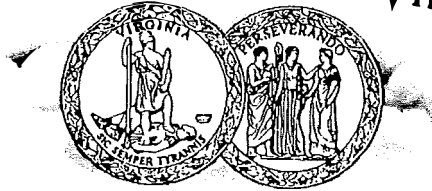


COMMONWEALTH OF VIRGINIA



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June 1, 2017

The Honorable William J. Howell
Speaker of the House of Delegates of Virginia
106 Carter Street
Fredericksburg, VA 22405

The Honorable Stephen D. Newman
President Pro Tempore, Senate of Virginia
P. O. Box 480
Forest, VA 24551

Re: Report Pertaining to the Pass Rates of Life & Annuities Agent Examinations and Related Changes Implemented by the State Corporation Commission

Dear Speaker Howell and Senator Newman:

This report has been prepared pursuant to subsection A of § 38.2-1815 of the Code of Virginia, which requires the State Corporation Commission ("Commission") to review annually whether the Life & Annuities agent examination's pass rate is consistent with the 2011 NAIC State Licensing Handbook, or any successor publication adopted by the National Association of Insurance Commissioners ("NAIC"). The statistical information included herein is relative to the 2016 calendar year.

Background

The State Corporation Commission's Bureau of Insurance ("Bureau") contracts with a prelicensing examination vendor, Pearson VUE, to manage various licensing-related activities such as reviewing examination content, providing appropriate test center facilities, and reviewing licensing examinations. Each year, Pearson VUE and the Bureau hold an annual Examination Review Workshop ("ERW") to accomplish a thorough review of the testing process, including a review of each examination question. The latest annual ERW was held in December 2016.

Summary of Annual Review and Findings

The Bureau adheres to the Recommended Best Practices for Regulators found in the 2013 NAIC State Licensing Handbook ("Handbook"), the successor publication to the 2011 Handbook, and complies with these best practices as follows:

- **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 ERW with Pearson VUE, its contracted prelicensing examination vendor, and insurance industry and Bureau Subject Matter Experts ("SME").
- **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 the engagement of its professional, prelicensing examination vendor, 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.** The Bureau has no statutory requirement for prelicensing education courses. Applicants may take a prelicensing education course or choose to self-study for the examination using the examination content outline. The Bureau reviews the content outline and examination questions during its annual ERW with Pearson VUE, insurance industry and Bureau SMEs.
- **Deliver examinations in a secure test center network that employs qualified test proctors.** The Bureau accomplishes this recommended best practice through the use of Pearson VUE testing centers located throughout the Commonwealth and in states contiguous to Virginia.
- **Set clear performance standards for test vendors and require accountability.** The Bureau accomplishes this recommended best practice via its annual ERW process with Pearson VUE, insurance industry and Bureau SMEs.

- **Carefully evaluate all fees charged by a vendor and maintain prior approval of all fees.** The State Corporation Commission has a three year contract with Pearson VUE with three one-year renewal options. The Bureau evaluates the examination fees charged by Pearson VUE annually.

Other 2013 NAIC State Licensing Handbook Recommendations

The 2013 State Licensing Handbook also identifies additional considerations relating to the development of examinations and the monitoring of their pass rates:

- **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.** The Bureau, with the assistance of its testing vendor, 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 thoroughly reviewed each examination question as part of the ERW. Specifically, Pearson VUE staff, insurance industry and Bureau SMEs focused on assessing the level of knowledge required for minimally competent entry level candidates. This review of examination questions verified that candidates with minimal knowledge of life insurance and annuities should be able to pass the exam. The Bureau does not artificially establish passing scores.

- **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, unexplained fluctuations in testing volume or other significant deviations, that examination should immediately be reviewed.** The Bureau, with the assistance of Pearson VUE, reviews its prelicensing examinations annually to determine that each exam does not exhibit uncharacteristically high or low pass rates. Virginia examinations are developed in accordance with the best practices set forth in the 2013 NAIC State Licensing Handbook. The prelicensing exams have been reviewed by professional testing experts, including psychometricians,

insurance industry and Bureau SMEs to determine that Virginia prelicensing exams are non-discriminatory, legally defensible and designed for entry level candidates.

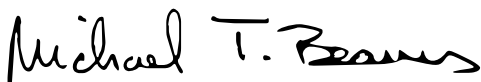
Statistics for 2016

Pearson VUE reported to the Bureau that there were 2,309 Life and Annuities prelicensing examinations delivered and graded for the 2016 calendar year. The overall pass rate for 2016 was 58%. Approximately 63% of these candidates were first time test takers; in addition, 42% of repeat test takers passed the examination in 2016. In 2015, the overall pass rate was 60%, with 65% for first time test takers and 57% for repeat test takers.

Changes Implemented by the State Corporation Commission

The 2013 NAIC State Licensing Handbook suggests a best practice encouraging states to move to one-part examinations to allow for more success among candidates without jeopardizing consumer protection. In response to this best practice recommendation, the Bureau adopted a one-part examination effective May 1, 2015. The Bureau will continue to monitor the impact of this change to determine whether the pass rate for the Virginia life and annuities agent examination is consistent with the 2013 Handbook or any successor publication.

Respectfully submitted,



Michael T. Beavers, CFE, CPCU, CIC, CIE
Deputy Commissioner,
Agent Regulation Division

Cc: Jacqueline K. Cunningham,
Commissioner of Insurance