

# COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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May 21, 2013

The Honorable William J. Howell  
Speaker of the House of Delegates of Virginia  
General Assembly Building, Room 635  
Capitol Square  
Richmond, Virginia 23219

The Honorable Walter A. Stosch  
Chairman  
Senate Finance Committee  
Senate of Virginia  
General Assembly Building, Room 626  
Capitol Square  
Richmond, Virginia 23219

**Re: Report Pertaining to the Pass Rate of the Life and Annuities Agent Examination and Related Changes Implemented by the State Corporation Commission**

Dear Messrs. Howell and Stosch:

This report has been prepared pursuant to § 38.2-1815 A of the Code of Virginia, which requires that the State Corporation Commission ("Commission") conduct an annual review of the pass rate of the Virginia life and annuities agent examination ("Exam") to determine if that pass rate is "consistent with the 2011 NAIC State Licensing Handbook, or any successor publication adopted by the NAIC." Section 38.2-1815 A of the Code of Virginia also requires that the Commission "report to the General Assembly by the second quarter of the following year" on both its findings and any related changes that the Commission has implemented.

Chapter 8 of the NAIC State Licensing Handbook recommends that "Licensing examinations should be reviewed at least annually, but if, during any rolling 12-month period, a licensing examination exhibits an *overall pass rate of less than 70 percent*, fluctuations in testing volume, or other significant deviations, that examination should immediately be reviewed" (emphasis added).

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In the past, the overall pass rate associated with the Virginia life and annuities exam has fallen well below the 70% threshold set forth in the NAIC licensing handbook. In 2010, for example, the pass rate for first-time takers of the exam was 51%, while the pass rate for repeat test takers was 38%. The overall pass rate for the exam was 47% for the 2010 calendar year.

Given this fact, the Commission's Bureau of Insurance ("Bureau") conducted a thorough cut score study of the exam in 2010. Along with Pearson VUE (the professional prelicensing examination provider for the Commission), industry representatives, and insurance psychometricians (professional testing experts), the Bureau studied both the minimum performance standards and the passing score, or cut point, of the exam. As a result of this study, new retest rules were implemented in April of 2011. For example, prior to the adoption of these new rules, a candidate who failed one portion of the examination was required to retake and pass the entire exam. Under the current rules, a candidate who fails either the general or state-specific portion of the exam must retake only the failed portion.

In addition to the changes implemented in April of 2011, the Bureau held an Examination Review Workshop (ERW) with Pearson VUE, psychometricians, insurance regulators, and a number of subject matter experts from the industry in October of 2012. During this workshop, each question on the exam was carefully reviewed to ensure measurement of a candidate's minimum level of competency, including his or her possession of the knowledge, skills and abilities necessary for newly licensed agents to enter the business at hand and perform their jobs effectively.

Since these changes were implemented, the Bureau has observed measurable improvement in the pass rate associated with the life and annuities agent exam. In 2012, the pass rate for first-time takers of the exam in the Commonwealth of Virginia rose to 60%, while the pass rate for repeat test takers rose to 48%. The overall pass rate for the exam rose to 56% for the 2012 calendar year.

The Bureau will continue to monitor the impact of these changes to determine whether its pass rate for the Virginia life and annuities agent examination is consistent with the 2011 NAIC State Licensing Handbook or any successor publication.

Respectfully submitted,



Brian P. Gaudiose  
Deputy Commissioner  
Agent Regulation and Administration