Senate Committee on Infrastructure Development and Security
Charge 2: Texas Insurance Verification Program

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May 5, 2004

Article 19B of HB3588

Determining the feasibility, affordability, and practicability of using a database interface system to verify insurance coverage is a critical charge established by HB3588.

Twenty-five states currently employ some form of insurance verification program with questionable results. Except for two states, the basic approach is the same: initiate a **preemptive** state reporting system in an attempt to identify uninsured motorists in advance of an event such as a violation, accident, or vehicle registration renewal.

In recent years, state reporting programs have become increasingly intensive, causing a great deal of customer service problems for both state jurisdictions and insurance carriers. Proposals for new programs are also becoming more invasive from a technical point of view.

Section 601.453 of HB3588 has raised concerns because it states that "each insurance company providing motor vehicle liability policies in this state shall allow a chosen agent sufficient access to its databases to allow the agent to carry out this subchapter.…"

Enforcing mandatory insurance laws is a very important public policy issue that all insurance carriers support. However, enforcement via preemptive state reporting programs is highly discouraged.

Is the System Likely to Reduce the Number of Uninsured Motorists in this State?

The lack of an objective way to measure the uninsured motorist rate fuels an ongoing debate about the effectiveness of these programs.

Most state reporting states or their vendors calculate the uninsured motorist rate by determining the number of vehicle registrations that can be tied to an insurance record. However, insurance carriers believe that both registered *and* unregistered drivers need to be considered when determining the uninsured motorist rate.

The insurance industry supports the methodology used by the Insurance Research Council (IRC). IRC calculates the uninsured rate by using the ratio of claims made by individuals who were injured by uninsured drivers (uninsured motorist coverage) to claims made by individuals injured by insured drivers (bodily injury liability coverage).

Using the IRC measure, the industry would conclude that reporting systems are not effective at reducing the number of uninsured motorists in any state.

The size of Texas and the makeup of the drivers passing through it would make the state a particularly difficult jurisdiction to implement a preemptive reporting program. The large number of military bases, universities, and cross-border traffic includes many drivers whose vehicles are not registered in Texas. However, the effectiveness of state reporting

systems depends on their ability to match vehicle, driver, or registered owner information from a state's database with data provided by insurance carriers.

To illustrate, here are two, real life examples experienced by the author of this testimony, a native Texan.

Prior to my work at State Farm's corporate office in Illinois, I was involved in two accidents caused by uninsured motorists on two separate occasions. The first incident occurred in El Paso where I was hit from behind by an uninsured motorist from New Mexico. The second incident occurred in San Antonio where I was hit head-on by an uninsured driver from Virginia.

A state reporting system would never have identified these drivers prior to these events.

Will the System Operate Reliably?

Data integrity and transmission problems are the key issues to consider in terms of the reliability of preemptive state reporting programs. Data mismatches are typically caused by typographical errors related to the 17-digit vehicle identification number (VIN), a common match criterion.

In other states, data errors and transmission problems have caused law enforcement officers to incorrectly identify insured drivers as uninsured motorists. Clients have had their vehicles impounded as well as their registrations revoked. Fines are a given. In some instances our policyholders have been taken to jail. The resulting media backlash merely adds to the confusion.

Texas will need to be prepared to handle the influx of inconsistent data, and manage the return error process for every insurance company. The state may also be compelled to hire more employees to handle this part of the program, as well as the complaints.

Insurance companies have been asked why errors exist in the data they submit.

Data is collected with a goal to rate policies correctly, not to report data to state jurisdictions. For example, insurance companies typically rate policies using the first ten digits of the VIN; therefore, it is not uncommon that errors exist in the remaining digits. The last six positions of the VIN are merely sequence numbers assigned by manufacturers as vehicles leave the production line. We are not aware of a way these digits can be validated for accuracy.

The following are a few examples of experiences in other states:

Florida: State Farm had to reload its data with the state after data integrity issues made the program ineffective.

Georgia: The state enacted emergency legislation to halt enforcement until data integrity issues were worked out with the carriers.

Colorado: The state enacted legislation that will require carriers to reload all their data twice a year in an attempt to overcome data integrity problems.

New York: State Farm customers continue to get misidentified as uninsured motorists.

Appendix A includes some anecdotal evidence of State Farm's experience with reporting programs.

What's Reliable?

Random Sampling programs backed by enforcement measures are effective tools used to verify insurance coverage on a randomly selected sample of the driving public. Falling somewhere between preemptive and *event-based* processing, these systems allow insurance carriers to respond to specific verification requests initiated by state jurisdictions.

Accuracy is achieved because each randomly selected vehicle owner is required to submit the name of his insurance carrier and his policy number in response to a survey mailed by the state. This information is forwarded to the insurance company for verification. With a policy number in hand, an insurance company can accurately fulfill a verification request.

Enforcement is another critical step once an uninsured driver has been identified by the random sampling process. A safety responsibility (SR-22) program appropriately completes the puzzle. SR-22 filings serve as an insurance company's guarantee of future coverage for a driver. If the driver cancels the policy prior to the term required by the state, and the insurance company fails to submit an SR-26 cancellation notice, the insurance carrier is still considered "on the risk."

The Illinois Secretary of State's office operates a successful random sampling program which is operated under Chapter 625, Illinois Statutes 7-604. Half of the sample is random. The other half of the sample is targeted to drivers with prior major violations. Representatives indicate that the program is on course to bring **$3 million** in revenues to the department in 2004. The program costs $1 million annually to operate.

Random sampling is starting to gain favor by other state jurisdictions. Alabama has recently put its random sampling program back into production after an initial delay. The Alabama system is a Web-based program. Also, Minnesota plans to implement its random sampling program in May 2004. Minnesota's is an electronic data interchange (EDI) program that features Secured Shell (SSH) encryption.

What Are the Implementation Costs of Reporting Programs?

The state of New York paid Anderson Consulting **$4.5 million** to implement its program. The project began in fiscal year 1999-2000.

A 1997 audit conducted by the Utah Office of the Legislative Auditor General indicates the state spent **$1.2 million** to implement and administer its system when the reporting program was initiated in 1995.

In 2002, the Colorado Department of Regulatory Agencies (DORA) indicated the Colorado Motorist Insurance Identification Database (MIIDB) had cost the state approximately **$7.1 million** since 1997. The state employs eight full time equivalent (FTE) employees to manage the MIIDB program: one Office Manager and seven Administrative Assistants. The state also pays a vendor to manage the database.

The Missouri state reporting program is financed by an MIIDB Fund that collects 6% of the net General Revenue portion of the Insurance Premium Tax. As of June 2003, this Fund was collecting $3.2 million a year, but the Fund was not enough to cover the **$3.7 million** needed that year to maintain the system.

The cost for insurance carriers is also considerable depending on the complexity of the effort. The following are the costs of some programs State Farm has implemented in recent years:

New York: State Farm's initial cost for developing this system was **$1,305,720**. Additionally, our operations center in North Atlantic calculated their expenses to be **$341,760** for the first year alone. Seven employees have been pulled out of regular underwriting production to handle DMV issues only.

There are 300 carriers in New York, so this was a particularly expensive program for the industry.

Georgia: State Farm has invested **$647,550** to develop the Georgia system. Sixteen employees were pulled out of regular production to handle DMV issues only. State Farm's Georgia office receives 150-200 telephone inquiries a day regarding the program, 650 calls on days with high activity.

Maryland: State Farm spent **$422,640** to implement the Maryland system.

California: State Farm spent **$445,000** to develop the California reporting program.

What Approaches Are Being Explored Beyond Traditional Reporting Programs?

The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) has been reviewing the potential use of Web services and online inquiry tools to verify insurance coverage. As Web service technology matures, there is the potential that an *event-based* verification system could be possible.

Event-based verification refers to the practice of verifying coverage after an accident or violation. It also refers to verifying coverage at vehicle registration renewal time.

Recently the IICMVA completed a white paper that puts together a conceptual model for such a Web-based program. In theory, each carrier would host its own Web service that would present limited insurance information to prove a vehicle is covered by the state mandated minimum liability requirements. Like a random sampling program, a state jurisdiction could inquire against a carrier's service with a policy number, VIN, and a specific date in mind to verify coverage existed at the time of an event.

Unfortunately, a Web service approach is not ready for prime time because a technical model has not been developed. In order to fully develop such a concept, national standards for authenticating an "inquiry" transaction need to be in place. In addition, the security concerns have not been driven out as well as a process flow. IICMVA is not a technical standards body, so decisions will need to be made to determine the next steps for this hypothetical idea.

Appendix B provides a copy of the IICMVA white paper.

Customer Service Concerns

Much is made about the costs and effectiveness of state reporting programs.

What gets lost in the discussion is the fact that insurer costs are borne by those who actually purchase insurance – not those who are fined for violating the compulsory insurance law. Since insurance rates are prospective, carriers must build these costs into future rates to recoup those expenses. This effectively means that those who already comply with compulsory insurance laws end up paying for much of the costs to implement and administer a system designed to catch those who violate the law.

Appendix A: Real Life Experiences

The following anecdotes represent some of the real-life situations in which innocent insureds find themselves.

System errors, data integrity problems, human errors, miscommunication, and training issues contribute to these negative effects. These anecdotes are not presented in attempt to assign blame because the blame can easily be shared by all parties involved.

What is more important to note is these systems are simply not perfect. Regardless of where the problems originate, there is one common result: an <u>innocent insured driver</u> has been erroneously identified as an uninsured motorist.

Missouri

> A 70-year-old insured was arrested for not sending the correct ID card information to the State DMV. Our client was handcuffed, and she was taken to jail. An employee from the DMV called our Missouri operations center to verify our client's insurance information and released her.

> Our insured was randomly selected to provide proof of insurance for all the vehicles she had registered with the state. Missouri randomly selects 300 individuals per day. Our insured did respond to this request. However, she submitted ID cards that did not correspond to the timeframe that the DMV requested her to prove, so her license was suspended.

> The State indicated that it is in the process of changing its verification letters since quite a few folks have been confused and similar errors have occurred. The State indicated it would change their sampling process to only sample policies that have been reported as cancelled.

New York

Some of the problems in New York occur because the DMV's system links transmissions for a given vehicle to that vehicle's prior registration, rather than the registration currently in force. Other problems occur when police tow vehicles prior to their suspension effective date. Training issues also complicate matters.

At the police station, the department responsible for towing vehicles has limited office hours. When police arrest and tow people on a Friday, our insureds are unable to correct these situations until Monday. DMV offices in small towns do not operate Monday through Friday, so that can be a very problematic situation.

The following are a few anecdotes from our New York operations center's files:

> In August 2003, an insured's vehicle was towed, and the insured was arrested. The police officer told our insured that the state's system indicated there was a lapse in coverage. However, the New York operations center reviewed the insured's VIN and driver's license number online and found no such lapse in coverage.

> We have seen our insureds arrested when the State indicates our clients did not respond to the DMV's No Insurance Activity (NIA) letters. Insureds have claimed they did not receive the NIA letters due to address changes. Other times our NBS (new issuance) transaction posted

to an old registration record for the same vehicle, so the state never returned an error to State Farm indicating a mismatch had occurred.

One of our insureds was towed due to a reporting problem that was easily corrected. The sticky part? The police officer who stopped him personally kept the plates! The officer kept them "somewhere" at work, and was not required to tell anyone else where the plates were being held. Also, the station has a policy that only the officer who impounded the vehicle can work with the insured to return the plate. The officer in this case was out of the office for a couple of days. We fixed the registration problem overnight, but the insured had to wait several days to get the plates back. The police station was unwilling to call the officer at home to find out where he put the plates.

The following scenario represents a training issue. At times insureds are told by police that they have no insurance as of a particular date. Often the date in question is really the registration suspension date, not the date that the DMV considers as a lapse in coverage.

Florida

The Florida office experienced a problem with an invalid VIN, which keeps our data from updating the State's records. The policy had also transferred from one Florida office to another, causing a change in policy number codes. The client's information was not posted to the state's database, so the client was considered uninsured. State Farm paid $35,000.00 to the client.

A client was stopped for a traffic violation near Brooksville. Her driver's license and vehicle tags had been suspended for no insurance. The police officer took her driver's license, removed the plate from her vehicle, and threatened to take her to jail. Somehow she had been reported as the owner of her daughter's vehicle. We wrote a letter on her behalf, and the agent was able to get the judge to dismiss the charges. State Farm paid her and her attorney $5,000.00 for stress and inconvenience.

An MP in New Jersey had a problem with her superiors and was removed from duty until State Farm could get her records corrected in Tallahassee.

Nevada

A State Farm Agency Field Specialist (AFS) in Las Vegas was pulled over for having no insurance on his State Farm pool car! The DMV's notice was mailed to our operations center advising of the vehicle's registration suspension. The state took this action because it could not locate an insurance record in its database. Due to a VIN mismatch, the insurance record did not post to the State's database.

Our operations center failed to forward or resolve the issue by responding to the Nevada DMV, so the State did not mail the tag renewal forms to the AFS. The AFS provided the police a copy of the expired registration and State Farm ID card. The police told him everything looked in order, but his computer showed no insurance. The AFS was cited for expired registration and no insurance, a total of over $1,100 in ticket fines.

Appendix B: IICMVA White Paper