*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 1**

**Modern Producer Licensing**

The process for licensing insurance producers has had numerous phases. The first NAIC model on this subject was the NAIC *Agent and Broker Model*. The next phase was the NAIC *Single License Procedure Model*. Although development of the newest model began in the late 1990s, it was the U.S. Congress' (Congress') passage of the Gramm-Leach-Bliley Act (GLBA) in 1999 that caused the NAIC to speed up the development of the *Producer Licensing Model Act* (#218).

**Uniformity Provisions of the GLBA Adopted in 1999**

In order to achieve the licensing uniformity standards of the GLBA, a majority of the states had to satisfy all five of the following requirements:

1. Adoption of uniform criteria regarding a producer's integrity, personal qualifications, education, training and experience, which must include qualification and training on the suitability of products for a prospective customer.
2. Adoption of uniform continuing education (CE) requirements.
3. Adoption of uniform ethics course requirements in conjunction with other CE requirements.
4. Adoption of uniform suitability requirements based on financial information submitted by the customer.
5. Elimination of nonresident requirements posing any limitation or condition because of the place of the producer's residence or business, except for countersignature requirements.

One of the major provisions of the GLBA was a provision to create the National Association of Registered Agents and Brokers (NARAB). While much progress was made to improve uniformity and streamline nonresident producer licensing, the NAIC endorsed the provisions of the Terrorism Risk Insurance Program Reauthorization Act of 2015 (Public Law 107-297), which modified NARAB. These provisions, commonly referred to as NARAB II, were signed by President Barack Obama on Jan. 12, 2015.

NARAB II is intended to streamline the nonresident producer licensing process while preserving the states' ability to protect consumers and regulate producer conduct. NARAB II does not create a federal insurance regulator but establishes a nonprofit corporation, known as NARAB, controlled by its board of directors. The stated purpose of the legislation is to provide "a mechanism through which licensing, CE, and other nonresident insurance producer qualification requirements and conditions may be adopted and applied on a multistate basis without affecting the laws, rules and regulations, and preserving the rights of a state, pertaining to certain specific producer-related conduct."

NARAB is to be governed by a 13-member governing board comprising eight state insurance commissioners and five insurance industry representatives subject to presidential appointment and U.S. Senate (Senate) confirmation. NARAB, acting through its board of directors, will establish membership criteria through which producers can obtain nonresident authority to sell, solicit or negotiate insurance. Satisfaction of membership criteria means a producer can sell, solicit or negotiate insurance (and perform incidental activities) in any state for which a producer pays that state's licensing fee for any line(s) of insurance for which the producer is licensed in the home state. NARAB membership is not mandatory for producers.

The law preserves the rights of a state pertaining to resident licensing and CE, the supervision and enforcement of conduct, and disciplinary actions for nonresident producers; and it leaves a state's full range of authorities for resident producers intact. Model #218 also includes important disclosures to the states, addresses business entity licensing, and protects state revenues.

Through the efforts of the Producer Licensing (EX) Task Force and the Producer Licensing (EX) Working Group, the NAIC monitors state compliance with reciprocity guidelines. The NAIC also set a goal to create uniform licensing practices. The Working Group has adopted a number of Uniform Licensing Standards and guidelines, and it continues to strive toward a more efficient licensing system among the states.

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**National Insurance Producer Registry**

~~The NAIC has long advocated for increased use of technology to streamline licensing processes. In 1996, the NAIC collaborated with industry to create the Insurance Regulatory Information Network (IRIN) as a nonprofit affiliate of the NAIC. In 1999, the organization changed its name to the National Insurance Producer Registry (NIPR). The purpose of the NIPR is to work with the states and the NAIC to re-engineer, streamline, and make more uniform the producer licensing process for the benefit of state insurance regulators, the insurance industry, and consumers.~~

In 1994, a key component of the NAIC's strategic plan was to create the tools needed to improve the effectiveness and efficiency of state licensing processes. In partnership with state regulators and industry stakeholders, it was proposed to create a national network to support regulators in overseeing and licensing producers, while also providing companies with a database to help them meet regulatory requirements. As a result, a new entity was formed as an affiliate of the NAIC. The Insurance Regulatory Information Network (IRIN), later renamed National Insurance Producer Registry (NIPR), was a public-private effort, officially incorporated in October 1996. The objective was to build a uniform producer licensing system to deliver a cost-effective, streamlined process.

NIPR worked with the NAIC to develop and implement: 1) the Producer Database (PDB), which includes licensing information from 50 states, ~~Washington, DC and Puerto Rico,~~ the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands, utilized by the industry for licensing and appointment information; and 2) the State Producer Licensing Database (SPLD) for use by state insurance regulators.

~~The states use NIPR to link state insurance departments with the entities they regulate. Applicants and licensees can transmit licensing applications, insurers can transmit appointments and terminations, and both can transmit other information to state insurance regulators in multiple states, thereby creating electronic solutions that are easy and efficient to use by the states and industry.~~

~~Additionally, using the subsequent launch of the Attachment Warehouse, an applicant who answers "yes" to any background question on the NAIC Uniform application can submit the required supporting documentation at the time he or she is applying for or renewing a license. The submission of a document to the Attachment Warehouse will trigger an email alert to the appropriate state(s) notifying the state(s) that supporting documentation has been submitted to fulfill document requirements pertaining to the "yes" answer on the background. The advantage to the producer and the state(s) is that the documentation can be sent to the Attachment Warehouse once, and all appropriate states will be notified and have the ability to view, download or print the document. The Attachment Warehouse also allows a producer to meet the requirements fromof the states to report and submit documentation related to any regulatory action taken against him/her. This enables the producer to meet this regulatory obligation quickly in order toto comply with the typical state requirement for producers to report an action within 30 days. The third feature allows Additional Licensing Documents (ALD) to be submitted to the state insurance departments for any pending uniform application/renewal. Through the use ofUsing the Attachment Warehouse, all states in which the producer is licensed are notified with an email alert and have access to the document.~~

NIPR offers two primary product lines: ~~producer l~~Licensing and ~~c~~Compliance ~~monitoring~~Management. The producer licensing products are managed through the Gateway, an electronic platform that facilitates the exchange of producer information between state insurance regulators and the entities they oversee. The aim is to streamline communication and enable the rapid distribution of information. This includes licensing applications and renewals, appointments and terminations, contact change requests, ~~and~~ the attachment warehouse, and other credentialing products. For compliance monitoring, NIPR uses the Producer Database (PDB), a centralized hub for producer licensing data, for the industry to track important details about licensed insurance professionals. These products include the detail report, company appointment report, and Alerts.

A complete list of jurisdictions using NIPR products and services is available at *www.nipr.com*. ~~The website has an updated list of the states that are making active use of NIPR electronic processing. (Product List by State)~~

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**Chapter 6**

**Prelicensing Education**

Prelicensing education is required in some states as a condition of licensure for resident insurance producers. Neither the *Producer Licensing Model Act* (#218) nor the Uniform Licensing Standards (ULS) ~~suggests that a~~require state~~s must~~ to ~~have~~ establish ~~a requirement~~ for prelicensing education. States that have a prelicensing education requirement should follow the uniform standards as adopted by the ~~Producer Licensing (EX) Working Group~~ Producer Licensing (D) Task Force .

The ULS set a minimum credit hour requirement for prelicensing education. ~~In 2010~~The~~, the Working Group~~Task Force was charged with reviewing this standard. ~~Updated information, if there are any c~~Changes to this standard, can be found on the ~~Working Group~~Task Force 's web page.

States that require prelicensing education shall require 20 credit hours of prelicensing education per major line of authority. The states must accept both classroom study and verifiable self-study, which includes both text and online courses. The ULS does not ~~have a~~ limit ~~on~~ the number of credits that can be obtained by self-study. The states shall independently determine the content requirements for prelicensing education. The ULS require that a state ~~have~~ establish a method ~~to~~ of verifying completion of prelicensing education, but no method is endorsed in the ULS. ~~they do not prescribe a method.~~

The ULS provide that a person who has completed a college degree in insurance shall be granted a waiver from all prelicensing education requirements. The ULS also provide ~~that~~ individuals holding certain professional designations approved by the state insurance department ~~should~~ shall be granted a waiver from the prelicensing education requirement. In 2008, the ULS were updated to indicate that the following list of designations be provided as ~~guidance~~ examples ~~for~~ of designations that would waive prelicensing education~~,~~. ~~but the~~ This list is not exhaustive:

Life: CEBS, ChFC, CIC, CFP, CLU, FLMI, LUTCF~~-~~

Health: RHU, CEBS, REBC, HIA

Property/Casualty (P/C): AAI, ARM, CIC, CPCU

Under both reciprocity standards and the ULS, no state shall require prelicensing education for nonresident applicants or nonresident producers who change their state of residency.

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## Chapter 8

## Testing Programs

### Introduction

The states have a responsibility to ensure that licensing examinations are fair, sound, valid and secure. Directors must consider how an exam is developed, who is involved in the development process, how the exam is offered and how its security is maintained. Nearly every state has contracted with an outside testing vendor to assist in examination development and administration. These ~~testing~~ vendors ~~employ~~ consult with test development experts and psychometricians to construct and evaluate examinations.

The primary purpose of a state examination and licensing program is to protect consumers. Examinations should be consistent across the states in difficulty level, content and subject matter. They should be uniformly administered and scored. Examinations should be psychometrically sound, using methods for setting and maintaining passing standards—i.e., cut scores—that are in accordance with testing industry best practices. They should use resources ~~such as~~like: 1) "Standards for Educational and Psychological Testing," developed jointly by the American Educational Research Association (AERA), American Psychological Association (APA) and National Council on Measurement in Education (NCME); and 2) the U.S. Equal Employment Opportunity Commission's (EEOC) Uniform Guidelines on Employee Selection Procedures (29 CFR 1607).

These resources allow states to provide consistency and uniformity in producer licensing.Through valid, reliable and legally defensible test development practices, candidates will have a fair and equitable opportunity to pass a~~n~~ state exam, regardless of which ~~state exam~~one they take. Ideally, pass rates should be consistent throughout the states; however, statistics from national examination administration have shown that ~~the~~ pass rates for examinations for the same line of insurance vary significantly among ~~the~~ states. Other variables may contribute to pass rates, such as state education systems, demographics, ~~the existence of a prelicensing education requirement, and~~ the quality of ~~such~~ prelicensing education, but the states should work with their test vendors to ~~be sure that they~~ eliminate any practices that do not measure the entry-level knowledge, duties and responsibilities of an insurance producer.

Different states take different approaches to the development and administration of producer license examinations. Some ~~of the~~ states exercise significant control over test development and review.~~:~~ ~~O~~others ~~states~~ rely almost entirely on outside experts. ~~In m~~Most ~~of the~~ states, ~~the state does~~do not pay any fee to a testing vendor, and the cost of test development and administration is passed ~~through~~ on to ~~the~~ test-takers. Most ~~of the~~ states reserve the right to preapprove any fees charged by testing vendors.

With ~~the~~ a state licensing system increasingly built on reciprocity, it is in the best interest of consumers, state insurance regulators, industry, producers, and prospective producers for state licensing directors to establish guidelines that promote efficiency and consistency ~~throughout~~ across the licensing process. Directors should also reduce or eliminate artificial barriers that ~~impede~~ prevent qualified applicants from obtaining a license.

The purpose of this chapter is to recommend best practices for the states in testing administration in the following areas:

1. Test development and review.
2. Test administration.
3. Test results.
4. Expectations for test vendors.

This chapter was developed with assistance from insurance test vendors, industry representatives, education providers, and state insurance regulators.

### *Producer Licensing Model Act* Guidelines on Examinations

Section 5 of the *Producer Licensing Model Act* (#218) contains guidance for administering licensing examinations. Under Section 5, ~~all~~ residents are expected to complete a written examination unless exempt pursuant to Section 9, which should include the following:

1. The entry-level knowledge required for an individual concerning the lines of authority (LOAs) for which the application is made.
2. The duties and responsibilities of an insurance producer.
3. The applicable insurance laws and regulations of the state.

Section 5 grants the insurance commissioner authority to hire an outside testing service to administer examinations and impose nonrefundable examination fees.

Model #218 contains several exemptions from prelicensing education and examination requirements. An individual who is licensed as a nonresident in a state and who moves into that state, or an individual who moves from his or her home state to another state and seeks a resident license, is not required to complete an examination for the LOA(s) ~~previously~~ already actively held in the prior resident state as long as application is made within 90 days of the change in residence and the prior resident state indicates that the producer was licensed in good standing. Verification shall be done via the State Producer Licensing Database (SPLD). In this situation, a nonresident state should never impose prelicensing education or examination requirements.

The Uniform Licensing Standards (ULS) provide that states do not have to require examinations ~~are not generally required~~ for limited lines, but they are permited ~~it is acceptable~~ to require examinations for areas ~~such as~~ like crop and surety. States requiring testing for crop may waive it upon verification of passing the Unites States Department of Agriculture's (USDA) Risk Management Agency (RMA) required basic competency test. No state shall require additional pre-licensing education or testing for nonresident applicants or non-resident producers who change their state of residency.

Model #218 ~~leaves~~ provide states with discretion over test development and administration ~~to the discretion of the individual states.~~ Section 5(A) of the ~~M~~model ~~#218~~ requires, ~~"[a] resident individual applying for an insurance producer license shall~~ applicants to pass a written examination,~~"~~ and the examination is required to ~~must~~ test the knowledge of the ~~individual~~ applicant in the following three areas:

1. The specific LOAs for which the application is made.
2. The entry-level duties and responsibilities of an insurance producer.
3. The applicable insurance laws and regulations of the state.

Beyond these broad subject matter categories, Section 5 requires the state insurance commissioner to prescribe the rules and regulations governing the manner in which ~~states that~~ such tests ~~"shall be~~ are developed and conducted ~~under rules and regulations prescribed by the insurance commissioner~~.~~"~~

~~In order to~~To provide more uniformity in state licensing practices, the 2018~~2~~ revised ULS for Exam Content or Subject Area and Testing Administration Standards establishes as the uniform standard ~~implementation of~~ the ~~"~~Exam Content and Testing Administration Recommended Best Practices found in Chapter 8 of the NAIC *State Licensing Handbook*~~"~~ ~~as the uniform standard~~.

**Test Development and Review**

Test development experts ~~believe~~ recommend that licensing examinations ~~should~~ measure the minimum competency required for a candidate to perform at an entry level. Therefore, ~~test~~ exam content and curriculum development should be focused on assessing ~~whether~~ a candidate demonstration~~s~~ of sufficient knowledge to pass an examination that is appropriately targeted to an entry-level producer.

The examination should not dictate the curriculum that an entry-level insurance producer should master. Instead, the test content should be developed using the steps outlined below. Examinations and curriculums should be updated to regularly reflect ~~any~~ changes in insurance laws, regulations or industry practice. An online candidate guide should be available and provide detailed testing and licensing procedures, as well as content outlines with cross-references to the curriculum.

~~Input from t~~Trainers who conduct test preparation courses may assist in the development of the curriculum and the exam content outline; however, in some state~~s insurance regulators believe it is not appropriate to invite these trainers d~~to not participate in reviewing final examination questions. Education providers who do not offer prelicensing education courses (such as continuing education [CE] providers) are sometimes used during test development.

There are ~~generally two~~ different approaches to examination construction. ~~A~~

1. The bank-based test generates individual examinations from a large bank of items.

2. The~~A~~ form-based examination ~~will~~ consists of a specified set of predesigned test forms that are rotated.

3. The Linear-on-the-fly testing, often referred to as LOFT. Is a method including traditional linear fixed-form delivery and computerized adaptive testing in an attempt to reduce item exposure and enhance test security.

The ~~states~~ above~~use~~ ~~both~~ methods, and ~~both~~ are psychometrically acceptable. Although contracted outside experts play a major role in test development in most jurisdictions, the state should have a regular process and procedures for developing and reviewing licensing examinations to ensure that those examinations are properly focused on the minimum competencies required of an entry-level producer. Some items that should be included in the plan ~~include~~are:

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1. Procedures to ensure that a job analysis survey that includes input from state insurance regulators and the industry is conducted at regular intervals to determine the requirements and work performed by an entry-level insurance producer.
2. Regular, ongoing review and assessment of producer licensing examinations in the ~~event~~ context of legislative or regulatory changes that could affect the accuracy of exam content.
3. An annual review of the examination development process conducted with the state and the testing vendor.
4. Depending on test volume, ~~test~~ producer performance, and the need for content changes, either an annual, or at least biannual, substantive review of the examination and the psychometric properties of the test. These efforts should include the involvement of content or test development professionals, department personnel and industry representatives, including recent and experienced~~, entry level~~ producers.
5. A fair and valid state-based test should incorporate knowledge, skills and abilities that measure state-specific and national expertise. This balance will shift depending on the subject matter. For example, life insurance laws and regulations tend to be more similar among the states, while health insurance standards can vary widely.
6. If the state collects demographic data, such data~~it~~ should be reviewed annually.

**Developing the Questions~~e~~**

Developing a valid and sound bank of test questions, often called "items," is perhaps the most critical piece of any testing program. The items need to be at ~~the~~ an appropriate level of difficulty and readability to test for entry level candidates. Items should be relevant to the profession and effective in evaluating whether the person taking the exam possesses the knowledge, skills and abilities critical to competently performing the job and safely practicing in the profession. To create this balance, most ~~of the~~ states use a combination of local subject matter experts (SMEs) and content or test development professionals. The local panel should include new and experienced producers to help establish ~~such a~~ the proper balance.

Using multiple item writers to develop test content is a common practice, but it can lead to variation in test item style, format and difficulty. Developing a style guide with templates, development standards and rules can go a long way in improving item consistency, format and variety. Content development training can ensure that writers have the tools they need to develop credible, legally defensible items and templates that can be leveraged to create multiple variations of the same question.

**Passing Score vs. Pass Rate**

A passing score, sometimes called a "cut score," is the minimum score one needs to achieve in order to pass the exam. The "pass rate" is the percentage of candidates who ~~actually~~ pass ~~the exam~~. The test development process will consider data from actual tests and data from reviewers rating the items and exams in evaluating the cut score.

In some ~~of the~~ states, ~~the~~ cut scores are arbitrarily established by rule or regulation: ~~.~~ ~~T~~this is not a valid testing practice. Cut scores should be based on data collected through the test-development process. Regulatory licensing exams typically target a level referred to as "minimum" competency, rather than "average" competency. Licensing examinations try to determine who has the minimum competency to safely practice in ~~a~~ the profession without compromising the health and safety of the public. An arbitrary cut score, ~~which is the practice in some of the states~~ by contrast, tends to focus on ~~the~~ average, rather than minimum, competency. Thus, qualified candidates could be unjustly cut because they fall below the average, not because their competency below an ~~is un~~acceptable level.

**Exam Scoring**

States typically administer exams using one of three structures. Some ~~of the~~ states administer a one-part or one-score exam, while others administer two-part exams. In ~~the~~ a one-part exam, general product knowledge and state-specific content are scored together. In the states with a two-part exam, the candidate must separately pass both the general product knowledge exam and the state-specific exam ~~in order~~ to be eligible to apply for a license for the LOA requested. A third variation is to require the first-time test-taker to pass an exam on state-specific insurance laws and regulations once: ~~.~~ ~~A~~all additional LOAs are tested on general product knowledge only.

Preliminary review of pass rates indicates a tendency for more candidates to fail in ~~the~~ states that require two-part exams. There is no evidence that two-part exams increase consumer protections or that ~~the~~ states that administer one-

part exams license producers who do not know applicable state law. The states are encouraged to move to one-part exams to afford ~~allow for more~~ a greater rate of success among candidates without jeopardizing consumer protections.

**Exam Content**

As of May 2013, ~~the~~ states have no standard exam curriculum. The NAIC is encouraging more uniform approaches by ~~considering~~ treating the best practices for testing programs listed at the end of this chapter to be standards ~~for~~ that all jurisdictions ~~to~~ should work toward. ~~The Producer Licensing (EX) Task Force formed a subgroup of five states to develop a draft national content outline using the life and annuity LOA as a pilot. The national content outline provides guidance for entry-level subject matter that the states should test for, as well as information that will assist candidates in identifying relevant knowledge to study in preparation for the exam.~~

Some experts have recommended that examinations ~~should~~ be constructed with the following considerations in mind:

1. The states should not target examinations to an artificially set passing score. A state should construct ~~determine whether~~ its test with the goal of~~is focused on~~ assessing the knowledge needed by potential new producers, and only applicants who lack that level of knowledge should fail. ~~The s~~States should use legally defensible, recognized methodology when establishing a cut score.

2. The editing and review process used ~~P~~prior to releasing items into an exam form~~, the editing and review process employed~~ is critical. This editing process should include the psychometric evaluation of the cognitive level of the items and the reading level of the items, as well as such editorial issues as grammar, sensitivity and style. Psychometric editing is best performed by test development professionals, not state SMEs or item writers. Individuals trained in the complexity of psychometric editing evaluate items in a different, critical light than SMEs or item writers. ~~It is critical,~~ Hhowever, ~~to have~~ all final items must be reviewed and approved by state and national SMEs in ~~the given~~each field for accuracy and relevancy.

3. Each examination should consist of pre-test questions that are being evaluated for performance and questions that previously have been evaluated (pre-tested) and determined to be statistically effective. Each candidate's score should be based only on ~~the previously~~ pre-tested and approved questions. Any time used to respond to pre-test items should not be counted against ~~the~~ test-takers, and responses to pre-test items should not be calculated in ~~the~~ test-taker's score. Pre-test items should not be used as scored items until they have been statistically proven to be effective. T~~he t~~est questions for any new examination should be chosen from the pool of test questions to properly represent the subject-matter outline of the examination.

4. Reports regarding exam pass rates, candidate demographics when collected, and the number of exams administered should be made available to the public. Reports should include first-time pass success by ~~subject area~~exam and separated between in-person vs remote testing.~~.~~ Whenever possible, this information should be tracked by, and be made available to, each education provider so they may evaluate their programs and instructors and ~~be provided with~~ receive the data needed for course development. ~~The s~~States may ask for, but generally cannot require, information on candidate population, gender, ethnicity, education level and income level. When candidate demographics are collected, reports should include the percentage and number of examinees who passed the examination by race, ethnicity, gender, education level and native language. This information is necessary for the selection of future test questions, and it will aid in ~~making~~ improving testing transparen~~t~~cy and the assessment~~ing~~ of whether differences in test scores are correlated with ~~relevant~~ demographic factors.

5. A state advisory committee consisting of state insurance regulators and the industry, including, where possible, recently licensed producers, should annually or~~, if changes are not needed every year,~~ at least ~~biannually~~ biennially work with the testing vendor to review the questions on each examination form or bank of items for substantive and psychometric requirements. During the examination review process, an advisory committee should ~~Adjustments should be made to the examination to~~ eliminate ~~any~~ from the exam questions that ~~might~~ may be inaccurate or unclear, that ~~might~~ may test subject matter ~~that is~~ beyond what a new producer should know, or that exhibit unsatisfactory psychometric properties.

   ~~6.~~ 6. Licensing examinations should be reviewed at least annually. However, if during any rolling 12-month period, a licensing examination exhibits uncharacteristically high (above 80%) or low (below 60%) pass rates, ~~such as less than 60% or~~

more than 80%; unexplained fluctuations in testing volume; or other significant deviations, that examination should be reviewed immediately.

A state testing program should include statistical analysis of test items in the field and gather feedback on the candidate performance on the individual items. The most obvious and critical use of this information is to ensure that exams are equivalent and to evaluate the accuracy with which items differentiate between candidates who are minimally qualified and from candidates who are not. The psychometric review can result in the continued use of items, the modification of items, or the deletion of items from the bank.

A professional test vendor should use a comprehensive strategy for developing test items and ensuring measurement of the knowledge, skills and abilities necessary for initial insurance licensees to perform their jobs effectively. The steps may include:

1. Conducting a committee-based job analysis.
2. Developing content specifications and weightings.
3. Developing items.
4. Editing and reviewing items with SMEs to ensure that items meet the required criteria.
5. Obtaining item difficulty (e.g., Angoff method) estimates to establish a passing score.
6. Developing item sampling groups to structure each examination.
7. Creating equivalent forms.

**Test Development Deliverables**

A state licensing director should expect to receive the following items to ensure that the testing vendor has provided all items necessary to administer a successful testing program:

1. Finalized task and knowledge statements reflecting the requirements of each licensed insurance position.
2. Content specifications for each licensing examination.
3. A set of approved, relevant and important items for use on each licensing examination.
4. A list of references used to develop the test items.
5. Candidate Information Bulletins (CIBs).
6. A technical report describing the procedures used and results obtained from the test development process for each licensing examination.

**Candidate Information Bulletin**

A CIB should describe the examinations, examination policies and procedures for in-person vs remote testing, and the consequences of violating security procedures. A testing vendor should be capable of making changes to the information contained within the CIB during any contract year at the state's request.

The CIB should be available at no charge to candidates, trainers and insurers in hard copy ordifferent formats. in electronic format via the internet. The state licensing director should consider including the following topics in the CIB:

1. How to contact the testing vendor.
2. Requirements for taking an examination.
3. How to apply for an examination, including receiving state authorization of eligibility from the state, prelicensing education, and background checks.
4. Links to current application forms.
5. How to obtain current forms in hard copy, if so available in hard copy.
6. Examination fees.
7. Scheduling procedures.
8. The content outline and format of the examination.
9. Supplies provided at the test center.
10. The time limit for the examination.
11. The scoring system.
12. Security procedures.

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13. Examination process and procedures.
14. Appropriate examination-taking strategies (e.g., "There is no penalty for incorrect answers, so be sure to answer every question.").
15. Appropriate use of scratch paper, calculators, and/or other support material.
16. ~~Sample questions~~Practice exams designed to help the candidate become familiar with computer-based testing.
17. Specific information about taking the test on the computer.
18. List of approved reference materials.
19. List of test centers, alternative test centers, and driving directions to each.
20. Procedures for requesting special accommodation.
21. Examination registration forms.
22. Licensing requirements and procedures.
23. Refund policies.
24. Holiday or weather-related test center closures.
25. Instructions about how to contact the state insurance department.

A state should approve each CIB before it is published. The licensing director should work with the vendor to set a timeline that will allow for final publication of an updated CIB in advance of the expiration of the CIB prior edition ~~of the CIB~~. Test preparation trainers should receive the new edition ~~should be provided to test preparation trainers~~ at least six weeks in advance of implementation so that training materials can be updated.

**Technology Issues**

Each states ~~A~~ licensing director should consult with the state's information technology (IT) staff to ensure that the testing vendor can deliver data to the state insurance department. This is critical when a state changes testing vendors or~~. This is also critical~~ if the state directs a vendor to send data to a ~~different~~ location other than the state insurance department. Any transition should include a testing phase for hardware, software, and state insurance department staff.

The state and the testing vendor should jointly agree on a timeline for introducing new or updated examinations. State IT staff also should be consulted.

**Legal Defensibility**

Items developed must also be legally defensible to protect the state from liability in ~~the event of~~ a legal challenge. ~~To protect the state from liability, e~~Each exam should be critically reviewed from a content and psychometric perspective to ensure that the exam was developed according to recognized standards. Validation procedures for licensing examinations should be designed to comply with content validation requirements of the EEOC's Uniform Guidelines on Employee Selection Procedures (29 CFR 1607).

States should require testing vendors to follow ~~and document~~ standardized methods and document their use. ~~This should~~ including ~~e~~ suitable~~appropriate~~ test development personnel in the process. Using ~~the~~ appropriate, credentialed professionals is critical, as ~~there are multiple steps involved in~~ the test development process involves multiple steps, and various methodologies ~~that~~ can be used for each step. State licensing directors should discuss all options with qualified professionals.

**Vendor Responsibilities**

Test vendors should be able to meet minimum guidelines for sufficient availability, facilities, personnel and openness ~~in terms~~ of providing information related to their operations.

The states, and not the test vendors, must be responsible for all examination content and content outlines. The vendor should provide accessible information regarding the registration system through the internet, toll-free telephone numbers, email, online automated messaging processes, interactive voice response, fax, and other available technologies. ~~The a~~Available information should ~~include permitting~~ allow candidates to view exam test dates and access forms and content guidelines without requiring prior payment and scheduling of an exam.

The vendor should promptly provide the state with all pertinent information, including prompt notification of any candidate complaints, changes to test administration, conflicts at examination test sites, or other information requested or required by the state.

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The vendor should provide quality, accessible facilities, with an established system of examination site supervision that ensures ~~that~~ competent site administrators are available to consistently provide accurate information to applicants.

Where a vendor operates test sites in multiple states, the vendor should permit any applicant to take a state's examination in another state, under the same conditions that would apply if the exam were taken at an in-state location.

Vendors should be required, ~~on an ongoing basis,~~ to regularly collect ~~the~~ data on customer satisfaction and, if directed by the state, to make those data available to state insurance regulators, the industry, and the public.

**Test Administration**

The testing process should be fair and accessible for all candidates. A state should consider including the following elements below in its licensing process to ensure that applicants have equal access to examinations.

*Secure Administration*

The security of the ~~test~~ exam ~~center network~~ is essential ~~important in~~ to maintaining the integrity of a test. A vendor should be equipped with adequate security features and qualified ~~test center~~exam administrators. Each proctor should be trained and tested on his or her ability to supervise exams. A vendor should have systems in place to ensure the fair, consistent and even administration of the exam ~~in every location~~. A vendor should also have a method to detect attempts to record questions. For example, a vendor should track multiple examination attempts by individuals to assess if the candidate is intentionally failing the exam so it can be repeated. A vendor should be required to notify the state immediately if the vendor suspects that the integrity of an examination has been compromised.

~~*Test Locations and*~~ *Registration and Testing*

Test registration should be available online or by telephone and allow for next day testing when space is available. A state should consider tracking telephone hold and wait times to monitor how long callers wait. State guidelines should provide flexible means for payment of fees for testing, fingerprinting and other licensing. States should consider methods that facilitate payment by companies.

*In-person Testing*

Testing sites ~~locations~~ should be ~~set up~~located to ~~provide~~ maximize flexibility and convenience. Realizing that the states all have different geographic challenges and diverse population density, a state should consider, where possible, requiring the following elements:

1. Testing should be made available at locations convenient to residents of all areas of the state.
2. Test locations should provide enough testing capacity so a candidate can test at the desired location within two to five business days of registration.
3. Exam site hours should include evening and weekend hours.
4. Test vendors should provide regular reports, as required by the state, detailing site usage and availability data.
5. ~~1. Test registration should be available online or by telephone and allow for next day testing when space is available. A state should consider tracking telephone hold and wait times to monitor how long callers wait.~~
6. ~~State guidelines should provide for flexible means for payment of fees for testing, fingerprinting and other licensing. States should consider methods that facilitate payment by companies.~~

*Remote Testing*

Remote testing may allow~~s~~ candidates to take the exam anytime and anywhere, providing a convenient alternative to traditional in-person test sites. Allows greater accessibility to the insurance industry especially in rural areas where the nearest in-person test site maybe two or more hours away. Remote testing offers the same support as in-person test sites, and provides candidates with a flexible, comfortable, and secure test experience.

1. Procedures for conducting a system check of the candidate's computer and internet service are sufficient.
2. The installation of ~~any~~necessary software to facilitate the delivery of the exam.
3. Conduct a comprehensive security check including verifying the identity of the candidate.
4. Candidates must be in a distraction free environment, where they can complete the exam unassisted in a

secure environment.
5. Exams are continuously monitored by video and audio recording similar to in-person test sites as well as AI-enhanced monitoring proctoring.
6. Exam hours should include evening and weekend hours.
7. Testing vendors should establish procedures that analyze post- exam data for patterns of suspicious activity.

*Disabilities*

A state should require a vendor to develop a testing system that accommodates the physically impaired that is not related to a testing candidate's knowledge of insurance. ~~Disablilities~~Disabilities of ~~V~~visually-impaired and hearing-impaired persons should be accommodated throughout all steps of the licensing process, pursuant to the national standards set by the federal Americans with Disabilities Act (ADA).

*Examinations in Languages Other Than English*

In recent years. ~~A~~a number of states have ~~determined~~ begun ~~to offer~~offering ~~the~~ producer licensing exams in a language other than English (typically Spanish) ~~in recent years, and this trend appears to be growing~~. The decision to offer ~~the~~ exams in other than English may turn on several factors, including state demographics and testing provider resources.

Providing the exam in other than English may be tool that increase access to otherwise qualified applicants from diverse communities. Some industry ~~experts~~experts: however, ~~suggest~~ have cautioned of risks associated with~~about~~ using translated or interpreted exams. ~~The m~~The exam ~~M~~material may not directly translate into terms with equivalent ~~terms or~~ meaning. Cultural biases might cause incorrect interpretation of ~~a meaning~~terms. Some experts recommend that tests ~~should~~ be developed and administered in English, especially if other materials, like insurance contracts licensed professionals will be selling, that are only written in English necessary to ~~perform~~ the understanding of ~~job~~ producer professional duties ~~for the profession, such as contracts,~~ are in English.

State licensing directors should review state law and consult with legal counsel about the appropriateness of offering examinations in a foreign language.

**Reporting Examination Results**

State licensing procedures should include guidelines that facilitate the prompt issuance of licenses once an applicant passes a test. Elements might include:

1. Pass/fail notices should be issued at exam sites upon completion of the exam. ~~If an a~~Applicants ~~has~~ having not achieved a passing score, ~~the applicant~~ should receive immediate notification of failure. States vary as to whether successful completion is reported with a precise score or merely an indication that the candidate passed the exam. When a candidate does not pass the exam, the state should provide the precise score and the percentage of questions in each subject area that the applicant answered incorrectly.

~~2. If a state issues a paper license, and if it has been predetermined that an applicant has met all requirements necessary for licensure, including any required fingerprint report, a license should be issued at the exam site, or within 48 hours of completing all necessary requirements.~~

~~3. The state should send an email or other timely communication to a candidate to whom a license has been issued outside the test site or provide information to applicants as to how to check online.~~

~~4. Within 24 hours of license issuance, the new licensee's information should be added to the state's database, and the updated status should be sent to the National Insurance Producer Registry (NIPR).~~

~~5.~~2. The states should work with their vendors to report aggregate results in a way that is more consistent ~~uniform~~ with reporting done by other states.

~~6.~~3. First-time pass rates should be maintained and made available to the public. First-time pass rates are defined as the percentage of candidates who pass the whole test the first time.

~~7. In performing background checks, the use of an electronic process should be required whenever possible.~~

~~8. In those states requiring fingerprints, where possible, exam sites should have the capability to collect electronic fingerprints.~~

**Retesting or Notice of Failure**

A state licensing plan should include a method to facilitate prompt retesting of applicants who have failed a test. The "non-passing" notice should break scores out by each subject area. If the candidate requests to make another attempt, an examination should be made available within a reasonable time ~~period~~.

**Producer Exam Content and Testing Administration Recommended Best Practices for State Insurance Regulators**

- States should use accepted psychometric methods, including job analysis, to determine whether ~~if the~~ examination content falls within the content domain that a minimally competent candidate of that specific line of authority tested would be expected to know.
- States should set passing scores—cut scores—and difficulty level using psychometric methods and input frp appropriate SMEs ~~based~~ to determine ~~on~~ what an entry-level producer needs to know.
- States are encouraged to move to one-part exams to allow for ~~more~~ greater success among candidates without jeopardizing consumer protections.
- States should require the test vendor, or other entity responsible for test development, to document the process for ensuring quality control and validity of the examination, including psychometric review and editing and analysis of item bias or cultural and gender sensitivity.
- To allow for meaningful comparison, all jurisdictions should define first-time pass rate as the percentage of candidates who pass the whole test the first time.
- At least annually, reports regarding exam pass rates, candidate demographics when collected, and number of exams administered should be made available to the public. Reports should include first-time pass success and average scoring by subject area. Whenever possible, ~~the~~ such reports should be available to the public by th education provider ~~and provided to them~~.
- A state advisory committee consisting of state insurance regulators and the industry—including, where possible, recently licensed producers—should annually work with the testing vendor to review the questions on each examination form for substantive and psychometric requirements. If, during any other time, any examination results yield significant unexplained deviations, the examination should be reviewed.
- States should work with testing vendors to approve and issue CIBs that acuratley describe the examinations and examination policies and procedures, and provide sufficient examination content outline and study references for the candidate to prepare for the examination. Prelicensing education providers should receive updated editions of the CIB/content outline at least six weeks in advance of implementation so that training materials can be updated.
- Testing should be made available at locations reasonably convenient to residents of all areas of the state, with registration available online or by telephone and the ability for a candidate to schedule testing within two (2) to five (5) business days of registration.
- Pass/fail notices should be issued at exam sites upon completion of the exam. Fail notices should break out scores by subject area. The state should provide a method to facilitate prompt retesting, while also allowing a reasonable time for candidates to review and prepare for retest.
- States should deliver exams in a secure test center network that employs qualified test proctors.
- States should set clear performance standards for test vendors and require accountability.

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**Chapter 9**

**Lines of Insurance**

**The Major Lines**

A line of authority (LOA) is a general subject area of insurance that a producer can be licensed to sell. The *Producer Licensing Model Act* (#218) identifies and defines seven LOAs; however, the Uniform Licensing Standards (ULS) set forth six lines that are considered major lines of authority, as well as certain core limited lines. Additionally, the ULS set forth standards for non-core limited lines. States should review all other lines of insurance and consider eliminating them in an effort to become compliant with the ULS.[1] Uniform adoption of the major lines is essential to fully implement NAIC licensing reforms.

The six major LOAs are defined in Model #218 as follows:

1. Life – Insurance coverage on human lives, including benefits of endowment and annuities, and may include benefits in the event of death or dismemberment by accident and benefits for disability income.
2. Accident and health or sickness – Insurance coverage for sickness, bodily injury or accidental death, and may include benefits for disability income.
3. Property – Insurance coverage for the direct or consequential loss or damage to property of every kind.
4. Casualty – Insurance coverage against legal liability, including that for death, injury or disability, or damage to real or personal property.
5. Variable life and variable annuity – Insurance coverage provided under variable life insurance contracts and variable annuities.
6. Personal lines – Property/Ceasualty (P/C) insurance coverage sold to individuals and families for primarily noncommercial purposes.

Because the ULS also require that each major line be available individually, the states should provide individual examinations for each of the major lines except variable life and variable annuity. It is acceptable for a state to also offer combined exams. The ULS contemplate that each state will require an examination for residents to qualify for all major lines. States should give examinations only to residents, not nonresidents.

While the ULS do not specifically prohibit an examination for variable life and variable annuity products, most states do not require an examination. This LOA is usually granted if the applicant holds a life LOA and has successfully completed the Financial Industry Regulatory Authority (FINRA), formerly known as the National Association of Securities Dealers (NASD), examinations necessary to obtain a state securities license in that state. In most cases, this means successful completion of the FINRA Series 6 and/or Series 7, according to the specific state's requirements, and/or Series 63 exams.

The Producer Licensing (DEX) Working GroupTask Force has not specifically stated that states should not require an active state securities license of residents or nonresidents as a condition of granting the variable life and variable annuity products LOA. The ULS do contemplate that no such requirement shall be imposed. For nonresident applicants, it is not appropriate to pend a request for the variable life/annuity products LOA to verify existence of the underlying life LOA in the home state. If a proper request for licensure is received and the applicant is in good standing in the home state with the variable life and variable annuity LOA, the nonresident license should be granted. If a state cannot verify through the State Producer Licensing Database (SPLD) that the applicant holds a variable authority, it is permissible to pend the application and contact the applicant's home state to verify the variable authority.

Information regarding an applicant's status as to securities registration and securities examinations passed currently are easily accessible on FINRA's public BrokerCheck website under "Check Out Brokers & Advisors" at https://brokercheck.finra.org/*www.finra.org/InvestorInformation/index.htm*. Information available includes: employment history, states where the individual is securities licensed, securities examinations passed, and formal and final disciplinary history. To obtain

[1] Model #218 does not address title insurance, which is considered a major line by some of the states and a limited line by others.

Central Registration Depository (CRD) information regarding pending complaints and unresolved cases, a state insurance department must contact its state's securities regulator.

**Recommended Best Practices for State Insurance Regulators**

- Adopt the major lines and the definitions exactly as stated in Model #218, and provide separate testing for each line, except variable.
- Allow combined examinations, as appropriate.

**Limited Lines**

A limited line of insurance is a line of insurance that covers only a specific subject matter. Limited line licenses generally have simpler licensing requirements than those required by the major lines. Some states require an examination for credit insurance. For the other limited lines, some states require an examination, while some require only a simplified application process. In some states, a business entity is permitted to maintain a limited lines license on behalf of individuals who make the limited line of insurance available to its customers. Often, a limited line is adopted by regulation and not by statute.

Model #218 contains a specific definition for credit insurance and allows states to define other limited lines. The Working Group adopted definitions for specific "core" limited lines of insurance for producers, which have become part of the ULS. States are encouraged to adopt the definitions of those limited lines and review and eliminate as many non-uniform limited lines as possible. Model #218 requires the states to grant to a nonresident a nonresident limited line producer license with the same limited LOA as the license issued by the home state. Many states have adopted a special licensing category to accommodate this type of situation.

The core limited lines are:

1. Car rental insurance.
2. Credit insurance.
3. Crop insurance.
4. Travel insurance.

The ULS provide that examinations are not generally required for limited lines, but it is acceptable for examinations for areas such as crop and surety. States should give examinations only to residents, not nonresidents. The ULS specifically state that continuing education (CE) is required for only the major lines of insurance (see specifics for crop insurance).

In 2009, the Working Group was charged with reviewing limited line licensing issues, with particular focus on: 1) the establishment of a limited line that encompasses several insurance products where the business of insurance is ancillary to the business of the person offering the product; 2) the licensing requirements of individuals selling limited line products; and 3) the fingerprinting of individuals selling limited line insurance products. Throughout the year, the Working Group had discussions; however, no consensus was achieved. As a result, the Working Group reported to the Producer Licensing (EX) Task Force and requested further guidance on its charge. For 2010, the Working Group was asked to:

> Finalize the review of limited-line licensing issues, with particular focus on the following: 1) individually review the licensing requirements for each core limited line; 2) review other limited lines, and determine what licensing requirements should apply to them; and 3) determine if another "catch all" limited line was needed to address licensing requirements for insurance products not already encompassed within the list of limited lines.

Updates to the limited line charge may be obtained on the Producer Licensing Uniformity (~~EX~~D) Working Group's web page on the NAIC website.

The NAIC has adopted a specific resolution rejecting a prior request by industry to adopt a new limited line for term life insurance. The full text of the resolution is in the Appendices.

As part of its 2010 charges, the Working Group conducted a review of the ULS and adopted several amendments. Specifically related to this chapter, revisions were made to Standard 16 (Lines of Authority), Standard 33 (Definition of Core Limited Lines), Standard 34 (Travel), and Standard 37 (Non-Core Limited Lines).

**Recommended Best Practices for State Insurance Regulators**

- Allow resident and nonresident limited lines license applications to be filed electronically.
- Eliminate state-specific applications.
- To further reciprocity, report all limited lines licensees to the SPLD.
- Adopt the applicable revisions to the ULS related to limited lines.

### A. Limited Line of Car Rental Insurance

Under the ULS, car rental insurance is defined as:

> [I]nsurance offered, sold or solicited in connection with and incidental to the rental of rental cars for a period of [per state law], whether at the rental office or by pre-selection of coverage in master, corporate, group or individual agreements that (i) is non-transferable; (ii) applies only to the rental car that is the subject of the rental agreement; and (iii) is limited to the following kinds of insurance:
>
> (a) Personal accident insurance for renters and other rental car occupants, for accidental death or dismemberment, and for medical expenses resulting from an accident that occurs with the rental car during the rental period.
>
> (b) Liability insurance that provides protection to the renters and other authorized drivers of a rental car for liability arising from the operation or use of the rental car during the rental period.
>
> (c) Personal effects insurance that provides coverage to renters and other vehicle occupants for loss of, or damage to, personal effects in the rental car during the rental period.
>
> (d) Roadside assistance and emergency sickness protection insurance.
>
> (e) Any other coverage designated by the insurance commissioner.

States vary in their methods of supervising the sale of car rental insurance. In the states that require a license, there are generally three methods in use. The first is a registration requirement through submission of an application. The second is the successful completion of an exam and submission of an application. States should give examinations only to residents, not nonresidents. Under the third method, a car rental company registers with the state insurance department. The company holds the license and is responsible for supervising the training and testing of its counter agents. The company reports to the department and pays all fees.

### B. Limited Line of Credit Insurance

Model #218 defines limited lines credit insurance as:

> Credit life, credit disability, credit property, credit unemployment, involuntary unemployment, mortgage life, mortgage guaranty, mortgage disability, guaranteed automobile protection insurance or any other form of insurance offered in connection with an extension of credit that is limited to partially or wholly extinguishing that credit obligation and that is designated by the insurance commissioner as limited line credit insurance.

Credit insurance products are designed to protect the borrower against the risk of not being able to pay a debt. Credit life, disability and involuntary unemployment insurance are typical lines of coverage. These products are generally made available by the creditor at the time the loan transaction occurs. Because the insurance is purchased at the time the borrower completes the loan, policy and certificate forms, premium structures, and underwriting conditions are generally simpler than other limited lines of insurance.

Credit insurance is issued under individual and group policies. This allows market flexibility for different distribution systems and variations in product design to insure the different types of credit risks. If an individual enrolls customers under a group insurance policy, the individual must obtain a limited lines license if a commission is paid. Section 4(B)(2) of Model #218 provides an exception from licensing if no commission is paid to the enroller and the enroller does not engage in selling, soliciting or negotiating.

Section 6(D) of Model #218 provides that each insurer that sells, solicits or negotiates any form of limited line credit insurance shall provide its producers a program of instruction that may be approved by the insurance commissioner.

**Recommended Best Practices for State Insurance Regulators**

- A state should establish a method to verify that each credit insurer has established a program of instruction.

### C. Limited Line of Crop Insurance

Under the ULS, crop insurance is defined as:

> Insurance providing protection against damage to crops from unfavorable weather conditions, fire or lightning, flood, hail, insect infestation, disease, or other yield-reducing conditions or perils provided by the private insurance market, or that is subsidized by the Federal Crop Insurance Corporation (FCIC), including multi-peril crop insurance.

There are two types of crop insurance: multiple peril crop insurance (MPCI) and crop/hail insurance.

The federal government is involved with crop insurance because a single event, such as drought, often results in multiple losses. Automobile accidents or health problems are generally independent, random events that do not trigger multiple insurance losses. For crop insurance, multiple losses are the norm, rather than the exception. For many years, capital requirements to maintain adequate reserves to cover widespread losses were so high that commercial development of MPCI policies by companies was unrealistic. As a result, the federal government created a federally subsidized risk management program.

#### Multiple Peril Crop Insurance

An MPCI policy provides protection against crop losses from nearly all natural disasters, including: adverse weather conditions; fire; insects, but not damage due to insufficient or improper application of pest control measures; plant disease, but not damage due to insufficient or improper application of disease control measures; wildlife; earthquake; volcanic eruption; or failure of the irrigation water supply if due to an unavoidable cause of loss occurring within the insurance period.

MPCI is subsidized by the federal government and delivered by private insurance companies. The insurer's functions include hiring and training producers, paying for marketing and advertising, hiring and training loss adjusters, carrying out loss adjustment activity, billing and collecting premiums, processing and verifying applications, conducting actual production history reviews, processing and verifying acreage reports, paying claims, auditing and verifying claims data, paying uncollected premiums, and maintaining the necessary automated data processing infrastructure to communicate data with the Risk Management Agency (RMA) on a routine basis for all MPCI policies.

The MPCI policy is a contract between the producer and the insurance company, not with the federal government. However, a farmer cannot receive the federal subsidy attached to the program unless the insurance policy followed

the federal standards and rates. Like many insurance companies, crop insurance companies have reinsurance agreements to transfer risk to other private companies known as reinsurers. Unlike most other insurance lines, the private insurance companies also transfer some of the risk associated with the crop insurance program directly to the federal government.

There are many MPCI plan options available: yield-based, revenue-based, or a combination of both. The basic policy provisions for all these plans, as well as the rates, are set by the FCIC. A combination of commodity markets results and the U.S. Department of Agriculture (USDA) establish the maximum price for each crop each year for insurance purposes; i.e., the value of each bushel in the event of loss.

While the RMA controls pricing and policy forms, producer licensing and enforcement of proper sales practices are left to the states.

**Crop/Hail Insurance**

Crop/hail insurance is offered through companies licensed by state insurance departments. A private market has existed for crop/hail insurance for more than a century. Companies have developed stand-alone full coverage and deductible crop/hail policies, as well as companion policies that function very well in conjunction with the different MPCI plans that are offered at varying coverage levels. The premium rates for these crop/hail policies are determined by historical loss experience and are set by the companies.

**Continuing Education**

Subsequent to the adoption of the ULS, the Working Group considered and agreed that a CE requirement for crop insurance shall not be a violation of the uniform standards. Under federal law, insurance producers selling MPCI are required to attend CE classes each year.

### D. Limited Line of Surety

As part of the discussion of limited lines, the Working Group made the determination to remove surety as a limited line. Although this determination was made, it is understood that surety is considered a major line by some of the states and a limited line by others.

### E. Limited Line of Travel Insurance

Under the ULS, as revised Aug. 6, 2010, travel insurance is defined as:

> Insurance coverage for personal risks incidental to planned travel, including, but not limited to:
>
> 1. Interruption or cancellation of trip or event.
> 2. Loss of baggage or personal effects.
> 3. Damages to accommodations or rental vehicles.
> 4. Sickness, accident, disability or death occurring during travel.

Travel insurance does not include major medical plans, which provide comprehensive medical protection for travelers with trips lasting six months or longer, including, for example, those working overseas as ex-patriot or military personnel being deployed.

Standard 34 recognizes and sets the guidelines for the creation of an additional business entity licensing model under the travel limited line licensing structure. This structure creates the concept of a “travel retailer” in which the entity and a certain number of its employees may disseminate travel insurance under the direction of a responsible licensed producer. Said producer maintains responsibility for the training and conduct of any and all associated travel retailer(s).

**Recommended Best Practices for State Insurance Regulators**

- A state adding the travel limited line should do so in accordance with applicable ULS.

### F. Non-Core Limited Lines

After much discussion about the concept of "auxiliary" or "miscellaneous" lines, the Working Group formally adopted Standard 37 as a basis for any future addition of other non-core limited line. The standard states, in part, that:

A state is not required to implement any non-core limited line of authority for which a state does not already require a license or which is already encompassed within a major line of authority; however, the states should consider products where the nature of the insurance offered is incidental to the product being sold to be limited line insurance products. If a state offers non-core limited lines (such as pet insurance or legal expense insurance), it shall do so in accordance with the following licensing requirements. Individuals who sell, solicit or negotiate insurance, or who receive commission or compensation that is dependent on the placement of the insurance product, must obtain a limited line insurance producer license. The individual applicant must: 1) obtain the limited lines insurance producer license by submitting the appropriate application form and paying all applicable fees as set forth in applicable state law; and 2) receive a program of instruction or training subject to review by the insurance department.

~~No prelicensing or testing shall be required for the identified non-core limited lines insurance.~~

**Recommended Best Practices for State Insurance Regulators**

- No prelicensing or testing shall be required for the identified non-core limited lines insurance.

*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 10**
**Surplus Lines Producer Licenses**

In order to operate in a state, property/casualty (P/C) insurance companies are generally categorized in one of two ways. An admitted company obtains a certificate of authority to operate in a given state, and it is fully subject to and regulated by the laws of the state. Its policyholders are protected, at least to some extent, by the state's guaranty fund.

A nonadmitted company, otherwise known as a surplus lines company, has limited authority to operate in a state. These companies may be required to be eligible in a state, but they are subject to significantly less regulation. States allow surplus lines companies to operate because they recognize that certain types of insurance, or insurance at certain amounts, are not available from admitted companies. Generally, surplus lines companies are not subject to rate and policy form regulation, and their policyholders are not covered by state guaranty funds.

Under the Uniform Licensing Standards (ULS), a ~~producer~~ person or business entity who wishes to engage in the sale of surplus lines insurance (SLI) must first obtain a surplus lines producer license. Under the ULS, this is considered a license type and not a line of authority (LOA); however, in some states, it is treated as an LOA. The ULS require that a resident producer hold both property and casualty LOAs before an SLI producer license can be issued. Under the previous reciprocity provisions of the Gramm-Leach-Bliley Act (GLBA), surplus lines producers were entitled to reciprocal licensing if they were licensed for surplus lines and in good standing in the producer's home state. The NAIC uniform application is to be used for application as a surplus lines producer. Another disadvantage: Many states have shorter notice periods for non-renewal and cancellation of surplus lines policies or exempt surplus lines policies from notice requirements altogether.

Some states also require a resident producer placing SLI to complete an examination or post a bond. However, to comply with the reciprocity provisions of Section 8 of the *Producer Licensing Model Act* (#218), these requirements cannot be imposed on nonresidents. States cannot impose an additional continuing education (CE) requirement on nonresident SLI producers. Florida does require an exam for non-resident Surplus Lines applicants, but only if the resident state does not require an exam for a surplus lines license.

**The Nonadmitted and Reinsurance Reform Act**

The federal Nonadmitted and Reinsurance Reform Act (NRRA) was signed into law ~~by President Barack Obama~~ on July 21, 2010, as part of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5301. The NRRA set federal standards for the collection of surplus lines premium taxes, insurer eligibility, producer licensing, and commercial purchaser exemptions. Most of the provisions of the NRRA went into effect on July 21, 2011.

For licensing of surplus lines brokers, the most significant change was to limit the licensing requirements to only the home state of the insured. Specifically, to place a surplus lines multistate risk policy, the broker only needs to be licensed as a surplus line broker in the insured's home state, not in all of the states where the policy risk is located. ~~The NRRA defines the home state of the insured as "(i) the state in which an insured maintains its principal place of business or, in the case of an individual, the individual's principal residence; or (ii) if 100% of the premium of the insured risk is located out of the state referred to in clause (i), the state to which the greatest percentage of the insured's taxable premium for that insurance contract is located." The definition goes on to clarify that, with respect to affiliated groups, "[i]f more than one insured from an affiliated group are named insureds on a single non-admitted insurance contract, the term 'home state' means the home state, as determined pursuant to [clauses (i) and (ii) above], of the member of the affiliated group that has the largest percentage of premium attributed to it under such insurance contract."~~

~~The NRRA also prohibits a state from collecting fees relating to the licensing of a surplus lines broker unless the state participates in the NAIC's national insurance producer database for surplus lines broker licensure by July 21, 2012. Currently, all states accept applications and renewals for surplus lines broker licenses for individuals through the National Insurance Producer Registry (NIPR), and all but one state accept applications and renewals for surplus lines broker licenses for business entities.~~

**Resident Surplus Lines Licensing**

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As stated above, there is no uniform approach by states regarding the surplus lines license being a separate license type or a line of authority on the producer license. Regardless of the approach taken, a resident must hold a valid property/casualty producer license to qualify for the issuance of a surplus lines license. This underlying P&C license requirement is for both individuals and business entities. Some states require successfully passing a surplus lines exam to assure an individual is competent in the complexities of this type of insurance. To assist in the exam process, some state surplus lines associations may offer training materials or courses to assist with educating individuals. Additionally, some states have a bond requirement for surplus lines licensees. The bond amount requirement varies by state, and it may be required to be held by the individual licensee or may be allowed to be held by the licensed business entity for those individuals affiliated/associated with the entity. State regulators should be aware that applications for both the producer and surplus lines licenses cannot be submitted simultaneously through NIPR (the last submitted application will be rejected). The producer license must be issued by the state prior to the successful submission of the surplus lines application.

**Non-Resident Surplus Lines Licensing**

A non-resident who applies to state other than their resident state must hold both the underlying producer license AND the surplus lines license/line of authority in their resident state. Applicants for a non-resident surplus lines license are NOT required to obtain the underlying P&C producer license, although it is permissible to be issued both in the non-resident state if it is requested by the applicant. As stated above, states cannot require bonds for a non-resident surplus lines licensee to comply with the reciprocity provisions of Section 8 of the *Producer Licensing Model Act* (#218). Bonds are not typically required for non-residents. However, OH requires a bond for a non-resident agency license if the resident state does not issue surplus lines licenses/LOA to an agency. CA issues an agent license to an individual initially. In order to have broker authority, a $10,000 bond is required. CA requires a bond for a non-resident agency for a surplus lines license, but endorsed individuals are covered under said bond for surplus lines authority.

~~**Additional Post Licensure Requirements**~~

~~There may be additional administrative requirements placed upon ALL surplus lines licensees once coverage is placed to remain compliant with the laws and regulations of a state. Those additional requirements include but are not limited to:~~

~~1. Filing reports with state insurance departments or state stamping offices of placements made.~~

~~2. Collecting and paying surplus lines premium taxes.~~

~~3. Maintaining a record of all surplus lines placements made.~~

~~4. Providing the insured with a disclosure stating that the policy he or she has purchased is being issued by an insurer that is not licensed in the state, is not subject to the financial solvency regulation and enforcement that apply to the state's licensed insurers, and does not participate in any of the insurance guarantee funds created by the state's law.~~

~~5. Using a designated stamping office.~~

~~6. Including declaration or binder pages with the surplus lines tax filings.~~

~~7. Filing a report stating that no policies were written that are known as "zero reports," as discussed later in this section.~~

~~It is strongly suggested that licensees verify with state regulators what, if any, additional post licensure requirements must be followed to be compliant in the respective state.~~

~~**Recommended Best Practices for Insurance Regulators**~~

- ~~Per the ULS, issue the surplus lines license as a separate license type rather than a line of authority.~~
- ~~Require residents to successfully complete a surplus lines examination to demonstrate competency in this type of insurance.~~
- ~~Require resident applicants to hold a valid producer P&C producer license prior to issuing the surplus lines license.~~

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- Per the ULS, bonds for surplus lines licenses should ONLY be required of residents licensees.
- Non-resident surplus lines licensees are not required to hold the underlying producer P&C license but must have the surplus lines license in their resident state to qualify.
- Establish lines of communication and coordinate within the division/department between the producer licensing section and the section responsible for overseeing compliance with surplus lines laws/requirements and market practices.

**The Nonadmitted and Reinsurance Reform Act**

The federal Nonadmitted and Reinsurance Reform Act (NRRA) was signed into law by President Barack Obama on July 21, 2010, as part of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), 12 U.S.C. § 5301. The NRRA set federal standards for the collection of surplus lines premium taxes, insurer eligibility, producer licensing, and commercial purchaser exemptions. Most of the provisions of the NRRA went into effect on July 21, 2011.

For licensing of surplus lines brokers, the most significant change was to limit the licensing requirements to only the home state of the insured. Specifically, to place a surplus lines multistate risk policy, the broker only needs to be licensed as a surplus line broker in the insured's home state, not in all of the states where the policy risk is located. The NRRA defines the home state of the insured as "(i) the state in which an insured maintains its principal place of business or, in the case of an individual, the individual's principal residence; or (ii) if 100% of the premium of the insured risk is located out of the state referred to in clause (i), the state to which the greatest percentage of the insured's taxable premium for that insurance contract is located." The definition goes on to clarify that, with respect to affiliated groups, "[i]f more than one insured from an affiliated group are named insureds on a single non-admitted insurance contract, the term 'home state' means the home state, as determined pursuant to [clauses (i) and (ii) above], of the member of the affiliated group that has the largest percentage of premium attributed to it under such insurance contract."

The NRRA also prohibits a state from collecting fees relating to the licensing of a surplus lines broker unless the state participates in the NAIC's national insurance producer database for surplus lines broker licensure by July 21, 2012. Currently, all states accept applications and renewals for surplus lines broker licenses for individuals through the National Insurance Producer Registry (NIPR), and all but one state accept applications and renewals for surplus lines broker licenses for business entities.

**Surplus Lines Distribution Systems**

SLI is generally produced through one of two distribution systems. One, generally referred to as a retail distribution system, involves a single broker accessing the surplus lines company directly to place insurance. The second, generally referred to as a wholesale distribution system, involves a surplus lines broker that operates as an intermediary between a "retail agent" and a surplus lines company. In the retail distribution system, there is only one producer in a transaction, so that producer would need to conduct the diligent search of the admitted markets prior to accessing the surplus lines markets, unless there is some exception, such as a large commercial purchaser or an export list. In the wholesale distribution system, the diligent search is often conducted by the retail broker, who determines that there is no admitted market prior to contacting the surplus lines wholesale broker; however, some states have different requirements.

The vast majority of the states take the position that a broker conducting a diligent search would need a P/C agent's license because it is necessary to solicit insurance, take an application, and make a submission to an admitted company. Many states do not require a retail producer to obtain a surplus lines broker's license unless the broker is going to access the surplus lines companies directly. There are a couple of states that require a retailer to have a surplus lines license before using the services of a surplus lines wholesale broker.

**Diligent Search Requirements**

The vast majority of states require a "diligent search" of the admitted market to determine if there is an admitted carrier willing to write the risk, prior to accessing the surplus lines markets. A couple of states have abolished the diligent search requirement. Many states require that brokers search those admitted companies that are actually writing

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the coverages sought. If there is no admitted carrier willing to write the risk, the risk can be placed in the surplus lines markets. Many states require an affidavit to be completed documenting that the diligent effort was completed. Recently, a number of states have replaced the affidavit, which was sworn under penalty of perjury, with a report from the surplus lines licensee that the diligent search was conducted. Some states have also replaced the requirement that the affidavit, or report, be filed with the insurance department or Surplus Line Association (SLA) with a requirement that the report of the diligent search be maintained in the office of the broker and available for audit by the insurance department.

Many states specify that the diligent search can be conducted by the retail broker, commonly called producing broker, when a surplus lines wholesaler accesses the surplus lines markets. The retail broker has access to admitted markets. The retailer uses the services of a surplus lines wholesale broker only after the retail broker has determined that the admitted markets are not willing to underwrite the risk.

The most common diligent search standard requires declinations from three admitted carriers, but as many as five are required. Other states simply require the producing broker to make an effort, a reasonable effort or a good faith effort, to place the coverage in the admitted markets. A couple states require that the insurance not be procurable after a diligent effort has been made to place the coverage among a majority of insurers, but this standard has been called into question as unclear and impractical. A number of exceptions to the diligent search requirement exist in state law, and the NRRA implemented a national exception to the diligent search rules for insureds that qualify as exempt commercial purchasers (ECPs). Twenty two states have laws authorizing an "export list" of coverages that the insurance commissioner has determined are not generally available in the admitted markets. Coverages on the export list can be placed in the surplus lines market without a diligent search. In some states, the state insurance department is required to conduct an annual public hearing regarding the export list. The purpose of the hearing is to take testimony on the export list to determine whether any items should be added or removed.

The former NARAB (EX) Working Group updated the NAIC's standard for determining compliance with the GLBA's previous reciprocity provisions. In a report that was adopted by the NAIC in September 2009, the Working Group refined its approach to reciprocity relating to any underlying P/C licensing requirements for nonresident surplus lines producers. The Working Group determined that if a state requires the surplus lines producer to perform the diligent search of the admitted market, then the state may require the nonresident surplus lines producer to obtain an underlying nonresident P/C license in addition to a nonresident surplus lines license. However, the Working Group determined that a state may not require a nonresident surplus lines producer to also obtain a nonresident P/C license if they do not perform the diligent search. Many surplus lines producers do not perform diligent searches because the retailer has already conducted the diligent search, and the law does not require a second diligent search. In such instances, the surplus lines producer is not accessing the admitted market. Consequently, the Working Group determined that it was inconsistent with the previous GLBA reciprocity requirements to require an underlying P/C license for a surplus lines wholesale broker unless they are required by law to conduct a diligent search or conduct diligent searches in their agency.

The NRRA established a single ECP exemption from state diligent search requirements that is applicable in every state. As of July 21, 2011, a diligent search in the admitted market is not required to place a policy for an ECP if: 1) the broker has disclosed to the ECP that coverage may be available from the admitted market, which may provide greater protection with more regulatory oversight; and 2) the ECP has requested in writing that the broker procure/place such coverage with a surplus lines insurer.

An ECP is defined in the NRRA as a purchaser of commercial insurance that:
1) employs or retains a qualified risk manager to negotiate insurance coverage; 2) has paid aggregate nationwide commercial P/C insurance premiums in excess of $100,000 in the immediately preceding 12 months; and 3) meets at least one of the following criteria: (i) possesses a net worth in excess of $20 million (as adjusted for inflation); (ii) generates annual revenues in excess of $50 million (as adjusted for inflation); (iii) employs more than 500 full-time employees per individual insured or is a member of an affiliated group employing more than 1,000 employees in the aggregate; (iv) is a not for profit organization or public entity generating annual budgeted expenditures of at least $30 million (as adjusted for inflation); or (v) is a municipality with a population of more than 50,000.

A number of states elected to maintain their statutory exemptions from diligent search requirements, which were sometimes known as industrial insured exemptions. If the state's industrial insured exemption was more liberal than the NRRA ECP exemption, then the state's requirements were not in conflict with the NRRA, and the exemption in the NRRA would not apply.

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SLI producers are routinely subject to additional state administrative requirements that are considered to be outside the scope of licensing reciprocity considerations or the ULS. The regulations regarding the administration of surplus lines are different from other types of insurance (TOIs) because states typically require the licensed surplus lines producers to perform certain compliance activities that would usually be the responsibility of the licensed insurance company in a transaction in the admitted market. In a surplus lines transaction, the compliance obligations are imposed upon the producer because the producer is the licensed party. The surplus lines insurer is unlicensed and often referred to as a "nonadmitted insurer" in some states or "unauthorized insurers" in other states.

~~**Additional Post Licensure Requirements**~~

~~There may be additional administrative requirements placed upon ALL surplus lines licensees once coverage is placed to remain compliant with the laws and regulations of a state. Those additional requirements include but are not limited to:~~

There are additional administrative requirements **placed upon ALL** ~~in some states for licensed~~ surplus lines licensees ~~producers~~ once coverage is placed to remain compliant with the laws and regulations of a state~~. that apply once the coverage is placed~~. Those additional requirements include but are not limited to: ~~These may include:~~

1. Filing reports with state insurance departments or state stamping offices of placements made.
2. Collecting and paying surplus lines premium taxes.
3. Maintaining a record of all surplus lines placements made.
4. Providing the insured with a disclosure stating that the policy he or she has purchased is being issued by an insurer that is not licensed in the state, is not subject to the financial solvency regulation and enforcement that apply to the state's licensed insurers, and does not participate in any of the insurance guarantee funds created by the state's law.
5. Using a designated stamping office.
6. Including declaration or binder pages with the surplus lines tax filings.
7. Filing a report stating that no policies were written that are known as "zero reports," ~~as discussed later in this section.~~
~~7.~~8. Membership to a state's Surplus lines association may be required.
~~8.~~9. It is strongly suggested that licensees verify with state regulators what, if any, additional post licensure requirements must be followed to be compliant in the respective state.

**Recommended Best Practices for Insurance Regulators**

- Per the ULS, issue the surplus lines license as a separate license type rather than a line of authority.
- Require residents to successfully complete a surplus lines examination to demonstrate competency in this type of insurance.
- Require resident applicants to hold a valid producer P&C producer license prior to issuing the surplus lines license.
- Per the ULS, bonds for surplus lines licenses should ONLY be required of residents licensees.
- Non-resident surplus lines licensees are not required to hold the underlying producer P&C license but must have the surplus lines license in their resident state to qualify.
- Establish lines of communication and coordinate within the division/department between the producer licensing section and the section responsible for overseeing compliance with surplus lines laws/requirements and market practices.

~~In order for a producer to place business in the surplus lines market, the producer must first determine that the company is an eligible surplus lines company in a given state. Most states require that a surplus lines company be deemed "eligible" by meeting certain financial criteria or by having been designated as "eligible" on a state maintained list. Prior to the enactment of the NRRA, state eligibility standards varied widely from state to state.~~

~~As of July 21, 2011, a surplus lines transaction is subject only to the eligibility requirements of the NRRA. The NRRA~~

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eligibility requirements are based on two provisions from the *Nonadmitted Insurance Model Act* (#870).

Specifically, the NRRA requires surplus lines carriers to comply with Section 5A(2) and Section 5C(2)(a) from Model #870, which require an insurer to be authorized in its domiciliary state to write the TOI that it writes as surplus lines coverage in the state where it is eligible and to have capital and surplus, or its equivalent, under the laws of its domiciliary jurisdiction equaling the greater of: 1) the minimum capital and surplus requirements under the law of the home state of the insured; or 2) $15 million. The insurance commissioner in the insured's home state may reduce or waive the capital and surplus requirements down to a minimum of $4.5 million after the insurance commissioner makes a finding of eligibility based on several factors set out in Model #870, such as the quality of management, the surplus of a parent company, and the reputation within the industry.

In addition to eligibility requirements for U.S. domiciled insurers, the NRRA requires states to permit the placement of surplus lines coverage with surplus lines companies organized in a foreign country, alien insurers, that are listed on the NAIC *Quarterly Listing of Alien Insurers*. The states cannot prohibit a broker from making a placement with an NAIC listed alien insurer. A state also may allow placement of coverage with alien insurers not on the NAIC *Quarterly Listing of Alien Insurers*. A number of states have authority to individually approve an alien carrier that is not listed on the NAIC *Quarterly Listing of Alien Insurers*.

The NAIC *Quarterly Listing of Alien Insurers* is available for reference and download on the NAIC Products – AVS, Data & Publications website at http://www.naic.org/prod_serv_alpha_listing.htm.

**Premium Taxes**

Surplus lines premium tax generally is the obligation of either the policyholder or the surplus lines producer, depending on the applicable state law. In all states, the producer or the insured, rather than the insurance company, remits the surplus lines tax. If the policy covers risks that are located entirely in one state, the tax is assessed at that state's tax rate.

Under the NRRA, the home state of the insured has sole regulatory authority over the collection of surplus lines premium taxes. The NRRA prohibits any state other than the home state of the insured from requiring any premium tax payment for SLI.

The NRRA permitted, but did not require, allocation of the surplus lines taxes among the states where the exposure was located. The states initially pursued three different approaches to allocation of taxes following the adoption of the NRRA: 1) the Nonadmitted Insurance Multi-State Agreement (NIMA); 2) the Surplus Lines Insurance Multi-State Compliance Compact (SLIMPACT); and 3) taxing and keeping 100% of surplus lines premium tax on policies in the home state of insureds. NIMA is no longer operational, and SLIMPACT never became operational. The prevailing rule is that states are taxing and keeping 100% of the premium. The NRRA requires surplus lines brokers to adhere to the law of the home state of the insured to determine the amount of premium tax owed on a surplus lines transaction and for any other regulatory requirements the state may require in connection with the payment of the premium tax, such as the timing of tax payments and whether the state requires the submission of risk allocation information for multistate transactions. The NRRA requires surplus lines brokers to submit the premium tax payment on a surplus lines transaction only to the insured's home state. In the case of a state that has joined NIMA, the payment will be made to the clearinghouse in accordance with the home state's law. Should SLIMPACT become operational, it could also elect to require multistate payments to be made to the clearinghouse.

Many states require brokers to submit documentation regarding allocation by state of the risks covered by a surplus lines transaction. If the home state of the insured is a state that has joined NIMA, the broker will be required to use the NIMA risk-allocation formula. If the home state is a state that has joined SLIMPACT, the broker will be required to use the SLIMPACT risk-allocation formula. As of May 2013, both NIMA and SLIMPACT have adopted the same allocation formula. Other states require the broker to submit allocation data in accordance with individual state laws and regulations, but the vast majority of states do not require allocation data because there are very few states allocating premium at this time. In some states, taxes are paid to a state agency other than the insurance department, such as the department of revenue.

**Guaranty Fund Warning**

Nearly all states require a disclosure regarding the unavailability of guaranty fund coverage for a surplus lines policyholder, even if the state represents a small portion of the risk. Prior to the NRRA, when a multistate risk was

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involved, the company would be required to include several pages of guaranty fund notices, many of which had nearly the same language, with minor variations. Brokers may choose to continue to use this approach following the enactment of the NRRA, but the NRRA initiated a compliance system that requires compliance only with laws of the home state of the insured.

As an example, a typical disclosure statement is as follows:

**NOTICE TO POLICYHOLDER**

**This contract is issued, pursuant to Section __ of the (State) Insurance Code, by a company not authorized and licensed to transact business in (State), and as such, is not covered by the (State) Insurance Guaranty Fund.**

After review of this and other issues by a special NAIC subgroup in 2006, the Producer Licensing (EX) Working Group adopted its recommendation that, on a multistate risk, the home state's disclosure should fulfill all other states' disclosure requirements.

**Stamping Offices**

Stamping offices are entities that are not governmental agencies but whose existence is authorized by law. These offices act as the liaison between the surplus lines producer and the state insurance departments. The stamping offices have varied responsibilities, which may include evaluation of insurance companies for inclusion on a white list, review of surplus lines policies, and education. Stamping offices also provide reports of premiums and taxes to the state insurance department.

Stamping offices are nonprofit and funded by stamping fees assessed on each policy of SLI written in the state. As of April 2017, there are stamping offices in 14 states.

**Zero Reports**

In some of the states, a producer is required to file a report, known as a "zero report," stating that the producer has not placed any SLI business during a specified time period.

In 2006, a special NAIC study group documented that five states require this report monthly, 12 quarterly, seven semi-annually, and 27 annually. States also use the reports for different recording purposes, so it was not determined if it would be possible to eliminate these reports altogether. However, the study group concluded and recommended to the Working Group that zero reports be eliminated. The study group also recommended further study to determine the feasibility of any other use of a zero report. As of January 2017, the Working Group has not taken any formal action on this issue.

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*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 11**

**Appointments**

An appointment is a registration with the state insurance department that a producer is acting on behalf of an insurer. The *Producer Licensing Model Act* (#218) contains several sections related to appointments. Section 14 of Model #218 establishes the requirement that a producer acting as an agent of an insurer must have an appointment. This is an optional provision and applies only in those states that require appointments.

Section 15 of Model #218 establishes a procedure for the reporting of appointment terminations. ~~The Gramm-Leach-Bliley Act (GLBA), as modified in 2015, prohibits any state other than a producer's home state from imposing any appointment requirements upon a member of the National Association of Registered Agents and Brokers (NARAB).~~

In 2002, the Producer Licensing (~~EX~~D) ~~Working Group~~Task Force adopted a uniform appointment process. The full text is included in the Appendices and is available on the Working Group's web page. This process is referred to in the Uniform Licensing Standards (ULS). The key elements include:

1. States should allow the electronic filing of appointments and appointment terminations. Paper filings are discouraged.
2. States should establish a billing system for payment by insurers of initial appointments.
3. States shall allow insurers to select the effective date of the initial appointment.
4. States shall require insurers to follow a prescribed timeline to file appointments.
5. States shall require only one appointment or termination form or transaction per producer per company. At this writing, appointments by company group are not available.
6. States shall require insurance companies to submit terminations to the insurance department in accordance with the requirements of Section 15 of Model #218.
7. States shall require that, if a producer is terminated for cause, the insurer must submit supporting documentation. Any information received by the insurance department must remain confidential in accordance with Section 15 of Model #218.

In states that renew appointments, the key elements include:

1. States shall provide or publish a pre-renewal notice to insurers informing them that appointment renewals are imminent.
2. At the time for renewal, a state will deliver an invoice. The invoice may not be altered, amended, or used for appointing or terminating producers.
3. Insurers shall return the invoice and the payment to the department or its designee.
4. States shall establish a dispute resolution process to accommodate errors after the fact.

**Appointment Terminations**

Section 15 of Model #218 imposes a requirement on insurers to report terminations of producer appointments. Section 15 requires that the insurer report a termination within 30 days of its occurrence. If a termination is for any of the reasons listed in Section 12, License Denial, Non-Renewal or Revocation of Model #218, insurers are required to submit a detailed report to the state and a copy of the report to the producer. Section 15(E) grants immunity from civil liability for good-faith reporting to insurers and state insurance regulators. Reports filed under Section 15 are considered confidential.

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**Recommended Best Practices for State Insurance Regulators**

- Automatically terminate appointments if a license goes inactive for any reason.
- Eliminate fees for appointment terminations and instead assess all charges at the time of an appointment. This will eliminate delays in cancellations.
- Do not require an appointment as a condition of licensure. Model #218 and the ULS provide that a producer can hold a license without holding an active appointment.

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- Require only one appointment or termination form or transaction for each company for each producer per state.
- Sub-appointments and Business Entity appointments are discouraged.
- Immediately accept terminations for cause and refer them for investigation. States should follow the procedures as outlined in Model #218. No advance notice should be required to the producer or the state insurance department.
- Use electronic filing for appointments, terminations and renewals, to the extent possible, to eliminate delays and increase efficiency.

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**Chapter 12**

**Business Entities**

Prior to the *Producer Licensing Model Act* (#218), most states used the term "insurance agency" to refer to the business structure used by insurance producers. Under Model #218, the term "business entity" (BE) is used. This term is intended to cover a broad range of legal business operating structures. BEs are considered to be producers under Model #218.

Section 2(A) of Model #218 defines a BE as a corporation, association, partnership, limited liability company, limited liability partnership, or other legal entity.

The Producer Licensing ~~(EX) Working Group~~(D) Task Force has adopted a uniform application form that is the standard for all states for resident and nonresident BE applications. Section 6(B) of Model #218 provides further guidance about the licensing of BEs:

> A BE acting as an insurance producer is required to obtain an insurance producer license. Application shall be made using the Uniform Business Entity Application. Before approving the application, the insurance commissioner shall find that:
>
> 1. The BE has paid the fees set forth in [insert appropriate reference to state law]; and
> 2. The BE has designated a licensed ~~producer~~ individual responsible for the BE's compliance with the insurance laws, rules and regulations of this state.

Since BEs are considered producers, the reciprocity issues discussed in other sections also apply to BEs. States ~~should~~ may not require additional attachments to the application that might interfere with reciprocity.

A common issue that arises with resident and nonresident BE licensing is the role of the secretary of state (SOS) and the state corporation statutory requirements. Most states have adopted a Model Corporation Law that requires resident and nonresident businesses to register with the state corporation department. The issue for state licensing directors is whether the state insurance department should require some proof of registration with the SOS as a pre-condition to licensing. The NAIC legal department has studied this issue extensively and advised the Working Group that states ~~should~~ may not require items such as articles of incorporation or proof of registration with the SOS as a pre-condition to licensing for nonresident BEs. However, when a BE is licensed and the BE changes their type, states may ask the BE to provide their articles of incorporation or articles of organization from the SOS for this type of name change.

Model #218 does require that all producers, including BEs, notify the insurance commissioner, ~~to~~ to receive approval, prior to using an assumed (i.e., Doing Business As) name. Section 10 of Model #218 states:

> An insurance producer doing business under any name other than the producer's legal name is required to notify the insurance commissioner prior to using the assumed name.

The uniform appointment process, as adopted by the Working Group, does not specifically address BEs. Section 14 of Model #218 states that a producer acting as an agent of an insurance company must be appointed. States vary in the interpretation of these guidelines. This issue is one that the Producer Licensing ~~(EX) Task Force~~(D) Task Force previously considered ~~in 2010~~ as part of its efforts to streamline BE licensing. In the absence of specific guidance from the Working Group, the guidelines discussed in the paragraphs below are suggested.

State insurance regulators should balance the cost of a regulatory requirement with the benefit that the requirement adds to consumer protection. If detailed information is collected, such as several levels of appointments, that information should be a meaningful part of the state insurance department's consumer protection plan. If information is only rarely used in support of investigations, it may not be cost-effective to collect that information and require staff to compile it and process it. During a recent assessment of state insurance department licensing units, it was often found that

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information about affiliations and branch offices often required at the time of application was rarely used. Sub-appointments and BE appointments are discouraged.

Just as the uniform appointment process contemplates that only one appointment will be required for an individual producer no matter how many types of products that producer sells for a given company, if a state requires appointments for a BE, then the state should require only one appointment per BE per company, no matter how many types of products that BE sells for a given company.

Section 6(B)(2) of Model #218 requires a BE to designate a licensed ~~producer~~ individual as responsible for the BE's compliance with the state's insurance laws, rules, and regulations. This is commonly referred to as the designated responsible producer (DRP). There is no provision in Model #218 to require multiple DRPs if the BE chooses to write multiple lines of insurance. For example, if a DRP holds a life line of authority (LOA) only, and an affiliated producer is authorized to sell property/casualty (P/C) products, it is not necessary for a DRP with a P/C LOA to be named as a second DRP. If the BE is appointed by an insurer to act as its agent to sell, solicit, or negotiate P/C insurance products, then the BE must name a DRP who also holds a P/C LOA.

Model #218 does not give specific guidance on appropriate action to take when a notification is received that the DRP has lost their home state license. A recommended practice is to send a notification to the BE and inform it that the BE license will go inactive unless a new DRP is named and approved within a reasonable number of days.

A BE has an ongoing responsibility to report misconduct of the BE or any of its affiliated producers. Section 12(c) of Model #218 states:

> The license of a BE may be suspended, revoked or refused if the insurance commissioner finds, after hearing, that an individual licensee's violation was known or should have been known by one or more of the partners, officers or managers acting on behalf of the partnership or corporation and the violation was neither reported to the insurance commissioner nor corrective action taken.

**Recommended Best Practices for State Insurance Regulators**

- Use the NAIC uniform application for BEs, and eliminate all other state-specific forms.
- Review all state insurance laws and regulations, and amend any that require attachments that might violate reciprocity.
- Review the practical consumer protection value of all information collected, and collect only information that adds value.
- Require only one DRP per BE.
- If appointments are required for a BE, require only one appointment per state, and require no sub-appointments.
- Use electronic filings for more efficiency.

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*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 13**

**Temporary Licenses**

Section 11 of the *Producer Licensing Model Act* (#218) States that the insurance commissioner may issue a temporary insurance producer license for a period not to exceed one hundred eighty (180) days without requiring an examination if the insurance commissioner deems that the temporary license is necessary for the servicing of an insurance business in the following cases: ~~contains a provision that allows a state insurance director to issue a temporary license to the survivor of a producer if the insurance commissioner deems it necessary for servicing the deceased producer's customers.~~

~~The license is limited to 180 days and also may be limited in scope by the insurance commissioner. The intent of this section is to wind up the business affairs of the producer and not indefinitely continue the decedent's insurance business.~~

~~Model #218 gives three examples of persons eligible for a temporary license:~~

1. The surviving spouse or court-appointed personal representative of a licensed insurance producer who dies or becomes mentally or physically disabled to allow adequate time for the sale of the insurance business owned by the producer, the recovery or return of the producer to the business, or the training and licensing of new personnel to operate the producer's business.
~~1.~~
2. A member or employee of a business entity (BE) licensed as an insurance producer, upon the death or disability of an individual designated in the BE application or the license.
~~2.~~
3. The designee of a licensed insurance producer entering active service in the armed forces of the United States of America.~~S.~~

4. The insurance commissioner is also given discretion to grant a temporary license in any other circumstance where the insurance commissioner deems that the public interest will best be served by the issuance of this license. ~~The insurance commissioner may also require the temporary licensee to have a licensed producer as a sponsor.~~

The insurance commissioner can limit what a temporary license holder is allowed to do if needed to protect consumers and the public. The insurance commissioner may require the temporary license holder to have a qualified sponsor, someone who is a licensed producer or insurer and who is responsible for the temporary licensee's actions. The commissioner can also add other requirements for the protection of the public. The commissioner may revoke a temporary license if it puts consumers or the public at risk. A temporary license automatically ends once the business is sold or transferred by the owner or the personal representative.

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**Chapter 14**

**Continuing Education**

The completion of continuing education (CE) is the method used by state insurance regulators to ensure continued competence of producers. Under the previous Gramm-Leach-Bliley Act (GLBA) reciprocity requirements, a state had to recognize a producer's completion of a CE requirement in the producer's home state as satisfying the other state's CE requirement for license renewal. The only exception was if the producer's home state refused to provide reciprocity to another state.

Some states have adopted special training requirementsproduct specific training for specific lines of insurance. When such a requirement exists, it is typically imposed on resident and nonresident producers selling a specific insurance product. A specific CE standard, which is derived from federal mandates, may be imposed on nonresidents, such as for long-term care (LTC), flood, or crop insurance, and it would not violate the Uniform Licensing Standards (ULS).

Section 16(B) of the *Producer Licensing Model Act* (#218) specifically states:

> A nonresident producer's satisfaction of his or her home state's CE requirements for licensed insurance producers shall constitute satisfaction of this state's CE requirements if the nonresident producer's home state recognizes the satisfaction of its CE requirements imposed upon producers from this state on the same basis.

Under the ULS, producers are to complete 24 credits of CE for each biennial compliance period. Three of the 24 credits must be in ethics. Fifty minutes is equal to one credit hour of CE. If applicable, the CE compliance period should coincide with the license renewal. The ULS indicate that the license term should be tied to the birth date or birth month.

CE is required if the producer holds one of the six major lines of authority (LOAs) contained in Model #218, but it is not required for each individual LOA. For example, if a producer holds a life and property LOA, the requirement for renewal is 24 credits. If a producer holds only the life LOA, the requirement for renewal is 24 credits. States may limit the subject area requirements for CE. Some states prohibit CE credit for training on sales techniques. Generally, CE is not required for limited lines. Under the ULS, producers may repeat CE courses for credit in successive renewal terms, but they are not permitted to take a course for credit more than once in the same license continuation period. States must accept both classroom study and verifiable self-study. States have discretion to limit, but may not prohibit, verifiable self studyStates should not impose a limit on the use of self-study courses.

Producers and CE providers must submit evidence of course completion in the method specified by the insurance commissioner. Some states require the producer to present a certificate of completion at the time of license renewal. Many states require the CE provider to report attendance. Under this system, a producer is required to present only the attendance certificates if there is a discrepancy. Another option is to require producers to self-certify completion and then verify compliance by random desk audits.

Model #218 and the ULS contain two exemptions from CE requirements. The exemptions are an inability to comply due to military service and/or a demonstration of an extenuating circumstance, such as medical disability. States with waivers for professional designations should consider allowing CE credits for filed and approved courses used to obtain and maintain professional designations.

Some states grant an extension instead of an exemption. This decision is left to each state to decide.

**Course and Instructor Approvals**

The Producer Licensing (DEX) Task Force Working Group has adopted standards for course approval and reciprocity in filing of courses. States are to follow the standards set forth in the Continuing Education Reciprocity (CER) process Agreement, as adopted by the Working GroupTask Force. Under a reciprocity filing, states are to accept the number

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of credits awarded by another state

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and treat a request for reciprocity as a registration. Only the home state of the CE provider is to perform a content review of the course filing. The Appendices contain information on CER and the current filing forms. The most current information on CER can be found on the ~~Working Group~~Uniform Education (D) Working Group's web page.

States vary in their method for course content approval. Some states use outside vendors, and others do the course reviews internally. The ~~Working Group~~Task Force has ~~not~~ adopted any guidelines on methods for approving classroom courses CER Webpage.

The Working Group has adopted guidelines for the approval of online and self-study courses. The goal of these standards is to deliver functional computer-based internet courses that offer quality insurance and/or risk management material in a password-protected online environment.

The key elements are:

1. Material that is current, relevant and accurate, and includes valid reference materials, graphics and interactivity.
2. Clearly defined objectives and course completion criteria.
3. Specific instructions to register, navigate and complete the coursework.
4. Technical support or provider representative available during business hours.
5. A process to authenticate student identity.
6. A method for measuring the student's successful completion of course material and evaluating the learning experience.
7. A process for requesting and receiving CE course-completion certificates.

The standards call for state that require proctored exams ~~an examination~~ that is proctored by a disinterested third party. The standards also provide several methods to compute the number of credits that should be awarded. The standards also recommend acceptance of courses that are part of a program that is part of a nationally recognized professional designation. For designation courses, the course should receive credit hours equivalent to hours assigned to the same classroom course material.

The Continuing Education Recommended Guidelines on Online and Self-Study is included in the Appendices. The ULS prohibit CE providers from advertising CE programs until state course approval is received.

ULS #30 - **Advertising of CE Programs**: CE hours should not be advertised until state course approval is received; however, if the course is advertised prior to start approval, the advertisement must clearly state that the course is pending state approval.

The Appendices contain a sample list of questions and answers frequently asked by insurance producers about CE requirements.

The Producer Licensing (D) Task force has adopted standards for approving CE instructors. ~~[link to guidelines/form]~~CER Webpage.

## Auditing CE Courses and Instructors

To maintain the quality of CE courses, states may wish to conduct on-site, web-based, and desktop audits of courses and instructors to ensure adherence to NAIC CE guidelines and to state standards. States are encouraged to audit courses for home state providers to eliminate duplication among states. As most courses are approved in multiple states, states are encouraged to share significant findings from audits with other states. However, currently there is not a centralized repository to report violations. States may have regulations to enforce violations for non-compliance.

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**Continuing Education Providers**

A state should have a process for registering and qualifying persons who wish to be recognized as CE providers. The process should include duties, responsibilities and performance standards for CE providers. An aspiring CE provider should demonstrate an ability to deliver quality instruction and comply with all reporting and course supervision requirements. These standards should also contain the conditions under which a CE provider may be removed from the state's approved provider list.

The Appendices contain a sample outline of instructions to CE providers.

**Recommended Best Practices for State Insurance Regulators**

- States are encouraged to adopt NAIC CE guidelines to manage their CE programs.
- Require CE providers to electronically report class attendance to the state insurance department or its designated vendor.
- Set a reasonable deadline for CE providers to deliver electronic reports.
- Require CE providers to promptly issue attendance certificates, or certificates of completion for self-study courses, and require producers to retain them. The certificates should be sent only to the state insurance department in the event of a dispute.
- Provide access for producers and insurers to department records to monitor CE credits on file.
- Implement an audit program to observe and evaluate CE providers, ~~and~~ instructors, and courses.
- ~~Participate in the NAIC Personalized Information Capture System (PICS) to receive alerts or monitor actions against existing licensees.~~

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*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 18**

**Insurance Claim Adjusters**

An adjuster is a person who investigates, negotiates, or settles insurance claims. Adjusters determine coverage or benefits available under a contract of insurance. Most licensing jurisdictions issue an adjuster "license type" with a line of authority (LOA). Some jurisdictions issue adjuster license types by categories, without an LOA.

There are two basic kinds of adjusters: public adjusters who represent the insured, and adjusters who represent the insurer. As of the 2025 update to this chapter, XX jurisdictions require licensure of public adjusters, XX jurisdictions require licensure of independent adjusters, and of those XX also require licensure of company/staff adjusters. XX jurisdictions do not require any type of adjuster license. XX jurisdictions are not reciprocal.

**Public Adjusters**

Public adjusters directly contract with the person who is seeking coverage or benefits under an insurance policy. The role of a public adjuster is to represent an insured in the settlement of a claim. The NAIC has adopted the Public Adjuster Licensing Model Act (#228).

Under Model #228, a public adjuster is defined as follows:

> "Public adjuster" means any person who, for compensation or any other thing of value on behalf of the insured:
>
> (1) Acts or aids, solely in relation to first party claims arising under insurance contracts that insure the real or personal property of the insured, on behalf of an insured in negotiating for, or effecting the settlement of, a claim for loss or damage covered by an insurance contract;
>
> (2) Advertises for employment as a public adjuster of insurance claims or solicits business or represents himself or herself to the public as an public adjuster of first party insurance claims for losses or damages arising out of policies of insurance that insure real or personal property; or
>
> (3) Directly or indirectly solicits business, investigates or adjusts losses, or advises an insured about first party claims for losses or damages arising out of policies of insurance that insure real or personal property for another person engaged in the business of adjusting losses or damages covered by an insurance policy, for the insured.

Under Model #228, a public adjuster license is not required of the following:

(1) An attorney-at-law admitted to practice in this state, when acting in his or her professional capacity as an attorney;

(2) A person who negotiates or settles claims arising under a life or health insurance policy or an annuity contract;

(3) A person employed only for the purpose of obtaining facts surrounding a loss or furnishing technical assistance to a licensed public adjuster, including photographers, estimators, private investigators, engineers and handwriting experts;

(4) A licensed health care provider, or employee of a licensed health care provider, who prepares or files a health claim form on behalf of a patient; or

(5) A person who settles subrogation claims between insurers.

**Independent Adjusters**

Independent adjusters are contracted to perform adjusting services and may work for multiple insurers. Independent

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adjusters work on behalf of insurers to determine if coverage or benefits are available under an insurance policy in the settlement of a claim. The NAIC has adopted the *Independent Adjuster Licensing Guideline (#1224)* ("Guideline #1224").

Under Guideline #1224, an independent adjuster is defined as follows:

"Independent adjuster" means a person who:

(1) Is an individual, a business entity, an independent contractor, or an employee of a contractor, who contracts for compensation with insurers or self-insurers;

(2) One whom the insurer's or self-insurer's tax treatment of the individual is consistent with that of an independent contractor rather than as an employee, as defined in the Internal Revenue Code, United States Code, Title 26, Subtitle C; and

(3) Investigates, negotiates or settles property, casualty or workers' compensation claims for insurers or for self-insurers.

Guideline #1224 identifies situations where a person may be exempt from licensure. Most jurisdictions have adopted some or all of the following:

The definition of independent adjuster shall not be deemed to include, and a license as an independent adjuster shall not be required of the following:

A. Attorneys-at-law admitted to practice in this state, when acting in their professional capacity as an attorney;

B. A person employed solely to obtain facts surrounding a claim or to furnish technical assistance to a licensed independent adjuster;

C. An individual who is employed to investigate suspected fraudulent insurance claims but who does not adjust losses or determine claims payments;

D. A person who solely performs executive, administrative, managerial or clerical duties or any combination thereof and who does not investigate, negotiate or settle claims with policyholders, claimants or their legal representative;

E. A licensed health care provider or its employee who provides managed care services so longs as the services do not include the determination of compensability;

F. A managed care organization or any of its employees or an employee of any organization providing managed care services so long as the services do not include the determination of compensability;

G. A person who settles only reinsurance or subrogation claims;

H. An officer, director, manager or employee of an authorized insurer, surplus lines insurer, a risk retention group, or an attorney-in-fact of a reciprocal insurer;

I. A U.S. Manager of the United States branch of an alien insurer;

J. A person who investigates, negotiates or settles life, accident and health, annuity, or disability insurance claims;

K. An individual employee, under a self-insured arrangement, who adjust claims on behalf of their employer;

L. A licensed insurance producer, attorney-in-fact of a reciprocal insurer or managing general agent of the insurer to whom claim authority has been granted by the insurer;

M. A person authorized to adjust workers' compensation or disability claims under the authority of a third party administrator (TPA) license pursuant to [insert applicable licensing statute].

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**Company or Staff Adjusters**

While there is no definition of "company adjuster" or "staff adjuster" in either Model #228 or Guideline #1224, it should be noted that Black's Law Dictionary defines "employee" as "someone who works in the service of another person (the employer) under an express or implied contract of hire under which the employer has the right to control the details of work performance". *Black's Law Dictionary, Second Pocket Edition 2001

Instead of an insurer contracting with an independent adjuster to act on their behalf to settle claims, an alternative approach to claim handling is to directly employ adjusters. Such adjusters are commonly referred to as "company" or "staff" adjusters.

To assist with understanding the difference between an independent adjuster and a company/staff adjuster, it should be noted that the role of insurance producer has similar characteristics. Insurers generally either contract with independent insurance producers to act as an agent on their behalf, or they directly employ individuals as direct writers or captive insurance producers to act on behalf of their employer.

As in the case with insurance producers, the related actions of both independent and company/staff adjusters are the responsibility of the insurer who has authorized those adjusters to investigate, negotiate, or settle an insurance claim. Such activity is generally monitored under each jurisdiction's consumer protection and market conduct authority.

**Qualifications of an Adjuster**

Similar to insurance producers under the Producer Licensing Model Act #218 ("PLMA"), Public Adjuster Licensing Model Act #228 and Independent Adjuster Guideline #1224 licensing jurisdictions will assess the qualifications of adjuster applicants. Typically, one or more of the following requirements are in place:

1. Specialized or related education prior to licensure; i.e., prelicensing coursework.
2. A specified amount of experience that is relevant to the kind of adjusting work the applicant will be doing; i.e., property/casualty (P/C), workers' compensation.
3. A license examination.
4. Relevant professional designation such as the Chartered Property Casualty Underwriter (CPCU) or Associate in Claims (AIC).
5. Prior or concurrent similar licensure in another jurisdiction.

When a jurisdiction implements adjuster licensing for the first time, it is common practice to waive the initial exam for a prescribed limited amount of time for applicants with appropriate credentials and experience. This accommodation is to facilitate the swift licensure of individuals who now need to comply with a new licensing requirement.

**Fitness and Character Considerations**

(1) Like insurance producers, many jurisdictions evaluate an adjuster applicant's fitness, character and trustworthiness by considering criminal history, administrative actions, and civil judgments that may shed light on an applicant's character or fiscal integrity.

(2) Many jurisdictions have implemented a fingerprint requirement for residents. If a jurisdiction permits a nonresident to designate itself as the adjuster's home state (DHS), the resident fingerprint requirement extends to that nonresident. Jurisdictions are encouraged to adopt the Authorization for Criminal History Record Check Model Act (#222) when evaluating and considering whether an applicant or licensee has met the character and trustworthiness requirements to obtain, maintain or renew a license.

**Nonresident Licensing**

Similar to insurance producer licensing, in almost every jurisdiction where an adjuster license is required, it is the resident, or "home state" jurisdiction who assesses the qualifications of their resident adjusters. Most jurisdictions will grant a comparable or similar nonresident license based on reciprocity, however, reciprocity is not as widely accepted as it is with insurance producer licensing.

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Variations with LOAs, qualification standards, and "license types" create hurdles to nonresident licensure. There are a few jurisdictions that will not grant nonresident licensure based upon a person having qualified and passed a license exam in the applicant's home state. Instead, these jurisdictions require the nonresident applicant to take an exam in the nonresident state even though the person has taken and passed the license exam in the home state. Some jurisdictions will reciprocate with a true resident license but not with a designated home state ("DHS")license.

**Determination of Home State**

It is important to note that Producer Model #218 precedes both Public Adjuster Model #228 and Independent Adjuster Guideline #1224 and was used as the basis for the development of the "home state" definitions in both Public Adjuster Model #228 and Independent Adjuster Guideline #1224. The NIPR application was built to accommodate the PLMA. The original definition of "home state" is "intended to accommodate a producer who lives in one state but maintains their business in another state". Because every state has adopted the PLMA, the definition of "home state" for producers does not contemplate a scenario where a producer resides in a state that doesn't license producers. Public Adjuster Model #228 and Independent Adjuster Guideline #1224 both clarify licensure when the individual resides in a state that does not require licensure. Independent Adjuster Guideline #1224 does not contemplate licensure of company/staff adjusters, though there are XXX states that require licensure of company/staff adjusters.

| Producer Licensing Model Act #218 (Model #218") defines home state as: | Public Adjuster Licensing Model Act # 228 defines home state as: | Independent Adjuster Guideline #1224 defines home state as: |
|---|---|---|
| "Home state" means the District of Columbia and any state or territory of the United States in which an insurance producer maintains his or her principal place of residence or principal place of business and is licensed to act as an insurance producer. | "Home state" means Washington, DC and any state or territory of the U.S. in which the public adjuster's principal place of residence or principal place of business is located. If neither the state in which the public adjuster maintains the principal place of residence nor the state in which the public adjuster maintains the principal place of business has a substantially similar law governing public adjusters, the public adjuster may declare another state in which it becomes licensed and acts as a public adjuster to be the "home state." | "Home state" means Washington, DC and any state or territory of the U.S. in which an independent adjuster maintains his, her or its principal place of residence or business and is licensed to act as a resident independent adjuster**.** If the resident state does not license independent adjusters for the line of authority sought, the independent adjuster shall designate as his, her or its home state any state in which the independent adjuster is licensed and in good standing. |

The concept of a designated home state ("DHS") was developed to allow the individuals who resides or maintains a principal place of business in a non-adjuster licensing state to choose a jurisdiction that *does* issue adjuster licenses to be their home state for the purposes of licensure. A DHS licensee would qualify for a license in that jurisdiction in accordance with resident licensing procedures.

While DHS licensing has resolved some licensing issues, making a determination of *what qualifies* as a designated home state and *who is eligible* to designate a home state has presented regulatory challenges.

Actual state of residency should be the primary driver of resident state licensure. In the rare situation where "principal place of business" is relied upon in place of residency, it should be construed as the primary location where the adjuster physically works and "maintains their business".

This means that the public or independent adjusters who report to an office in a border state every day could use their business address for residency. This also means if the public or independent adjuster is the actual proprietor of their business in a border state, they may use their business address for residency to align with the state in which they own and operate. Insurance company or staff employees have no reason to choose a business address in place of resident address; regional, training, or corporate hubs/offices should not constitute a principal place of business in place of residency. Jurisdictions should be mindful of this type of "home state" shopping and not permit such.

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The purpose of licensing is consumer protection. The licensing exam is intended to test minimal competency to enter the business of adjusting insurance claims, and the exam is not different for an independent or company/staff adjuster and may be different for a public adjuster.

Company/staff adjusters should consider maximizing reciprocity by first seeking licensure in their resident state, even if it's not required by their resident state. If, however, licensure is restricted or not available in their resident state, they should then seek a DHS.

**Reciprocity with DHS**

Because applicants can *choose* which jurisdiction to seek DHS status from, regulators should be mindful of jurisdictional requirements and applicants who are forum shopping. A DHS license should not be issued to an applicant who should obtain licensure in their resident jurisdiction.

The initial focus of DHS licensing was to create a path for individuals with resident licensure requirements to obtain nonresident licenses in that they only needed to take a single qualifying examination. This choice may have been made without consideration of maintaining nonresident licenses in the future. The ramifications of choosing a DHS without continuing education requirements may not be realized until the DHS licensee has to renew the license in a state that requires continuing education compliance. In addition, there are currently no recommended standards as to how a DHS license is distinguished from other nonresident licenses, how DHS licensee information is reported to the PDB or best practices when a licensee wants to change from one DHS state to another. The absence of accepted standards leads to inefficiencies in the licensing process and limit the extent to which regulators and industry can leverage technological solutions.

Ideally all jurisdictions should reciprocate with an individual who was issued DHS status in a jurisdiction with:

(1) a licensing exam requirement to meet the knowledge qualification (no exam waivers permitted),

(2) authority to require a national criminal background check to meet the fitness and character qualification, and

(3) 24 hours of continuing education (with 3 of those 24 hours in ethics) to ensure continued competence.

As of the 2026 update to this Chapter, the following jurisdictions meet these requirements: Alabama, Alaska, Delaware, Florida, Idaho, Louisiana, Minnesota, Montana, Nevada, New Mexico, Texas, Utah, Washington, West Virginia, and Wyoming.

Electronic adjuster licensing processes were modeled on existing producer licensing processes, which are based upon active licensure in the resident jurisdiction. In 2011, the NAIC adopted the *Independent Adjuster Reciprocity Best Practices Guidelines*, which provides jurisdictions with a model to meet reciprocity requirements, as well as take major steps toward reaching uniformity. Most jurisdictions have adopted the DHS provision and allow an individual to qualify for licensure by either reciprocating with another jurisdiction's verifiable DHS status on the PDB, or by vetting the individual just like a resident and awarding DHS status and reporting such to the PDB. This facilitates the use of electronic licensing processes.

The National Insurance Producer Registry (NIPR) has developed application functionality to accommodate adjuster initial licensing and renewals for adjusters licensed in a resident state as well as adjusters holding a DHS license.

**Continuing Education**

A majority of jurisdictions require CE for public adjusters and reciprocate accordingly.

As of the 202X update to this Chapter, 22 of the 30 reciprocating independent licensing jurisdictions *footnote the list of states - AL, AK, AR, DE, FL, ID, IN, KY, LA, MN, MT, NV, NH, NM, NC, OK, TX, UT, WA, WV, WY. have CE requirements for their resident adjusters. Reciprocity exists among a majority of these states, but not all, in part as a result of the inconsistency among LOAs granted within each jurisdiction's adjuster licensing requirements. It also becomes problematic when the resident adjuster's home state does not have a CE requirement. Individual adjusters who are eligible to designate a home state should be mindful of CE requirements when selecting a home state.

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Similar to the producer licensing continuing education requirement in Model #218, Model #228 and Guideline #1224 contain a CE requirement that the home state shall require 24 hours of CE every two years, with three of the 24 hours covering ethics. It is recommended that a jurisdiction accept an adjuster's satisfaction of its home state's CE requirements as satisfying that state's CE requirements, provided that the home state recognizes CE satisfaction on a reciprocal basis.

**Emergency/Catastrophic Adjusters**

A state that offers temporary licensure or registration for emergency/catastrophic adjusters are encouraged to follow Guideline #1224 and develop an automated notification or registration procedure that allows for an immediate, streamlined, and efficient application or reporting process for adjusters who are seeking authority to adjust claims in the event an emergency or catastrophe is declared. Most jurisdictions will trigger emergency/catastrophe licensure with an announcement, and permit applications (or reporting) for a defined event, for a prescribed number of days.

**Recommended Best Practices for State Insurance Regulators**

- Adopt Public Adjuster Model #228.
- Adopt Independent Adjuster Guideline #1224.
- Use the NAIC uniform applications and establish a process for electronic application submission and processing.
- Provide resident and nonresident adjuster licensing requirements (procedures, instructions, etc.) wherever fitting (state website, NIPR state page, etc.). Keep information current.
- Adopt a biennial renewal process tied to the uniformity standards.
- Participate in the NAIC Personalized Information Capture System (PICS) to receive license status alerts and to monitor administrative or enforcement actions against existing licensees.
- Use the Attachments Warehouse/Reporting of Action (ROA) system to receive electronic notifications to alert a state when an adjuster has added information into the Attachments Warehouse since their initial entry regarding administrative, criminal or civil actions.
- Restrict using the business address in place of resident address to those persons who are actual proprietors of a business in a border state (which is rare). Be mindful of address manipulation to "forum-shop" for a favorable home state or DHS license
- Limit DHS PDB reporting to the state(s) that are actually reporting themselves as the DHS of an individual. (Or only report DHS status to the PDB for adjusters where your state is the actual DHS state.)
- Unless statutorily restricted, allow a resident company/staff adjuster to receive a resident independent adjuster license
- Nonresidents that designate your state as their "home state" (DHS) should issue a nonresident license and report your jurisdiction's two-digit state code to the PDB in the "designated home state" data field. And ensure that DHS status is reported to the PDB. While majority of states report the two-digit state code, some states issue a license type specific to Designated Home State and should consider sending the two-digit code for purposes of electronic validation.
- Include a provision in law that prohibits simultaneous licensure as both an independent (or company) adjuster and a public adjuster.
- License examination requirements should only apply to new resident applicants and DHS applicants.
- Grant an exemption from the license examination requirement to applicants for the crop LOA who have satisfactorily completed the National Crop Insurance Services (NCIS) Crop Adjuster Proficiency Program (CAPP) or the loss adjustment training curriculum and competency testing required by the Federal Crop Insurance Corporation (FCIC) Standard Reinsurance Agreement (SRA).
- If your state allows non-U.S. citizens to receive a license, ensure that other laws in your state, such as tax laws, do not require every licensee or applicant for a license to submit a SSN or Individual Taxpayer Identification Number (ITIN).

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*Adopted by the Producer Licensing (D) Task Force, Oct. 7, 2026*

**Chapter 19**

**Bail Bond Agents**

A bail bond is one method used to obtain the release of a defendant awaiting trial related to ~~upon~~ criminal charges from the custody of law enforcement officials. A bail bond can be based on an insurance product or collateral. The defendant, the defendant's family or~~and~~ friends, or a professional bail bond agent executes a document that promises to forfeit the sum of money determined by the court to be commensurate with the gravity of the alleged offense if the defendant fails to return for the trial date. A bail bond is considered a three-part contract between the defendant, the government and the insurance company.

Some states regulate bail bonds through the insurance department, and others leave the administration to the discretion of the court system or a combination of both. ~~It is usually required that a bail bond insurer file a power of attorney with the local court authority. This power of attorney is proof to the court that the bail agent is authorized to write bonds for that insurer up to a certain dollar amount.~~

~~State insurance departments vary in the manner in which bail bond activities are regulated. T~~here is no NAIC model to guide state licensing directors for bail bond agents. A number of states use the surety line of authority (LOA) to regulate only the bonds that are insurance-based. In other states, a more comprehensive system has been developed that includes examinations, background checks, and personal integrity bonds. The majority of bail bond transactions are executed by resident bail bond agents. Some states prohibit nonresident bail bond agents. In many states, the state court system and local county sheriff may also have a process for approval of bail bond agents.

States that regulate bail bond agents should consider including the following elements in their regulatory scheme:

1. Minimum content and disclosure requirements for the bail bond contract.
2. Detailed record-keeping.
3. Requirement that bail funds be segregated in a trust account.
4. Appointments for all bail bond agents.
5. Written examination.
6. Background check, including fingerprints.
7. Prelicensing education on state laws and bond procedures.
8. Completion of continuing education (CE).
9. Laws that clearly place liability on insurers' appointed bail bond agents who fail to comply with state law on bail bonds and return of collateral.
10. Cross reference the *Producer Licensing Model Act* (#218) and the state's unfair trade practices act to apply penalties for misconduct.
11. Laws that create a fiduciary relationship between the bail bond agent and the criminal defendant.
12. Dialogue with the appropriate state court and law enforcement officials to coordinate efforts at regulating bail bond agents.
13. Adoption of a specific list of prohibited activities by bail bond agents.

**Bond Forfeiture**

Forfeiture enforcement may or may not be the responsibility of the state insurance department. In some states, enforcement is left to the court system. This may result in a bail bond agent's bond privileges being revoked in a particular county. If enforcement is the responsibility of the state insurance department, the state will likely have authority to suspend or revoke the license of a bail bond agent.

**Prohibited Activities**

The following list contains excerpts from several states' laws and regulations regarding bail bond agent licenses. This is a suggested starting point for states to draft a list of prohibited activities for bail bond agents and insurers:

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1. Pay, rebate, give or promise anything of value to a jailer, peace officer, magistrate, or any other person who has power to arrest or hold a person in custody, or to any public official or public employee for the purpose of securing a settlement, compromise, remission or reduction of the amount of a bail bond, or to secure delay or other advantage. This section does not prohibit public reward paid for the return of a fugitive.
2. Pay, rebate, give or promise anything of value to an attorney in a bail bond matter, except in defense of an action on a bail bond, collateral or indemnification agreement.
3. Pay, rebate, give or promise anything of value to a defendant or anyone acting on the defendant's behalf in exchange for a referral of bail bond business.
4. Recommend a particular attorney to represent a defendant.
5. Solicit business where a prisoner is confined in or near a courtroom if otherwise prohibited by court order or law.
6. Sign or countersign a bail bond that the licensee did not execute.

**Immigration Bonds**

An immigration bond guarantees the Department of Homeland Security (DHS) and/or Department of Justice (DOJ) ~~Immigration and Naturalization Service (INS)~~ that an alien will comply with one of several obligations under U.S. immigration laws. Most often, an immigration bond guarantees the alien while released from U.S. custody during the pendency of immigration proceedings with DHS or DOJ. ~~the government's case for unlawful entry into the country.~~ An immigration bond can be in the form of a surety product or collateral (see ICE~~NS~~ Form I-352). With respect to surety products, the underlying guarantee is an insurance product permitted to be issued solely by a licensed insurer. Consequently, an individual selling, soliciting or negotiating an immigration bond must maintain a resident or nonresident producer license in order to legally sell the bond in a state.

States should recognize that immigration bonds are a form of insurance required to be issued by a licensed insurer, and the sale, solicitation and negotiation of immigration bonds constitute activities for which an individual must maintain a license as a resident or nonresident producer under the respective states' licensing laws. New Jersey Bulletin No. 09-09 contains an example of notification regarding appropriate treatment of immigration bonds.

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**Chapter 24**

**Managing General Agents**

A managing general agent (MGA) is an insurance producer authorized by an insurance company to manage all or part of the insurer's business in a specific geographic territory. Activities on behalf of the insurer may include marketing, underwriting, issuing policies, collecting premiums, appointing and supervising other agents, paying claims, and negotiating reinsurance. Many states regulate the activities and contracts of MGAs.

The NAIC has adopted the *Managing General Agents Act* (#225) to guide the states in regulating MGAs. Under the model, an MGA is defined as any person who engages in all of the following:

1. Negotiates and binds ceding reinsurance contracts on behalf of an insurer or manages all or part of the insurance business of an insurer—including the management of a separate division, department or underwriting office—and who acts as an agent for such insurer whether known as a managing general agent, manager or other similar term or title.
2. With or without authority and either separately or together with affiliates, directly or indirectly produces and underwrites an amount of gross direct written premium equal to or greater than 5% of the policyholder surplus in any one quarter or year, as reported in the last annual statement of the insurer.
3. Engages in either or both of the following:

   (a) Adjusts or pays claims in excess of an amount determined by the insurance commissioner.
   (b) Negotiates reinsurance on behalf of the insurer.

Under the model, an MGA does not include any of the following:

1. An employee of the insurer.
2. A manager of a U.S. branch of an alien insurer who resides in this country.
3. An underwriting manager who, pursuant to contract, manages all insurance operations of the insurer, who is under common control with the insurer, subject to [cite to state law] relating to the regulation of insurance holding company systems, and who is not compensated based upon the volume of premiums written.
4. ~~An insurance company, in connection with the acceptance or rejection of reinsurance on a block of business.~~
5. The attorney-in-fact authorized by or acting for the subscribers of a reciprocal insurer or inter-insurance exchange under ~~a~~ powers of attorney.

In most states, MGAs must be licensed as producers and are not allowed to place business until a written contract exists among all parties. Under Model #225, insurers are required to monitor the financial stability of MGAs under contract.

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**Chapter 30**

**Viatical and Life Settlement Providers and Brokers**

The *Viatical Settlements Model Act* (#697) defines a viatical settlement as a transaction in which the owner of a life insurance policy sells the right to receive the death payment due under the policy to a third party. Typically, the owner/insured receives a cash payment, and the buyer agrees to make any remaining premium payments on the policy.

In 1993, the NAIC adopted the *Viatical Settlements Model Regulation* (#698) and Model #697 to provide a regulatory structure to protect consumers involved in viatical settlements. Model #697 was revised in 2003 and 2004 to address the issue of healthy consumers who might want to sell their insurance policy on the secondary market, better known as "life settlements."

Licensing requirements vary as a result of the several versions of Model #697. Under the 1993 version of Model #697, a viatical settlement broker was required to have an underlying life producer license before being able to apply for and receive a viatical settlement broker license. This provision was not uniformly adopted.

The 2003 version of Model #697 provided for licensing procedures of individuals who were not licensed life insurance producers by requiring continuing education (CE) to maintain the license. The 2003 version was modified in 2004 to allow for licensed life insurance producers to notify or register with the state insurance regulator, as prescribed by the insurance commissioner if they were engaging in the business of settlements, and exempted life insurance producers from the viatical settlement brokers' examination and the CE requirements.

The 2003 and 2004 versions of Model #697 also required the viatical settlement broker to maintain financial responsibility in the form of an errors and omissions (E&O) policy, surety bond, cash deposit, or a combination of any of the three. It also placed fiduciary responsibility requirements on the broker. The 2003 and 2004 versions of Model #697 required brokers to disclose the method by which compensation was calculated and the amount of compensation. It is essential that the viatical broker meet the licensing requirements of the state where the transaction occurs.

The 2003 version of Model #697 also provided for licensing procedures for viatical settlement providers.

Model #697 was revised in 2007 to address, among other things, transactions that have been called stranger-originated life insurance (STOLI) or investor-originated life insurance (IOLI). These transactions are related to a life insurance policy exhibiting any one of three characteristics prior to or within two years of policy issue:

1. Non-recourse premium financing.
2. Guarantee of settlement.
3. Settlement evaluation.

Settlement of such policies is prohibited for five years.

Other key revisions include:

1. New consumer disclosures related to viatical settlement compensation.
2. A new consumer disclosure requiring a statement that the viatical settlement broker exclusively represents the viator and owes a fiduciary duty to the viator, including a duty to act in the best interest of the viator.
3. Allowing life agents to sell without a viatical license, but special conditions apply.

Additional revisions include:

Under specified circumstances, a life insurance producer may operate as a viatical settlement broker. The life insurance producer is deemed to meet the viatical settlement broker licensing requirements. The revisions also permit a person licensed as an attorney, certified public accountant (CPA), or financial planner accredited

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by a national recognized accrediting agency, who is retained to represent the viator and whose compensation is not paid directly or indirectly by the viatical settlement provider, to negotiate viatical settlement contracts on behalf of a viator without having to obtain a viatical settlement broker's license.

To receive and maintain a license, the 2007 revisions require a viatical settlement provider or broker to demonstrate evidence of financial responsibility through a surety bond, a deposit of cash, certificates of deposit, securities, or any combination thereof in the amount of $250,000. The surety bond must be issued in the favor of the state and must specifically authorize recovery by the insurance commissioner on behalf of any person in the state who sustained damages as the result of erroneous acts, failure to act, conviction of fraud, or conviction of unfair practices by the provider or broker. The insurance commissioner may ask for evidence of financial responsibility at any time the insurance commissioner deems necessary. The revisions make it clear that a provider or broker that is licensed in more than one state is not required to file multiple bonds in each state. Some problems have arisen with implementing the bonding requirements of Model #697. Regulated entities argue that it is impossible to obtain a bond as described in Model #697. Viatical settlement providers and viatical settlement brokers shall have in place antifraud initiatives reasonably calculated to detect, prosecute and prevent fraudulent viatical settlement acts. As described in greater detail in Model #697.

The revisions also require an individual licensed as a viatical settlement broker to complete, on a biennial basis, 15 hours of training related to viatical settlements and viatical settlement transactions. A life insurance producer who is operating as a viatical settlement broker is not subject to this requirement.

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