and facilitate producer licensing uniformity initiatives. In 2009, the Coalition is comprised of 11 Commissioners and 13 national trade associations, including American Council of Life Insurers; American Insurance Association; America’s Health Insurance Plans; Council of Insurance Agents & Brokers; CPCU Society; Independent Insurance Agents & Brokers of America; LIMRA; Million Dollar Roundtable; National Association of Insurance and Financial Advisors; National Association of Health Underwriters; Professional Insurance Agents; Society of Financial Service Professionals; and Property Casualty Insurers Association of America.

The Coalition has focused on targeted initiatives to further streamline the licensing process such as:

* Encouraging all state insurance departments to eliminate the proof of Secretary of State registration as a prerequisite requirement to licensing,2
* Exploring ways to reduce the administrative burden of the appointment process; and
* Discussing barriers to full adoption of major and core limited lines.

The Coalition also provided a forum for the exchange of views on proposed federal legislation, H.R. 5611, to create a National Association of Registered Agents and Brokers. Another important topic of discussion from the Coalition regulator members’ perspective was the opportunity to encourage industry trade organizations to embrace and promote professional licensing standards at the national, state and local level, including supporting legislative and regulatory changes.

The Coalition has served as a conduit of useful information, opinions and ideas between regulators and industry representatives. Often times, this exchange has turned into an action item for the industry or regulators, whether to solicit feedback or support from their respective members or to develop a proposed solution to an identified issue. Therefore, it was not surprising that both the regulators and industry members of the Coalition readily joined forces to conduct this aggressive outreach effort. Every participant of this outreach effort–Coalition Commissioners, producer licensing regulators and representatives of industry organizations–has given willingly of their time to help states move even closer to full reciprocity and uniformity.

2 According to Producer Licensing Coalition information, of the 25 states initially having the SOS corporate registration requirement as a prerequisite requirement to licensing, 15 states have eliminated the prerequisite requirement. Of the remaining ten states, six states have committed to reviewing the requirement and implementing a statutory, regulatory or practice change, if appropriate, and only four states have not yet introduced a change.

1. **OVERVIEW OF PRODUCER OUTREACH EFFORT**
	1. **Impetus for Outreach**

Under the leadership of NAIC President Roger Sevigny, the NAIC’s producer licensing strategy has raised the awareness of the importance and challenges for achieving meaningful producer licensing reform. This topic is a regular discussion point among and between Commissioners and their producer licensing staffs at all levels of the NAIC committee structure. Because results of the producer licensing assessment confirmed that many of the remaining legislative and regulatory changes require active industry support, the Coalition has served a valuable purpose in gathering feedback on the dynamics of producer licensing issues, such as the level of support for minimum professional licensing standards including background check requirements.

As Chair of the Producer Licensing Coalition in 2008, Commissioner Sevigny suggested the Coalition concentrate on the needs of particular states and offer assistance and guidance based on state-specific dynamics and areas of noncompliance. For instance, a state insurance department struggling with eliminating excessive limited lines of authority will require the support of specific sectors of its local industry in order to propose legislation.

The peer-to-peer outreach of the producer licensing assessment provided NAIC members with an inventory of remaining compliance issues. In many cases, the Commissioner and Department were strongly in favor of making the identified changes, but were either unsuccessful in efforts to pass legislation or did not include proposals in legislative packages because of active opposition or simple indifference from one or more sectors of their producer licensing industry.

The Coalition outreach effort was intended to take this grassroots initiative to the next level. In keeping with the general recognition that, at all levels of government, constituency support is often a key ingredient to successful legislative change, it made sense to engage industry representatives in how and whether they can support certain state-specific producer licensing legislation. The Coalition leveraged the valuable information gained through the producer licensing assessments in order to have a better understanding of each state’s needs in terms of (1) full PLMA adoption, (2) reciprocity, (3) uniformity compliance, and (4) streamlining business entity licensing, appointments and electronic processing. This background information proved extremely helpful not only as the outreach team developed recommendations to bring to each state, but to facilitate a positive and productive dialogue with Commissioners and their staff.

* 1. **Outreach Team Approach**

The Coalition outreach initiative was conducted in a similar manner to the producer licensing assessments in that outreach teams were formed and assigned to respective states. Each outreach team consisted of a Coalition Commissioner, two producer licensing regulators,3 and two industry representatives. The following Commissioners participated on outreach teams: Pennsylvania Commissioner Joel Ario; Idaho Director Bill Deal; Alaska Director Linda Hall; Oklahoma Commissioner Kim Holland; Ohio Director Mary Jo Hudson; and Iowa Commissioner Susan Voss. The following producer licensing regulators participated on outreach teams: John Braun (UT); Linda Brunette (AK); Jack Chaskey (NY); Keith Kuzmich (CA); Rosanne Mead (IA); Anne Marie Narcini (NJ); Barbara Richardson (NH); Bobby Perkins (MS); Treva Wright-Donnell (KY); and Laurie Wolf (NIPR, formerly ND). The following industry representatives participated on outreach teams: Nicole Allen (CIAB); William Anderson (NAIFA); Wes Bissett (IIABA); David Eppstein and Patricia Borowski (PIA); John Fielding (Steptoe & Johnson); Larry Kibbe (Regulatory Affairs Consultant); David Leifer (ACLI); Deirdre Manna (PCI); Martin Mitchell and Gary Allen (AHIP); Pamela Young (AIA). It should also be noted for states assigned to PIA, a representative of the local state PIA organization usually participated on the calls.

Each industry representative was given the opportunity to request a particular state assignment. A concerted effort was made to ensure at least one producer trade organization (i.e., IIABA, PIA, CIAB, NAIFA) was assigned to each state. Industry representatives were also encouraged to coordinate and communicate concerns about a particular state to the industry representatives assigned to the state.

* 1. **Criteria for Outreach**

The outreach effort commenced in early November 2008 with the goal of completing the outreach in advance of the 2009 Commissioners Conference. Forty-two states were targeted for outreach based on criteria applied to each state’s producer licensing assessment. States were chosen for outreach if their Producer Licensing State Report identified noncompliance with more than three Uniform Licensing Standards or the state had not yet been certified as reciprocal. States out of compliance on fewer than three standards were added to the list for outreach if they were not compliant with the fingerprinting standard,4 as a key purpose of the outreach effort was to find ways to provide support to those states needing or considering fingerprint legislation.

* 1. **Focus of Outreach Efforts**

The outreach effort generally focused on those areas necessary for reciprocity and uniformity in producer licensing. From a regulatory perspective, Commissioners and producer licensing regulators reviewed whether states were imposing uniform licensing requirements and provisions for residents, which assures each state that non-resident producers are subject to similar licensing requirements in their respective home states. From the producer perspective, industry representatives were looking for general uniformity in licensing requirements and procedures so as to reduce the administrative costs of compliance. Specifically, the outreach effort focused on the following areas: (1) state adoption of key PLMA provisions; (2) non-resident licensing requirements potentially inconsistent with GLBA reciprocity requirements; (3) compliance with certain Uniform Licensing Standards; and (4) other key licensing areas.

The outreach teams reviewed whether a state had fully and uniformly adopted the following provisions of the PLMA:

* + Section 2 – Definitions, specifically the definitions for home state, insurance producer, negotiate, sell, solicit, Uniform Application and Uniform Business Entity Application;
	+ Section 4B(6) – Commercial multistate risk exemption;
	+ Section 7A – Definitions for the six major lines of authority;
	+ Section 13D – Commission sharing exemption; and
	+ Section 16 – Reciprocity.

For each state, the outreach teams examined whether the state had been certified as reciprocal and whether the state imposed additional requirements on the non-resident outside of Section 8 of the PLMA, such as bond requirements for certain lines of authority, i.e. surplus lines bond. It was also noted whether a state had retaliatory licensing and/or appointment fees.

With regard to the Uniform Licensing Standards, the outreach teams considered states’ compliance with the following standards:

* Standard No. 8 – Lines of Authority;
* Standard No. 14b – Background Checks, Fingerprinting;
* Standard No. 15 – NAIC Uniform Application;
* Standard No. 16 – Lines of Authority Issued; and
* Standard No. 18 – Continuation Process.

3 The producer licensing regulators who volunteered a significant amount of their time and expertise to conduct the producer licensing assessments volunteered again for this outreach effort and were generally assigned to the states where they conducted on-site assessments.

4 Uniform Licensing Standard No. 14b – Background Checks.

The outreach teams also considered any other Uniform Licensing Standards where the state was significantly out of compliance.

State processes and procedures in the following six areas were also evaluated:

* Business entity licensing (e.g. branches, affiliations, name approval);
* Individual and business entity appointment process;
* Secretary of State proof of registration requirements, if any;
* Electronic processing issues;
* Requiring an underlying life line of authority as a prerequisite for a variable line of authority; and
* Requiring a letter of clearance in lieu of relying upon information in the State Producer Licensing Database.

Information to facilitate these focus areas was compiled from several different sources including the state’s producer licensing statutes, web site, NIPR electronic business rules, and Producer Licensing Assessment Report. Industry was also asked to provide information and raise concerns for the outreach team’s consideration.

* 1. **Structure of Outreach Efforts**

Each outreach team was provided a template with state-specific information in each of the areas mentioned above. In general, each outreach team had an initial one-hour conference call to discuss the background information and to identify the priority issues to be discussed with the respective state. During each call, the industry team participants were asked to identify changes and issues of importance to their members. Part of the discussion included gathering information about past efforts towards achieving reciprocity and uniformity and the level of historical and current support among local industry for addressing these issues.

Based on the initial outreach team discussion, an agenda and set of briefing points were provided to the outreach team and the state’s Commissioner and staff. In general, each outreach team held a one-hour conference call with the state and often times, had a very interactive, engaging dialogue with the state Commissioner and his or her staff. For each issue identified, the state’s Commissioner was generally asked if this was an issue for their local industry and what type of support they needed to effectuate the necessary change. Industry participants were also asked to describe the level of local support from their respective members to address these issues. The Coalition Commissioner generally also provided an opportunity for industry members to voice any other concerns or issues not previously raised.

Finally, a summary of the discussion between the outreach team and the outreach state was prepared and provided to the participants on the outreach call. These state-specific summaries have been compiled and were included in the respective Commissioner’s materials for the 2009 Commissioner’s Conference.

The specific details of state compliance status and activity cited in this report are subject to change as states introduce legislation or implement administrative process changes to achieve compliance.

1. **GENERAL OUTCOME OF OUTREACH EFFORTS**
	1. **Impact of Industry Involvement**

The outreach program afforded industry members a unique forum to speak directly with Commissioners and key staff about the most pressing producer licensing issues. Industry had multiple opportunities to highlight their perspectives on the most important issues for each state to address. The process also resulted in increased industry awareness and understanding of reciprocity, uniformity and other key issues at the national and local levels.

As part of this effort, national trade associations were encouraged to reach out to their state association chapters and to either include them in the calls with the state insurance commissioners or represent specific local concerns. The Professional Insurance Agents (PIA) consistently provided this coordination for the outreach calls. The National Association of Insurance and Financial Advisors (NAIFA) also contacted their local state associations in preparation for the outreach calls. This effort to include the state association chapters was a valuable part of the outreach as it gave Commissioners, where PIA and NAIFA were members of the outreach team, an opportunity to hear directly from producers operating in the marketplace. In addition, this effort provided all parties greater insights into what priorities are important at the state level and how these priorities are the same or vary from the priorities of the national producer licensing trade associations.

Industry trade associations were helpful in prioritizing the implementation of licensing standards. As part of this prioritization, industry trade associations were willing to work with the states to simplify or eliminate certain licensing requirements, but did not routinely offer solutions or proactively commit to target additional resources for the implementation issues agreed by both regulators and industry to be priorities. For example, the issue of fingerprinting producer applicants was raised on many state calls with a number of states expressing the need for legislative changes coupled with opposition from state producer associations.

While the implementation of a fingerprint requirement for resident producer applicants would be a major step toward achieving full licensing reciprocity, which is a priority for industry, the trade associations generally did not offer support for any proposed legislation in the states wanting to pursue full implementation of a fingerprint requirement. Some readily acknowledged their members oppose passage of this requirement in the respective states. The NAIC membership has offered a compromise position, which has met with some degree of support from producer licensing trade associations, by suggesting that states implement fingerprinting on a prospective basis thus eliminating the need for currently licensed producers to undergo a fingerprint requirement.

In addition, the outreach teams found that some issues identified as problematic at the national level, such as business entity licensing, were not identified as problematic at the local level. This stemmed from varying perspectives of producers who hold licenses in one or two states as opposed to the national trade associations, which view the licensing framework from a broader, national perspective. For example, producers active at the local level frequently opposed eliminating or re-defining lines of authority due to the administrative adjustments involved, but national trade associations often voiced concern about inefficiencies resulting from inconsistencies among lines of authority available from state to state.

* 1. **Common Issues among Outreach Teams**

The issues most commonly raised by the state outreach teams were:

1. Authorization to fingerprint resident applicants for criminal background checks;
2. Adoption of the major lines of authority separately and as defined in PLMA along with consolidation of limited lines of authority;
3. Education requirements for both pre-licensing and license continuation; and
4. Simplification of the business entity licensing process.

In general, the outreach calls with the states confirmed that states have worked to make many administrative and regulatory changes within their control, but continue to struggle with making certain legislative changes.

1. ***Fingerprinting***

The fingerprinting issue was addressed to some degree by at least 27 different state outreach teams. The ultimate uniformity goal is for all states to have the authority and capability to fingerprint resident applicants and conduct state and federal criminal background checks. Full implementation would presumably eliminate the fingerprint requirement non-reciprocal states currently impose upon non-resident applicants. As observed in the Aggregate Report and most outreach summaries, the primary barrier to this legislative change is lack of support from the state and local industry organizations. Stated reasons for opposition to the legislation seem to focus on generalized privacy concerns, perceived lack of need and uncertainty about applicability to existing producers. Many Coalition Commissioners suggested preparing an informational packet about the NAIC’s Authorization for Criminal Background Check Model and how the electronic fingerprinting process generally works in states.

1. ***Major and Limited Lines of Authority***

The adoption of the major lines of authority, separately and as defined by PLMA, was addressed to some degree by at least 14 different state outreach teams. The ultimate uniformity goal is for all states to license resident and non-resident producers based on equivalent lines of authority. For instance, a life license in one state should entitle a producer to sell, solicit and negotiate to the same extent as a producer holding a life license in another state. Many states would require legislative changes to harmonize their current lines of authority with the PLMA lines of authority. Some Commissioners already made these changes following the producer licensing assessment, or were including them in their 2009 legislative package. Other Commissioners stated these changes were not a priority for the Department or their local agent community. This issue is one where states and their local industry must both assign it a high level of priority in order to achieve success, but also one that should be kept in the forefront of the discussion among Commissioners to emphasize the need for full implementation and the resultant benefit to reciprocity.

Consolidating available limited lines of authority into the core limited lines as defined by the Uniform Licensing Standards was addressed to some degree by at least 23 different state outreach teams. Acknowledging recent clarification to the uniformity standards, the ultimate uniformity goal is for all states to eliminate disparate and specialized limited lines of authority in favor of the core limited lines of authority and map additional lines into applicable major lines of authority. In order to comply with non-resident reciprocity requirements, states are compelled to provide some type of non-resident limited license to applicants holding non-core limited lines, even though these lines do not synchronize with the limited lines offered to its resident producers. In many outreach calls, the Commissioners indicated their willingness to eliminate additional limited lines but they faced challenges from sectors of their local industry strongly in favor of particular specialized lines such as industrial fire and dental. Like the major lines of authority issue, further progress is dependent upon the support of the industry to effectuate these changes. Further discussion by the NAIC membership on ways to streamline limited lines should also be pursued.

1. ***Pre-licensing and Continuing Education Requirements***

Minimum hours of education for pre-licensing and/or continuing education were addressed to some degree by 21 different outreach teams. Consistent with the findings of the on-site assessment process, there is a high level of understanding of the Uniform Licensing Standards in this area. The ultimate uniformity goals are 20 hours per line of authority for states requiring pre-licensing education, zero hours for states not requiring pre-licensing education and 24 hours of continuing education for all major lines of authority, to include 3 hours of ethics training. The outreach calls validated the assessment findings regarding the reasons for noncompliance. Commissioners value the need for consistency in these areas but universally contend with resistance to change among local industry. Lack of local support primarily takes the form of opposition to lowering the minimum hours required. Likewise, industry participants at the national level characterized the importance of state-to-state consistency in these areas as dependent on the local level of interest.

1. ***Business Entity Licensing***

The business entity licensing process was addressed to some degree by 25 different outreach teams. The ultimate goal for the business entity licensing issues is simplification and standardization, a matter which the NARAB (EX) Working Group is currently evaluating for purposes of developing a recommendation. During the outreach efforts, industry advocated that particular states eliminate administratively burdensome requirements upon business entities, especially non-resident business entities. Some of these requirements included licensing branch locations, listing or tracking of affiliated producers, and prior approval of legal or assumed names. The outreach teams also encouraged states to fully utilize NIPR’s resident and non-resident business entity licensing functionality including the recommendation to eliminate requirements that cause all business entity applications filed through NIPR to pend or defer to the insurance department.

* 1. **Common Issues among Industry Trade Associations**

The most common issues raised by industry, in addition to the issues identified above, included:

1. Full and uniform adoption of all provisions of the PLMA;
2. Full licensing reciprocity among all states; and
3. Elimination of the Secretary of State registration requirement for non-resident applicants.
4. ***Full and Uniform Adoption of PLMA***

Full and uniform adoption of the Producer Licensing Model Act was addressed to some degree by 24 different outreach teams. The ultimate goal of complete PLMA adoption for both states and industry is for all states to have the same or similar laws with regard to key licensing definitions, qualifications, exemptions and requirements. With regard to specific PLMA provisions, industry members were strong proponents for states to adopt PLMA Section 4B(6) permitting the commercial multistate risk exemption and PLMA Section 13D permitting a commission-sharing exemption. Industry members also strongly advocated for states to amend appointment laws and associated practices to be completely consistent with the appointment process specified in PLMA Section 16. It was with regard to these types of changes that industry members most often indicated their willingness to actively support legislative change in the particular state.

1. ***Potential Reciprocity Issues***

Potential reciprocity concerns were addressed to some degree by 31 different outreach teams. The ultimate goal of full reciprocity is for all states to license non-residents on a reciprocal basis and not impose additional requirements outside those permitted under GLBA. Outreach teams made a concerted effort to work with the remaining non- reciprocal states to find support for eliminating additional requirements such as bond and pre-licensing requirements on non-resident surplus lines producers. Outreach teams also noted potential GLBA reciprocity issues in light of the recommendations and work of the current NARAB (EX) Working Group. These issues included at least 22 states requiring a non-resident to obtain an underlying life license as a prerequisite to obtaining a variable license and states requiring non-resident business entities to submit articles of incorporation or additional certifications. Industry generally offered to provide needed support to eliminate these additional requirements.

1. ***Confirmation of Secretary of State Registration***

Whether states require Secretary of State proof of foreign corporation registration as a prerequisite to licensure was addressed to some degree by 9 different outreach teams. As stated earlier, the NAIC has made a concerted and successful effort to encourage all members to eliminate this as a prerequisite to licensing. In many outreach calls, this issue was raised in terms of confirming or commending that this requirement had been eliminated by the Commissioner and the department. Industry offered whatever support necessary to help achieve elimination of this Secretary of State check altogether. Further, industry also indicated they would be lobbying state legislatures to enact a provision exempting foreign business entities from registering with the Secretary of State when seeking a non-resident insurance license.

* 1. **Recommendations for Next Steps**

The outreach process illustrated that states have already implemented changes based upon the feedback received from their on-site producer licensing assessment in early 2008. Many states provided assurances during the outreach calls to continue working toward implementation of the Uniform Licensing Standards. In summary, states have implemented most of the Uniform Licensing Standards that could be implemented through administrative changes or promulgation of regulations. At the same time, states continue to seek support from the national trade associations to implement remaining changes.

Producer licensing remains a critical strategic initiative of the NAIC membership in 2009 and the focus of the newly-created Producer Licensing (EX) Task Force. This outreach effort has produced additional constructive information that can be used by the Task Force, its working groups, interested parties and the Producer Licensing Coalition members in determining how best to effectuate meaningful changes and recommendations. Suggested areas for focused discussion and action in 2009 include:

***Producer Licensing Task Force***

1. Monitor progress on late 2008 recommendations to NIPR, which included:
	* Working closely with NAIC Market Regulation Division and Producer Licensing Working Group to identify areas in states’ electronic business rules that do not appear to comply with reciprocity or uniformity standards;
	* Development of uniform set of electronic processing standards (business rules) to facilitate “true uniformity” versus “virtual uniformity”;
	* Central location for submission of company contract information (i.e., appointments/contracts database);
	* Coordination and/or tracking of multi-state insurance examination;
	* Central location for submission of national criminal background check status information; and
	* Central location to submit continuing education and pre-licensing course information.
	* Work closely with NIPR to encourage full utilization by all states and producers of NIPR products and services including individual and business entity resident and non-resident licensing, Address Change Requests, Attachments Warehouse, and Administrative Reporting (when available).
2. Finalize the evaluation of the key findings and issues regarding disparate business entity licensing laws, regulations and practices identified in the state producer licensing assessments by comparing the administrative burdens with the consumer protections arising from the licensing of business entities. Provide policymaking recommendations for simplifying and standardizing the business entity licensing process, considering all options ranging from elimination of the licensing of business entities to elimination of components of the process such as licensing by line of authority or by each branch location.
3. Develop a strategy to implement fingerprinting in all states, establish the suggested deadline for implementation and identify what additional resources from state insurance regulators, industry and consumer groups will be committed to this effort.

***NARAB Working Group***

1. Finalize the evaluation of the reciprocity standard developed by the NAIC’s 2002 NARAB (EX) Working Group and make final recommendations for revisions or additions to the standard to address the issues identified in the Aggregate Report, including the various state requirements that are imposed upon non-residents but may not have been specifically addressed in the 2002 reciprocity standard. Provide a recommended plan for accomplishing the certification process for states regarding any revisions or additions to the 2002 reciprocity standard.
2. Conduct additional outreach with the five remaining jurisdictions (CA, FL, NY, PR, WA) that have not met the licensing reciprocity mandates of GLBA to identify specific barriers for these jurisdictions implementing licensing reciprocity; obtain specific detail from the industry representatives of the Producer Licensing Coalition regarding what solutions and resources they are willing to provide to address these specific barriers; and obtain specific detail regarding what solutions and resources the jurisdictions that have not satisfied the reciprocity mandates of GLBA will provide to address the specific barriers.

***Producer Licensing Working Group***

1. Develop uniform guidelines for background check reviews.
2. Provide ongoing maintenance and review of reciprocity guidelines for continuing education providers, including state review and approval of courses, with particular attention to continuing education provided over the Internet.
3. Provide input and feedback to NAIC/NIPR staff regarding the development of electronic licensing applications, such as a centralized filing point for notification of administrative/criminal actions and Personalized Information Capture System (PICS) alerts for state regulators.
4. Serve as informal focus group with NAIC staff for the development and delivery of a State Licensing Handbook training for state insurance departments.

***NAIC/Industry Producer Licensing Coalition***

1. Continue to serve as the forum for NAIC membership and industry to exchange views, opinions and ideas on producer licensing priorities, such as professional standards of producers, state licensing laws, state administrative procedures and federal legislation.
2. Follow up on 2008 and 2009 state assessment reports to communicate reform priorities to the Commissioners for consideration of 2009 reform legislation.
3. Continue to pursue national producer trades’ endorsement of professional licensing standards, in follow up to November 2008 letter from Commissioner Sevigny.
4. Continue discussions on ways to further improve processes the industry believes are administratively burdensome to producers, including the appointment process, the examination/testing process and ways to encourage state and local industry organizations to actively support full adoption of the major lines of authority and elimination of non-core limited lines of authority.
5. Identify the Uniform Licensing Standards that are not priorities for industry and do not impede the implementation of licensing reciprocity, such as pre-licensing education or waivers/exemptions from continuing education, to ensure the appropriate priority of these standards when expending resources on licensing reforms.
6. **OVERALL RESULTS OF PRODUCER LICENSING ASSESSMENT AND OUTREACH EFFORTS**

The producer licensing assessment and recent outreach efforts have yielded the most accurate and complete picture to date of the status of uniformity and reciprocity compliance among the states. Through the assessment, six additional states were formally certified as meeting the NAIC’s reciprocity standard. Each state also received a candid, peer-to-peer assessment of their compliance with the uniformity standards and other key areas of producer licensing reform and modernization. The assessment provided a roadmap for states to implement legislative, regulatory and administrative process changes. Throughout this process, many states indicated their intent to leverage the assessment findings to push for legislation to become compliant with NAIC standards.

Prior to the producer licensing assessment, states self-reported whether their laws, regulations and processes complied with NAIC uniformity standards. The assessment was a comprehensive independent effort to provide peer review and a review by the NAIC Legal Division as to whether state’s laws and regulations constitute compliance with NAIC standards. A uniformity chart was included in each state’s Producer Licensing Assessment Report to illustrate the state’s compliance both before and after the on-site assessment. It was not uncommon for states to change status from noncompliant to compliant, or vice versa, when they walked through the standards with the review team.

In September 2008, the NAIC updated the states’ uniformity charts based on information provided by each state confirming a change in process or state law. For instance, the producer licensing assessment found several states were not fully utilizing the NAIC’s uniform applications for resident and non-resident license applicants. Many states made changes soon after the assessment, which often moved them into compliance for this standard. This Fall 2008 update showed positive movement in 18 of the 38 Uniform Licensing Standards meaning that at least one, and in many cases more than one state, reported achieving compliance with one or more additional standards since their assessment. Out of the 45 states reporting updates, a total of 18 states reported a collective 41 positive compliance changes.

In conjunction with the outreach effort, states’ compliance status has again been updated, moving the “check mark” from noncompliant to compliant. **Appendix II** provides a current aggregated uniformity compliance chart. While the outreach effort noted and commended several states for introducing currently pending legislation to bring them into compliance, a change in state compliance status will be reflected once legislation is enacted.

The current aggregated uniformity compliance chart reflects a net total of 98 instances where states moved from noncompliant to compliant in the past year. Specific changes are outlined in **Appendix II** and include:

* Five additional states comply with the uniformity standard of 24 hours of continuing education for all major lines, including three hours of ethics training;
* Eight additional states perform background checks on resident applicants against NAIC RIRS and SAD information;
* Three additional states have authority to require fingerprinting;
* Eight additional states utilize the NAIC Uniform Applications;
* Seven additional states issue the major lines of authority independently and consistently with the PLMA definitions;
* Six additional states comply with the uniformity standard limiting the available exemptions from continuing education; and
* Six additional states comply with the uniformity standard specifying the appropriate number and definitions of limited lines of authority.

The chart also documents eight other uniformity standards where one or two additional states became compliant. In total, the chart illustrates an overall compliance rate of 84% with the NAIC Uniform Licensing Standards.

1. **CONCLUSION**

The tremendous amount of improvement in compliance with Uniform Licensing Standards demonstrates the effectiveness of the dedicated proactive efforts of NAIC members and industry, both Producer Licensing Coalition members and local-level producer representatives, toward meaningful, targeted producer licensing reform. The on- site assessment process was characterized as providing a roadmap for legislative and regulatory changes necessary to achieve complete reciprocity and uniformity. Using this roadmap, the outreach project was a vehicle for leveraging regulator and industry expertise to identify priority issues. The outreach effort built upon the factual basis provided by the assessments and assisted states in crystallizing their specific needs, whether, for example, to enlist industry support for legislative proposals or to revise business rules to accurately reflect Department practice.

Industry involvement was the key feature of the outreach process that propelled it beyond the assessment program. Industry participation enabled concrete gains in identifying and garnering support for further steps toward uniformity and streamlined licensing processes. The outreach process also highlighted areas where states receive inconsistent messages from national industry groups and local industry representatives. The Coalition acknowledges and deeply appreciates the extensive efforts and collaborative spirit demonstrated by the industry participants. It is also important to recognize the continued contributions of the Coalition Commissioners and producer licensing regulators who dedicated their valuable time to assist their fellow states and share their tremendous expertise.

As a result of the outreach process, states have an even better gauge on where they stand in relation to producer licensing goals, the specific steps needed to accomplish the goals and the industry and fellow regulator support available to help realize the goals. Consistent with the aggregate assessment report issued one year ago, this report is intended to assist the NAIC leadership and membership in further defining the roadmap for reform in 2009 and in evaluating options for the future of state-based producer licensing regulation.

**APPENDIX I**

**CERTIFICATION OF STATES FOR PRODUCER LICENSING RECIPROCITY**

- Forty-seven jurisdictions are now recognized by the NAIC as having met the reciprocity mandates of the Gramm-Leach-Bliley Act (GLBA).

**MA**

**RI**

 **CT NJ**

**DE**

**AK**

 **HI**

**PR**

**DC MD**

**Certified Reciprocal (47) Non-Certified Reciprocal (5)**

**APPENDIX II**

