

## WRITTEN TESTIMONY

Submitted by

**United Services Automobile Association**

To the

SENATE COMMITTEE ON INFRASTRUCTURE DEVELOPMENT AND SECURITY  
HEARING REGARDING THE COMMITTEE'S CHARGE TO STUDY THE PROOF OF  
FINANCIAL RESPONSIBILITY VERIFICATION PROGRAM ADMINISTERED BY  
TEXAS DEPARTMENT OF INSURANCE AND THE DEPARTMENT OF PUBLIC  
SAFETY AND TO MAKE RECOMMENDATIONS FOR IMPROVING COMPLIANCE BY  
DRIVERS IN TEXAS

May 5, 2004

USAA is pleased to offer this written testimony to the Senate Committee on Infrastructure Development and Security regarding our experiences in other states with programs similar to the financial responsibility verification program under consideration by the Texas Department of Insurance and Department of Public Safety.

USAA, with more than 21,000 employees worldwide and 13,600 in Texas, is headquartered in San Antonio, where it is the community's largest employer. USAA is among the nation's most respected and well-managed insurers, consistently earning the industry's highest ratings for financial strength and service excellence. It is one of only three such companies that maintain the highest possible rating from each of the three nationally recognized financial rating agencies. Since its inception in 1922, USAA has met the unique needs of a mobile membership, primarily active-duty military, who required access to insurance services and insurance protection across the country and around the world. Today, the USAA P&C Insurance Group, with more than \$9.1 billion in net worth insures more than 3.5 million members and includes active duty and former members of the military and their families living around the world.

USAA is pleased that your Committee, along with the Texas Department of Public Safety and Texas Department of Insurance, are studying the state's existing proof of financial responsibility verification program with an eye toward suggesting improvements to it. As one of only a handful of companies operating in all 50 states and the District of Columbia, USAA has extensive experience complying with the various state requirements relating to proof of financial responsibility.

According to the database maintained by the National Association of Insurance Commissioners for 2002 (the latest information available), the USAA Group was the fifth largest writer of private passenger automobile insurance in Texas and the largest such company domiciled in Texas. In Texas, as of March 31, 2004, USAA had 386,400 policies providing personal automobile insurance in force for more than 734,000 vehicles. Also as of March 31, 2004, approximately 98 percent of those policies included coverage for uninsured/underinsured motorists, at an average cost of approximately \$80 per policy.

USAA currently is participating in financial responsibility verification reporting in 23 states:

In Alabama, we send and receive data weekly in order to notify the State whether or not our Members have coverage.

In Arizona, we send and receive data weekly on cancellations, non-renewals, issuance of coverage, vehicle additions to policies and vehicle deletions from policies.

In Arkansas, we send and receive data bi-weekly on new liability issued, vehicles added to an existing policy, vehicles removed from an existing policy, and insurance non-renewed, cancelled or terminated.

In California, we send and receive data daily on new liability policies issued or reinstated, vehicles added or removed from policies and policy cancellations.

In Colorado, we send and receive data daily on new liability policies issued or reinstated, operators added or removed from policies, and policy cancellations.

In Connecticut, we send and receive data monthly on newly issued policies, cancelled policies, reinstated policies, and vehicles added and deleted from policies.

In Florida, we send and receive data weekly when PD and PIP coverage on a vehicle is issued, procured, renewed, continued in effect by payment of premium on a periodic basis "continuous policy", recalled, reinstated, terminated, cancelled or non-renewed.

In Georgia, we send and receive data weekly on new business (newly established vehicle liability policies) and terminations (when liability coverage on a vehicle has expired or been cancelled).

In Louisiana, we send and receive data weekly when liability on a vehicle is issued, procured, recalled, reinstated, terminated, cancelled, and to change binder status to active policy number.

In Maryland, we send and receive data daily on new policy issuance, vehicles added to policies, vehicles deleted from policies, vehicle substituted for an existing car, and policy cancellations by insurer/insured.

In Massachusetts, we send and receive automobile policy data bi-weekly to the Massachusetts Registry of Motor Vehicle-Uninsured information.

In Michigan, we send and receive data bi-weekly used to determine whether or not our members have coverage. This transaction is used both ways. The State returns errors to USAA using the same transaction.

In Missouri, we send data monthly on all cancellations and new policies issued (or new vehicle endorsements on an existing policy).

In Nevada, we send and receive data weekly on issuance of policies, vehicles added to policies, vehicles no longer insured (removed from policy or non-renewed), coverage that is cancelled, terminated or considered "out of force".

In New Jersey, we send data monthly on non-payment of premium cancellations, new policy data vehicles that are added to existing policies or that replace vehicles on existing policies.

In New Mexico, we send and receive data daily when new liability policies are issued or reinstated, a vehicle is added or removed from policies or policies are cancelled.

In New York, we send and receive data daily with new policy issuance, vehicles added to in force policies, different vehicles replacing vehicles on in force policies, policyholder moves to a different company within our insurer group, reinstatement, cancellation by insurer/insured, and vehicles dropped from policies without replacements.

In North Carolina, we send and receive data daily on issuance and termination/cancellation of liability insurance (vehicle and policy level), reinstatement and renewal (if not continuous).

In Oklahoma, we send data weekly on the termination of policies for nonpayment of premium or refund of premium if the termination is final and occurs within 180 days of the inception date of the policies. Notice is also required for any policy issued for a period less than 6 months that expires without renewal.

In Oregon, we send and received data daily on new liability insurance issued or when a vehicle is added to policies and/or a vehicle is no longer insured (removed from policies or insurance is terminated), and termination (inclusive of cancelled or non-renewed).

In Pennsylvania, we send data monthly on all cancellations and new policies issued (or a new vehicle endorsement on an existing policy).

In Virginia, we send and receive data daily on new insurance established, vehicles added or replacing a vehicle on an existing policy, when a vehicle is no longer insured (non-renewed or dropped from the policy), when a policy is cancelled or terminated, and when coverage is reinstated.

In Utah, we send data monthly on all cancellations and new policies issued (or a new vehicle endorsement on an existing policy).

We have encountered numerous problems in other states' programs:

### **Data Problems Cause Insureds to be Mistakenly Identified as Uninsured**

The effectiveness of traditional Auto Liability Insurance Reporting (ALIR) systems depends on their ability to match vehicle/VIN, driver, or registered owner information from a state's database with the same data stored on an insurance carrier's database. The following data integrity issues adversely affect this process:

- **Accuracy**

It is impossible for either a jurisdiction or an insurance company to collect and maintain VINs that are 100% accurate and complete.

Typographical errors caused by keystroke mistakes or customer miscommunication are common during the collection of data by state jurisdictions or insurance carriers

In many cases, a lack of ongoing communication with the customer causes the data to become obsolete and incorrect. Customers do not consistently notify all necessary parties when vehicles are bought, sold, otherwise acquired, or cast aside.

State jurisdictions and insurance carriers have not been very successful at convincing their mutual customer to notify them when a change of information occurs.

- **Timeliness**

The timeframes that states allow for drivers to acquire insurance and register their vehicles often conflict with the timeframes that insurance carriers allow for insureds to notify them of newly acquired vehicles. Considerable time can pass before a state is aware of a new registration that needs to be matched with an insurance record.

Newly acquired vehicles are typically covered contractually by insurers for a certain period of time even before they are added to a policy. Thus, until a vehicle is added to a policy, an insurance carrier will not have a trigger it can use to transmit insurance data to the state.

- **Consistency**

Often customers provide accurate, but different, information to a jurisdiction and insurance carrier. A customer's name is the most common situation. For example, a driver may have registered his name with the state as "James Robert Smith," but applied for an insurance policy under the name of "Bobby Smith." The inconsistency between these values makes them difficult, if not impossible, to match.

Sometimes states require insurers to report only vehicles registered in their state, but carriers typically do not collect data that reflects the registration state. Mismatches or data errors are common for these programs when insureds move into a state, take out a policy for insurance, but fail to register their vehicles in that state.

The problems are compounded when states have onerous laws or regulations in place in addition to reporting systems.

In Georgia, for example, the state insurance database is the only valid proof of insurance and no secondary proof, such as an ID card, is allowed. There have been cases where insured motorists have had their vehicle wrongfully towed due to the fact that Georgia's database was not correctly reflecting their insurance status.

New York also is an ongoing challenge due to the state's strict towing policy and the way the State tries to identify gaps in coverage.

### **Reporting Systems Are Costly for Jurisdictions, Insurers, and Consumers**

Reporting systems consume significant resources. Ongoing maintenance and operation of these programs require staff-intensive efforts by jurisdictions and insurers. Ultimately, these costs are borne by consumers.

- **Examples of Implementation Costs to States:**
  - 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.
  - The Colorado Department of Regulatory Agencies (DORA) indicates the Colorado Motorist Insurance Identification Database (MIIDB) has cost the state approximately \$7.1 million since 1997. The state employs eight full time equivalents (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, however, that was not enough to cover the \$3.7 million it cost to maintain the system.
- **In addition to those costs to the States, significant costs are incurred by Insurers:**
  - Private passenger automobile insurers spend \$50 - \$65 million annually to develop and maintain these systems.
  - Commercial automobile insurers spend \$30 million to develop and maintain reporting programs.

- In one state, it is estimated that commercial insurers spend \$50 per insured vehicle.
- Negative publicity adversely affects policyholder retention.
- Considerable indirect expenses include legal, training, and public relations costs.

*The cost to the industry is compounded by the fact that insurers are responsible for the development, implementation, maintenance, and administration of 23 different systems in the 23 states.*

- **Costs to Consumers**

Ultimately, it is consumers who bear much of the cost of any reporting system. It is the residents of the State of Texas who will ultimately bear the burden of a system. ~~Consider this as though it were for jurisdictional expenses, fees, fines, taxes, assessments, and other~~ expenses residents of other states have encountered.

- Consumers as customers pay higher insurance premiums to offset insurer costs. The cost to Texas consumers for the implementation and enforcement of a database interface financial responsibility verification system could exceed the current cost of individual consumers buying uninsured motorists coverage.
- Insured drivers are fined inappropriately when mistakenly identified as uninsured.
- The cost to consumers is compounded by the fact that law abiding citizens are negatively affected. Consumers frequently spend their time correcting state reporting errors. Ironically, insured motorists bear all the costs of the very systems that are meant to track the uninsured.

*The cost to Texas consumers for the implementation and enforcement of a database interface financial responsibility verification system could exceed the current cost of individual consumers buying uninsured motorists coverage.*

## CONCLUSION

### **No Correlation Exists Between Reporting Programs and the Number of Uninsured Motorists**

As stated in the 2002 AAMVA Financial Responsibility & Insurance Resource Guide:

*In general, there is no correlation between compulsory insurance and the number of uninsured motor vehicles on the highway. The same absence of correlation can be said of insurance data reporting programs. Between the 1989 and 1999 IRC studies, of the 18 states with reporting programs in place for five*

*years or more, 12 showed an increase in uninsured motorists while only six experienced improvements. These results suggest there may be other factors involved, such as the level of enforcement and consistency of penalties. There are a number of reasons why compliance will never be 100%. Notwithstanding compulsory insurance laws, vehicle owners will continue to violate the mandate, just as is seen with DUI and other traffic laws. From a technology viewpoint, insurance data reporting, particularly via electronic means, works well in moving data between entities. What happens beyond that has achieved mixed results. Matching of data is critical, but may never reach comfortable levels due to data accuracy issues, differences in database elements and formats, and a laundry list of items that generate false negatives on the DMV database. As public policy setters you must weigh the costs, the payback realities, and intrusion on law-abiding citizens.*

USAA is a reciprocal insurer that is, in effect, owned by its members and we take seriously our obligation to manage the Association in our members' interests. Because none of the verification systems that have been put in place in other states to date has verification program in our state would involve immense amounts of data. If the Committee, TDI and DRS decide that a new verification program is warranted, we urge the members to make certain that the affected state agencies and law enforcement agencies throughout Texas will be able to handle the data that would be reported with accuracy, timeliness and consistency all other states have experienced.

USAA has not found financial responsibility verification reporting to be effective for insureds, insurers or the states; however should such a system be mandated in Texas, we do have ~~the belief that systems designed for several states verification, such as~~ others: Illinois, are preferable to systems where the State or contracted third party vendors try to maintain insurance company data. The ideal system would only verify coverage when necessary, without maintaining a database of insurance information at the state level.

\*Other systems that are easier to maintain are those that only require insurers to reload a book of business once a month -- for example, Missouri and Michigan. However, even though these systems may be somewhat easier, less time-consuming and less costly for insurance companies, they are still subject to the data errors discussed above and resulting problems for consumers.

Finally, if after considering all of the information available, the State of Texas decides to move forward with the project, we urge you to do so in partnership with the insurance industry in order to try to avoid all of the problems that exist in other states.