

# COMMONWEALTH OF VIRGINIA

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April 4, 2014

William J. Howell, Speaker of the House of Delegates of Virginia  
Charles J. Colgan, President Pro Tempore, Senate of Virginia

**Subject: 2012 Session HB 313 State Corporation Commission; required to review results of licensing examination.**

The information reported and contained herein has been prepared pursuant to §38.2-1815. A. of the Code of Virginia, *License required of resident life and annuities agent. "... The Commission annually shall review whether the examination's pass rate is consistent with the 2011 NAIC State Licensing Handbook, or any successor publication adopted by the NAIC, and report to the General Assembly by the second quarter of the following year on its findings and any related changes it has implemented."*

The State Corporation Commission's Bureau of Insurance ("Bureau") adheres to and is compliant with the Recommended Best Practices for Regulators found in the 2013 NAIC State Licensing Handbook ("Handbook"), successor to the 2011 Handbook.

## **Recommended Best Practices for Regulators**

- Ensure that examinations should be designed to establish whether the candidate has minimum competency to enter the business. *The Bureau accomplishes this recommended best practice via its Examination Review Workshop ("ERW") with Pearson VUE and insurance industry and Bureau subject matter experts ("SMEs"). In November 2013, Pearson VUE and the Bureau successfully conducted its annual ERW.*
- The states should use accepted psychometric methods including job analysis to determine 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. *The Bureau accomplishes this recommended best practice through its professional, prelicensing examination ("exam") provider, Pearson VUE.*

- Ensure that examinations are testing applicable statutes and regulations, and that any mandatory prelicensing education is designed to educate applicants on those laws and rules. *Although the Bureau has no statutory requirement for prelicensing education courses, the Bureau accomplishes this recommended best practice via its annual ERW with Pearson VUE which was conducted with industry SMEs in November 2013.*
- Deliver exams in a secure test center network that employs qualified test proctors. *The Bureau accomplishes this recommended best practice through the use of Pearson VUE professional test centers located in Virginia and its contiguous states.*
- Set clear performance standards for test vendors and require accountability. *The Bureau accomplishes this recommended best practice via its annual ERW with Pearson VUE, insurance industry and Bureau SMEs. In November 2013, Pearson VUE and the Bureau successfully conducted its annual ERW.*
- Carefully evaluate all fees charged by a vendor and maintain prior approval of all fees. *The Bureau evaluates the prelicensing vendor's exam fees on a contractual basis for a three year contract period, with three annual contract renewals.*

**Other 2013 NAIC State Licensing Handbook Considerations:**

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

- A. States should not target examinations to an artificially set passing score. A state should determine whether its test is focused on assessing the knowledge needed by potential new producers, and only applicants who lack that level of knowledge should fail.
- B. Licensing examinations should be reviewed at least annually, but if, during any rolling 12-month period, a licensing examination exhibits uncharacteristically high or low pass rates (such as less than 60% or more than 80%), unexplained fluctuations in testing volume or other significant deviations, that examination should immediately be reviewed.

The Bureau, with Pearson VUE, utilizes 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. Pearson VUE and the Bureau hold an annual ERW to successfully accomplish a thorough review of each exam question, focusing on assessing the knowledge

needed by minimally competent, entry level candidates. Only candidates lacking that minimal knowledge should fail. The Bureau does not artificially set passing scores.

The Bureau, with Pearson VUE, reviews its prelicensing exams annually to see that each exam does not exhibit uncharacteristically high or low pass rates. Virginia exams are crafted in accordance with the best practices set forth in the Handbook. The prelicensing exams have been reviewed by insurance industry SMEs, professional testing experts such as psychometricians and insurance regulators to ensure that Virginia prelicensing exams are non-discriminatory, legally defensible and designed for entry level candidates.

Pearson VUE reported to the Bureau that there were 2,450 Life and Annuities prelicensing exams delivered and graded for the 2013 calendar year. The overall pass rate for 2013 was 59%. Sixty-three percent of the first time test takers and 51% of the repeat test takers passed. The Bureau has followed the best practices recommended for the development and delivery of its exams as suggested in the Handbook and exams have been reviewed by insurance industry SMEs, psychometricians (professional testing experts), and Bureau regulators.

It should be noted that the 2013 Handbook suggests a best practice encouraging states to move to one-part exams to allow for more success among candidates without jeopardizing consumer protection. The Bureau is continuing its evaluation in moving to one-part exams.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'B. Gaudiose', with a long horizontal flourish extending to the right.

Brian P. Gaudiose  
Deputy Commissioner  
Agent Regulation and Administration  
Bureau of Insurance  
State Corporation Commission

cc:

Jacqueline K. Cunningham  
Commissioner of Insurance  
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Bureau of Insurance