



Producer Licensing Reform Policy Brief

Overview of Pre-Licensing Education Mandates

By: NAIFA Government Relations, May 2024

The Issue

Americans' financial needs continue to drive demand for more licensed, highly-skilled life insurance producers and financial professionals. NAIFA has pledged to work to identify and remove unnecessary barriers that prevent **qualified and professional** candidates from entering and remaining in the industry. We strongly believe that a robust and diverse producer base is fundamental to the commitment of life insurers and life insurance producers/advisors to provide access to protection and savings products for all communities.

Overview

An unnecessary barrier to entry is the presence of pre-licensing education mandates. While not diminishing the necessity for exam preparation, pre-licensing mandates are becoming increasingly difficult to justify. The supposed purpose of pre-licensing mandates is to ensure candidates are prepared for the profession by helping them pass the licensing exam, yet no evidence supports that pre-licensing education mandates result in higher scores or pass rates. More than a decade ago, the NAIC's Producer Licensing Working Group determined that pre-licensing mandates do not achieve this goal as the Working Group stated that it could not conclude that pre-licensing education "impacts test scores positively or negatively."

DID YOU KNOW?

Pre-licensing education is coursework taken **PRIOR** to insurance exam licensing. It is **NOT** education taken after licensing, which is known as Continuing Education or CE.

Background

Mandated pre-licensing education was originally advanced in the 1980s in response to concerns that exams in the states were not properly administered or maintained. States administered tests on paper, and questions were not routinely reviewed or updated. While at the time, prelicensing education mandates were believed to be a necessary barrier to entry, today, those issues are no longer a concern. States have taken significant corrective action to enhance the integrity of the exam, including forming exam review boards that regularly review and update questions to ensure they are fresh, relevant, and appropriate. NAIFA members serve on these boards in several states. Further, many states contract with outside vendors who leverage a large pool of questions that are delivered to test takers at random and in monitored testing environments. It is nearly impossible for a test taker to game test, meaning they must adequately demonstrate genuine knowledge to achieve a passing score.



Additionally, research shows that pre-licensing mandates DO NOT produce candidates more prepared to pass the exam. While this may seem counterintuitive, upon reflection, it makes sense as we know that pre-licensing education is still widely utilized in states without a mandate. Applicants do not need to be told by the state to study. This is further supported by data collected from states without a mandate that conduct post-exam questionnaires, which inquire about time, methods, and modes of preparation. **These reports indicate that nearly all producer license candidates still take courses, buy materials, or otherwise prepare.** The difference in non-mandated states is that candidates are free to study in a way that best fits their schedule, budget, and study habits.

“Applicants don’t need to be told by the state to study for the exam.”

Despite being unimpactful for exam preparation, pre-licensing mandates serve as barriers to entry into the industry. This can include requiring excessive or unnecessary commitments of time, money, and methods of study that discourage applicants who might also be caregivers, considering insurance as a second career, or who come from non-traditional educational backgrounds. By removing the mandates, candidates can study in a way that fits their needs and situation.

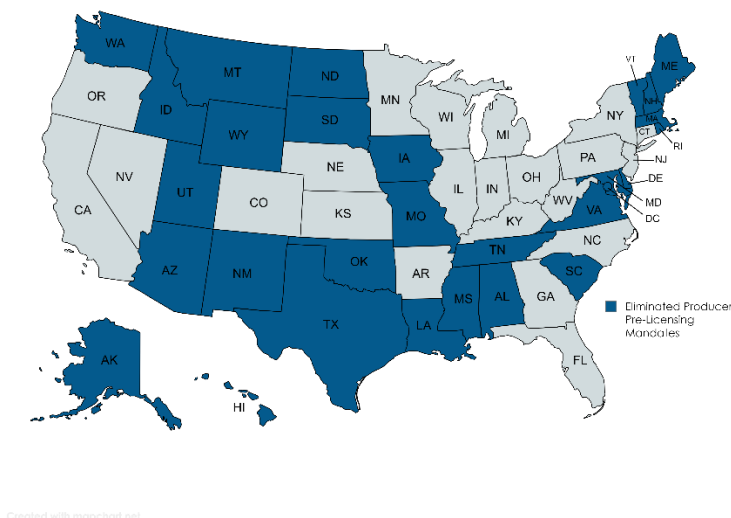
Pass Rates

Average & Median First Time Pass Rates Based on Requirements for Prelicensing Education							
State Requirement	Life	Acc/Health	Property	Casualty	Personal Lines	P&C	L&H
w/o PreLic Req Average	62.97%	55.55%	51.92%	60.50%	44.43%	59.35%	61.37%
w/o PreLic Req Median	65.71%	57.50%	50.00%	58.86%	50.00%	60.22%	61.80%
w/ PreLic Req Average	60.69%	64.29%	60.96%	61.37%	55.25%	52.76%	60.71%
w/ PreLic Req Median	58.00%	62.00%	61.09%	60.61%	60.60%	50,40%	61.00%

Pre-Licensing Education Status

Twenty-eight (28) states, plus the District of Columbia (D.C.) have eliminated their pre-licensing education mandates. Tennessee, Washington, and Alabama overwhelmingly passed legislation during the 2023 session to remove pre-licensing education hours. Mississippi and Maryland are the latest states to eliminate the mandates in May 2024.

Alaska, Hawaii, Arizona, Utah, Wyoming, Idaho, Montana, South Dakota, North Dakota, Iowa, Missouri, Oklahoma, Texas, Louisiana, South Carolina, Virginia, Delaware, Rhode Island, Vermont, Massachusetts, New Hampshire, New Mexico, Maine, Tennessee, Washington, Alabama, Mississippi, Maryland, and the District of Columbia have removed pre-licensing mandates.



NAIFA's Position

NAIFA strongly upholds high standards of integrity and professionalism by producers entering the industry. We have long advocated that uniformity among the states for all producer licensing policies is critical to prevent unnecessary burdens on producers who increasingly serve clients nationwide. Further, NAIFA has long held that states should not enact or maintain burdensome regulations where no public good is served.

Accordingly, NAIFA supports the removal of pre-licensing education mandates in the remaining states and encourages states to examine this and other producer licensing reforms to ensure that current policies and processes do not disproportionately impact minorities or traditionally underserved communities.

At a Glance

Providing access to a wide range of insurance and financial services to help Americans plan for life's big moments is critical for financial security. Americans' financial needs continue to drive demand for more licensed, highly skilled life insurance producers and financial professionals. NAIFA has pledged to work to identify and remove unnecessary barriers that prevent qualified professional candidates from entering, staying, and thriving in the industry. We strongly believe that a robust and diverse producer base is fundamental to the commitment of life insurers and life insurance producers to provide access to protection and savings products for all communities.

The pre-licensing education mandate in 28 states currently serves as an unnecessary barrier for new producers entering the industry and potentially has a disproportionate impact on minority candidates. Pre-licensing mandates DO NOT produce candidates more prepared to pass the exam, as nearly all candidates take courses, buy study materials, or otherwise prepare. All applicants, especially those who might also be caregivers, considering insurance as a second career, or who come from non-traditional educational backgrounds, should be free to study in a way that best fits their schedule, budget, and study habits. Pre-licensing education reform is just one aspect of broader efforts to remove unnecessary barriers and encourage people from all backgrounds, nationalities, and socioeconomic classes to embark on rewarding careers in financial services.



Talking Points

- ◆ NAIFA strongly supports states maintaining high standards of knowledge and professionalism for producers entering the industry and that they continue to require that new producers must demonstrate the necessary knowledge required to obtain an insurance license.
- ◆ Insurance licensing exams remain the most important and valid component for testing adequate knowledge for exam licensing, separating the qualified from the unqualified.
- ◆ Pre-licensing education mandates should be removed to provide greater uniformity among the states and with similar financial services exams administered by FINRA.
- ◆ States who have removed prelicensing education barriers report no adverse impact on exam passing rates or exam scores.
- ◆ Further, states that collect study data show that exam takers nearly universally report they engage in pre-licensing education. This indicates that the mandates are not necessary to ensure exam takers will adequately study.
- ◆ The insurance industry lacks an adequate number of producers to serve the needs of Americans as recruiting and retention for new producers continue to decline.
- ◆ Pre-licensing education mandates currently serve as an unnecessary barrier for new producers entering the industry and potentially have a disproportionate impact on minority candidates.
- ◆ Pre-licensing education reform is just one aspect of a broader industry-wide initiative to remove unnecessary barriers and encourage people from all backgrounds, nationalities, and socioeconomic classes to embark on rewarding careers in financial services, and to grow our industry as a whole.

Additional Questions? Contact Us.

To Learn More, Visit Us Online at advocacy.naifa.org or contact Bianca Alonso Weiss at bweiss@naifa.org.



About NAIFA

The National Association of Insurance and Financial Advisors is the preeminent membership association for the multigenerational community of financial professionals in the United States. NAIFA members subscribe to a strong Code of Ethics and represent a full spectrum of financial services practice specialties. They work with families and businesses to help Americans improve financial literacy and achieve financial security.

NAIFA provides producers a national community for advocacy, education, and networking along with awards, publications, and leadership opportunities to allow NAIFA members to differentiate themselves in the marketplace. NAIFA has 53 state chapters and 35 local chapters. NAIFA members in every congressional district advocate on behalf of producers and consumers at the state, interstate, and federal levels.

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