

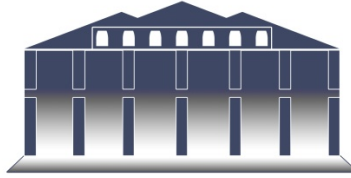
**Licensing Processing Fees Are Inequitable; Permit  
DOI Vendor to Charge Different Processing Fees  
Based on Effort and Cost**



**Final Report to the Joint Legislative  
Program Evaluation Oversight Committee**

**Report Number 2015-01**

**January 21, 2015**



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**NORTH CAROLINA GENERAL ASSEMBLY**  
Legislative Services Office

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*John W. Turcotte*  
Director

January 21, 2015

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Representative Julia Howard, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly  
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Honorable Co-Chairs:

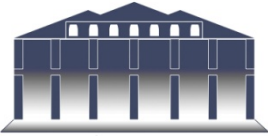
Session Law 2013-360, Section 22.6(a) directed the Program Evaluation Division to examine the licensure application process and licensure fees for occupations regulated by the Department of Insurance that are not directly associated with the insurance industry.

I am pleased to report that the Department of Insurance cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

A handwritten signature in black ink, appearing to read "J. W. Turcotte".

John W. Turcotte  
Director



# PROGRAM EVALUATION DIVISION

## NORTH CAROLINA GENERAL ASSEMBLY

January 2015

Report No. 2015-01

### Licensing Processing Fees Are Inequitable; Permit DOI Vendor to Charge Different Processing Fees Based on Effort and Cost

#### Summary

The General Assembly directed the Program Evaluation Division to examine the Department of Insurance's (DOI's) licensure application process and fees. DOI entered into a contract with Pearson VUE in December 2011 to provide licensing administrative services for all license types regulated by the department.

**Pearson VUE's licensing processing fees are disproportionate to the relative cost of processing the different types of license applications.** Pearson VUE's processing fees do not vary by type of license. However, in terms of workload distribution, processing licenses for non-insurance business entities (NIBEs) and the bail bond industry costs more than insurance industry licenses even though 97% of processing fees come from the insurance industry. The licensure requirements for NIBEs and the bail bond industry are more complicated, resulting in longer processing times. The Colorado Division of Insurance allows different processing fees to be charged for licensees based on the effort necessary to provide licensing administrative services.

**DOI's Agent Services Division (ASD) chooses to duplicate two licensure procedures performed by Pearson VUE in an effort to provide good customer service.** ASD repeats two licensing procedures: verification of criminal misdemeanor and civil judgment checks for bail bond industry licenses and notification to license applicants that license applications are incomplete after Pearson VUE has already sent two notices. ASD reviews incomplete applications to provide good customer service and ensure all license applicants and licensees are treated fairly.

**DOI has improved licensure services through outsourcing, and ASD continues to work with Pearson VUE to address licensee concerns.** Outsourcing licensing administrative services has reduced costs, increased revenue, and improved regulatory review of license applications, and compliance enforcement. Pearson VUE has implemented online application processing for all occupations, online email and address updates, and electronic fee payments. ASD continues to work with Pearson VUE to ensure licensee needs and issues are addressed and has identified how the licensing administrative services contract can be improved to benefit the Department of Insurance and licensees.

To more equitably distribute the cost to provide licensing administrative services, the General Assembly should direct the Agent Services Division to issue a request for proposal for licensing administrative services that allows the contractor to charge different processing fees based on the effort necessary to process licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

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## Purpose and Scope

The General Assembly directed the Program Evaluation Division to examine the licensure application process and licensure fees for occupations regulated by the Department of Insurance (DOI) that are not directly associated with the insurance industry.<sup>1</sup> The occupations regulated by DOI that are not directly associated with the insurance industry include bail bondsmen as well as three occupations DOI collectively references as non-insurance business entities (NIBEs) – collection agencies, premium finance companies, and motor clubs.

This evaluation addressed two central research questions:

1. How does the Department of Insurance issue licenses and regulate non-insurance occupations?
2. What is the most efficient and effective method for processing applications for licensure and renewal?

The Program Evaluation Division collected data from several sources including

- interviews and data queries of the Agent Services Division of the Department of Insurance;
- site visit and data queries of the North Carolina Licensing Office of Pearson VUE;
- review of North Carolina General Statutes and Session Laws related to licensure by the Department of Insurance;
- analysis of administrative and financial data of the Agent Services Division of the Department of Insurance and the North Carolina Licensing Office of Pearson VUE; and
- customer satisfaction surveys from 77,189 individuals and companies licensed by the Department of Insurance during Fiscal Years 2012–13 and 2013–14 with an overall response rate of 9.4%.

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## Background

State law directs the Department of Insurance (DOI) to regulate the insurance industry and several other occupations not directly related to the insurance industry. The Commissioner of Insurance delegates regulatory responsibilities to the Agent Services Division (ASD) and the Criminal Investigations Division. Regulation includes two primary functions:

- **Licensure.** Consists of issuing new licenses to qualified applicants based on statutory standards, renewing licenses as required by State law, and assessing statutory fees.
- **Enforcement.** Consists of enforcing statutory standards for licensure and professional conduct through investigation of complaints, prosecution of licensees that fail to meet standards, and imposition of sanctions.

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<sup>1</sup> Sess. Law 2013-360, Sec. 22.6.

**ASD issues licenses to the insurance industry, the bail bond industry, and non-insurance business entities.** Exhibit 1 identifies the 24 insurance industry licenses and the 7 non-insurance licenses issued by DOI. These seven non-insurance individual and business licenses consist of three bail bond licenses and four licenses for non-insurance business entities (NIBEs). During Fiscal Year 2013–14, 109,757 initial and renewal licenses applications were processed:

- 106,560 insurance industry applications (97%), and
- 3,197 bail bond industry and NIBE applications (3%).

ASD issues licenses to resident and non-resident individuals and businesses for the insurance industry and NIBEs, but individuals receiving a bail bond industry license must be North Carolina residents to be eligible for licensure.

**Exhibit 1**

The Department of Insurance Issues Licenses for the Insurance Industry, Bail Bond Industry, and Non-Insurance Business Entities

| Insurance Industry Licenses  | Non-Insurance Licenses  |
|--|---|
| <ol style="list-style-type: none"> <li>1. Auto Physical Damage Agent</li> <li>2. Auto-Rental Limited Lines</li> <li>3. Broker</li> <li>4. Company/Independent Firm Adjuster</li> <li>5. County Farm Mutual Agent</li> <li>6. Credit Agent</li> <li>7. Hail Adjuster</li> <li>8. Insurance Corporation/Partnership Business Entity</li> <li>9. Insurance Producer</li> <li>10. Limited Lines Travel Business Entity</li> <li>11. Limited Representative</li> <li>12. Medicare Supplement/Long-Term Care</li> <li>13. Motor Vehicle Damage Appraiser</li> <li>14. Public Adjuster</li> <li>15. Public Adjuster Business Entity</li> <li>16. Purchasing Group Agent</li> <li>17. Portable Electronics Business Entity</li> <li>18. Risk Retention Group Agent</li> <li>19. Self-employed Adjuster</li> <li>20. Self-service Storage Limited Lines</li> <li>21. Surplus Lines Agent</li> <li>22. Surplus Lines Business Entity</li> <li>23. Title Agent</li> <li>24. Viatical Settlement Broker</li> </ol> | <p><b>Bail Bond Industry Licenses</b></p> <ol style="list-style-type: none"> <li>1. Bail Bond Runner</li> <li>2. Surety Bail Bondsman</li> <li>3. Professional Bail Bondsman</li> </ol> <p><b>Non-Insurance Business Entities</b></p> <ol style="list-style-type: none"> <li>4. Collection Agency</li> <li>5. Motor Club Company</li> <li>6. Premium Finance Company – Type A</li> <li>7. Premium Finance Company – Type B</li> </ol> |

*Source: Program Evaluation Division based on licensure information from the Agent Services Division of the Department of Insurance.*

**In 2006, DOI determined additional positions were needed to address the increased workload caused by significant growth in the number of licenses regulated by the department.** The number of licenses regulated increased 140% in the five-year period from Fiscal Year 2000–01 to Fiscal

Year 2005–06, causing an increase in licensure inquiries, applications for initial and renewal licenses, complaints, and administrative proceedings.<sup>2</sup> These increases affected the timely deposit of licensure fees. In 2003, the State Auditor noted ASD was failing to comply with the requirements of the Daily Deposit Act to deposit fees and revenues within 24 hours of receipt.

DOI requested that the Governor include funding for nine new positions in 2007; the Governor subsequently recommended funding for six positions in the 2007–2009 Biennial Budget. However, the General Assembly did not fund DOI's expansion budget request in 2007 or 2008. As the numbers of licensees<sup>3</sup> and new license applications continued to rise, ASD attempted to address staffing concerns by moving positions from other DOI divisions as workload permitted and using temporary employees to assist with licensing and customer service calls.

**DOI entered into a contract with Pearson VUE in December 2011 for licensing administrative services for all licenses regulated by the department.** In 2011, the General Assembly expanded DOI's contracting authority by adding license processing and support services in addition to the online licensee services, administrative services, and regulatory data systems authorities granted in 2007. The law allows the contractor to charge license applicants and licensees a reasonable fee for the provision of these services in addition to statutory licensure fees.<sup>4</sup>

After a request-for-proposal process, DOI selected Pearson VUE because the company had extensive experience providing licensing administration services in other states including Colorado and Georgia. The five-year contract runs from January 2, 2012 through January 1, 2017. In general, the contract requires Pearson VUE to

- collect and remit all statutory licensure fees,
- conduct the initial review of new and renewal license applications,
- follow up on applications requiring supporting documentation,
- provide customer service and respond to licensing questions, and
- develop electronic applications for non-insurance entities and other miscellaneous support transactions.

After Pearson VUE performs the licensing administrative services, ASD continues to handle regulatory oversight of licenses including

- regulatory review of initial and renewal applications,
- follow-up on incomplete application or regulatory information and withdrawal of incomplete license applications, and
- regulatory decisions to issue or deny licenses, conduct license denial reviews, and participate in administrative hearings.

Exhibit 2 provides a detailed summary of the licensing administrative services performed by Pearson VUE and the regulatory review and compliance activities conducted by ASD.

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<sup>2</sup> The number of licenses regulated by the Department of Insurance increased from 73,343 in Fiscal Year 2000-01 to 176,241 in Fiscal Year 2005-06.

<sup>3</sup> "Licensee" refers to an individual holding a license issued by the Department of Insurance.

<sup>4</sup> N. C. Gen. Stat. § 58-2-69(g)

## Exhibit 2: Licensing Responsibilities of Pearson VUE and the Agent Services Division

| Pearson VUE Contract Responsibilities   | Agent Services Division Responsibilities  |
|---|---|
| <ul style="list-style-type: none"> <li>• Staffs a Raleigh office for licensing administration services from 8:00 am-6:00 pm, Monday-Friday.</li> <li>• Provides a computer kiosk for applicants and licensees.</li> <li>• Answers telephone and written inquiries on the initial and renewal license application process.</li> <li>• Completes administrative review of all initial and renewal license applications to check for completeness and license requirements.</li> <li>• Contacts the applicant or licensee to request any incomplete license application information.</li> <li>• Verifies license examination requirements are completed for pending license applications.*</li> <li>• Receives criminal history background checks from SBI and FBI for resident license applications.*</li> <li>• Accesses the Administrative Office of the Courts system to conduct civil and criminal record checks.*</li> <li>• Issues and renews licenses if requirements are met or refers applications to Agent Services Division for regulatory review.</li> <li>• Processes licensee name and address changes.</li> <li>• Processes non-regulatory license surrender requests.</li> <li>• Processes non-resident license cancellations when resident state provides notification that the resident license is inactive.</li> <li>• Processes insurance company appointments and terminations for bail bondsmen and follows up to request any required affidavits.</li> <li>• Sends notifications for license renewals, license renewal reminders, company appointment renewals, and license cancellations.</li> <li>• Provides electronic online applications for non-insurance applications that interface with NC license database.</li> <li>• Provides electronic collection of fees through credit card and lockbox, reconciles fees, and provides required revenue collection reports.</li> <li>• Provides an electronic system for licensees to view and change their address and email information online.</li> <li>• Tracks and reports bail bond continuing education completion.</li> <li>• Collects and tracks original surety bonds required for licensure.</li> <li>• Checks licensee database quarterly for address changes through postal records, contacts licensee for new address, updates license record, and collects \$50 address violation fee.</li> </ul> | <ul style="list-style-type: none"> <li>• Staffs a Raleigh office for licensing, compliance, and regulatory services from 8:00 am-5:00 pm, Monday-Friday.</li> <li>• Answers telephone and written inquiries on licensing, compliance, and regulatory issues.</li> <li>• Completes regulatory review of initial and renewal applications referred by Pearson VUE.</li> <li>• Follows up on incomplete application or regulatory information and withdraws incomplete license applications.</li> <li>• Makes regulatory decisions to issue or deny licenses, conducts license denial reviews, and participates in administrative hearings.</li> <li>• Manages and oversees contracts for custodial services, examination services, licensing administration services, continuing education services, electronic application services, and database administration services.</li> <li>• Processes requests for public records.</li> <li>• Works with the Attorney General's Office on compliance issues that require legal review.</li> <li>• Reconciles licensing, continuing education, administrative and regulatory fees, and fines collected.</li> <li>• Investigates and handles complaints regarding insurance and non-insurance licensees and reports of unlicensed activity.</li> <li>• Investigates and cancels licenses for non-compliance with child support.</li> <li>• Participates in administrative proceedings for voluntary agreements of regulatory fines or pursues surrender/revocation of licenses.</li> <li>• Conducts agency examinations on NC insurance agencies.</li> <li>• Conducts audits of continuing education classes and handles complaints on continuing education providers.</li> <li>• Sends daily licensing information to the Administrative Office of the Courts for the electronic bail bondsmen registry.</li> <li>• Coordinates with the Administrative Office of the Courts for bail bondsmen access to the criminal justice information system.</li> <li>• Reviews bail bond monthly liability reports, completes compliance checks, deficiency follow-up, and approves liquidation of funds.</li> <li>• Reviews and approves of prelicensing education providers and courses.</li> <li>• Provides statistical, revenue, and other reports to the General Assembly and various state agencies.</li> </ul> |
| <p>* If applicable</p>  |   |

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.



**The total cost of licensure varies significantly among the different types of licenses issued by DOI.** The legislation directing this evaluation asked the Program Evaluation Division to determine the total cost of licensure for an initial license application and for license renewal or reinstatement. Exhibit 3 summarizes the total licensure cost by type of license and provides information for licenses issued to the bail bond industry, non-insurance business entities (NIBEs), and the insurance industry. (See Appendices A through C for itemized details on specific fees required for each license.) The cost of licensure for each license type includes statutory license and examination fees, a criminal record check fee (if applicable), and the Pearson VUE processing fee. The fees for insurance industry licenses also include a National Insurance Producer Registry transaction fee. The total cost of initial licensure ranges from \$105 for a resident insurance broker to \$2,450 for a premium finance company – Type B. The total cost of license renewal or reinstatement shows a similar cost variance. Overall, the insurance industry has the lowest fees, though insurance licensees typically receive multiple licenses for different types of insurance (life, health, etc.). NIBEs have higher statutory licensure fees than the bail bond industry.

### Exhibit 3

#### Non-Insurance Business Entities Pay the Most for Initial and Renewal Licenses

| Department of Insurance<br>Total Cost of Licensure | Initial License | Renewal License | License Reinstatement |
|--|-----------------|-----------------|-----------------------|
| <b>Bail Bond Industry</b>                          |                 |                 |                       |
| Professional Bail Bondsman                         | \$313           | \$140 to \$178  | N/A                   |
| Surety Bail Bondsman                               | \$313           | \$140 to \$178  | N/A                   |
| Bail Bond Runner                                   | \$233           | \$100 to \$138  | N/A                   |
| <b>Non Insurance Business Entities</b>             |                 |                 |                       |
| Collection Agency                                  | \$1,050         | \$1,040         | N/A                   |
| Premium Finance Company – Type A                   | \$ 650          | \$ 640          | N/A                   |
| Premium Finance Company – Type B                   | \$2,450         | \$2,440         | N/A                   |
| Motor Club   | \$ 650          | \$ 640          | N/A                   |
| <b>Insurance Industry</b>                          |                 |                 |                       |
| Resident Producer                                  | \$143           | N/A             | \$ 95                 |
| Resident Adjuster                                  | \$180 to \$218  | \$120           | \$170                 |
| Resident Broker                                    | \$105           | \$ 95           | \$ 95                 |
| Resident Business Entity                           | \$155           | \$145           | \$145                 |

Notes: License reinstatement is unique to the insurance industry. Fees for bail bond industry renewal licenses vary because even-year renewal licenses require a \$38 criminal record check fee. Premium finance companies and motor clubs may pay a \$100 branch office fee, and motor clubs may pay a \$200 franchise fee. The resident adjuster initial license fee varies because public adjusters pay a \$38 criminal record check fee. The Pearson VUE licensing processing fees are included in the total cost of licensure. Appendices A through C provides itemized details on required fees for each license.

Source: Program Evaluation Division based on license fee information from the Agent Services Division of the Department of Insurance.

**The insurance industry provided most of the statutory revenue from DOI licensure fees in Fiscal Year 2013–14.** Revenue from DOI statutory licensure fees is deposited into the Insurance Regulatory Fund and is subject to appropriation by the General Assembly. The amount of revenue received from each industry is determined by the amount charged for statutory fees and the number of licenses issued and renewed. As seen in Exhibit 4, licensees from the insurance industry were issued the most licenses and hence provided the most statutory revenue in Fiscal Year 2013–14. NIBEs provided more statutory revenue than the bail bond industry because their statutory fees are much higher.

## Exhibit 4

During Fiscal Year 2013–14, Licensees from the Insurance Industry Provided Most of the Statutory Fee Revenue

| Licensed Industries                    | Number of License Applications |               |                | Statutory Fees      |
|--|--------------------------------|---------------|----------------|---------------------|
|  | Initial                        | Renewal       | Total          |                     |
| <b>Insurance Industry</b>              | 55,189                         | 51,371        | 106,560        | \$ 5,630,406        |
| <b>Non-Insurance Business Entities</b> | 203                            | 1,172         | 1,375          | 1,413,800           |
| <b>Bail Bond Industry</b>              | 159                            | 1,663         | 1,822          | 198,100             |
| <b>Totals</b>                          | <b>55,551</b>                  | <b>54,206</b> | <b>109,757</b> | <b>\$ 7,242,306</b> |

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

The legislation directing this evaluation arose from concerns expressed by non-insurance business entities and the bail bond industry. Their concerns included the advantages and disadvantages of using a licensing administrative services vendor, potential duplication of licensure activities, and the method for paying a vendor for providing licensing administrative services. Accordingly, this evaluation examines how effectively and efficiently ASD and Pearson VUE have worked together to process insurance industry, NIBE, and bail bond industry licenses and how the contractual relationship has affected licensees.

## Findings

**Finding 1. Pearson VUE's licensing processing fees are disproportionate to the relative cost of processing the different types of license applications.**

**Unlike statutory licensure fees, Pearson VUE's processing fees do not vary by type of license.** As authorized by State law, license applicants and licensees pay a processing fee for the licensing administrative services provided under the vendor's contract. Pearson VUE provides services at no cost to the Department of Insurance (DOI) by collecting the following fees from license applicant and licensees:

- **\$50** for each new license application processed,
- **\$40** for each renewal license processed, and
- **\$40** for each license reinstatement processed.

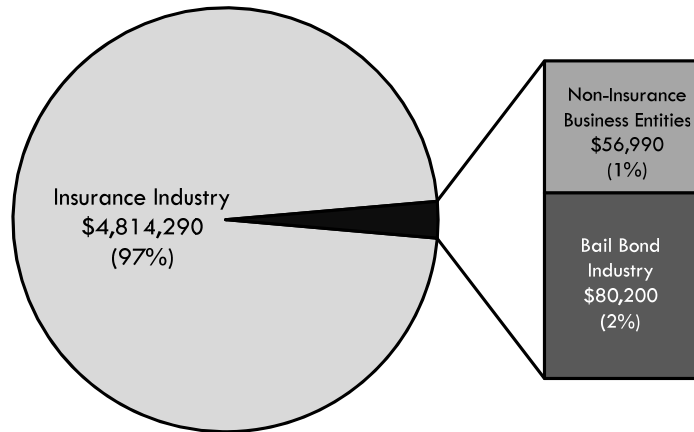
Fees are paid independent of whether a license is approved, renewed, or reinstated, but Pearson VUE refunds the processing fee if ASD determines an error caused a delay in an applicant or licensee receiving a license.

**The majority of revenue Pearson VUE earns from licensure processing fees is generated by the insurance industry.** In Fiscal Year 2013–14, 106,560 of the 109,757 licenses processed by Pearson VUE were for the insurance industry. Accordingly, as shown in Exhibit 5, 97% of the \$4.9 million in revenue earned by Pearson VUE came from the insurance industry. NIBEs and the bail bond industry accounted for only 3%.

## Exhibit 5

The Majority of Pearson VUE's Revenue Comes from the Insurance Industry

Fiscal Year 2013–14 Processing Fees Earned by Pearson VUE = \$4,951,480



Source: Program Evaluation Division based on license processing fee information from the Agent Services Division of the Department of Insurance.

**Pearson VUE spends more money to collectively process NIBE and bail bond industry licenses than it spends to process insurance industry licenses even though 97% of its revenue comes from the insurance industry.** The Program Evaluation Division requested Pearson VUE to estimate how its operating expenses for the North Carolina Licensing Office for the 2012–2014 time period were distributed among processing licenses for the insurance industry, NIBEs, and the bail bond industry.<sup>5</sup> Their estimate included operating expenses for

- staffing the North Carolina Licensing Office,
- facilities,
- support of Pearson VUE technologies,
- fees for third-party technology,
- management oversight,
- publications,
- mailings,
- credit card fees, and
- other program expenses.<sup>6</sup>

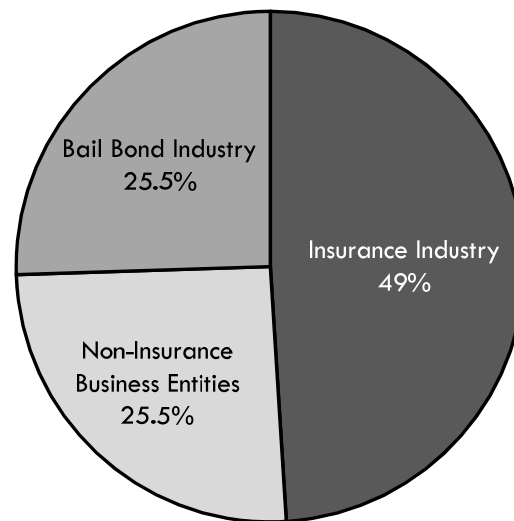
<sup>5</sup> The 2012–2014 time period is January 2, 2012 through August 31, 2014.

<sup>6</sup> The Program Evaluation Division requested that Pearson VUE provide actual operating cost information for processing licenses, but Pearson VUE did not provide operating expense information due to competitive concerns. Pearson VUE provided the percentage of operating expenses associated with processing licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

As shown in Exhibit 6, 51% of Pearson VUE expenses were related to processing licenses for NIBEs and the bail bond industry. When one-time expenses related to software development for the online license applications for NIBEs and the bail bond industry are included, the expense ratio becomes 56% for processing NIBE and bail bond industry licenses and 44% for the insurance industry. One factor contributing to the lower expenses for processing insurance industry licenses is that technology allows Pearson VUE to process 52% of insurance licenses automatically through business rules.

## Exhibit 6

Over 50% of Pearson VUE's Operating Expenses for the 2012–14 Time Period Were Related to Collectively Processing Licenses for the Bail Bond Industry and Non-Insurance Business Entities



Note: The Program Evaluation Division requested that Pearson VUE provide actual operating cost information for processing licenses, but Pearson VUE did not provide operating expense information due to competitive concerns. Pearson VUE instead provided the percentage of operating expenses associated with processing licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

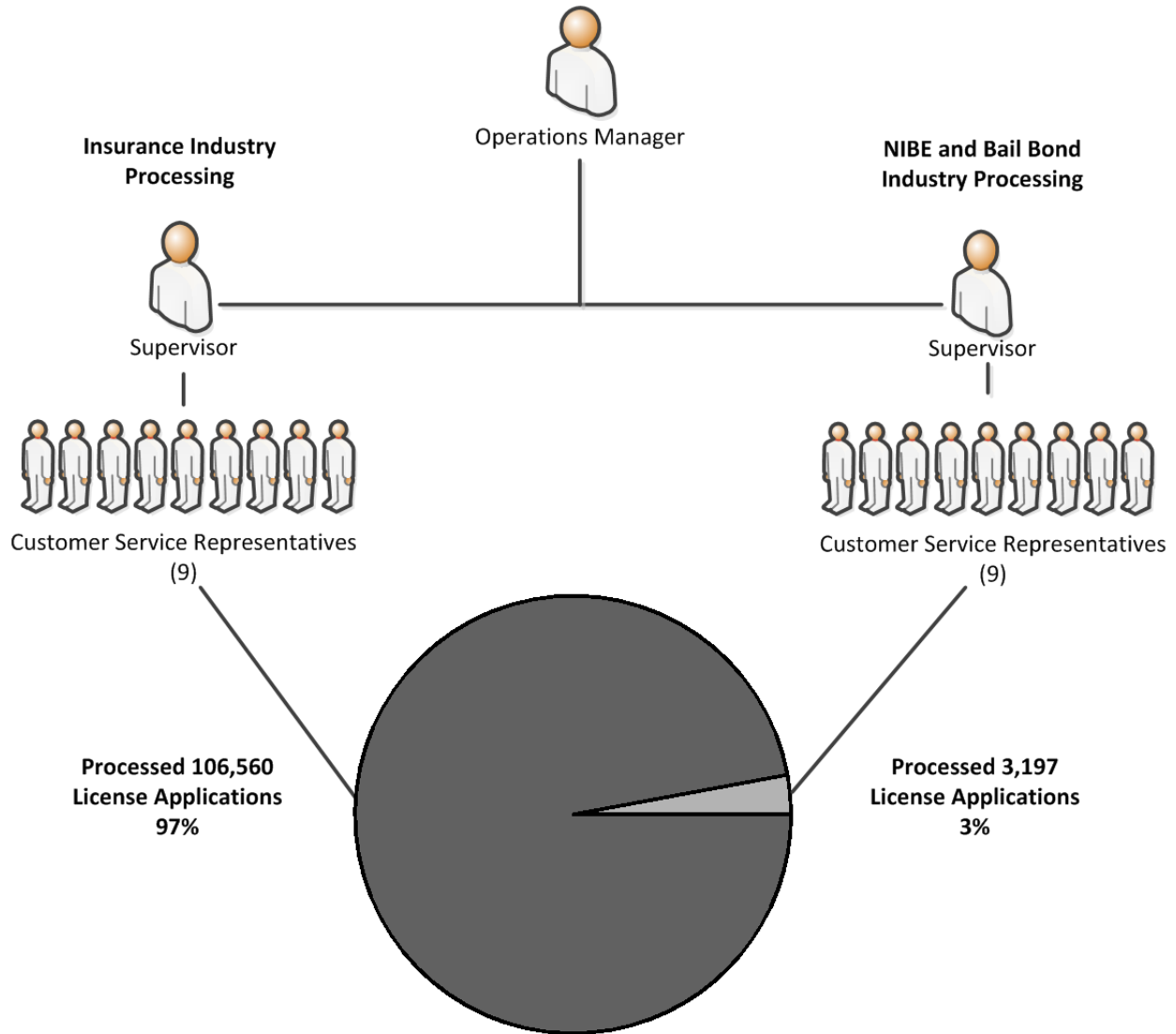
Source: Program Evaluation Division based on 2012–2014 cost information from Pearson VUE.

**Pearson VUE must dedicate an equal amount of human capital to licensure processing for non-insurance businesses and occupations as it does for the insurance industry despite the fact that non-insurance industries account for a significantly lower volume of licenses.** The North Carolina Licensing Office of Pearson VUE consists of an operations manager, two supervisors, and 18 customer service representatives. As shown in Exhibit 7, the office organization is divided into two sections: insurance industry processing and processing for NIBEs and the bail bond industry. The office staff processed 109,757 license applications during Fiscal Year 2013–14. The insurance industry processing unit processed 106,560 license applications, and the unit for NIBEs and the bail bond industry processed only 3,197 license applications.

### Exhibit 7: Half of Pearson VUE's Customer Service Representatives Were Needed to Process 3% of License Applications During Fiscal Year 2013-14



#### North Carolina Licensing Office



Note: NIBE is the acronym for non-insurance business entity.

Source: Program Evaluation Division based on information from Pearson VUE.

**The disparity in licensure processing between the two sections occurs because customer service representatives spend more time reviewing and processing initial license and renewal applications for NIBEs and the bail bond industry.** During the site visit to the North Carolina Licensing Office of Pearson VUE, the Program Evaluation Division observed customer service representatives processing licensure applications. The customer service representatives demonstrated processing for different types of licenses including

- an insurance producer initial license application,
- a surety bail bondsman initial license application, and
- a collection agency initial license application.

Review of the insurance producer license was completed quickly, but in the processing example observed by the Program Evaluation Division the license could not be issued because the applicant was scheduled to take the licensure exam the following day. The customer service representative needed to verify the applicant passed the exam before the license could be issued. The surety bail bondsman and collection agency license applications required more time to review, and the customer service representatives could not complete processing the license applications because the applicants had not submitted all required documentation. Per contract requirements, the customer service representatives sent each applicant a notification that their application was incomplete and indicated what documentation was needed to complete the application.

Pearson VUE estimated the average processing time for insurance producer, surety bail bondsman, and collection agency initial license applications. As seen in Exhibit 8, a customer service representative can process several initial insurance license applications in the time required to process one initial surety bail bondsman or collection agency license application. Processing an initial collection agency license application consumes the most time, requiring an average of two and a half hours per application. A customer service representative can handle 15 insurance producer license applications in the time it takes to process one collection agency license application.

## Exhibit 8

Pearson VUE Can Process Several Initial Insurance License Applications in the Time Required to Process One Initial Surety Bail Bondsman or Collection Agency License Application

|                              | Hours | Minutes |   |
|------------------------------|-------|---------|---|
| Insurance Producer License   | 00    | 10      | The processing time period for 1 insurance producer license application is 10 minutes and Pearson VUE can process 6 applications per hour.  |
| Surety Bail Bondsman License | 01    | 30      | The processing time period for 1 surety bail bondsman license application equals the processing time for 9 insurance producer applications. |
| Collection Agency License    | 02    | 30      | The processing time period for 1 collection agency license application equals the processing time for 15 insurance producer applications.   |

Source: Program Evaluation Division based on information from Pearson VUE.

**Pearson VUE spends more time processing NIBE and bail bond industry licenses because their licensure requirements are more complicated than those for the insurance industry.** State law establishing the licensing requirements for the insurance industry, NIBEs, and the bail bond industry dictates necessary documentation. Pearson VUE collects information for each license using the business rules based on ASD's interpretation of the statutory licensure requirements for each license. Applicants must submit the required documents electronically or by mail to Pearson VUE. The customer service representatives must match documents to the correct application, attach documents to the electronic application file, and verify whether the documentation provides the information necessary for Pearson VUE or ASD to conduct the regulatory review of the license application.<sup>7</sup>

Exhibit 9 compares the documentation requirements for initial and renewal/reinstatement license applications for a collection agency, a surety bail bondsman, and an insurance producer.

<sup>7</sup> Pearson VUE is authorized to conduct regulatory review and issue licenses for the insurance industry based on business rules provided by the Department of Insurance. The Agent Services Division conducts the regulatory review for all NIBE and bail bond industry license applications.

## Exhibit 9: Documentation Requirements for Initial and Renewal License Applications

| Collection Agency License   | Surety Bail Bondsman License   | Insurance Producer License  |
|---|--|---|
| <p><b>Initial Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>Board resolution/owner authorization to apply for license</li> <li>Personal questionnaires for owners, officers, and directors (required documentation for "yes" answers to <b>6</b> questions)</li> <li>Corporate formation documents</li> <li>Organization flowchart*</li> <li>Collection methods and processes</li> <li>Correspondence to debtors</li> <li>Collection telephone number listing</li> <li>Ethical disclosure documents (required documentation for "yes" answers to <b>10</b> screening questions)*</li> <li>Trust account bank statement</li> <li>Corporate balance sheet</li> <li>Parent company balance sheet*</li> <li>Surety bond(s)</li> <li>NC Secretary of State certificate of authority</li> <li>Doing Business As and Trade Name Registration*</li> </ol> | <p><b>Initial Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>SBI electronic fingerprint submission release of information form</li> <li>SBI and FBI criminal history background check report</li> <li>Two proofs of NC residency</li> <li>Valid NC driver's license or state ID card showing date of birth</li> <li>Prelicensing education completion certificate</li> <li>Proof of high school diploma or GED</li> <li>Required documentation for "yes" answers to <b>11</b> screening questions</li> <li>License exam results</li> <li>Certification from supervising bail bondsman for applicants subject to first year supervision</li> <li>Affidavit from all former surety insurers from applicants</li> <li>Surety insurance company appointment form</li> </ol> | <p><b>Initial Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>SBI electronic fingerprint submission release of information form**</li> <li>SBI and FBI criminal history background check report**</li> <li>Required documentation for "yes" answers to <b>9</b> screening questions</li> <li>License exam results*</li> </ol> |
| <p><b>Renewal Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>Updated personal questionnaires for owners, officers, and directors (required documentation for "yes" answers to <b>6</b> questions)*</li> <li>Updated collection methods and processes*</li> <li>Updated correspondence to debtors</li> <li>Ethical disclosure documents (required documentation for "yes" answers to <b>10</b> screening questions)*</li> <li>Trust account bank statement</li> <li>Corporate balance sheet</li> <li>Parent company balance sheet*</li> <li>Bond calculation worksheet</li> <li>Surety bond(s)</li> </ol>   | <p><b>Even-Year Renewal Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>SBI electronic fingerprint submission release of information form</li> <li>SBI and FBI criminal history background check report</li> <li>Two proofs of NC residency</li> <li>Required documentation for "yes" answers to <b>8</b> screening questions</li> <li>Verification of continuing education</li> </ol> <p><b>Odd-Year Renewal Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>Required documentation for "yes" answers to <b>8</b> screening questions</li> <li>Verification of continuing education</li> </ol>  | <p><b>Reinstatement Applications</b></p> <ol style="list-style-type: none"> <li>License application and fees</li> <li>Required documentation for "yes" answers to <b>9</b> screening questions</li> </ol>   |
| <p>* If applicable</p>  |  | <p>* If applicable<br/>** Only applicable to NC residents</p>   |

Note: An insurance producer license does not have an annual renewal requirement, but a reinstatement application is required when a producer license lapses for less than a year.

Source: Program Evaluation Division based on licensure requirements from the Agent Services Division of the Department of Insurance.



Overall, the documentation requirements for NIBE or bail bond industry licenses are more extensive than the requirements for insurance industry licenses. As shown in Exhibit 10, NIBEs may be required to submit more than 50 documents to complete their initial and renewal applications. Customer service representatives may send up to two deficiency letters to the applicant identifying which documents the applicant still needs to submit to have a complete application, which increases the time it takes to process the application. The greater documentation requirements for NIBE and bail bond industry initial and renewal license applications increase the likelihood that documents will be missing when an applicant first submits an application.

**Exhibit 10**

**Non-Insurance Business Entities Are Required to Provide the Most Supporting Documentation**

| Licensed Industries                    | Number of Required Supporting Documents |                      |
|--|---|----------------------|
|  | Initial Applications                    | Renewal Applications |
| <b>Non-Insurance Business Entities</b> | 10 – 50+                                | 5 – 50+              |
| <b>Bail Bond Industry</b>              | 9 – 20+                                 | 3 – 15+              |
| <b>Insurance Industry</b>              | 2 – 11                                  | 0 – 9                |

Notes: The number of NIBE initial licensure documents is affected by responses to ethical disclosures and the number of owners, officers, and directors responding to the personal questionnaires. Some NIBE renewal license applicants must submit documents to update information previously submitted. The documentation requirements for bail bond industry renewal license application vary because of different requirements for odd- and even-year license renewals.

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

**Pearson VUE processing fees for the Colorado Division of Insurance vary by license type.** The Colorado Division of Insurance also contracts with Pearson VUE to provide licensing administrative services for the insurance and bail bond industries. Like the North Carolina Department of Insurance, Pearson VUE provides services for the Colorado Division of Insurance at no cost to the state. Pearson VUE collects processing fees from license applicants and licensees, but the Colorado contract permits processing fees to vary for the different licensed professions.

- **Initial license application processing fees.** In Colorado, a resident insurance producer pays a \$39 processing fee for an initial license application per insurance line of authority<sup>8</sup>, and a bail bond agent pays a \$159 processing fee. In North Carolina, both professions pay a \$50 processing fee for an initial license application.
- **Renewal application processing fees.** In Colorado, a resident insurance producer pays a \$10 processing fee to renew a license per insurance line of authority, and a bail bond agent pays a \$159

<sup>8</sup> A line of authority is a general subject area of insurance that an insurance producer can be licensed to sell. There are six major lines of authority for insurance producers in in North Carolina: Life, Accident and Health, Property, Casualty, Personal Lines, and Variable Life/Annuity Products.

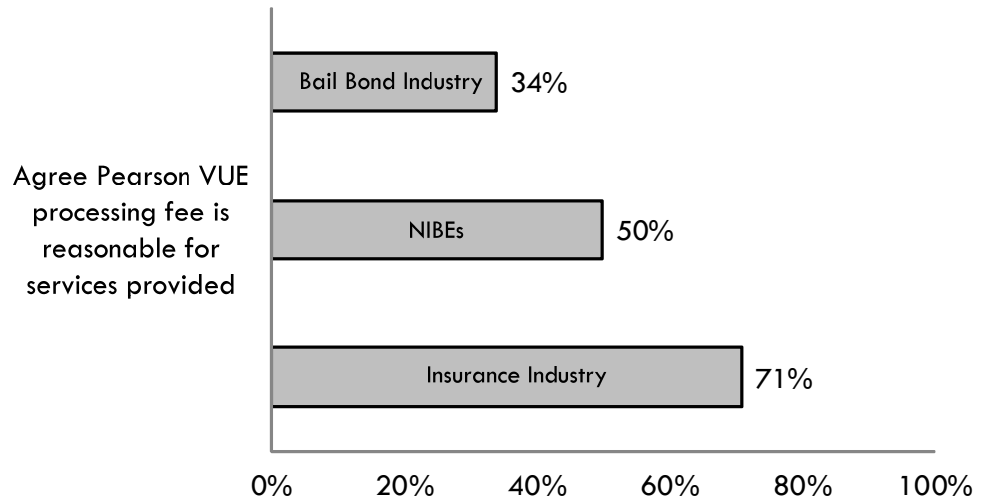
processing fee to renew. In North Carolina, both professions pay a \$40 processing fee for license renewal.

The different fees are based on the effort required to process the different license applications.

**All North Carolina licensees pay the same application and renewal processing fees, but licensees have different opinions on the reasonableness of these fees.** In a survey conducted by the Program Evaluation Division, licensees were asked whether they agreed with the following statement: “The licensing application and renewal processing fees are reasonable for the services provided by the North Carolina Licensing Office of Pearson VUE.” As shown in Exhibit 11, the licensees from the insurance industry, NIBEs, and the bail bond industry had different opinions on the reasonableness of Pearson VUE’s processing fees. A majority (71%) of insurance industry licensees responding to the survey agreed that processing fees were reasonable, but only 34% of the responding bail bond industry licensees agreed. NIBE licensees were evenly split, with 50% agreeing that the processing fee was reasonable.<sup>9</sup>

**Exhibit 11**

Licensees from the Insurance Industry, Non-Insurance Business Entities, and the Bail Bond Industry Had Different Opinions on the Reasonableness of Pearson VUE’s Processing Fees



Notes: NIBEs is the acronym for non-insurance business entities. The percentage of licensees for each group was calculated based on survey responses selecting “agreed” or “strongly agreed” with the following statement: “The licensing application and renewal processing fees are reasonable for the services provided by the North Carolina Licensing Office of Pearson VUE.”

Source: Program Evaluation Division based on a survey of licensees from the insurance industry, non-insurance business entities, and the bail bond industry.

Bail bond industry and NIBE licensees view the processing fees as less reasonable than the insurance industry, even though revenue from fees paid by insurance industry licensees covers a portion of the cost to process NIBE and bail bond industry licenses. To more equitably distribute Pearson VUE’s costs for providing licensing administrative services, the insurance

<sup>9</sup> The percentage of licensees for each group was calculated based on survey responses selecting “agreed” or “strongly agreed” with the following statement, “The licensing application and renewal processing fees are reasonable for the services provided the North Carolina Licensing Office of Pearson VUE.”

industry, NIBEs, and the bail bond industry could pay different processing fees based on the actual cost to process the different licenses.

In summary, Pearson VUE's processing fees do not vary by type of license. However, the workload distribution and expense ratios show that processing NIBE and bail bond industry licenses costs more than insurance industry licenses even though 97% of the processing fees earned by Pearson VUE come from the insurance industry. The licensure requirements for NIBEs and the bail bond industry are more complicated than those for the insurance industry, resulting in longer processing times by Pearson VUE customer service representatives. Pearson VUE could be directed to charge different processing fees based on the effort necessary to provide licensing administrative services, similar to its contract with the Colorado Division of Insurance.

**Finding 2. The Agent Services Division chooses to duplicate two licensure procedures performed by Pearson VUE in an effort to provide good customer service.**

The legislation requiring this evaluation directed the Program Evaluation Division to determine whether any redundancy exists between Pearson VUE and the Department of Insurance (DOI) in processing initial or renewal license applications. The Program Evaluation Division identified two examples of DOI's Agent Services Division (ASD) repeating licensing procedures performed by Pearson VUE:

- performing criminal misdemeanor and civil judgment checks for bail bond industry licenses, and
- notifying license applicants that their applications are incomplete and need additional documentation for regulatory review.

**ASD verifies the criminal misdemeanor and civil judgment checks for bail bond industry licenses performed by Pearson VUE.** State law for bail bond industry licensure requires or allows DOI to deny, revoke, or refuse to renew licenses for applicants and licensees convicted of certain criminal misdemeanors<sup>10</sup> or who have failed to pay certain civil judgments.<sup>11</sup> The criminal conviction and civil judgment background checks are performed through systems maintained by the North Carolina Administrative Office of the Courts (AOC). The Automated Criminal and Infraction System (ACIS) collects official court records for state crimes and infractions, and the Civil Case Processing System (VCAP) collects official court records for civil cases and judgments.

Pearson VUE conducts criminal misdemeanor and civil judgment background checks for bail bond industry initial license and renewal applications. A customer service representative enters the name of a bail bond industry license applicant or licensee into ACIS and VCAP to identify criminal misdemeanor convictions or civil judgments. If a criminal misdemeanor conviction or civil judgment is identified, the information is

<sup>10</sup> N. C. Gen. Stat. § 58-71-80(a)(2) and (6), N. C. Gen. Stat. § 58-71-80(b1) and (b2).

<sup>11</sup> N. C. Gen. Stat. § 58-71-80(a)(9) and (14c).

included with the initial license application package sent to ASD for regulatory review.

During the regulatory review process, ASD repeats the two background checks for bail bond industry license applicants and licensees. When the Program Evaluation Division questioned the necessity of the duplication, ASD stated that a second search for records in the ACIS and VCAP systems ensures license qualifications are met. AOC's mainframe systems are difficult to search because neither system uses a unique identifier for the searches such as a Social Security number. Both ACIS and VCAP rely on names to perform searches which can be challenging due to potential variances in applicant and licensee names because of aliases, married name changes, and suffixes. Conducting a second review allows ASD to monitor and verify the checks performed by Pearson VUE's customer service representatives, increases the likelihood that all criminal convictions and civil judgments are found, and ensures that an unqualified bail bond license applicant or licensee does not receive a license.

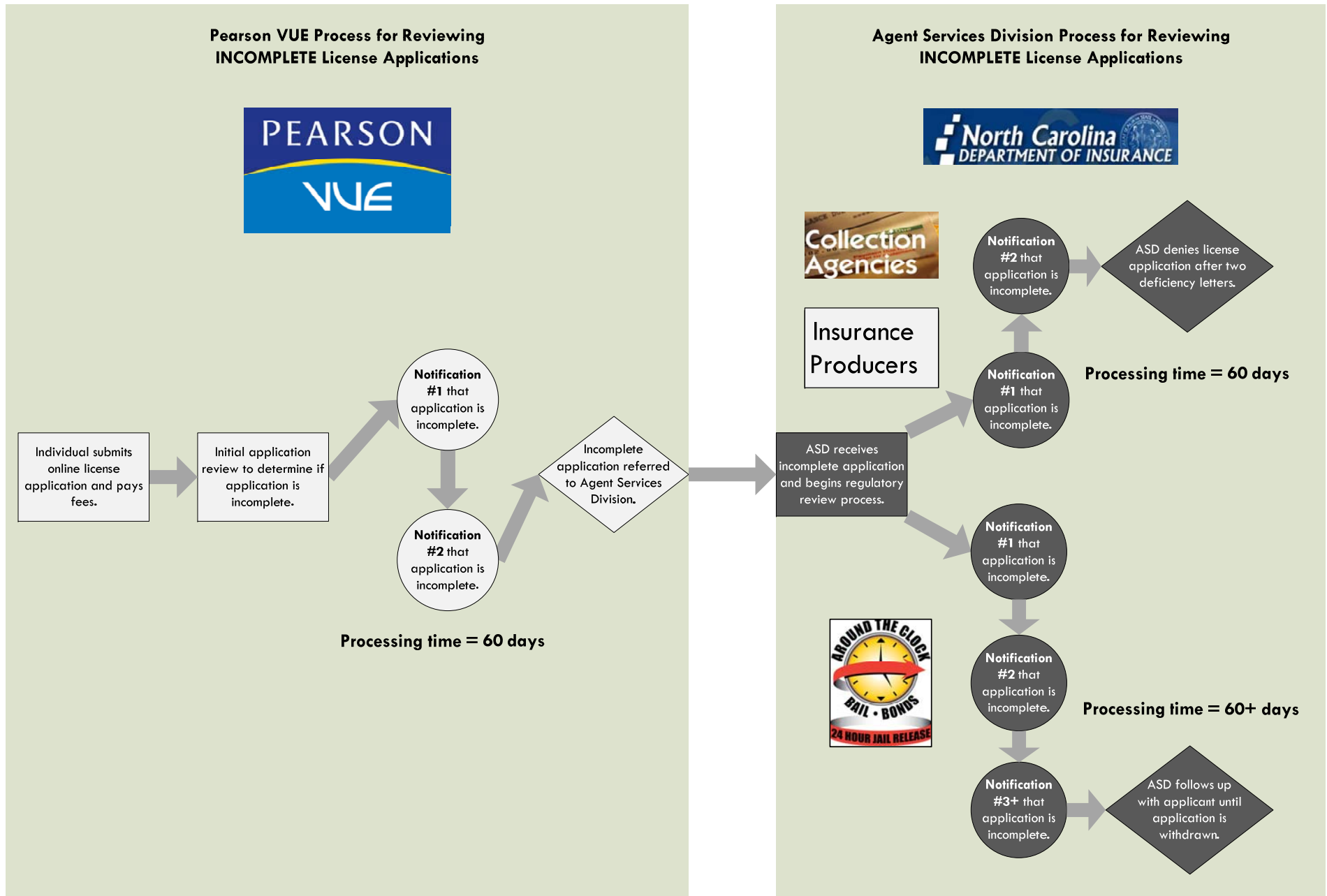
**The contract requires Pearson VUE to send two notifications to license applicants and licensees to request missing information for initial and renewal licenses.** If the customer service representative conducts the initial administrative review of a new online application and finds that some required documents are missing, the representative sends a first notification requesting the missing information. The applicant has 30 days to submit documents, and the customer service representative checks pending applications throughout the initial 30-day time period for the missing documentation. If a license application is still incomplete after 30 days, the customer service representative sends a second notification to the applicant. After 60 days, Pearson VUE refers incomplete initial and renewal license applications to ASD.

**ASD continues to request missing application materials from license applicants after Pearson VUE has already sent two notifications.** When ASD staff receives initial and renewal license applications from Pearson VUE, they conduct regulatory review to determine whether the applicant qualifies for initial licensure or license renewal. During the regulatory review process, ASD notes specific application deficiencies and any regulatory issues, and then notifies applicants that their applications are incomplete. The ASD notification includes requesting submission of missing documentation previously requested by Pearson VUE and additional documentation for regulatory deficiencies noted during regulatory review of the application. The number of ASD notifications for incomplete applications differs depending on the type of license:

- Non-insurance business entities (NIBEs) and insurance license applications receive **two additional notifications**, and
- Bail bond industry licenses applications receive **two or more additional notifications**.

Exhibit 12 shows how ASD duplicates the notification process performed by Pearson VUE.

## Exhibit 12: The Agent Services Division Duplicates the Notification Process Performed by Pearson VUE



Source: Program Evaluation Division based on license processing information from the Agent Services Division of the Department of Insurance.

**ASD could reduce its regulatory review workload by denying licensure to license applicants or licensees submitting incomplete applications to Pearson VUE.** Under state law, the Commissioner of Insurance has the authority to set policies and procedures for issuing licenses. The Commissioner of Insurance could direct ASD to deny licensure to applicants unable to provide Pearson VUE with the necessary supporting documents within 60 days. ASD could also be directed to take administrative action to revoke licenses due to incomplete renewal applications.

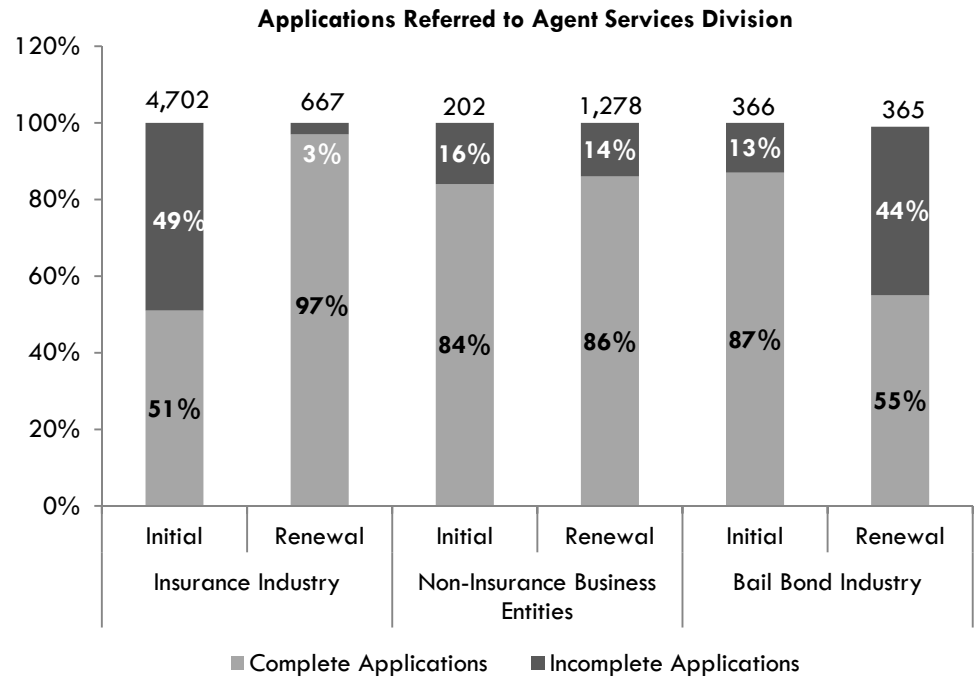
The Program Evaluation Division analyzed ASD's workload to determine how many incomplete initial and renewal license applications were referred by Pearson VUE. If ASD had chosen to not to review incomplete applications, their regulatory review workload could have been reduced by 2,391 initial license applications and 365 renewal applications. Most incomplete initial applications were from the insurance industry;<sup>12</sup> the bail bond industry had the highest relative percentage of incomplete renewal applications. Exhibit 13 shows the percentage of complete and incomplete initial and renewal applications referred to ASD for the insurance industry, NIBEs, and the bail bond industry during Fiscal Year 2013–14.

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<sup>12</sup> Most insurance industry initial and renewal license applications are processed automatically through Pearson VUE's system or by customer service representatives based on business rules provided by the Agent Services Division. Pearson VUE refers insurance license applications to the Agent Services Division that are incomplete or require regulatory review before a license can be issued.

### Exhibit 13

During Fiscal Year 2013–14, the Insurance Industry Had the Highest Percentage of Incomplete Initial Applications and the Bail Bond Industry Had the Highest Percentage of Incomplete Renewal Applications



**Total Incomplete Initial License Applications = 2,391**

**Total Incomplete Renewal License Applications = 365**

Notes: The insurance industry had 2,310 incomplete initial license applications and 19 incomplete renewal applications. Non-insurance business entities had 32 incomplete initial license applications and 180 incomplete renewal applications. The bail bond industry had 49 incomplete initial license applications and 166 incomplete renewal applications.

Source: Program Evaluation Division based on licensure application referral data from the Agent Services Division of the Department of Insurance.

**The Department of Insurance could save money if ASD discontinued its review of incomplete initial and renewal license applications.** The Program Evaluation Division calculated the direct unit cost for ASD to process incomplete initial and renewal license applications for the insurance industry, NIBEs, and the bail bond industry. ASD’s cost for reviewing incomplete applications during Fiscal Year 2013–14 was derived by multiplying the number of incomplete applications by the direct unit cost for reviewing initial and renewal applications. As shown in Exhibit 14, ASD spent an estimated \$51,189 during Fiscal Year 2013–14 to review incomplete license applications. The majority of the cost was spent on incomplete insurance industry license applications.

**Exhibit 14**

The Agent Services Division Spent over \$50,000 During Fiscal Year 2013–14 to Review Incomplete License Applications

| Licensed Industries                    | Direct Unit Cost to Process License Applications | Number of Incomplete Applications | Estimated Cost of Reviewing Incomplete Applications |
|--|--|-----------------------------------|---|
| <b>Insurance Industry</b>              |  |                                   |   |
| • Initial application                  | \$ 13.35   | 2,310                             | <b>\$ 31,195</b>                                    |
| • Renewal application                  | \$ 18.21   | 19                                |   |
| <b>Non-Insurance Business Entities</b> |  |                                   |   |
| • Initial application                  | \$ 85.99   | 32                                | <b>\$ 16,985</b>                                    |
| • Renewal application                  | \$ 79.08   | 180                               |   |
| <b>Bail Bond Industry</b>              |  |                                   |   |
| • Initial application                  | \$ 46.52   | 49                                | <b>\$ 3,008</b>                                     |
| • Renewal application                  | \$ 4.39  | 166                               |   |
| <b>Totals</b>                          |  | <b>2,756</b>                      | <b>\$ 51,189</b>                                    |

Notes: Direct cost to process an application includes the salaries and benefits for the Agent Services Division employees performing the regulatory review of initial and renewal license applications. The direct unit cost for the regulatory review of initial license applications for each licensing category was calculated as follows: (Annual salaries and benefits for regulatory review positions multiplied by the percentage of time spent reviewing initial license applications) divided by the total number of initial license applications reviewed annually. The direct unit cost for the regulatory review of renewal license applications for each licensing category was calculated as follows: (Annual salaries and benefits for regulatory review positions multiplied by the percentage of time spent reviewing renewal license applications) divided by the total number of renewal license applications reviewed annually.

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

**ASD chooses to review incomplete applications to provide good customer service to North Carolina businesses and citizens.** The Program Evaluation Division asked ASD to explain why they conduct regulatory review of incomplete license applications and continue to notify applicants about incomplete applications after Pearson VUE has already sent two notifications. ASD stated that it wanted to ensure customer satisfaction and prevent customer complaints because extenuating circumstances or misunderstandings about the required documentation can cause submission delays. For example, bail bond licensees sometimes experience confusion because state law for bail bond industry license renewal requires different supporting documentation depending on whether it is an even-year or odd-year renewal.<sup>13</sup> In addition, state law limits bail bond applicants to one license application per year, and ASD works with applicants to complete their applications so the applicant will not have to wait another year to apply again. ASD stated that following up on incomplete applications provides an opportunity to receive direct feedback from applicants and

<sup>13</sup> See Exhibit 9 on page 13 of this report for a description of the even-year and odd-year documentation requirements for license renewal.



licensees on the quality of licensing services so that information can be used to make process improvements.

In summary, the Program Evaluation Division identified two instances where ASD repeats licensing procedures performed by Pearson VUE. ASD verifies the criminal misdemeanor and civil judgment checks for bail bond industry licenses performed by Pearson VUE. ASD also continues to notify license applicants that their initial and renewal license applications are incomplete after Pearson VUE has already sent two notices. The Department of Insurance could save money if ASD discontinued its review of incomplete initial and renewal license applications. However, ASD states that it reviews incomplete applications to provide good customer service and ensure all license applicants and licensees are treated fairly.

**Finding 3. The Department of Insurance has improved licensure services through outsourcing, and the Agent Services Division continues to work with Pearson VUE to address licensee concerns.**

The Department of Insurance's (DOI's) implementation of the Pearson VUE contract to provide licensing administrative services involved a gradual transition. The Agent Services Division (ASD) and Pearson VUE needed time to finalize business rules for processing license applications and renewals. Pearson VUE also had to establish an office in Raleigh to handle the scope of services and begin development of electronic online applications for non-insurance applications interfacing with the NC license database. Initially, Pearson VUE processed renewal license applications for the bail bond industry and non-insurance business entities (NIBEs) using a paper process. Pearson VUE's roll-out of online processing of initial license and renewal applications for the bail bond industry and NIBEs began in December 2012 and was completed in April 2014. Exhibit 15 provides a timeline for major implementation milestones for the Pearson VUE contract.

## Exhibit 15

### Implementation Timeline for the Pearson VUE Contract to Perform Licensing Administrative Services for the North Carolina Department of Insurance

|             |   |
|-------------|---|
| <b>2012</b> | <b>April</b> - Began processing renewal license applications for bail bond industry and NIBEs   |
|             | <b>May</b> - Began processing initial license applications for the insurance industry   |
|             | <b>July</b> - Began processing initial license applications for bail bond industry and NIBEs  |
|             | <b>December</b> - Implementation of electronic initial license application for bail bond industry   |
| <b>2013</b> | <b>February</b> - Began processing renewal license applications for insurance industry  |
|             | <b>March</b> - Began processing Postal Service returned mail and email undeliverable notifications and collecting address violation fines |
|             | <b>April</b> - Implemented electronic renewal license application for bail bond industry and NIBEs  |
|             | <b>November</b> - Implemented electronic initial license for NIBEs  |
| <b>2014</b> | <b>March</b> - Implemented electronic tool to update addresses, emails, and company contacts for all licensees                            |

Note: NIBE is the acronym for non-insurance business entities.

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

**ASD identified several benefits resulting from outsourcing licensing administrative services to Pearson VUE.** The benefits associated with outsourcing licensing administrative services include

- cost savings,
- revenue collection,
- regulatory and compliance improvements, and
- customer service enhancements for licensees.

**Outsourcing licensing administrative services saves ASD \$211,177 annually through staff reductions and lower operating expenditures.**

Prior to outsourcing, ASD assigned 12 full-time equivalent positions (FTEs) to licensing administrative services and regulatory review of initial and renewal licenses for the insurance industry, non-insurance business entities (NIBEs), and the bail bond industry. As the number of licenses regulated by DOI increased, these 12 positions could not meet the demand for licensure services during peak periods. In response, ASD hired temporary employees and diverted DOI employees assigned to compliance and regulatory enforcement. ASD spent \$109,292 on temporary employees during Fiscal Year 2011–12, the year before Pearson VUE began processing license renewal applications for NIBEs and the bail bond industry. Processing license renewal applications and collecting fees also increased ASD's operating expenses. Before outsourcing licensing administrative services,

ASD paid for postage and mailing vendor services to send license renewal notices as well as lockbox banking services to receive and deposit renewal fees.<sup>14</sup>

Since Pearson VUE began providing licensing administrative services in April 2012, ASD has reduced the number of FTEs providing licensure services from 12 to 5.25 positions. Three positions were eliminated by a reduction in force due to legislatively mandated budget reductions, and 3.75 FTEs were redirected to focus on license regulation and compliance functions. Eliminating the three positions saves \$139,612 annually. ASD was also able to reduce operating expenses for postage, mail vendor services, and lockbox services because Pearson VUE collects renewal fees and sends license renewal notices to licensees. Exhibit 16 summarizes the annual cost savings resulting from outsourcing licensing administrative services to Pearson VUE.

## Exhibit 16

The Agent Services  
Division Saves \$211,177  
from Outsourcing  
Licensing Administrative  
Services

| Budget Reduction Description        | Estimated Annual Cost Savings |
|-------------------------------------|-------------------------------|
| Position Reductions (3)             | \$ 139,612                    |
| Mailing Services                    | 40,948                        |
| Lockbox Fees                        | 21,897                        |
| Postage                             | <u>8,720</u>                  |
| <b>Total Estimated Cost Savings</b> | <b>\$ 211,177</b>             |

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

### Collection of administrative fees for address notification violations increased significantly after Pearson VUE began handling this activity.

To meet U.S. Postal Service requirements, ASD employs a legal restraint process to examine the license database on a quarterly basis and proactively contact licensees with address changes to request that they update their addresses.<sup>15</sup> State law allows ASD to collect a \$50 administrative fee from licensees who do not notify DOI of a change in their residential or e-mail address within 10 business days.<sup>16</sup> Prior to outsourcing, ASD did not have adequate staffing to examine the license database and pursue licensees violating the address notification requirement. In Fiscal Year 2010–11, ASD collected only \$8,500 from licensees who violated the requirement. With Pearson VUE now performing the quarterly review of the license database, collection of administrative

<sup>14</sup> A lockbox is a service provided by banks for the receipt of payments. Payments are directed to a special post office box, from which the bank retrieves the payments, processes them, and then deposits the funds directly into the agency's account.

<sup>15</sup> The United States Postal Service requires commercial mailers to reduce the number of mail pieces that require forwarding or returning by periodically matching licensee address records with change-of-address records. N. C. Gen. Stat. § 58-2-69 prohibits the Department of Insurance from automatically changing a licensee's address; the licensee must notify the Department of address changes. To comply with the requirement, the Department of Insurance is authorized to examine the license database quarterly and contact licensees who have not updated their addresses.

<sup>16</sup> N. C. Gen. Stat. § 58-2-69(b)

fees for address notification violations increased to \$152,775 during Fiscal Year 2013–14.

**Since contracting with Pearson VUE, ASD is able to comply with the state law requiring timely deposit of receipts.** In 2003, the State Auditor found that ASD was unable to deposit receipts daily in accordance with the requirements of the Daily Deposit Act. Failure to process and deposit receipts within 24 hours exposed ASD to potential misappropriation of funds, and the State lost the opportunity to earn interest on funds that were not deposited. Prior to outsourcing, ASD met these requirements by hiring temporary employees to process licensure renewal fees. Now, Pearson VUE collects licensure and processing fees electronically and deposits them in bank accounts established by the State Treasurer. DOI reimburses Pearson VUE for the processing fees on a monthly basis. ASD still receives and manually processes regulatory penalties. Overall, outsourcing has increased the funds collected through electronic fund transfers and reduced the amount of funds handled by ASD staff.

**Outsourcing licensing administrative services allows ASD to focus on regulatory review of license applications and licensee compliance with licensure regulations.** Prior to outsourcing licensing administrative services, the heavy licensure workload required ASD licensure staff to spend more time on licensing administrative tasks and less time on the regulatory review of license applications. Licensing administrative tasks include checking applications for completeness and requesting missing application information from applicants and licenses. With Pearson VUE performing licensing administrative tasks for initial and renewal license applications, ASD licensure staff can concentrate on determining whether a license applicant qualifies for initial licensure or whether a licensee continues to meet licensure standards. Prior to outsourcing, ASD had to direct compliance staff to assist with processing licenses and responding to customer service calls. Compliance staff had less time to investigate consumer complaints, determine whether a licensee had violated state regulations, and initiate administrative action if a violation had occurred.

A comparison of ASD's regulatory data before and after outsourcing to Pearson VUE reveals that outsourcing enabled ASD to increase regulatory and compliance activities. Exhibit 17 shows that most license regulatory and compliance activities have expanded. ASD was able to handle more complaints related to licensees during Fiscal Year 2013–14, and complaint analysts were able to close more cases. Compliance staff held more informal conferences with licensees under investigation and negotiated more voluntary settlement agreements and license surrenders.

Administrative hearings, consent orders, and license revocations decreased because ASD compliance staff spends more time investigating complaints and building stronger cases which encourages licensees to settle voluntarily rather than request a formal administrative hearing. ASD benefits when staff can resolve regulatory concerns through informal proceedings such as voluntary license surrenders or voluntary settlement agreements because formal administrative proceedings require substantial ASD staff time and legal assistance from the NC Department of Justice at an hourly rate of \$60. Finally, ASD's collection of monetary penalties increased from \$96,850 in Fiscal Year 2010–11 to \$161,543 in Fiscal Year 2013–14.

## Exhibit 17

Outsourcing Licensure Administration Allowed the Agent Services Division to Strengthen Regulatory and Compliance Activities During Fiscal Year 2013-14

| License Regulatory and Compliance Activities   | Percent Increase After Outsourcing |   |
|--|------------------------------------|---|
| <b>Closed Complaints</b> – Number of complaints reviewed, investigated, and closed after resolution.   | 31%                                | ↑ |
| <b>Informal Conferences</b> – Conferences held with licensees before initiating the formal administrative hearing process.   | 35%                                | ↑ |
| <b>Voluntary Settlement Agreements</b> – Licensee agrees to settle complaint or enforcement action voluntarily, based on evidence presented by Agent Services Division, instead of requesting a formal administrative hearing. | 245%                               | ↑ |
| <b>Voluntary License Surrenders</b> – Licensee agrees to voluntarily surrender license, based on evidence presented by Agent Services Division, instead of requesting a formal administrative hearing.                         | 164%                               | ↑ |
| <b>Monetary Penalty Collections</b> – Fines or penalties paid by licensees as a result of enforcement action by Agent Services Division.   | 67%                                | ↑ |

| License Regulatory and Compliance Activities  | Percent Decrease After Outsourcing |   |
|---|------------------------------------|---|
| <b>Administrative Hearings</b> – Formal hearing process required under N. C. Gen. Stat. § 150B.               | 48%                                | ↓ |
| <b>Consent Orders</b> – Formal legal agreement resulting from the administrative hearing process.             | 100%                               | ↓ |
| <b>License Revocations</b> – Licensee loses license as a result of the formal administrative hearing process. | 83%                                | ↓ |

Note: The percentages for this exhibit were calculated by comparing regulatory data for Fiscal Year 2010-11 (prior to outsourcing) to data for Fiscal Year 2013-14 (after outsourcing to Pearson VUE).

Source: Program Evaluation Division based on information from the Agent Services Division of the Department of Insurance.

**Customer service improvements resulting from outsourcing benefit license applicants and licensees.** ASD identified several measures that improve customer service for license applicants and licensees:

- **Online initial and renewal license applications for NIBEs and the bail bond industry.** Prior to outsourcing, only the insurance industry had access to online license applications. NIBEs and bail bond industry applicants and licensees used paper applications. As part of its contractual requirements, Pearson VUE developed and implemented online initial and renewal applications for NIBEs and the bail bond industry. In a survey conducted by the Program

Evaluation Division, 60% of NIBE and 50% of bail bond industry representatives responding to the survey who had previously applied using the paper-based application process agreed the online license application and renewal process is easier to use.<sup>17</sup>

- **Improved call center services.** Prior to outsourcing, ASD offered call center services to assist license applicants and licensees with questions concerning licensure. As licensure demands increased, telephone call abandonment rates for Fiscal Year 2010–11 climbed to between 7% and 15% during non-peak periods and exceeded 15% during peak licensure renewal periods.<sup>18</sup> Under the Pearson VUE contract, customer service representatives must respond to calls related to licensing administrative services and the telephone abandonment rate must not exceed 3%. ASD continues to provide call center services for licensure questions and has implemented division-wide call handling procedures and supervisor call monitoring to ensure consistency in customer service performance. The ASD telephone call abandonment rate decreased to less than 2% in Fiscal Year 2013–14.
- **Online address and email updates.** Pearson VUE developed an online tool in March 2014 that allows licensees to update addresses, email addresses, and company contacts electronically. This tool makes it easier for licensees to maintain valid contact information and avoid administrative fines resulting from invalid addresses and email addresses.
- **Electronic fee payment.** Pearson VUE offers license applicants and licensees the option to pay statutory and processing fees electronically using credit or debit cards. Under the contract, the credit card usage fees are paid by Pearson VUE. In a survey conducted by the Program Evaluation Division, most licensees responded that they liked having the option to pay licensure fees electronically by credit or debit card.<sup>19</sup>

**Neither ASD nor Pearson VUE survey licensees to gauge their satisfaction with licensure services.** ASD does not conduct licensee satisfaction surveys, and the contract with Pearson VUE does not include a survey requirement. ASD receives informal oral and written feedback from license applicants, licensees, and representatives from associations representing the insurance industry, NIBEs, and the bail bond industry. Although informal feedback can be a valuable source of information to identify problems, it does not measure overall satisfaction with licensure services or how satisfaction is changing over time.

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<sup>17</sup> Percentages are based on survey responses from licensees who had applied or renewed their licenses prior to 2012 and who responded by selecting that they “agreed” or “strongly agreed” with the following statement: “The current online license application and renewal process is easier to use than the previous paper-based process.”

<sup>18</sup> The call abandonment rate is the percentage of inbound phone calls made to a call center that are abandoned by the customer before speaking to an agent.

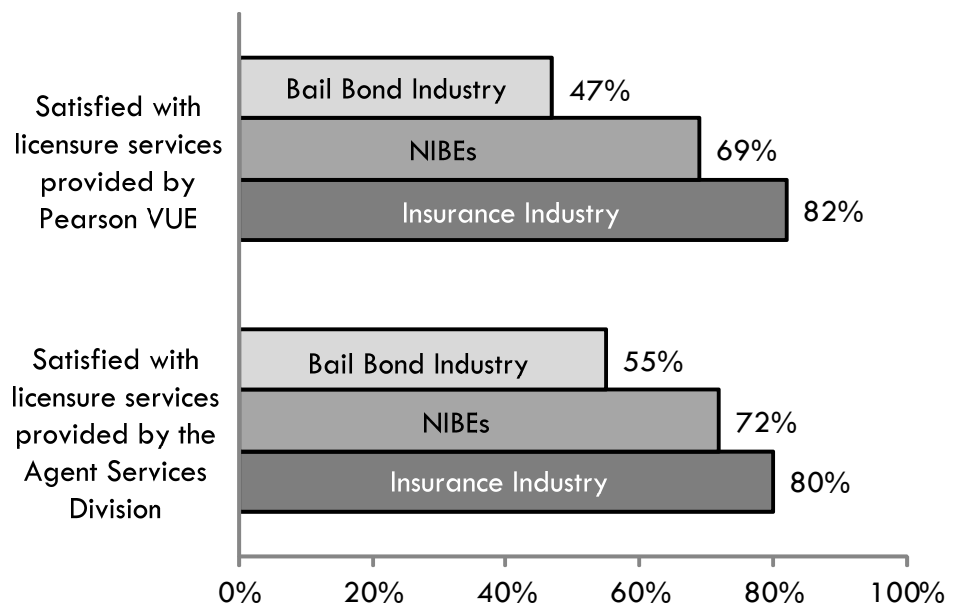
<sup>19</sup> Survey results for the statement, “I like having the option to pay my licensure fees electronically by credit or debit card.”: 86% of survey responses from insurance industry and NIBE licensees “agreed” or “strongly agreed” with the statement, and 84% of survey responses from the bail bond industry “agreed” or “strongly agreed” with the statement.

To determine how licensees viewed the licensure services provided by ASD and Pearson VUE, the Program Evaluation Division conducted a customer satisfaction survey of individuals and businesses that had applied and received an initial license or renewed a license during Fiscal Years 2012-13 and 2013-14.<sup>20</sup> Pearson VUE was under contract to provide licensing administrative services during both fiscal years.

**The survey results reveal that satisfaction with licensure services provided by ASD and Pearson VUE varies.** Licensees were asked whether they agreed with the following statement as it applied to ASD and to Pearson VUE: “Overall, I am satisfied with the licensure services.” Exhibit 18 shows the insurance industry was the most satisfied and the bail bond industry was the least satisfied with licensure services provided by both ASD and Pearson VUE. Only 47% of the survey responses from the bail bond industry indicated satisfaction with licensure services provided by Pearson VUE in comparison to 69% of NIBE and 82% of insurance industry survey responses. A majority of survey responses from the insurance industry, NIBEs, and the bail bond industry indicated satisfaction with ASD’s licensure services.

**Exhibit 18**

Satisfaction with Licensure Services Provided by the Agent Services Division and Pearson VUE Varies



Notes: NIBEs is the acronym for non-insurance business entities. The percentage of licensees for each group was calculated based on survey responses selecting “agreed” or “strongly agreed” with the following statement about licensure services provided by the North Carolina Licensing Office of Pearson VUE and the Agent Services Division of the North Carolina Department of Insurance, “Overall, I am satisfied with the licensure services.”

Source: Program Evaluation Division based on survey of licensees from the insurance industry, non-insurance business entities, and the bail bond industry.

<sup>20</sup> The Program Evaluation Division sent separate surveys via email to licensees from the insurance industry, non-insurance business entities, and the bail bond industry: 74,472 insurance industry licensees with a 8.8% response rate, 1,248 non-insurance business entities with a 27.3% response rate, and 1,469 bail bond industry licensees with a 23.1% response rate. The survey questions were designed to measure licensee satisfaction with the licensure services provided by ASD and Pearson VUE and reported survey data is based on analysis of complete survey responses.

**NIBE and bail bond industry licensees may be less satisfied with Pearson VUE's licensing services because their licensure processes have changed the most under the contract.** Pearson VUE converted the paper-based initial and renewal license applications to online applications in stages starting with the bail bond industry, followed by NIBE licensing. The insurance industry licensing process was already automated prior to the Pearson VUE contract. Survey comments from NIBEs and the bail bond industry expressed dissatisfaction with Pearson VUE's licensing administrative services in the following areas:

- **Documentation submission.** The online application and renewal process changed how NIBE and bail bond industry licensees submit documentation. Under the paper-based application process, licensees mailed documents to ASD. Under the online application process, licensees have multiple options for documentation submission including uploading, emailing, faxing, and mailing documentation to Pearson VUE. The different methods of document submissions require Pearson VUE customer service representatives to match documents to initial and renewal applications. Based on survey comments, license applicants and licensees sometimes had to submit documents multiple times before their applications were deemed complete and referred to ASD.
- **Customer service quality.** Under the contract, Pearson VUE customer service representatives answer licensure questions for the bail bond industry, NIBEs, and the insurance industry. Based on survey comments from the bail bond industry and NIBEs, customer service representatives did not always understand the licensure requirements for their industry and provided them with misinformation.

**ASD monitors Pearson VUE's performance to ensure that the company meets the standards established in the contract.** ASD staff monitors Pearson VUE's performance of administrative licensing services in various ways including

- weekly conference calls,
- on-site meetings,
- feedback from industry representatives, and
- random sampling or quarterly spot-checks of licenses processed by Pearson VUE.

The North Carolina Licensing Office of Pearson VUE submits weekly and monthly license administration reports to ASD. These reports allow ASD to address performance issues as they occur and request corrective action. In July 2014, ASD requested corrective action related to the document processing issues mentioned by NIBE and bail bond industry licensees in comments. The corrective action plan required Pearson VUE to

- replace the manual faxed document procedure with a technology upgrade to eliminate the manual scanning process and improve the document and application matching procedures; and
- reduce staff turnover and cross-train customer service representatives so they can provide consistent coverage of licensing



administration for the insurance industry, NIBEs, and the bail bond industry.

Overall, ASD works with Pearson VUE and industry representatives to ensure that the North Carolina Licensing Office of Pearson VUE provides licensing administrative services to meet the needs of license applicants and licensees.

**ASD identified several ways the licensing administrative services contract can be improved when it is rebid.** The contract with Pearson VUE ends on January 2, 2017. ASD identified the following improvements to the licensing administrative contract that it intends to require in the next request for proposal:

- **Bail bond licenses.** Require that new and duplicate bail bond licenses be provided under the licensing administrative services contract.<sup>21</sup> Require contractor to express-mail bail bond licenses when the bail bond licensee has not received his or her license within 8 to 10 business days. Currently, Pearson VUE provides this service under business rules, but ASD would prefer a contractual requirement.
- **Call abandonment rate.** Require a performance standard of 2% or less for the abandonment rate of customer service calls. ASD has this performance standard for its staff.
- **Customer satisfaction surveys.** Based on the Program Evaluation Division's request for customer satisfaction information, require the contractor to conduct annual customer satisfaction surveys.
- **Complaint tracking.** Require the contractor to track complaints including how the complaint was resolved and the amount of time from complaint initiation to resolution.

ASD plans to rebid this contract in mid-2015 to ensure there is adequate time for transition if a new contractor is selected.

In summary, outsourcing licensing administrative services has reduced ASD costs and increased revenue. ASD has improved regulatory review of license applications and compliance enforcement. Outsourcing has improved customer service for license applicants and licensees by providing online application processing for all occupations, online email and address updates, and electronic fee payments. ASD continues to work with Pearson VUE to ensure that licensee needs and issues are addressed, and has begun identifying how the licensing administrative services contract can be improved to benefit the Department of Insurance and licensees.

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<sup>21</sup> Currently, new and duplicate bail bond licenses are provided under the separate examination contract that the Department of Insurance has with Pearson VUE.

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## Recommendation

**Recommendation.** The General Assembly should direct the Agent Services Division of the Department of Insurance to issue a request for proposal for a licensing administrative services contract that allows the contractor to charge different processing fees based on the effort necessary to process licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

As discussed in Finding 1, processing fees charged by Pearson VUE do not vary by type of license, but workload distribution and expense ratios show that processing NIBE and bail bond industry licenses costs more combined than processing insurance industry licenses even though 97% of the processing fees earned by Pearson VUE come from the insurance industry. The licensure requirements for NIBEs and the bail bond industry are more complicated than those for the insurance industry, resulting in longer processing times by Pearson VUE customer service representatives. Based on the cost ratios from Pearson VUE, some of the processing fee revenue from insurance industry licensees is covering a portion of the cost to process NIBE and bail bond industry licenses. The contract with Pearson VUE sets the current fee structure until January 2, 2017, but the fee structure can be changed when the Agent Services Division issues a request for proposal for a new licensing administrative services contract to begin when the current contract ends. To more equitably distribute the cost for providing licensing administrative services among the occupations licensed by the Department of Insurance, the General Assembly should direct the Agent Services Division to issue a request for proposal for a licensing administrative services contract that allows the contractor to charge different processing fees based on the respective effort necessary to process licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

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## Appendices

Appendix A: Bail Bond Industry Licensure Fees

Appendix B: Non-Insurance Business Entities Licensure Fees

Appendix C: Insurance Industry Licensure Fees

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## Agency Response

A draft of this report was submitted to the Department of Insurance to review. Its response is provided following the appendices.

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## Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Carol Shaw, at [carol.shaw@ncleg.net](mailto:carol.shaw@ncleg.net).

Staff members who made key contributions to this report include Jim Horne and Meg Kunde. John W. Turcotte is the director of the Program Evaluation Division.

## Appendix A: Bail Bond Industry Licensure Fees

| Bail Bond Industry Licensure Fees   | Professional and Surety Bail Bondsman | Bail Bond Runner |
|-------------------------------------|---------------------------------------|------------------|
| <b>Initial License</b>              |                                       |                  |
| Statutory License Fee               | \$ 200                                | \$ 120           |
| Statutory Examination Fee           | 25                                    | 25               |
| Criminal Record Check Fee           | 38                                    | 38               |
| Processing Fee                      | <u>50</u>                             | <u>50</u>        |
| <b>Total Fees</b>                   | <b>\$ 313</b>                         | <b>\$ 233</b>    |
| <b>Renewal License (even years)</b> |                                       |                  |
| Statutory Renewal Fee               | \$ 100                                | \$ 60            |
| Criminal Record Check Fee           | 38                                    | 38               |
| Processing Fee                      | <u>40</u>                             | <u>40</u>        |
| <b>Total Fees</b>                   | <b>\$ 178</b>                         | <b>\$ 138</b>    |
| <b>Renewal License (odd years)</b>  |                                       |                  |
| Statutory Renewal Fee               | \$ 100                                | \$ 60            |
| Processing Fee                      | <u>40</u>                             | <u>40</u>        |
| <b>Total Fees</b>                   | <b>\$ 140</b>                         | <b>\$ 100</b>    |

Note: The fees for bail bond industry renewal licenses vary because even-year renewal licenses require a \$38 criminal record check fee.

Source: Program Evaluation Division based on license fee information from the Agent Services Division of the Department of Insurance.

**Appendix B: Non-Insurance Business Entities Licensure Fees**

| <b>Non-Insurance Business<br/>Entities Licensure Fees</b> | <b>Collection<br/>Agency</b> | <b>Premium<br/>Finance<br/>Company<br/>Type A</b> | <b>Premium<br/>Finance<br/>Company<br/>Type B</b> | <b>Motor Club</b> |
|---|------------------------------|---|---|-------------------|
| <b>Initial License</b>                                    |                              |   |   |                   |
| Statutory License Fee                                     | \$ 1,000                     | \$ 600  | \$ 2,400  | \$ 600            |
| Processing Fee  | <u>50</u>                    | <u>50</u>   | <u>50</u>   | <u>50</u>         |
| <b>Total Fees</b>   | <b>\$ 1,050</b>              | <b>\$ 650</b>                                     | <b>\$ 2,450</b>                                   | <b>\$ 650</b>     |
| Branch Office Fee (If applicable)                         |                              | \$ 100 each                                       | \$ 100 each                                       | \$ 100 each       |
| Franchise Fee (If applicable)                             |                              |   |   | \$200             |
| <b>License Renewal</b>                                    |                              |   |   |                   |
| Statutory Renewal Fee                                     | \$ 1,000                     | \$ 600  | \$ 2,400  | \$ 600            |
| Processing Fee  | <u>40</u>                    | <u>40</u>   | <u>40</u>   | <u>40</u>         |
| <b>Total Fees</b>   | <b>\$ 1,040</b>              | <b>\$ 640</b>                                     | <b>\$ 2,440</b>                                   | <b>\$ 640</b>     |
| Branch Office Fee (If applicable)                         |                              | \$ 100 each                                       | \$ 100 each                                       | \$ 100 each       |
| Franchise Fee (If applicable)                             |                              |   |   | \$200             |

*Source: Program Evaluation Division based on license fee information from the Agent Services Division of the Department of Insurance.*

## Appendix C: Insurance Industry Licensure Fees

| Insurance Industry Licensure Fees   | Resident Producer* | Resident Adjuster** | Resident Broker | Resident Business Entity |
|---|--------------------|---------------------|-----------------|--------------------------|
| <b>Initial License</b>  |                    |                     |                 |                          |
| Statutory License Fee   | \$ 50              | \$ 125              | \$ 50           | \$ 100                   |
| Criminal Record Check Fee   | 38                 | 0                   | 0               | 0                        |
| NIPR Transaction Fee  | 5                  | 5                   | 5               | 5                        |
| Processing Fee  | <u>50</u>          | <u>50</u>           | <u>50</u>       | <u>50</u>                |
| <b>Total Fees</b>   | <b>\$ 143</b>      | <b>\$ 180</b>       | <b>\$ 105</b>   | <b>\$ 155</b>            |
| *Resident insurance producers pay the statutory license fee for each insurance line of authority.       |                    |                     |                 |                          |
| ** Public adjusters pay the \$38 criminal record check fee.   |                    |                     |                 |                          |
| <b>License Renewal</b>  |                    |                     |                 |                          |
| Statutory Renewal Fee   | N/A                | \$75                | \$ 50           | \$100                    |
| NIPR Transaction Fee  | N/A                | 5                   | 5               | 5                        |
| Processing Fee  | <u>N/A</u>         | <u>40</u>           | <u>40</u>       | <u>40</u>                |
| <b>Total Fees</b>   | <b>N/A</b>         | <b>\$ 120</b>       | <b>\$95</b>     | <b>\$ 145</b>            |
| <b>License Reinstatement</b>  |                    |                     |                 |                          |
| Statutory Reinstatement Fee   | \$ 50              | \$ 125              | \$ 50           | \$ 100                   |
| NIPR Transaction Fee  | 5                  | 5                   | 5               | 5                        |
| Processing Fee  | <u>40</u>          | <u>40</u>           | <u>40</u>       | <u>40</u>                |
| <b>Total Fees</b>   | <b>\$ 95</b>       | <b>\$ 170</b>       | <b>\$ 95</b>    | <b>\$ 145</b>            |
| *Resident insurance producers pay the statutory reinstatement fee for each insurance line of authority. |                    |                     |                 |                          |

Notes: NIPR is the acronym for the National Insurance Producer Registry. License reinstatement is unique to the insurance industry. The resident adjuster initial license fee varies because public adjusters pay a \$38 criminal record check fee.

Source: Program Evaluation Division based on license fee information from the Agent Services Division of the Department of Insurance.

December 17, 2014

John W. Turcotte, Director  
Program Evaluation Division  
NC General Assembly  
300 N. Salisbury Street, Suite 100  
Raleigh, NC 27603-1406

Dear Mr. Turcotte:

The North Carolina Department of Insurance appreciates the opportunity to review and respond to the Program Evaluation Division draft report 2015-01, a study that reviews the licensure fees for occupations regulated by the Department of Insurance which are not directly associated with the insurance industry. Please accept this letter as the Department's formal response to the draft report.

The program evaluation team, led by Carol Shaw, worked directly with Department staff to conduct a thorough examination of the licensure fees in question and produced findings along with a recommendation relating to the Department's license administration vendor contract and fees. The examination process leading up to this report proved to be beneficial to the Department, helping to quantify effort vs. cost for non-insurance license processing, identifying opportunity areas to increase customer satisfaction, and calculating the benefits that the State and licensees have received due to the outsourcing of license administrative functions.

The Department will work with the General Assembly and follow their lead on implementing the recommendation of this report to issue a request for proposal for licensing administrative services that allows the contractor to charge different processing fees based on the effort necessary to process licenses for the insurance industry, non-insurance business entities, and bail bondsmen.

We are grateful to you and the staff of the Program Evaluation Division of the General Assembly for the professionalism and proficiency you have shown throughout this process. The examination and the resulting report produced by your staff have provided the Department with valuable information relative to non-insurance licensing administration costs and validated the benefits of continuing to outsource licensing administrative services for non-insurance licenses.

Yours very truly,



Wayne Goodwin  
NC Commissioner of Insurance