



August 3, 2010

Members of the NAIC Producer Licensing Task Force
Attn: Greg Welker
2301 McGee Street, Suite 800
Kansas City MO 64108-2662

RE: Producer Licensing Public Hearing August 17, 2010
(written comments submitted in lieu of testimony)

Kaplan Financial Education, the leading national provider of insurance licensing and continuing professional education, appreciates the opportunity to provide written comments for consideration by the Producer Licensing Task Force and would like to address the areas of inquiry posed in the public hearing notice:

- *How are exam cut scores established - by statute, by regulation, or in conjunction with a testing vendor?*

Depending on the state, our understanding is it could be any of the above. Some states also employ *scaled scores*: where multiple tests are in use, the scale is used to control slight variations in difficulty from one version to the next.

- *What processes do states use for the development of test questions? How are tests reviewed for bias, evaluation of reading level, and difficulty?*

Kaplan's observation is that in states where the state insurance department contracts with an experienced, independent testing vendor that conducts a professional "job analysis", using subject matter experts and industry practitioners in the creation and evaluation of exam items, and employs psychometricians to keep track of exam question performance (P values, point biserial, etc.) the resulting exams are valid, reliable, and fair.

- *How often are examinations reviewed and updated? Should there be a standard requirement for each jurisdiction to review and update examinations?*

We can report overall positive student experiences in states that conduct regular exam review workshops, where content expertise is provided by insurance professionals and practitioners. In these states the exam content outlines are updated regularly; in most cases annually, so it is rare for a candidate to encounter an outdated, incorrect, or confusing exam question.

- *How are providers of pre-licensing education monitored to assure proper instruction?*

Problems sometimes arise with licensing education providers that provide substandard cut-rate instruction and practice student "de-briefing" with the goal of compromising the exam bank. The underlying problem is that 1) these providers were approved in the first place and 2) once approved they are rarely if ever audited so unethical practices do not result in negative consequences. NAIC may determine its role is to identify these practices as fraudulent and provide standards for auditing licensing (and continuing education) courses and classes.

- *Are pass rates by provider available for applicants to review?*

We strongly advocate that states collect and disseminate pass rates by provider. A few states do so already, and the practice is not just pro-consumer, it helps level the playing field for education providers. Earlier this year we compiled Calendar Year 2009 pass rates, by state and line of authority, and have provided those findings to the Task Force. It would be tremendously helpful to benchmark individual license education providers against the state average. However, if there are education providers downloading exam questions and successfully “beating” the exam, then pass rates become less meaningful. Pass rates may also vary based on differences in state cut score, level of candidate preparation/education, and candidate volume (ie, the number of personal lines candidates is typically a fraction of other lines of authority).

- *Should the NAIC establish a more uniform process for examination development and delivery? If so, how?*

We do not believe that moving the insurance industry toward a “national” standardized, uniform exam (like the “Series” exams in Securities) would do much to improve the minimal competence of insurance licensees. The problems we encounter are in states that either develop their own exams, or use test administrators that don’t conduct professional exam development, or where local/regional interests exert undue influence over education and exam regulations. If NAIC has a role, one place to start might be to make the prelicense education requirements more uniform. There are 23 states where a candidate can take the state license exam without any pre-study required! Our observation would be that it is inconsistent for the PLMA to recommend 20 hours of prelicense education for each line of authority... but only in states that impose an education requirement.

- *Is there a need for a more extensive study guide for applicants and, if so, could this be developed on a national level?*

The fact that 20-30% of the questions on a state license exam may be drawn from state laws and regulations recognizes the significant differences between states with respect to license and appointment practices, examination of records, record retention, license suspension, privacy rules, trade practices, fines and penalties... these are consumer protection issues that may be considered critical for measuring entry level competence. Any national solution is likely to omit that level of state-specific criteria for licensing.

Ultimately, it is the state license exam that provides the final qualification for entry into the insurance business. If the state testing service is doing its job properly, the license exam will successfully identify who is, and who is not, qualified to transact insurance business with the public, and will separate them with a Pass/Fail decision.

Thanks again for the opportunity to comment.

Best regards,

Cynthia Davidson, CIC, ITP
Insurance Licensing Product Manager
Kaplan Financial Education
P: 310.741.0207
E: cindy.davidson@kaplan.com
www.KFEducation.com | www.KaplanProfessional.com