

A Workplan to

Identify & Remove Unnecessary Barriers to Producer Licensure

Updated, July 2024



Introduction / Purpose Statement

The American Council of Life Insurers, the National Association of Insurance and Financial Advisors and Finseca all strongly support efforts to address increasing concerns about agent recruitment, retention and diversity. Americans' unique financial needs continue to drive demand for more licensed, highly skilled life insurance producers and financial professionals. By joining our efforts, ACLI, NAIFA and Finseca have pledged to work together to identify and remove unnecessary barriers that prevent otherwise qualified candidates from entering and remaining in the industry. These organizations share the conviction that a robust and diverse producer base is fundamental to the commitment of life insurers and life insurance producers/advisors to provide access to protection and savings products for all individuals.

Working in partnership with the NAIC, NCOIL, individual state regulators and legislators, there is a shared objective to bring greater uniformity and efficiency across the producer licensing process. This will not only support individuals of underserved and underrepresented communities but will also serve to encourage insurers and agency leaders to make greater investments in recruitment, training and retention.

While there has been progress in recent years, there is much more to be accomplished. By taking a systematic approach and looking at all facets of the current licensing ecosystem, a few key areas of potential improvement emerge. This document examines background screenings, background checks and waiver reviews, pre-licensing education requirements, examination pass rates, online and non-English exam administration and continuing education credits' role in retention in the first years of a producer's career. **Requirements that constitute unnecessary barriers or that no longer serve today's regulatory environment should be identified and removed from the producer licensing process.**

Continuing full support for the primary purpose of licensing standards, and to ensure the licensure of **qualified** producers, some solutions will require a legislative or regulatory change, and life insurers and producers are committed to working with regulators and legislators to achieve these goals. Therefore, in support of the NAIC Producer Licensing Model Act, the NAIC Uniform Licensing Standards, and other similar materials developed over the years to promote uniformity and efficiency, the NAIC Producer Licensing Handbook may be particularly well-suited to document best practices that will further open the doors to greater numbers of qualified individuals of all backgrounds.

Below are several topics and workstreams that regulators and legislators can address to make meaningful steps forward in addressing unnecessary barriers to recruitment, retention and diversity in the life insurance industry.

- Background Checks and Waivers
- Mandatory Pre-Licensing Education Hours
- Declining Producer Exam Performance
- Additional Language Licensing Exams & Materials
- Online Access Exams
- Expanding Mentorship Programs by Reimagining CE's role in Retention

Background Checks and Waivers (1033)

The insurance producer background checks & waiver process is due for review and revision. Often referred to as a 1033 waiver, individuals can apply for a special review of criminal records during the licensing process. Individual insurance departments tend to have unique protocols for 1033 waiver applications. Basic matters, such as the availability of related documents on department websites, processes, and applications, and even fees lack uniformity found in other areas of the licensing process.

These topics have appeared before the NAIC Producer Licensing Task Force (PLTF) and the NAIC Anti-Fraud Task Force, who developed the NAIC 1033 waiver guidance more than a decade ago. However, with the industry evolving, this guidance has proven difficult for many departments to implement. Simplified guidance and best practices are instrumental in creating a more uniform approach. In addition, the PLTF learned that several states allow potential 1033 candidates to seek a pre-review to gauge their likelihood of success. This initiative, not currently present in the NAIC guidance, should be taken up by the PLTF for consideration.

Potential Workstreams

- Promote the uniform availability of 1033 applications & related documents on department websites.
- Eliminate fees associated with 1033 applications.
- Support innovative ways of interacting with 1033 candidates by, for example, allowing applicants to assess their likelihood of success before embarking on the application process.
- Explore avenues to share information concerning 1033 waiver processes between states that utilize centralized licensing platforms, including NIPR and Vertafore.

Success Scorecard to Date

- Pennsylvania piloted its pre-licensing determination program that allows candidates to request a preliminary review of their background prior to taking the exam or applying for a license¹. Additionally, PA releases an annual licensing report detailing the reason for denials and the types of convictions.
- Tennessee amended its Insurance Producer Licensing Act limiting the lookback of misdemeanors or Class E felonies to 10 years for insurance agent applicants, to be considered by the Commissioner. The bill was signed into law on April 8, 2022.

¹ Pennsylvania Insurance Department, Preliminary Licensing Determination Process, <https://www.insurance.pa.gov/Licensees/pre-licensing-determination/Pages/default.aspx>

Mandatory Pre-Licensing Education Hours

An additional barrier to entry is the presence of unnecessary pre-licensing education mandates. While not diminishing the necessity for exam preparation, pre-licensing **mandates** are becoming increasingly difficult to justify. The ostensible purpose of pre-licensing mandates is to ensure candidates are prepared for the profession by helping them pass the licensing exam. Yet more than a decade ago, the NAIC's Producer Licensing Working Group determined that pre-licensing mandates do not achieve this goal. In a 2011 memo, the Working Group stated that it was unable to conclude that pre-licensing education "*impacts test scores in a positive or negative way.*"

Research shows that pre-licensing mandates do not produce candidates more prepared to pass the exam. While this may seem counterintuitive, upon reflection, it makes sense as pre-licensing education is still widely utilized in states without a mandate. **Applicants do not need to be told by the state to study.** Additionally, states without a mandate conduct post-exam questionnaires inquiring about time, methods, and modes of preparation.² These reports indicate that many candidates for licenses still take a course, buy materials, or otherwise, prepare for the exam. The difference in non-mandated states is candidates for a license are free to study in a way that best fits their schedule, budget, and study habits.

Despite being agnostic for exam preparation, pre-licensing mandates serve as barriers to entry into the industry. This can include requiring excessive or unnecessary commitments of time, money and methods of study that discourage applicants who might also be caregivers, considering insurance as a second career, or who come from non-traditional educational backgrounds. By removing the mandates, candidates can study in a way that fits their needs and situation. These barriers are all particularly important when we consider the varying needs of those who may be caregivers, considering insurance as a second career, or who come from non-traditional educational backgrounds.

Since 2008, twelve states have eliminated or reduced their education mandates.

Today, the number of states with pre-licensing education mandates numbers less than 20. The number of states out-of-compliance with the NAIC standard for pre-licensing because they require more than 20 hours pre-licensing education is down to three.

Success Scorecard to Date

- Since this workplan was issued in 2022, eight states have eliminated their pre-licensing education mandates or reduced their hours. These states include Louisiana, Washington, Alabama, Tennessee, Florida, Maryland, Mississippi and Georgia. Several more states have introduced, or are considering, legislation or regulations.

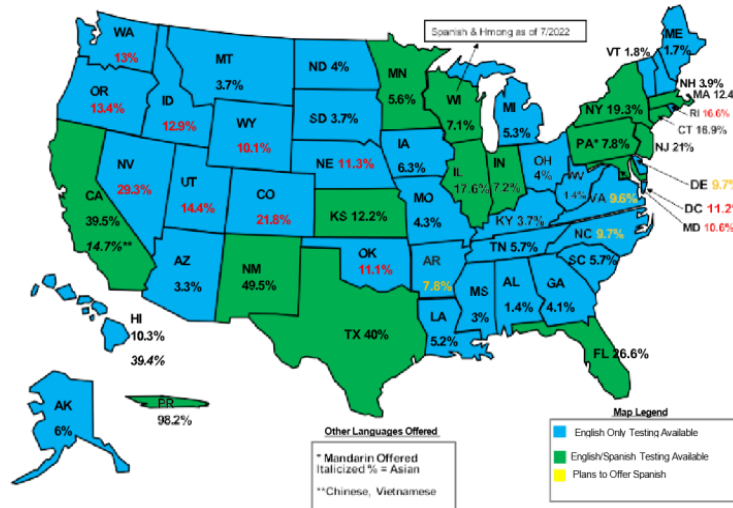
² Virginia Bureau of Insurance, *Virginia Insurance Demographic Report (June 2021 – May 2022)*, https://www.scc.virginia.gov/getattachment/eec01001-5c7f-450d-bc26-a89acb94748d/VAINS-Demographic-Report_Jun21_May22.pdf

Additional Language Licensing Exams & Materials

The industry recognizes the impact of increasing diversity within the financial services profession. State insurance departments are encouraged to expand non-English language options for insurance licensing exams.

Ideally, a state should look at the most spoken languages within their state, and for most, this would result in expanding exams & materials to include Spanish language offerings. Providing producer license exams in Spanish will enable more Hispanic agents to enter the profession and serve their communities. The map below highlights states that offer producer exams in Spanish, in comparison to the percentage of the population that is Hispanic. Data shows that over a dozen states with a significant Hispanic population do not currently offer exams in Spanish.

Producer License Exam Spanish Version & Hispanic Population % – 1/4/2024
 Fifteen states currently offer Examinations in Spanish

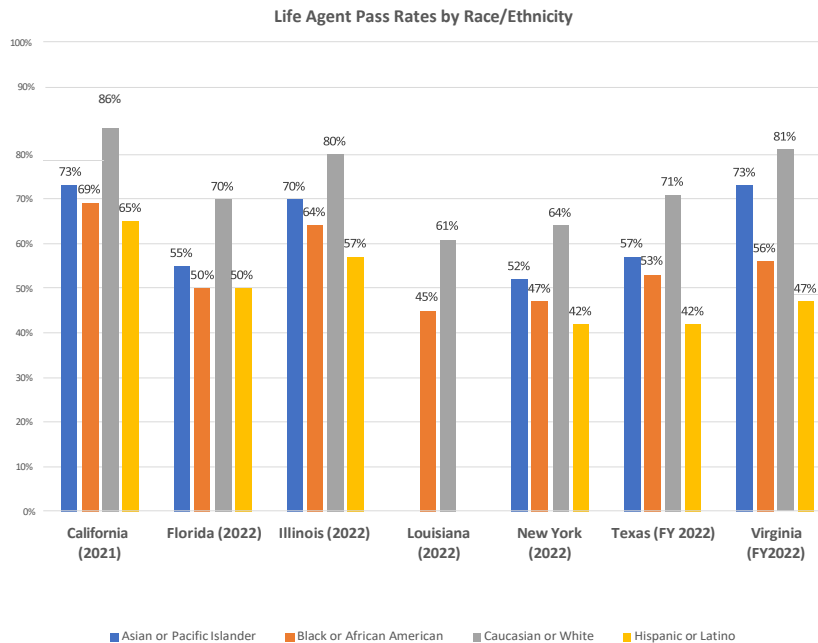


Producer Exam Performance & Pass Rates

There have been recent efforts by the NAIC to report on the steps exam vendors have taken to mitigate cultural bias in producer licensing exams; however, based on state-level data, this issue deserves closer attention.

There are only seven states that annually prepare and publish licensing exam pass rates by demographic, including race/ethnicity. For more than a decade, these reports have routinely shown Caucasian/white candidates scoring higher than other demographic groups across nearly all lines.³

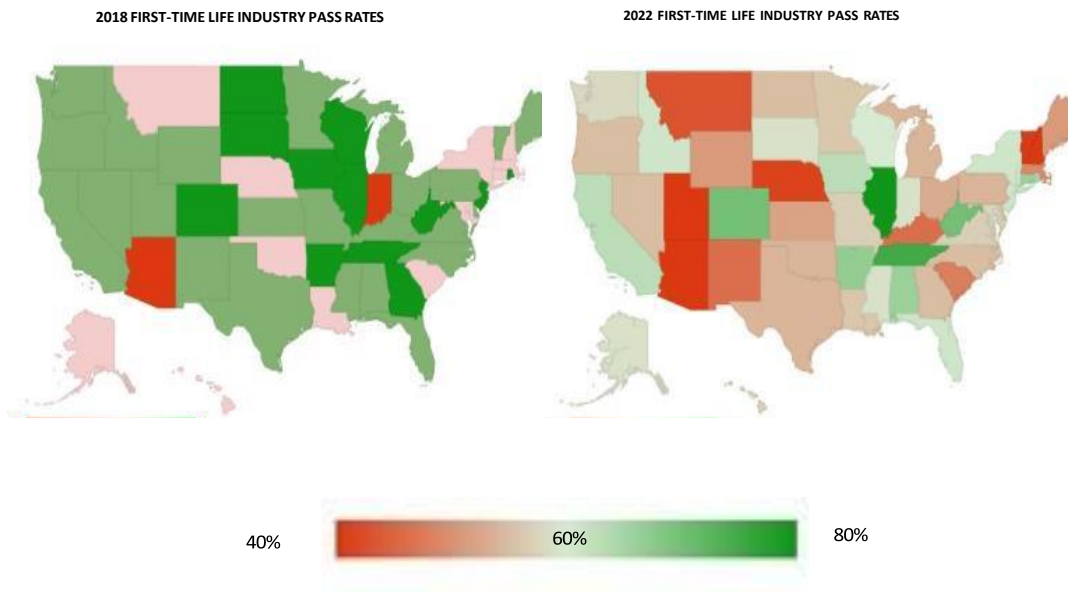
When comparing Life Insurance Exam Pass Rates by Race/Ethnicity, an alarming trend appears. It's clear that non-Caucasians or non-white demographics are not efficiently making it through the licensing process. This clearly suggests licensing exams warrant more scrutiny, particularly to ensure these tests are not screening diversity from the industry.



However, data suggests that exam rates across all demographics are declining. It's critical that exams remain entry-level and that national vendors are monitored appropriately to avoid incentivizing higher fail rates, and subsequent higher retake attempts.

³ Virginia Bureau of Insurance, *Virginia Insurance Demographic Report (June 2021 – May 2022)*, https://www.scc.virginia.gov/getattachment/eec01001-5c7f-450d-bc26-a89acb94748d/VAINS-Demographic-Report_Jun21_May22.pdf

Evidence suggests that life producer exam pass rates remain down significantly in many states since the pandemic. Jurisdictions experiencing declines include a mix of states with and without pre-licensing mandates, which further proves that pre-licensing hours are not a factor. The NAIC handbook states that first-time pass rates should fall between 60 and 80 percent. While most states fell within that range pre-2020, many have now fallen out and have not improved



Source: State & Vendor Reports

As the dialogue continues, one area of focus needs to be the process that national vendors use for setting exam difficulty. At least one major vendor that has asked client states to sign off in “agreement” on pass rates, advising to use pass rates as a judge that the state’s exams are sufficiently difficult. Further, the vendor typically only provides its clients with a list of pass rates from other states but only pass rates from states where that vendor has contracts. If other vendors use similar methods for determining difficulty, the impact of this difficulty setting process on different demographic groups might be contributing to the herding of pass rates by a vendor that is evident in data today.

States should aim to provide transparency in pass rate data from their administering vendors, as regulators and industry alike will benefit. Increased data can be leveraged as a tool to identify gaps and barriers to the exam process. States can also leverage their exam review committees/boards to review exam questions and ensure the exam remains entry-level while still ensuring that new producers are prepared to conduct business within the industry and holding exam providers accountable.

Online Accessible Exams

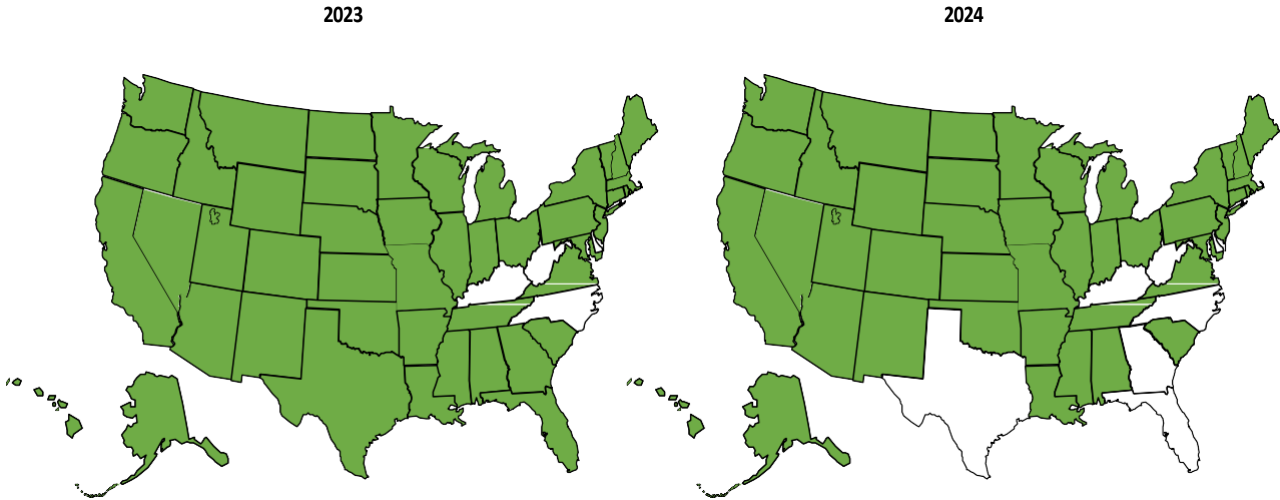
One of the lessons drawn from experience during COVID-19 is the use of online proctored exams. Proctored exams can offer equivalent security measures as applied to in-person exams and an online option makes the exam process more convenient for a wider variety of individuals.

Unfortunately, at the start of 2024, several states stopped offering remote exams. Reasons that caused these states to pull back their remote options must be quickly addressed. The presence of remote testing is critical to maintain a resilient producer licensing ecosystem. As the pandemic showed, producers licensing can grind a halt without an online option. In addition, remote testing is essential for producers who may live far away from testing centers or have obligations that make testing from home a better fit.

An update to the Producer Licensing Handbook reiterating the allowed use of online testing and a best practices/guidance document that reflects steps that can be taken to ensure the integrity of online exams would be another excellent project for the PLTF in our view.

Success Scorecard to Date

In March of 2020, only 5 states offered online exams. In 2023, that number increased to 46. Today, the number of states offering remote testing is down to 43.



Expanding Mentorship Programs by Reimagining CE's role in Retention

Producer recruitment, testing and licensing are **vital** to delivering financial security to a broader base of consumers. But improving training and retention rates within the profession is equally as impactful. **Over half of current producers are 55+.** And research conducted by LIMRA reveals that many expect to consider a business transition plan in the next ten years, leaving uncertainty in the workforce. ⁴

An increased focus on retention will help diverse recruits succeed as life insurance producers and as broader financial service professionals. Retention estimates sit at a mere 14 percent after four years. Encouraging strong support systems for new producers can ensure more of them transition into lifelong practitioners. Additionally, improvement in onboarding and increased access to peer support groups, either internally or through industry association membership, has substantial potential for driving change.

But with so many producers poised to retire with a need for a smooth transition from one generation to the next, the environment is ripe for quality mentorships. Mentorships and agent teaming arrangements will vastly improve the quality and longevity of our profession, but currently, there isn't a mechanism built into the licensing process to encourage this avenue. By creatively reimagining the role of CE credit during a producer's first and most formative years in the business, providing incentives for both mentor and mentee producers could provide a meaningful step forward. Partnering with regulators and legislators, trade organizations, carriers and firms will be able to expand options, provide greater benefits than basic continuing education courses, and increase the retention of new life insurance producers and financial services professionals.

Potential Workstreams

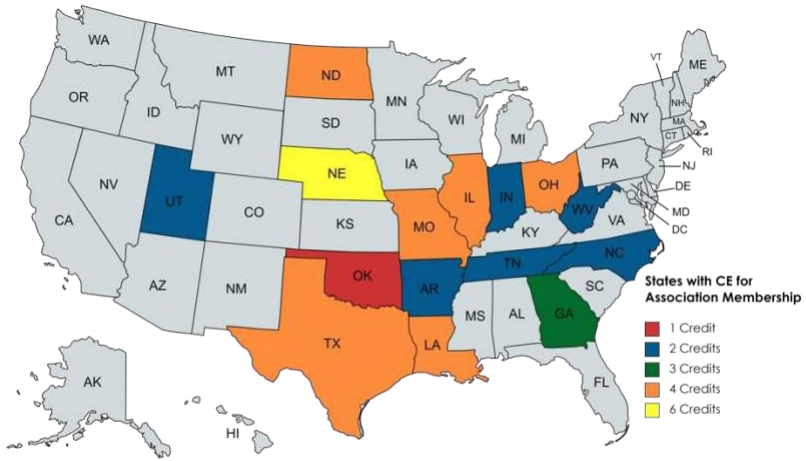
- Develop a curriculum that is encompassing enough to replace CE for the first four years a producer is licensed.
- Encourage states to adopt CE for Association Membership.

Success Scorecard to Date

- Indiana recently became the 15th state to offer CE Credit for active association membership.
- NCOIL passed a resolution Regarding Recruitment, Retention, and Diversity within the Life Insurance Profession.⁵

⁴ North Star Resource Group & LIMRA, *Adoption: Solving for the Retention, Practice Continuation, and Talent Shortage Challenge Within the Financial Services Profession, 2018*, <https://myadvocis.ca/wp-content/uploads/2019/08/LIMRA-White-Paper-on-Adoption-.pdf>

⁵ National Council of Insurance Legislators, *Resolution Regarding Recruitment, Retention, and Diversity within the Life Insurance Agent Profession*, <https://secureservercdn.net/50.62.194.59/33a.fce.mwp.accessdomain.com/wp-content/uploads/2022/06/NCOIL-Draft-LI-Agent-Reso-6-24-22.pdf>



mapdata.com/usa/ce/2014

Conclusion

Removing barriers to the producer licensing process will take time and incremental steps through state legislation or regulatory action, across multiple jurisdictions and governmental entities. Many of these entities remain focused on DEI initiatives in producer licensure and expanding access to financial security products to disenfranchised and underinsured communities. Across stakeholders, now is the time to act, and taking the steps outlined here will drive progress in recruitment, retention and closing the coverage gap in underserved communities.

ACLI, NAIFA and Finseca stand ready to assist and look forward to collaborating with the NAIC, NCOIL, and others to achieve the goals highlighted above.

About ACLI

The [American Council of Life Insurers](#) (ACLI) is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. 90 million American families rely on the life insurance industry for financial protection and retirement security. ACLI's member companies are dedicated to protecting consumers' financial wellbeing through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

About Finseca

At [Finseca](#), we know that financial security improves people's lives and protects their livelihoods and future wellbeing. We are rising to the challenge of increasing financial security for all. Finseca represents the men and women of the financial security profession who dedicate themselves to delivering financial security to their clients every day.

About NAIFA

Founded in 1890 as [The National Association of Insurance and Financial Advisors](#), NAIFA is the oldest, largest, and most prestigious association representing the interests of financial professionals from every Congressional district in the United States. Our mission – empowering financial professionals and consumers with world-class advocacy and education – is the reason NAIFA has consistently and resoundingly stood up for agents and called upon members to grow their knowledge while following the highest ethical standards in the industry.