

April 28, 2022

Commissioner Sharon P. Clark  
Public Protection Cabinet  
Kentucky  
Department of Insurance  
500 Mero Street  
Frankfort, KY 40601

Director Larry D. Deiter  
Department of Labor and Regulation  
South Dakota  
Division of Insurance  
124 S. Euclid Ave, 2nd Floor  
Pierre, SD 57501

Dear Commissioner Clark and Director Deiter:

Thank you for your leadership of the NAIC's Producer Licensing (D) Task Force (PLTF), and we look forward to contributing to the many workstreams that are on the Task Force agenda for 2022. In particular, ACLI and NAIFA believe that meaningful steps can be taken this year in furtherance of the NAIC Race & Insurance Initiative as it pertains to producers. Both ACLI and NAIFA have our own initiatives aimed at increasing diversity within the insurance industry, and we know the broad goals of expanding opportunity and fairness are shared by all who follow the important work of the PLTF. We hope that addressing the items below will assist in filling the producer talent pipeline to the benefit of our industry and the families and businesses that depend on us all.

As we have stated on previous occasions, ACLI and NAIFA fully support the primary purpose of licensing standards, which is to ensure the licensure of qualified producers. We believe, however, there are some practices that can create unnecessary barriers to individuals seeking a license. As states and the NAIC pursue the goals of diversity, equity, and inclusion, we believe it is important that these barriers be addressed in an effort to open the doors of the insurance profession to more qualified individuals.

We understand that the NAIC Producer Licensing Handbook may be reviewed this year. Our organizations fully support refreshing the Handbook as it has been several years since it was last updated. Some of the items we have in mind for revision may require statutory changes, but many things involving convenience, accessibility and fairness can be accomplished by insurance

**American Council of Life Insurers** | 101 Constitution Ave, NW, Suite 700 | Washington, DC 20001-2133

---

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 95 percent of industry assets in the United States.

Founded in 1890, NAIFA represents the interests of more than 20,000 licensed insurance agents and financial advisers across the country. Ninety percent of NAIFA members serve middle-income clients and lower-income individuals and families. NAIFA members advocate at the state and federal levels to ensure policymakers hear directly from advisors and agents serving Main Street USA. Our mission is to encourage a positive legislative and regulatory environment, enhance business and professional skills, and promote the ethical conduct of our members.

department actions. We think the Producer Licensing Handbook is an excellent place to document best practices that will further producer licensing uniformity and efficiency. Set forth below are a number of topics we think could be addressed by the PLTF in the Handbook or elsewhere this year.

### 1033 Waiver Process

As the PLTF has discussed previously, the 1033 waiver process is likely due for some review and revision. Individual insurance departments appear to vary greatly with respect to how 1033 waiver applications are handled. Some departments have 1033 documents readily available on their websites while other departments do not. Some, but not a majority of departments, charge fees associated with a 1033 application. The NAIC 1033 waiver guidance that was developed more than a decade ago by the NAIC Antifraud Task Force is comprehensive but does not lend itself to easy application by departments. Simplified guidance/best practices could be of great benefit in creating a more uniform approach. In addition, the PLTF heard that at least a couple of states allow potential applicants to seek a pre-review to gauge their likelihood of success. This is an example of an initiative not currently contained in the NAIC guidance that the PLTF could take up for consideration.

### Mandatory Pre-Licensing Education Hours

A second barrier to entry that ACLI believes states should address is the presence of unnecessary pre-licensing education mandates. From a public policy standpoint, 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 (attached), the Working Group stated that it was unable to conclude that pre-licensing education "*impacts test scores in a positive or negative way.*"<sup>1</sup>

At first, the fact that pre-licensing mandates do not produce better agents more prepared to pass the exam may seem counterintuitive. Upon reflection, however, it makes sense. After all, pre-licensing education still happens in states without a mandate. This is because applicants for a license do not need to be told by the state to study. Reports from states without a mandate suggest the overwhelming majority of candidates for license still take a course, buy materials, or otherwise prepare.<sup>2</sup> The difference in non-mandate states is candidates for a license are free to study in a way that best fits their schedule, budget, and study habits.

Interestingly, the NAIC's 2011 survey was not the first-time it was acknowledged that there is no correlation between pre-licensing and better agents. Materials in the NAIC's library reveal that stakeholders understood in the early 1980s that pre-licensing did not correlate with better exam performance. Despite this acknowledgement, pre-licensing mandates were pushed as a way to "*professionalize*" insurance agents. Unfortunately, there appears to have been little discussion at the time about how the pursuit of an ill-defined "*professionalism*" could result in licensing hurdles that might limit diversity in the licensed agent population.<sup>3</sup>

---

<sup>1</sup> Producer Licensing Working Group Memo to Task Force Chair Roger Sevigny, 8/12/2011.

<sup>2</sup> Texas Department of Insurance, Demographic Analysis, 2014-2020.

<sup>3</sup> "Life Agent Qualifications and Mandatory Continuing Education," William Albus, *Journal of Insurance Regulation*, 1984.

There are many ways pre-licensing mandates serve as barriers to entry, including requiring 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 education backgrounds. These barriers—not to mention the costs states incur keeping them in place—might be acceptable if mandates were producing a public policy benefit, but the evidence shows they are not.

Today, there are still over twenty states with pre-licensing education mandates, although the trend is for states to eliminate these mandates. The NAIC's official position on pre-licensing mandates is that no pre-licensing education requirement is necessary. This position is articulated in the Uniform Licensing Standards. While the Standards give safe harbor to states that have a mandate of 20 hours per line, ACLI hopes the PLTF can have a discussion around this that will lead to the removal of pre-licensing mandates altogether.

### **Producer Exam Effectiveness**

We know that the Task Force is working with the Special (EX) Committee on Race and Insurance to report on steps exam vendors have taken to mitigate cultural bias in producer licensing exams. Based on data coming from states, we believe this is an area that deserves more attention.

There are at least 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 "*significantly higher*" than other demographic groups across nearly all lines. For the Committee's reference, we have enclosed a chart that captures recent Life Agent exam pass rates by race/ethnicity from the seven reporting states. This chart reveals an alarming trend in who is and who is not efficiently making it through the licensing process, and it suggests licensing exams warrant more scrutiny, particularly to ensure these tests are not screening diversity from the industry.

As conversations continue, we believe one area of focus should be the process the national vendors use for setting exam difficulty. We know that at least one vendor in the past has asked its client states to sign off in "agreement" on pass rates, and it advises its clients to use pass rates to judge if the state's exams are sufficiently difficult. This vendor typically provides its clients with a list of pass rates from other states but only pass rates from states where that vendor has contracts. We believe the committee should explore if other vendors use similar methods for determining difficulty, the impact of this difficulty setting process on different demographic groups, and whether methods like this might be contributing to the herding of pass rates by vendor that is evident in data today.

### **Other Initiatives**

ACLI and NAIFA, in addition to the removal of unnecessary barriers, also support the exploration of proactive initiatives that can foster the growth of licensed producers. The availability of online proctored exams is an example of this kind of initiative. As the PLTF has learned, an overwhelming number of states currently allows online exams, and there does not appear to be much, if any variance in pass rates. The testing vendors have described the steps taken to ensure the integrity of online exams. A best practices/guidance document generally setting forth such steps would be another excellent project for the PLTF in our view.

Other ideas that have surfaced include the encouragement of mentoring programs that will hopefully improve retention, and exam delivery for non-primary English speakers. Other recommendations likely exist that will encourage company recruitment of individuals from all backgrounds.

Thank you again for your continued leadership of the PLTF, and the important work underway in support of diversity and inclusion within the producer community.

Sincerely,

Meaghan Gale

A handwritten signature in cursive script that reads "Meaghan Gale".

Policy Director, Government Relations  
National Association of Insurance and Financial Advisors

David Leifer

A handwritten signature in cursive script that reads "David M. Leifer".

Vice President & Associate General Counsel  
American Council of Life Insurers

Ian Trepanier

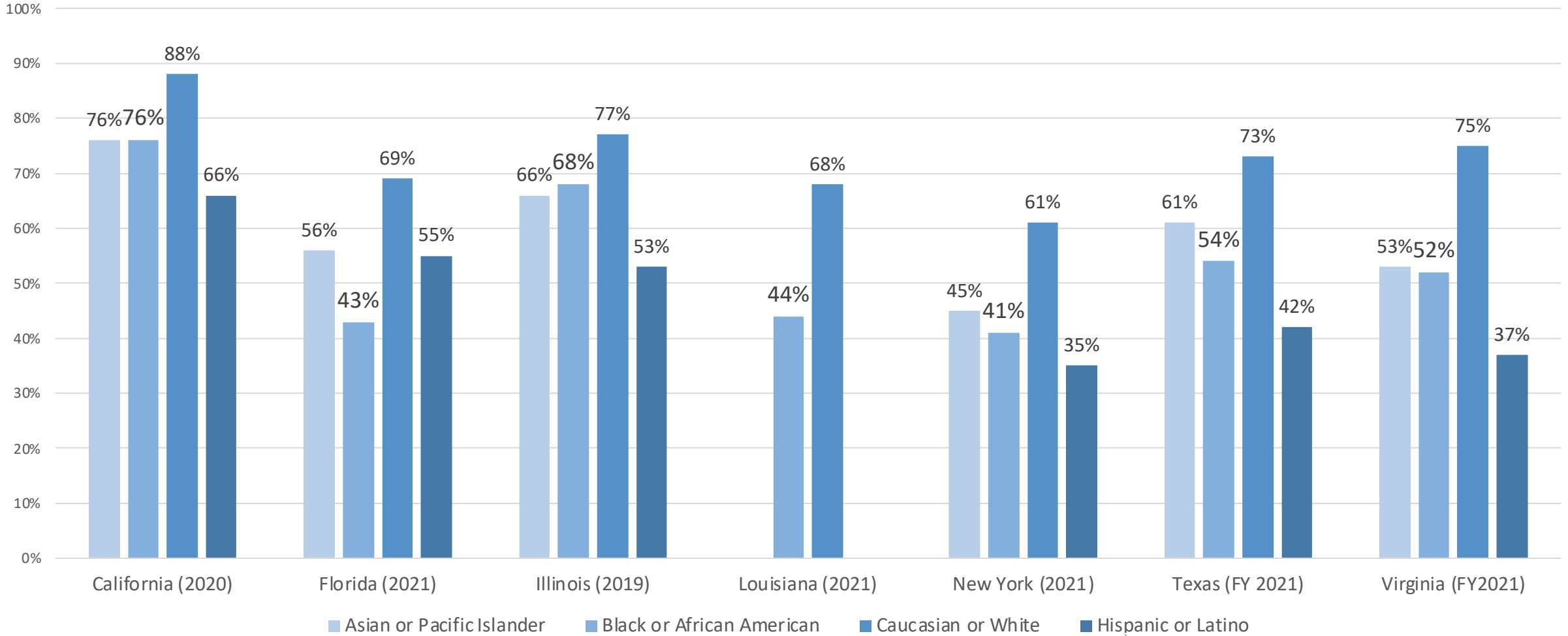
A handwritten signature in cursive script that reads "Ian Trepanier".

Policy Analyst  
American Council of Life Insurers

CC: Tim Mullen, Director, Market Regulation, National Association of Insurance Commissioners

Attachments: 2011 NAIC Producer Licensing Working Group Memo  
Demographic Chart

# Life Agent Exam Pass Rates by Race/Ethnicity



**SOURCES:**

California	2020	<a href="https://www.insurance.ca.gov/0400-news/0200-studies-reports/0700-commissioner-report/upload/2020-Annual-Report-of-the-Insurance-Commissioner.pdf">https://www.insurance.ca.gov/0400-news/0200-studies-reports/0700-commissioner-report/upload/2020-Annual-Report-of-the-Insurance-Commissioner.pdf</a>
Florida	2021	<a href="https://myfloridacfo.com/docs-sf/insurance-agents-and-agency-services-libraries/agents-docs/licensure/education/reports/fldfs-lifeinsexam2021.pdf?sfvrsn=622f4853_6">https://myfloridacfo.com/docs-sf/insurance-agents-and-agency-services-libraries/agents-docs/licensure/education/reports/fldfs-lifeinsexam2021.pdf?sfvrsn=622f4853_6</a>
Illinois	2019	<a href="https://www2.illinois.gov/sites/Insurance/Reports/Reports/Candidate2019.pdf">https://www2.illinois.gov/sites/Insurance/Reports/Reports/Candidate2019.pdf</a>
Louisiana	2021	<a href="https://www.lidi.la.gov/docs/default-source/documents/publicaffairs/annualreports/2020-2021-annual-report.pdf?sfvrsn=3a994252_0">https://www.lidi.la.gov/docs/default-source/documents/publicaffairs/annualreports/2020-2021-annual-report.pdf?sfvrsn=3a994252_0</a>
New York	2021	<a href="https://www.dfs.ny.gov/system/files/documents/2022/03/annrpt_ins_agent_lic_demog_2021.pdf">https://www.dfs.ny.gov/system/files/documents/2022/03/annrpt_ins_agent_lic_demog_2021.pdf</a>
Texas	FY2021	<a href="https://www.tdi.texas.gov/reports/documents/2021-demographic-report.pdf">https://www.tdi.texas.gov/reports/documents/2021-demographic-report.pdf</a>
Virginia	FY2021	<a href="https://www.scc.virginia.gov/getattachment/b9cea7d6-b85d-4fbb-be94-a2cf5ee93cc1/VAINS-Demographic-Report_Jun20_May21.pdf">https://www.scc.virginia.gov/getattachment/b9cea7d6-b85d-4fbb-be94-a2cf5ee93cc1/VAINS-Demographic-Report_Jun20_May21.pdf</a>

\* Categories with fewer than 50 testers omitted.

**Date:** August 12, 2011

**To:** Roger Sevigny, Chair of the Producer Licensing (EX) Task Force

**From:** Anne Marie Narcini, Chair of the Producer Licensing (EX) Working Group

**Re:** Survey of States Regarding Prelicensing Education and Testing Processes

In 2011 the Producer Licensing Working Group was charged with “Continuing to review the process for examination development and delivery of education materials for pre-licensing education and provide recommendations for best practices to ensure the timely review and updates of exam material and a process geared toward testing the qualifications for an entry-level position as a producer.” In an effort to provide necessary information regarding current state processes, earlier this year all jurisdictions were sent a survey regarding their current prelicensing education and examination processes. They were also asked to provide 2010 data on first time pass rates by major line of authority as well as the number of first time test takers. Forty two jurisdictions responded to the survey and forty provided first time pass rates; not all of them including the number of exam candidates. In an effort to provide as complete results as possible, we followed up several times with states that had not responded. Since we have not been able to compile information yet from all jurisdictions, we wish to report on the data received to date. The following states provided information:

Alabama  
Alaska  
Arkansas  
Arizona  
California  
Colorado  
Connecticut  
Delaware  
Florida  
Hawaii  
Idaho  
Iowa  
Illinois \*  
Kansas  
Louisiana  
Massachusetts  
Maine

Maryland  
Michigan  
Minnesota  
Mississippi  
Montana  
Nebraska\*  
North Carolina  
North Dakota  
New Hampshire  
New Jersey  
New Mexico  
New York  
Ohio  
Oklahoma  
Pennsylvania  
Rhode Island  
South Dakota

Texas

Utah

Virginia

Vermont

\* = No test score data provided

Washington

Wisconsin

West Virginia

We have compiled the aggregate responses below. Findings include the following:

- Almost half the jurisdictions now have no pre-licensing education mandate. Several states made this switch rather than increase the number of hours required to the Uniform Licensing Standard (ULS) of 20 hours per major line of authority.
- Only one state that requires prelicensing education has less than 20 hours per line, and that is only if a producer selects more than one line. The mandatory 12 hour state specific education is only required once.
- Eight states require more education than the ULS.
- The vast majority of jurisdictions have an exam composed of two parts – general product knowledge and state specific requirements. Of the five stating they did not, most indicated that state specific information was scattered within the exam.
- States are divided in how exams are scored. The majority responding indicated they view the combined score of both parts of the exam to determine the passing grade, while 40% require the candidate to pass both parts separately in order to pass the total exam.
- The vast majority of states define the first time pass rate as the percent of applicants who pass the entire test the first time; however four states are reporting data using a different definition.
- All but one responding state use a test vendor. The state that did not develops the exam in house with help of an independent committee.
- The clear majority of states indicate they review both the general product knowledge and the state specific portions of their exams every one to two years. Most use a similar process, using department staff, Subject Matter Experts (SME's) and the testing vendor to review questions for relevancy, clarity, testing performance, and updates due to law and policy changes.
- Most states do not publish first time pass rates or pass rates by education providers; however most do provide those results to education providers or will do so upon request.
- Fourteen states indicate they do or will soon track demographic data including education level, gender, native language, race, ethnicity, study method of examinees, country of birth, and age.
- Most states have no mandated limit on the number of times an applicant can take the exam.

<b>Question</b>	<b>Response</b>
Does your jurisdiction require prelicensing education for major lines?	<b>22</b> Yes <b>20</b> No
If yes, how many Hours	<b>13</b> 20 Hours <b>1</b> 20 Hours for 1 <sup>st</sup> line; 12 for additional lines <b>8</b> More than 20 hours
Do you have two parts to your exam: State Specific & General Product Knowledge (or equivalent)	<b>37</b> Yes <b>5</b> No
If yes, do you require individuals to pass each part of the exam individually or that the combined score is a pass?	<b>15</b> Must pass each part individually <b>22</b> Combined Score is a pass
How do you define first time pass ratio?	<b>38</b> The percent of applicants who pass the entire test the first time <b>3</b> The percent of applicants who pass at least one part of the test the first time <b>1</b> The percent of applicants who pass the test within a certain number of days of first taking the exam.
Do you use a test vendor?	<b>41</b> Yes <b>1</b> No
If no, how do you develop your exam?	Develop in-house, with input and assistance from an Advisory Committee.
How often do you review the General Product Knowledge portion of the exam?	<b>27</b> Annual <b>7</b> 18 months – 2 years <b>2</b> Every 4 years <b>7</b> Other (vendor review)
How often do you review the state specific portion of the exam?	<b>31</b> Annual <b>6</b> 18 months – 2 years <b>5</b> Other (no State specific test)
Do you publish first time pass rates?	<b>12</b> Yes <b>30</b> No
Do you publish pass rates by education provider?	<b>9</b> Yes <b>33</b> No

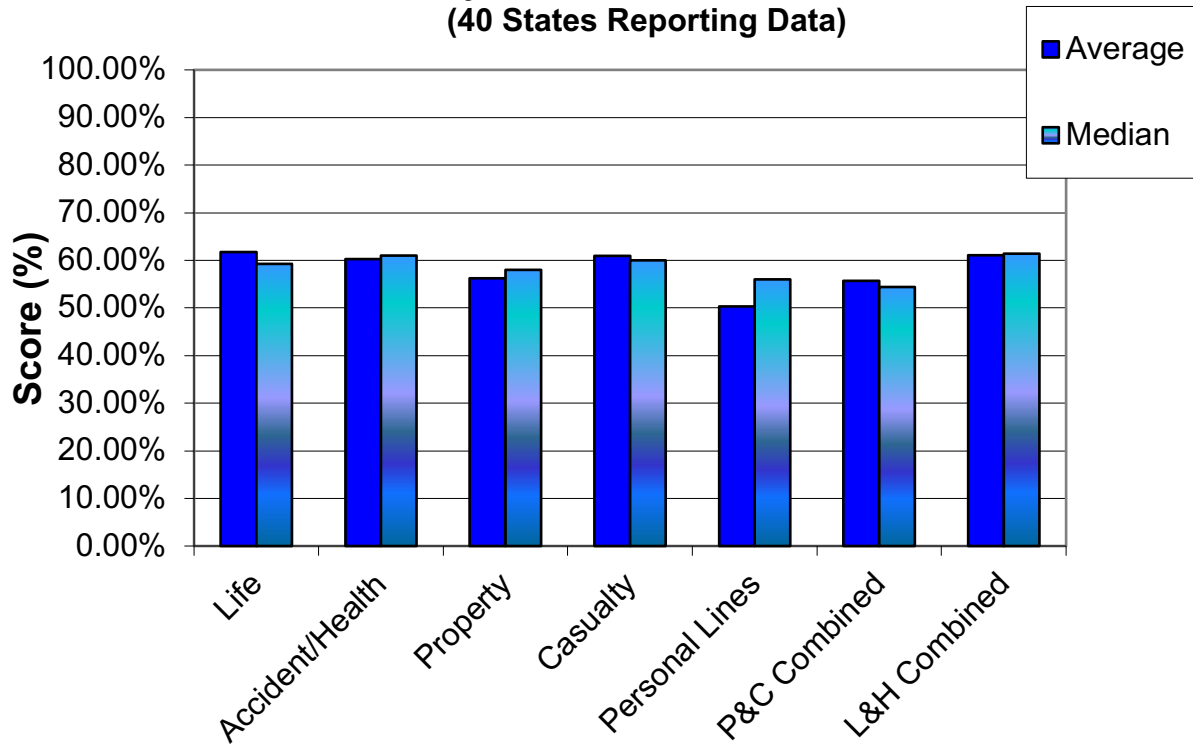


Do you provide pass rates to the education providers?	22 Yes or Upon Request 20 No
If yes, do you give them all data or just the individual school?	15 – All 6 - Individual School 1 - No answer
Do you track demographic data such as race, gender, and ethnicity?	14 – Yes (or will in 2011) 28 – No
If yes, what information do you track?	Responses include: Education level, gender, native language, race, ethnicity, study method of examinees, country of birth, age
Do you limit the number of times an applicant can take the exam?	8 Yes (Wait times or maximum # of attempts allowed) 34 No

Below are aggregate findings for the 40 jurisdictions that provided first time pass rates for calendar year 2010. The following points should be noted.

- Several smaller jurisdictions indicated that pass rates for certain lines, such as personal lines or individual property rather than a combined property/casualty exam, may distort overall pass rates since only a handful of people took the exam. For example, in one state, only two people took the personal lines exam and both failed the first time, resulting in a 0% pass rate. Similarly, if both passed, it would have resulted in a 100% pass rate.
- Although ULS require that states offer exams for each major line individually, many states, as a courtesy, still offer combined exams and find the majority of candidates opt for these combined tests, particularly for property and casualty. As a result, where reported, we have included combine line pass rates as well.
- As noted previously, four jurisdictions have a different definition of first time pass rate than the majority, but that data is included in the aggregate findings based upon what they have reported.

**Aggregate Average and Median Producer Test Scores for  
First Time Test takers  
by Line Calendar Year 2010  
(40 States Reporting Data)**



**Line of Authority (Not all states offer combined)**

	Life	Accident/Health	Property	Casualty	Personal Lines	P&C Combined	L&H Combined
<b>Average</b>	61.77%	60.26%	56.29%	60.92%	50.28%	55.73%	61.08%
<b>Median</b>	59.26%	61.00%	58.00%	60.00%	56.00%	54.40%	61.40%

We also reviewed whether the data indicated if mandatory prelicensing education impacted first time pass rates. Based upon information reported, it does not appear we can conclude that requiring prelicensing education impacts test scores in a positive or negative way.

Average and Median First time Pass Rates Based on Requirements for Prelicensing Education							
State Requirement	Life	Accident/Health	Property	Casualty	Personal Lines	P&C	L&H
No PreLic Ed Average	62.97%	55.55%	51.92%	60.50%	44.43%	59.35%	61.37%
No PreLic Ed Median	65.71%	57.50%	50.00%	58.86%	50.00%	60.22%	61.80%
Pre Lic Average	60.69%	64.29%	60.96%	61.37%	55.25%	52.76%	60.71%
Pre Lic Median	58.00%	62.00%	61.09%	60.61%	60.60%	50.40%	61.00%

We hope these survey findings are helpful as we continue to review the process for examination development and delivery of education materials for pre-licensing education and provide recommendations for best practices. I will continue to follow up with the jurisdictions that have not reported and those that did not provide complete data, so we may have the most relevant and up to date material possible to continue our review. I would be happy to discuss the results with you and/or the members of the Task Force at any time.