



**PROGRESS REPORT TO MEMBERSHIP
ON PRODUCER LICENSING
STATE ASSESSMENTS
March 27, 2010**

Overview of NAIC/Industry Producer Licensing Coalition Outreach Efforts

I. INTRODUCTION

This report provides an update on all aspects of the NAIC's producer licensing strategy, including the work of the Producer Licensing (EX) Task Force, NARAB (EX) Working Group, the Producer Licensing (D) Working Group and the National Insurance Producer Registry to address the key findings and recommendations arising from the 2008 Producer Licensing Assessment, a comprehensive, membership-wide on-site assessment of each state's laws and processes. It also provides an overview of the NAIC/Industry Producer Licensing Coalition and its 2008 and 2009 regulator/industry team outreach efforts, general outcomes of this effort and recommended next steps for continued progress and momentum. The report demonstrates the tremendous progress made by the members, both individually and collectively, since the NAIC first undertook the producer licensing strategic initiative in May 2007 to further achieve compliance with NAIC reciprocity and uniformity standards and improving the licensing process for resident and non-resident producers across the nation.

The Producer Licensing Coalition, which is a joint group of Commissioners, producer licensing regulators, and industry representatives, has completed a second annual round of outreach to several state insurance departments for purposes of identifying the support needed to achieve remaining producer licensing reforms. Industry trade representatives had the opportunity to actively engage Commissioners and their staff on issues of concern to their members. This interactive dialogue continues to highlight areas requiring support from the industry and legislature for successful implementation, and provides the opportunity for the respective Departments to gauge the level of industry support, indifference or opposition to certain reform efforts. This report summarizes these efforts and provides recommendations for areas of focus in 2010.

II. SUMMARY OF 2009 ACTION ITEMS

A. Overview of Producer Licensing Assessment

In Fall 2007, the NAIC, at the request of the membership, with the support of the Coalition, and with the assistance of a dedicated team of producer licensing regulators, completed a membership-wide, comprehensive producer licensing assessment. In three short months, 12 state insurance regulators, along with ten NAIC staff, divided into teams of three and conducted on-site visits to 50 states, the District of Columbia and Puerto

Rico to review certain components of a state's producer licensing laws, practices and processes. This effort also involved significant preparation by the state's licensing staff as well as active participation by the Commissioners and their senior department officials.

In February 2008, the NAIC published the Producer Licensing Assessment Aggregate Report of Findings (Aggregate Report) which outlined the key findings, conclusions and recommendations for next steps. The Aggregate Report provided a national picture of the state of producer licensing and identified those areas of success as well as roadblocks in achieving full reciprocity and uniformity compliance. It also recommended areas for targeted improvement. The Aggregate Report provided the groundwork for several significant projects and initiatives assigned by the NAIC Executive (EX) Committee.

B. Implementation of Aggregate Report Recommendations

1. *Producer Licensing Task Force*

To provide additional focus and prioritization to producer licensing efforts, the NAIC appointed a new Producer Licensing (EX) Task Force in 2009. The Task Force members served as the core group of leaders championing the NAIC's producer licensing reform initiatives, including the oversight of various groups responsible for producer licensing reforms in 2009 (e.g., NAIC/Industry Producer Licensing Coalition, NARAB (EX) Working Group and Producer Licensing Working Group). The specific priorities and accomplishments for each these groups are outlined below.

In addition to coordinating the activities of the various working groups, the Task Force focused its attention on the simplification of business entity licensing. The issues for the simplification of business entity licensing have been prioritized and discussions continue on how best to simplify the business entity licensing process while retaining the necessary consumer protections. The Task Force has ruled out the option of eliminating the business entity license; however, the following range of options is still being considered: (1) eliminate the licensing of business entities by line of authority; (2) eliminate the requirement that the Designated Responsible Producer hold the same lines of authority as the business entity; (3) eliminate the requirement for a business entity to track and list each producer affiliated with it; (4) eliminate the licensing or registration of each branch location of a business entity; and (5) eliminate the filing of organizational documents; and (6) eliminating the prior approval of assumed names.

In conjunction with the electronic implementation of the NAIC/NIPR Attachments Warehouse, the Task Force adopted a model bulletin to facilitate the use of the NAIC/NIPR Attachments Warehouse. The Attachments Warehouse is described in more detail in the National Insurance Producer Registry section of this Report.

2. *NARAB Working Group*

One of the significant initiatives stemming from the producer licensing assessment in 2008 was to reconstitute the NARAB (EX) Working Group to evaluate whether certain non-reciprocal states were eligible for reciprocity certification based on changes to their laws and regulations governing non-resident licensing. Through this effort, the number of

reciprocal jurisdictions was increased to from 40 to 47. The Working Group also considered whether certain state requirements imposed upon non-residents and not necessarily addressed in the NAIC's 2002 reciprocity certification report have an impact on the reciprocity requirements of the Gramm-Leach-Bliley Act. Recognizing that both the producer licensing industry and producer licensing regulation have significantly evolved and modernized since 2002, the NAIC members willingly and voluntarily undertook this effort to carefully scrutinize possible additional reciprocity issues that exist today.

The effort to update the NAIC's reciprocity standard culminated in the development of the Report of the NARAB Working Group on Continuing Compliance with the Reciprocity Requirements of the Gramm-Leach-Bliley Act. This report summarized the Working Group's determination of how certain issues affect reciprocity and appropriately updates and strengthens the NAIC's reciprocity standard. The NARAB Working Group and Producer Licensing Task Force adopted the Report during the 2009 Summer National Meeting, and the Executive Committee and Plenary subsequently adopted the Report during the 2009 Fall National Meeting. The Report incorporated key sections of the 2002 report in making findings on 13 specific state licensing practices considered permissible under GLBA's tenets on non-resident producer licensing reciprocity and on 10 practices found to be inconsistent with reciprocity. The Report made no determination about an individual state's continuing status as a reciprocal jurisdiction. The Working Group understood that some of its findings may require states to undertake legislative, administrative or procedural changes in order to maintain status as a reciprocal jurisdiction under the updated standard.

The NARAB Working Group developed a formal process for evaluating whether states will be considered reciprocal under the updated standard. That process, similar to the approach taken for the 2002 reciprocity certification, incorporates the following steps: (1) states complete a Reciprocity Checklist in order to self-evaluate and self-certify whether they are reciprocal under the updated standard; (2) the checklists are posted to the NAIC Web site to allow for a 30-day interested party comment period; and (3) the NARAB Working Group will work with the NAIC Legal Division in reviewing the checklists to determine whether a state may be re-certified as reciprocal. The Working Group distributed the checklists to all states in October 2009. The Working Group requested states to submit completed checklists as soon as possible, but noted that states may not wish to do so prior to making any necessary statutory, administrative or procedural changes. Therefore, the Working Group's timeline for completing the checklist review proposed a deadline of July 1, 2010, while allowing for an extension to July 1, 2011 for those states whose legislatures will not meet in 2010. The July 1, 2010 deadline is consistent with the Working Group's goal of preparing a report on the re-certification of states for consideration at the 2010 Summer National Meeting.

As of March 15, 2010, 22 states returned completed Reciprocity Checklists. Consistent with the Working Group's formal evaluation process, those checklists have been posted to the NAIC Web site on a dedicated page accessible from the NARAB Working Group page. The NAIC Legal Division has notified interested regulators and interested parties as completed checklists are added, and all stakeholders are provided 30 days for the submission of written comments. Several comment letters have been posted, and states

have been notified directly of any interested party comments. The Working Group will continue working with states to ensure timely and expeditious completion of checklists and resolution of any potential reciprocity issues.

3. *Producer Licensing Working Group*

In 2009, the Producer Licensing (EX) Working Group focused on the simplification of limited line licensing, particularly: (1) the establishment of a limited line that encompasses several insurance products where the business of insurance is ancillary to the business of the person offering the product; (2) the licensing requirements of individuals selling limited line insurance products; and (3) the fingerprinting of individuals selling limited line insurance products.

The main focus of continued debate is whether to include the specific lines of authority, including some of the core limited lines such as travel and crop insurance, within the definition of the ancillary line of authority. Some states believe the core limited lines should be excluded because many states recognize these core limited lines as separate lines of authority. Other states believe the core limited lines of travel and car rental should be included in the definition to ensure any licensing requirements for the ancillary line of authority also apply to these core limited lines. The Working Group has not resolved what the licensing requirements should be for the ancillary line of authority nor what, if any, fingerprint requirements should apply to individuals selling limited line insurance products. The working group will continue its study of these issues in 2010.

In addition to limited line licensing issues, the Producer Licensing Working Group adopted Uniform Criminal History and Regulatory Actions Background Review Guidelines. When all jurisdictions are compliant with the NAIC's Uniform Licensing Standards, including fingerprinting requirements, the ultimate goal is for each jurisdiction to defer to the resident state for licensing determinations wherever possible. For all jurisdictions to have a comfort level with these licensing determinations, a uniform process of review is necessary. The Working Group believes if all jurisdictions implement these guidelines, in most situations, non-resident states will be able to defer to the resident state's licensing decision. The uniform standards in this area call for all jurisdictions to conduct a uniform background check including: (1) asking the questions on the NAIC Uniform Application; (2) reviewing RIRS and SAD data; and (3) fingerprinting resident applicants for both a state and federal criminal history background check.

4. *National Insurance Producer Registry*

In 2009, the National Insurance Producer Registry (NIPR) continued its long-term goal of being the one-stop shopping solution for producers and companies by expanding its products and services. In Fall 2009, NIPR released its latest licensing tool with the implementation of Phase II of the Attachment Warehouse, expanded functionality for the Reporting of Actions (ROA). The Warehouse electronically receives, stores, and shares licensing-related documents with the states. Once documents are uploaded to the Warehouse, states receive an electronic notice alerting them to check the Warehouse for the required documents. Released in Fall 2008, Phase I of the Warehouse allowed

applicants to submit supporting documents in response to “yes” answers to background questions on the NAIC Uniform Application. Phase I was well-received by the states and industry, as evidenced by more than 7,300 supporting licensing documents being submitted to the Warehouse in the first 18 months. Phase II of the Warehouse allows a producer to electronically file required reports of administrative, criminal or civil actions to states within 30 days. The ROA function of the Warehouse makes it much easier to file the documents electronically in a centralized location and report to multiple states at one time, instead of faxing or mailing documents to the various states. To date, there have been 139 ROA submissions.

Another significant accomplishment for NIPR is the number of electronic Address Change Requests (ACR) processed. Since the initial release of the ACR product in July 2007, NIPR has processed over 1,767,134 address changes.

Lastly, another area of focus this year was NIPR’s expansion of on-line licensing options with an emphasis on implementation of business entity licensing and resident licensing/renewals. Considerable progress was achieved, with many more products being added for several states. As of March 22, 2010, states-in-production totals for NIPR products are:

- Non-Resident Licensing for Individuals – 49 states;
- Non-Resident Licensing for Business Entities – 42 states;
- Non-Resident Renewals for Individuals – 46 states;
- Non-Resident Renewals for Business Entities – 35 states;
- Resident Licensing for Individuals – 24 states;
- Resident Licensing for Business Entities – 24 states;
- Resident Licensing Renewals for Individuals – 24 states;
- Resident Licensing Renewals for Business Entities – 25 states;
- Appointment Renewals – 9 states;
- Electronic Funds Transfer for State Fees – 49 states;
- Address Change Requests – all states; and
- Attachments Warehouse:
 - Phase I - Background Supporting Documentation – all states
 - Phase II - Reporting of Actions – 49 states

5. *Producer Licensing Coalition*

In June 2007, the NAIC/Industry Producer Licensing Coalition was formed as a partnership of regulators and national trade organizations, to focus and facilitate producer licensing uniformity initiatives. In 2009, the Coalition was comprised of 11 Commissioners and 13 national trade associations, including American Council of Life Insurers; American Insurance Association; America’s Health Insurance Plans; Council of Insurance Agents & Brokers; CPCU Society; Independent Insurance Agents & Brokers of America; LIMRA; Million Dollar Roundtable; National Alliance; National Association of Insurance and Financial Advisors; National Association of Health Underwriters; National Association of Mutual Insurance Companies; Professional Insurance Agents; Society of Financial Service Professionals; and Property Casualty Insurers Association of America.

The Coalition has served as an exchange of useful information, opinions and ideas between regulators and industry representatives. Often times, this exchange has turned into an action item for the industry or regulators, whether to solicit feedback or support from their respective members or to develop a proposed solution to an identified issue. The Coalition has led the state assessment process since late 2007, and every participant of the Coalition's outreach effort – Coalition Commissioners, producer licensing regulators and representatives of industry organizations – have volunteered many hours and dedicated their expertise to promote the NAIC's goals and licensing standards and assist states in achieving full reciprocity and uniformity.

III. OVERVIEW OF PRODUCER OUTREACH EFFORT

A. Impetus for Outreach

Under the leadership of 2009 NAIC President Roger Sevigny, the NAIC's producer licensing strategy has raised the awareness of challenges in achieving meaningful producer licensing reform. The results of the producer licensing assessment confirmed many of the remaining legislative and regulatory changes require active industry support, and the Coalition has served a valuable purpose in engaging industry trade representatives in the reform process.

The peer-to-peer outreach of the producer licensing assessment provided NAIC members with an inventory of remaining compliance issues. In many cases, the Commissioner and Department were strongly in favor of making the identified changes, but were either unsuccessful in efforts to pass legislation or did not include proposals in legislative packages because of active opposition or simple indifference from their producer licensing industry. Recognizing that constituency support is often the key ingredient to successful legislative change, industry representatives have been engaged in the outreach process and discussions of areas where industry can support certain state-specific producer licensing legislation. The Coalition leveraged the valuable information gained through the producer licensing assessments in order to have a better understanding of each state's needs in terms of (1) full PLMA adoption, (2) reciprocity (3) uniformity compliance, and (4) streamlining business entity licensing, appointments and electronic processing. This background information proved extremely helpful not only as the outreach team developed recommendations to each state, but to facilitate a positive and productive dialogue with Commissioners and their staff in terms of achieving the NAIC's uniformity and reciprocity standards.

B. Outreach Team Approach

The Coalition outreach initiative was conducted in a similar manner to the producer licensing assessments in that outreach teams were formed and assigned to respective states. Each outreach team consisted of a Coalition Commissioner, two producer

licensing regulators,¹ and two industry representatives. The following Commissioners participated on outreach teams: Pennsylvania Commissioner Joel Ario; Idaho Director Bill Deal; Alaska Director Linda Hall; Oklahoma Commissioner Kim Holland; Ohio Director Mary Jo Hudson; Tennessee Commissioner Leslie Newman; New Hampshire Commissioner Roger Sevigny; and Iowa Commissioner Susan Voss. The following producer licensing regulators participated on outreach teams: Linda Brunette (AK); Jack Chaskey (NY); Keith Kuzmich (CA); Anne Marie Narcini (NJ); Tom O'Meara (IA); Barbara Richardson (NH); Bobby Perkins (MS); Karen Vourvopoulos (OH); Treva Wright-Donnell (KY); and Laurie Wolf (NIPR, formerly ND). The following industry representatives were assigned to on outreach teams: Nicole Allen (CIAB); William Anderson (NAIFA); Wes Bissett (IIABA); David Eppstein (PIA); John Fielding (Steptoe & Johnson); Larry Kibbe (Regulatory Affairs Consultant); David Leifer (ACLI); Rey Becker (PCI); Marty Mitchell (AHIP); and Pamela Young (AIA).

Each industry representative was given the opportunity to request a particular state assignment. A concerted effort was made to ensure at least one producer trade organization (i.e., IIABA, PIA, CIAB, NAIFA) was assigned to each state. Industry representatives were also encouraged to coordinate and communicate concerns about a particular state to the industry representatives assigned to the state.

C. Criteria for Outreach

The outreach effort commenced in December 2009 with the goal of completing the outreach in advance of the 2010 Commissioners Conference. Thirty-six states were targeted for outreach based on whether each state has a full legislative session in 2010 and based on the criteria by which states were targeted for the previous round of outreach. States were targeted for the previous round of outreach if their Producer Licensing State Report identified noncompliance with more than three Uniform Licensing Standards or the state had not yet been certified as reciprocal. States out of compliance on fewer than three standards were added to the list for outreach if they were not compliant with the fingerprinting standard,² as a key purpose of the outreach effort was to find ways to provide support to those states needing or considering fingerprint legislation.

D. Outreach Process

The outreach effort continued to focus on those areas necessary for reciprocity and uniformity in producer licensing, as well as streamlining of business entity licensing and electronic processing. The outreach teams were tasked with obtaining updates to the information gathered during the previous year's outreach effort. Specifically, the outreach effort focused on the following areas: (1) state adoption of key PLMA provisions;³ (2)

¹ The producer licensing regulators who volunteered a significant amount of their time and expertise to conduct the producer licensing assessments volunteered again for this outreach effort and were generally assigned to the states where they conducted on-site assessments.

² Uniform Licensing Standard No. 14C – Background Checks.

³ The PLMA provisions reviewed for each state were Section 2 (definitions), Section 4B(6) (commercial multi-state risk exemption), Section 7A (major lines of authority), Section 13D (commission sharing exemption), and Section 16 (reciprocity).

non-resident licensing requirements potentially inconsistent with GLBA reciprocity requirements; (3) compliance with certain Uniform Licensing Standards;⁴ and (4) policy and procedure in the following six areas:

- Business entity licensing (e.g. branches, affiliations, name approval);
- Individual and business entity appointment process;
- Secretary of State proof of registration requirements, if any;
- Electronic processing issues;
- Requiring an underlying life line of authority as a prerequisite for a variable line of authority; and
- Requiring a letter of clearance in lieu of relying upon information in the NAIC's State Producer Licensing Database.

In order to gather updates to the information collected during the previous outreach effort, an agenda and written summary of each state's previous outreach report was provided to the outreach team and the state's Commissioner and staff. Each outreach team held a conference call to facilitate direct engagement among Commissioners, regulators, and industry representatives. During each call, the following agenda items were covered:

- Updates on the priority issues identified in the previous year's outreach report;
- Highlight any 2009 legislative activity not already discussed and legislative agenda for 2010;
- Alert Commissioner and producer licensing staff to deadlines associated with the ongoing assessment of continuing compliance with the reciprocity requirements of the Gramm-Leach-Bliley Act;
- Review new Uniform Licensing Standards, specifically surplus lines examinations, commercial multi-state risk exemption and commission sharing exception from PLMA; and
- Any additional points raised by the Commissioner or industry participants.

The discussion included gathering information about past efforts towards achieving reciprocity and uniformity and the level of historical and current support among local industry for addressing these issues. For each issue identified, the state's Commissioner was generally asked if the issue has received attention from their local industry and what type of support they needed to effectuate the necessary change. Industry participants were also asked to describe the level of local support from their respective members to address these issues. The Coalition Commissioner generally also provided an opportunity for industry members to voice any other concerns or issues not previously raised.

Lastly, a summary of the discussion between the outreach team and the state was prepared and provided to the Commissioner and participating staff on the outreach call. These state-specific summaries have been compiled and will be available for industry representatives immediately following the 2010 Spring National Meeting.

⁴ The Uniform Licensing Standards reviewed for each state were No. 8 (lines of authority examinations), No. 14C (fingerprinting, background checks), No. 15 (NAIC Uniform Application), No. 16 (lines of authority issued), No. 18 (continuation process), No. 37 (surplus lines examination), No. 38 (PLMA commercial multi-state risk exemption), No. 39 (PLMA commission sharing provision).

The specific details of state compliance status and activity cited in this report are subject to change as states introduce legislation or implement administrative process changes to achieve compliance.

IV. GENERAL OUTCOME OF OUTREACH EFFORTS

A. Impact of Industry Involvement

The outreach program afforded industry members a unique forum to speak directly with Commissioners and key staff about the most pressing producer licensing issues. Industry had multiple opportunities to highlight their perspectives on the most important issues for each state to address. The process continues to result in increased industry awareness and understanding of reciprocity, uniformity and other key issues at the national and local levels.

To further enhance local industry awareness of national priorities, national trade associations were encouraged to reach out to their state association chapters and to either include them in the calls with the state insurance commissioners or represent specific local concerns. The Professional Insurance Agents (PIA) excelled at this assignment by bringing local representatives to most, if not all, calls assigned as well as additional calls for states with a strong PIA presence. The Independent Insurance Agents and Brokers of America and National Association of Insurance and Financial Advisors also heeded this request with good results. Including the local association chapters was a valuable part of the outreach as it gave Commissioners an opportunity to hear directly from producers operating in the marketplace. In addition, this effort provided all parties greater insights into what priorities are important at the state level and how these priorities are the same or vary from the priorities of the national producer licensing trade associations.

The outreach teams found that some issues identified as problematic at the national level, such as business entity licensing, were not identified as problematic at the local level. This stemmed from varying perspectives of producers who hold licenses in one or two states as opposed to the national trade associations, which view the licensing framework from a broader, national perspective. For example, producers active at the local level frequently opposed eliminating or re-defining lines of authority due to the administrative adjustments involved, but national trade associations often voiced concern about inefficiencies resulting from inconsistencies among lines of authority available from state to state.

While the implementation of a fingerprint requirement for resident producer applicants would be a major step toward achieving full licensing reciprocity, which is a priority for industry, the trade associations generally did not identify fingerprinting as a top priority. At times industry participants offered mild support but could not accommodate fingerprinting in the current year's agenda or stated further education was necessary before pursuing full implementation of a fingerprint requirement. Some readily acknowledged their members oppose passage of this requirement in the respective states. Key questions raised by local industry include the impact on producers already licensed, potential costs and the logistics of recording the fingerprints.

Specific issues of concern to industry participants were consistent with those raised in the previous year's outreach efforts.

1. Streamlined business entity licensing. This is a common issue among the outreach teams and is discussed at length in the next section of this Report.
2. Full and uniform adoption of all provisions of PLMA. This issue was addressed to some degree by every outreach team, because states were advised of new Uniform Licensing Standards requiring two of the most important and least enacted provisions: the commercial multi-state risk exemption in § 4B(6) and the commission sharing provision in § 13D. Industry participants also strongly advocated for states to amend appointment laws and associated practices to be completely consistent with the appointment process specified in PLMA Section 16. It was with regard to these types of changes that industry members most often indicated their willingness to actively support legislative change in the particular state.
3. Full licensing reciprocity among all states. Potential reciprocity concerns were addressed to some degree by all outreach teams, because states were alerted about the ongoing assessment of continuing compliance with the reciprocity requirements of the Gramm-Leach-Bliley Act being conducted by the NARAB Working Group. Outreach teams made a concerted effort to work with the remaining non-reciprocal states to find support for eliminating additional requirements such as bond and pre-licensing requirements on non-resident surplus lines producers. Industry generally offered to provide needed support to eliminate these additional requirements.
4. Elimination of the Secretary of State registration requirement for non-resident applicants. Whether states require Secretary of State proof of foreign corporation registration as a prerequisite to licensure was addressed to some degree by 9 different outreach teams. As stated earlier, the NAIC has made a concerted and successful effort to encourage all members to eliminate this as a prerequisite to licensing. In many outreach calls, this issue was raised in terms of confirming or commending that this requirement had been eliminated by the Commissioner and the department. Industry offered whatever support necessary to help achieve elimination of this Secretary of State check altogether. During this round of outreach, it was unclear whether industry has made progress in the goal articulated last year to lobby state legislatures to enact a provision exempting foreign business entities from registering with the Secretary of State when seeking a non-resident insurance license.

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B. Common Issues among Outreach Teams

The issues most commonly raised by the state outreach teams were:

1. Authorization to fingerprint resident applicants for criminal background checks; and
2. Simplification of the business entity licensing process.

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In general, the outreach calls with the states confirmed that states have worked to make many administrative and regulatory changes within their control, but continue to struggle with making certain legislative changes.

1. Fingerprinting

The ultimate uniformity goal is for all states to have the authority and capability to fingerprint resident applicants and conduct state and federal criminal background checks. Full implementation would presumably eliminate the fingerprint requirement non-reciprocal states currently impose upon non-resident applicants. As observed in the Aggregate Report and most state outreach reports, the primary barrier to this legislative change is lack of support from the state and local industry organizations. Stated reasons for opposition to the legislation continue to focus on generalized privacy concerns, perceived lack of need and uncertainty about applicability to existing producers.

Given the difficulties individual states face with implementing a fingerprint requirement, a federal solution may be more appropriate. The National Association of Registered Agents and Brokers Act (H.R. 2554), known as NARAB II, would not affect uniformity issues with resident licensing, but it could solve the major consumer protection issue of fingerprinting in every state, for those producers who elect to join the national association the bill would establish. The NAIC has supported this legislation as appropriately targeted and limited federal legislation that helps the states achieve the objective of increased uniformity in non-resident producer licensing. The current iteration of NARAB II legislation maintains state regulator control over the NARAB Board of Directors and, thus, over the non-resident licensing process without compromising important consumer protections and state revenues.

2. Business Entity Licensing

The simplification and standardization of the business entity licensing process and the creation of uniform licensing standards for business entities continues to be priority issue. During the outreach efforts, industry advocated that particular states eliminate administratively burdensome requirements upon business entities, especially non-resident business entities. Some of these requirements included licensing branch locations, listing or tracking of affiliated producers, and prior approval of legal or assumed names. The outreach teams also encouraged states to fully utilize NIPR's resident and non-resident business entity licensing functionality, including the recommendation to eliminate requirements that cause all business entity applications filed through NIPR to pend or defer to the insurance department.

C. Recommendations for Next Steps

The outreach process illustrated that states continue to implement changes based upon the feedback received from their on-site producer licensing assessment in early 2008 and follow-up in early 2009. In fact, Coalition research shows that 55% of producer licensing legislation introduced in 2009 – 17 of 31 bills introduced in 24 states – was successfully enacted. Consistent with the prior year, states have implemented most of the Uniform Licensing Standards that could be implemented through administrative changes or promulgation of regulations. States are aware of and taking steps to address potential reciprocity issues that have been highlighted by the NARAB Working Group. At the same time, states continue to seek support from the national trade associations to implement remaining changes.

Producer licensing remains a key strategic initiative of the NAIC membership in 2010 and the focus of the Producer Licensing (EX) Task Force created in early 2009. This outreach effort has produced additional constructive information that can be used by the Task Force, its working groups, interested parties and the Producer Licensing Coalition members in determining how best to effectuate meaningful changes and recommendations. Suggested areas for focused discussion and action in 2010 include:

Producer Licensing Task Force

1. Monitor progress on recommendations to NIPR, which include the following: (1) work closely with the NAIC Market Regulation Division and the Producer Licensing Working Group to identify areas in the states' electronic business rules that do not appear to comply with reciprocity or uniformity standards; (2) develop a uniform set of electronic processing standards (business rules) to facilitate "true" uniformity vs. "virtual" uniformity; (3) create a central location for the submission of company contract information (i.e., appointments/contracts database); (4) coordinate and/or track multi-state insurance examinations; (5) create a central location for the submission of national criminal background-check status information; and (6) create a central location for the submission of continuing-education and pre-licensing course information.
2. In conjunction with the Producer Licensing Coalition, work closely with the NIPR to encourage full utilization by all states and producers of NIPR products and services, including individual and business entity resident and non-resident licensing, address change requests, Attachments Warehouse and reporting of administrative actions.
3. Finalize the evaluation of the key findings and issues regarding disparate business entity licensing laws, regulations and practices identified in the state producer licensing assessments by comparing the administrative burdens with the consumer protections arising from the licensing of business entities, and provide policymaking recommendations for simplifying and standardizing the business entity licensing process, considering all options ranging from elimination of the licensing of business entities to elimination of components of the process, such as licensing by line of authority or by each branch location.
4. Finalize a strategy plan to implement fingerprinting in all states, the suggested deadline for implementation and identify what additional resources from state insurance regulators, the industry and consumer groups could be committed to this effort.
5. Facilitate roundtable discussions at each national meeting with the state producer licensing directors for the exchange of views, opinions and ideas on producer-licensing activities in the states and at the NAIC.

NARAB Working Group

1. Complete the state reciprocity recertification based on the Working Group's 2009 reciprocity report and adopt a final report for recertification of the states' compliance with the reciprocity mandates of the Gramm-Leach-Bliley Act.

Producer Licensing Working Group

1. Review the process for examination development and develop uniform standards for the delivery of examinations, updating of examinations and passage rate for examinations.
2. Finalize the review of limited-line licensing issues, with particular focus on the following: (1) the establishment of a limited line that encompasses several insurance products where the business of insurance is ancillary to the business of the person offering the product; (2) the licensing requirements of individuals selling limited-line insurance products; and (3) the fingerprinting of individuals selling limited-line insurance products.
3. Continue to provide oversight and ongoing updates, as needed, to the State Licensing Handbook.
4. In response to inquiries about the states' adoption and interpretation of the Producer Licensing Model Act (#205) and uniform licensing standards (ULS), provide updates to the frequently asked questions document regarding the model act and guidance on practices to implement all of the ULS.
5. Provide ongoing maintenance and review of reciprocity guidelines and uniform application forms for continuing-education providers and state review and approval of courses.
6. Provide input and feedback to NAIC/NIPR staff regarding the development of electronic-licensing applications, such as a centralized filing point for notification of administrative/criminal actions and Personalized Information Capture System (PICS) alerts for state insurance regulators.
7. Serve as an informal focus group with NAIC staff for the development and delivery of a *State Licensing Handbook* training class for state insurance departments.

NAIC/Industry Producer Licensing Coalition

1. Continue to serve as the forum for the NAIC membership and industry to exchange views, opinions and ideas on producer-licensing priorities, such as professional standards of producers, state licensing laws, state administrative procedures and federal legislation.
2. Continue discussions on ways to further improve processes the industry believes are administratively burdensome to producers, including the appointment process, the

examination/testing process and ways to encourage state and local industry organizations to actively support full adoption of the major lines of authority and elimination of non-core limited lines of authority.

3. Continue to track state legislative initiatives to implement uniform and reciprocal licensing standards and coordinate regulator and industry support for such initiatives.

V. **OVERALL RESULTS OF PRODUCER LICENSING ASSESSMENT AND OUTREACH EFFORTS**

The producer licensing assessment and recent outreach efforts have yielded the most accurate and complete picture to date of the status of uniformity and reciprocity compliance among the states. Prior to the producer licensing assessment, states self-reported whether their laws, regulations and processes complied with NAIC uniformity standards. The assessment was a comprehensive independent effort to provide peer review and a review by the NAIC Legal Division as to whether state's laws and regulations constitute compliance with NAIC standards. A uniformity chart was included in each state's Producer Licensing Assessment Report to illustrate the state's compliance both before and after the on-site assessment. It was not uncommon for states to change status from noncompliant to compliant, or vice versa, when they walked through the standards with the review team.

In September 2008, the NAIC updated the states' uniformity charts based on information provided by each state confirming a change in process or state law. With the slight modifications and clarifications made to the Uniform Licensing Standards, the Uniform Licensing Standards increased from 38 to 43. For example, the background check standard was further segmented with three subpoints to provide greater clarity regarding state compliance. In addition, there was greater clarity given to the standards for state adoption of the major lines of authority and the core limited lines of authority. The current update shows positive movement in 22 of the 43 Uniform Licensing Standards meaning that at least one, and in many cases more than one state, reported achieving compliance with one or more additional standards since their assessment.

Appendix II provides a current aggregated uniformity compliance chart. While the outreach effort noted and commended several states for introducing currently pending legislation to bring them into compliance, a change in state compliance status will be reflected once legislation is enacted.

The current aggregated uniformity compliance chart reflects a net total of 129 instances where states moved from noncompliant to compliant in the past year. This does not include instances of state compliance with the five new uniform licensing standards. Specific changes are outlined in **Appendix II** and include:

- Five additional states comply with the uniformity standard of 24 hours of continuing education for all major lines, including three hours of ethics training;
- Seven additional states perform background checks on resident applicants against NAIC RIRS and SAD information;

- Nine states have passed legislation and will implement a fingerprint requirement in 2010;
- Thirteen additional states utilize the NAIC Uniform Applications;
- Seven additional states issue the major lines of authority independently and consistently with the PLMA definitions;
- Nine additional states comply with the uniformity standard limiting the available exemptions from continuing education; and
- Six additional states comply with the uniformity standard specifying the appropriate number and definitions of limited lines of authority.

The chart also documents eight other uniformity standards where one or two additional states became compliant. In total, the chart illustrates an increase of overall compliance with the NAIC Uniform Licensing Standards from 80% in 2009 to 86% in 2010.

VI. CONCLUSION

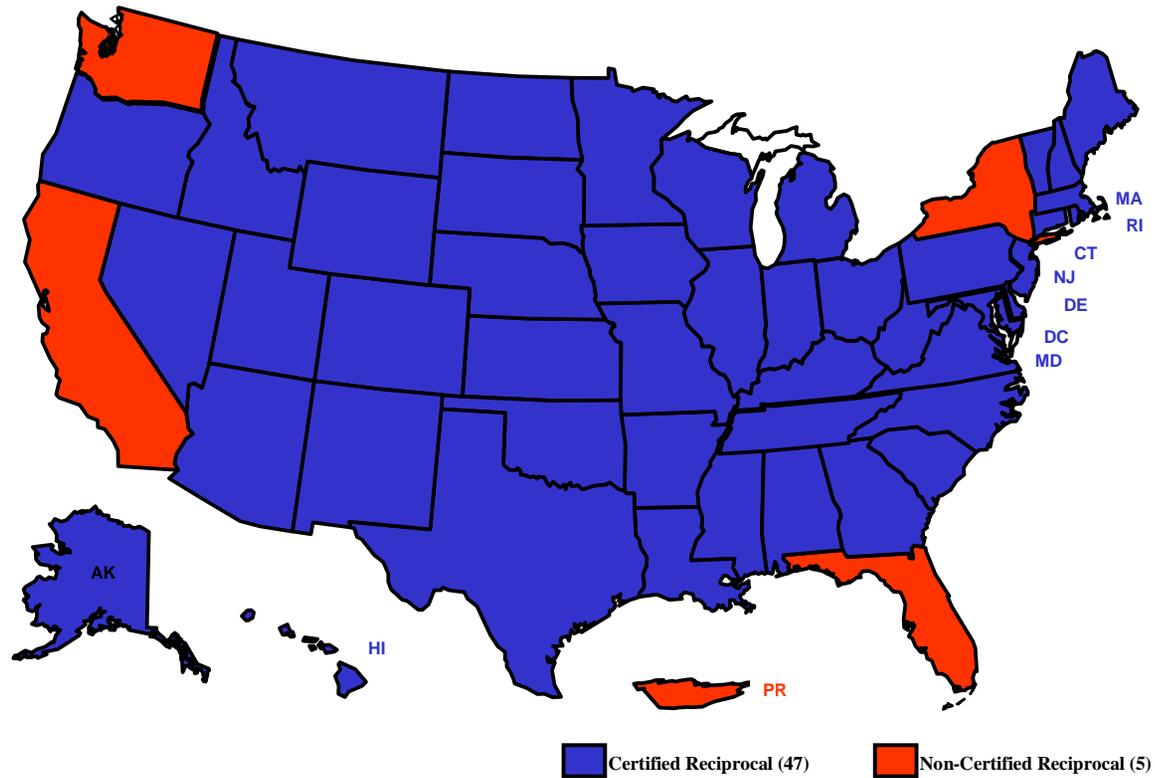
The tremendous amount of improvement in compliance with Uniform Licensing Standards demonstrates the effectiveness of the dedicated proactive efforts of NAIC members and industry, both Producer Licensing Coalition members and local-level producer representatives, toward meaningful, targeted producer licensing reform. The on-site assessment process was characterized as providing a roadmap for legislative and regulatory changes necessary to achieve complete reciprocity and uniformity. Using this roadmap, the outreach project was a vehicle for leveraging regulator and industry expertise to identify priority issues. The outreach effort built upon the factual basis provided by the assessments and assisted states in crystallizing their specific needs, whether, for example, to enlist industry support for legislative proposals or to revise business rules to accurately reflect Department practice.

As a result of the outreach process, states have an even better gauge on where they stand in relation to producer licensing goals, the specific steps needed to accomplish the goals and the industry and fellow regulator support available to help realize the goals. Consistent with the aggregate assessment report issued one year ago, this report is intended to assist the NAIC leadership and membership in further defining the roadmap for reform in 2010 and in evaluating options for the future of state-based producer licensing regulation.

APPENDIX I

CERTIFICATION OF STATES FOR PRODUCER LICENSING RECIPROcity

- Forty-seven jurisdictions are now recognized by the NAIC as having met the reciprocity mandates of the Gramm-Leach-Bliley Act (GLBA).



UNIFORM LICENSING STANDARDS -Compliance Chart- *Updated March 23, 2010*		Compliant March 2009	Compliant March 2010	Not Compliant March 2009	Not Compliant March 2010	LAW	Regulation Rule	Dept. Process	Pending Change
Licensing Qualification Standards									
1	Age - 18	51	51	1	1			1	
2	Citizenship	51	52	2	0				1
3	Education	51	51	1	1				
Pre-Licensing Education Training Standards for Resident Applicants									
4	Hours Required	30	40	22	12	10	3	1	1
5	Training Method	44	47	8	5	2	2		
6	Verification of Completion	52	52	0	0				
7	Waiver/Exemption	33	45	19	7		9	1	3
Producer Licensing Test Standards For Resident Applicants									
8	Lines of Authority	33	41	19	11	9		1	3
9	Waiver/Exemption	35	42	17	10	3			2
10	Exam Content/Subject Area Standards	52	52	0	0				
11	Testing Administration Requirements	52	52	0	0				
12	Failure of Exam/Retesting	52	52	0	0				
Integrity/Personal Qualifications/ Background Checks Standards									
13	Integrity/Personal Standards	48	48	4	4	3			
14A	Background Checks - Uniform Application <i>*(New Standard)</i>	NA	40	NA	9				1
14B	Background Checks - RIRS / SPLR and SAD	44	51	2	1				
14C(1)	Background Checks - Fingerprinting State/Federal	16	16	36	36	27			9
14C(2)	Background Checks - Statewide Criminal History <i>*(New Standard)</i>	NA	24	NA	28	22			6
Application for Licensure/License Structure Standards									
15	Uniform Application	31	44	21	8	3	1		1
16A	Six Major Lines of Authority	34	41	16	11	4			
16B	Core Limited Lines	34	35	16	17	3			
17	License Term	42	44	7	8	5	1	2	1
18	Continuation Process	23	29	16	23	17	4	6	3
19	Enforcement	48	51	1	1	1			
20	Fee	51	51	1	1		1		
Appointment Process Standards									
21	Process	45	48	7	4	3	1		
22	Appointment Renewal Cycle	51	51	1	1	1	1		
Continuing Education Requirements Standards For Resident Producers									
23	Credit Required	27	32	25	20	15	4	1	1
24	Term of Compliance	37	39	15	13	10	2	1	2
25	Lines of Authority	44	47	8	5	4	2		
26	Subject Area Requirements	30	36	22	16	10	6		
27	Repeating of CE Courses	45	49	7	3	1	1		1
28	CE Study Method	51	52	1	0	1			
29	Verification of Completion	50	50	2	2				2
30	Waiver/Exemption	24	33	28	19	16	2	1	
31	Course Approval Standards and Process	46	49	6	3	2		1	
32	Advertising CE Programs	45	49	7	3	1		1	
Limited Lines Uniformity Standards									
33	Definitions of Core Limited Licenses	25	31	27	21	17	3		5
34	Testing Requirement Resident Applicants	50	50	2	7	1			
35	CE Requirement Resident Producers	40	41	12	11	9	1	1	2
Surplus Lines Standards									
36	Surplus Line Standards	49	50	3	2				1
37	Surplus Line Exam <i>*(New Standard)</i>	NA	52	NA	0				
Commercial Lines Multi-State Exemption Standard									
38	Commercial Line Multiple Exemption <i>*(New Standard)</i>	NA	44	NA	6				
Commission Sharing Standard									
39	Commission Sharing <i>*(New Standard)</i>	NA	38	NA	9				