INSURANCE VERIFICATION WORKING GROUP
MINUTES OF JULY 18, 2012 MEETING
KING KALAKAUA BUILDING, QUEEN KAPIOLANI ROOM

Present: Calvin Ching, Judiciary; Lance Ching, Legislative Reference Bureau (LRB); George Cooper, State Farm Insurance Companies; Devin Choy, LRB; Wade Isobe, City & County of Honolulu, Department of Information Technology; Gordon Ito, Insurance Commissioner; Dennis Kamimura, City & County of Honolulu, Motor Vehicle Licensing Division Administrator; Major Kurt Kendro, Honolulu Police Department-Traffic Division; Arkie Koehl, Mothers Against Drunk Driving; Sean Nakama, LRB; Alison Powers, Hawaii Insurers Council; Mark Sektnan, Property and Casualty Insurers Association of America; Debbie Stelmach, City & County of Honolulu, Department of Information Technology; Jo Ann Uchida Takeuchi, Department of Commerce & Consumer Affairs, Deputy Director; Linda Tom, Judiciary; Elmira Tsang, Department of the Attorney General.

1. Call to order; public notice

Insurance Commissioner Gordon Ito called the meeting to order at 9:05 a.m. Public notice for this meeting was timely filed with the Lieutenant Governor's office on July 11, 2012.

Commissioner Ito opened the meeting by welcoming and thanking members and participants for agreeing to serve on the Working Group and to participate in the Working Group.

2. Sunshine Law

The Working Group was established pursuant to Senate Concurrent Resolution No. 97, S.D. 1 of the 2012 regular session (SCR 97). SCR 97 requested the Insurance Commissioner to convene a working group to explore the creation of a web services-based database program to track uninsured motorists.

Since the Working Group was convened pursuant to a resolution, it does not fall within the statutory definition of a "board" as defined in the State's Sunshine Law, Hawaii Revised Statutes (HRS) chapter 92. In the interest of the promoting open government, Commissioner Ito stated that the Working Group would follow the Sunshine Law. Discussions among members should occur in open hearing.

3. Introduction of working group members

SCR 97 specified that the Working Group be composed of the Insurance Commissioner (Gordon Ito), the Administrator of the Motor Vehicle and Licensing Division of the City and County of Honolulu (Dennis Kamimura), and representatives from the Department of the Attorney General (Elmira Tsang), a county police

department (Maj. Kurt Kendro), Property Casualty Insurers Association of America (PCI) (Mark Sektnan), Hawaii Insurers Council (HIC) (Alison Powers), and State Farm Insurance Companies (George Cooper).

The Working Group was also encouraged to consult with the Chief Information Officer for the City & County of Honolulu or appropriate party who has familiarity with a web services-based database program at the county level (Wade Isobe and Debbie Stelmach from the City & County of Honolulu, Department of Information Technology).

Representatives from the Judiciary (Calvin Ching and Linda Tom) were also invited to participate in the Working Group.

4. Scope of work, organization, and deadlines

A. Scope of work

SCR 97 requested the Working Group: (1) to explore the creation of a web services-based database program to track uninsured motorists; (2) to establish a mechanism for funding the uninsured motorist database program and recommend penalties or sanctions for motorists found to be in violation of the State's mandatory motor vehicle insurance requirements.

B. Organization

SCR 97 allows the Working Group to form investigative committees and to bring in additional stakeholders and interested parties, as appropriate.

C. Deadlines

SCR 97 requests that the working group transmit a draft report of its findings and recommendations, including any proposed legislation, to the Legislative Reference Bureau (LRB) no later than November 1, 2012. The final report is due to the Legislature no later than 20 days prior to the convening of the 2013 Regular Session (or December 27, 2012). The Working Group is formally dissolved on June 30, 2013.

5. Overview of state approaches to reducing number of uninsured motorists by representative of Property Casualty Insurers Association of America

Mr. Sektnan, representing the Property Casualty Insurers Association of America (PCI), requested that his presentation (Agenda Item #6) precede the presentation by the representative of the Insurance Industry Committee on Motor Vehicle Administration (Agenda Item #5). There were no objections.

PCI is composed of more than 1,000 member companies, representing the broadest cross-section of insurers of any national trade association

Mr. Sektnan provided an overview of state approaches to reducing the rate of uninsured motorists (UM). Based on industry research, Mr. Sektnan stated that there is little evidence that electronic reporting systems reduce UM rates. There is no significant difference between the UM rates of states that have reporting programs (about 33 states) and those that do not. As such, PCI recommends that states do not adopt electronic reporting programs. There are simpler and less costly alternative approaches to addressing the UM problem. If a broad-based statewide program is adopted, PCI suggests adopting of a web services-based program.

(See Statement of the Property Casualty Insurers Association of America dated July 18, 2012, Insurers Research Council News Release dated April 21, 2011, and UM Rate & Reporting Program Type attached as Exhibits A-1 to A-3, respectively.)

6. Overview of insurance verification systems by representative of Insurance Industry Committee on Motor Vehicle Administration

Commissioner Ito introduced George Cooper, who serves as Vice Chair of the Insurance Industry Committee on Motor Vehicle Administration (IICMVA) Board of Directors and represents State Farm Insurance Companies, Property and Casualty Underwriting Dept.-Residual Markets/Financial Responsibility.

The IICMVA is a non-profit, all industry advisory group which serves as a liaison between the insurance industry and motor vehicle departments and assists with the implementation and maintenance of compulsory insurance and financial responsibility law.

Mr. Cooper provided an overview of insurance verification systems that are in use or under development across the country: database reporting programs (which include book of business data transfers and/or coverage initiation/ termination reporting) and web services-online verification.

Online verification of auto insurance is an inquiry made over the world wide web to verify that a motor vehicle has the minimum insurance coverage required by law. It provides real time communication between a state and insurance providers. The four mandatory data elements are: policy number, vehicle identification number (VIN), insurer's National Association of Insurance Commissioners (NAIC) number, and confirmation data for evidence of insurance. The electronic response is either "Confirmed" or "Unconfirmed" coverage.

There are many states with web services, online insurance verification programs in use (Nevada, Oklahoma, Wyoming) or under development (Alabama, California, Mississippi, Montana, South Carolina, Utah, West Virginia).

(See IICMVA White Paper: Making the Case for Using Web Services to Verify Evidence of Auto Liability Insurance (August 2010), Hawaii OLV, IICMVA OLV

brochure, and Insurance Verification Programs in Use or Under Development attached as Exhibits B-1 to B-4, respectively.)

There was a discussion of whether commercial vehicles would be exempted from an insurance verification system. Mr. Cooper stated that industry estimated the uninsured rate for commercial vehicles at 3%, compared to 13% for private passenger vehicles.

6. Possible discussion topics and presentations for future meetings

Ms. Stelmach provided an overview of the City's Division of Motor Vehicle (DMV) data system. A federal grant will allow for improvements to the network. Mr. Kamimura agreed to provide the Working Group with a process flowchart.

Maj. Kendro provided statistics on driving without insurance citations issued by the Honolulu Police Department from 2003 to May 2012. The number has decreased from 30,799 (2003) to 14,177 (2011). (See No-Fault Insurance Citations Issued by Honolulu Police Department attached as Exhibit C-1.) Maj. Kendro believed that there is a problem with fraudulent motor vehicle insurance identification cards.

It was suggested that the Working Group hear from other states that have implemented web services database programs.

7. Selection of Chair and Vice-Chair

SCR 97 requested the Insurance Commissioner to convene the Working Group but did not specify who would chair the Working Group. Commissioner Ito asked for volunteers for both Chair and Vice Chair. There were no volunteers.

8. Submission of testimony by interested parties and members of the public

Interested parties and members of the public may submit testimony to the Working Group by: mail to 335 Merchant St #213, Honolulu, HI 96813; fax to 808-586-2806; or email to ins@dcca.hawaii.gov.

9. Next meeting

It was suggested that the Working Group meet every two or three weeks to accomplish its objectives. Various proposed meeting dates will be circulated to members. Members will be able to participate via teleconferencing.

10. Adjournment

The meeting was adjourned at 10:35 am.

PCI Property Casualty Insurers Association of America
Shaping the Future of American Insurance
2600 South River Road, Des Plaines, IL 60018-3286

STATEMENT OF THE

PROPERTY CASUALTY INSURERS ASSOCIATION OF AMERICA (PCI*)*

INSURANCE VERIFICATION WORKING GROUP

July 18, 2012

Aloha, Mr. Chair and Good Morning. My name is Mark Sektnan and I represent the Property Casualty Insurers Association of America (PCI). What I would like to do for the group is provide an outline of how other states address the uninsured motorist (UM) problem and offer for your consideration what we believe is the best approach for addressing high UM rates.

It is important to emphasis that, based on industry research, there is little evidence that electronic reporting systems of any kind reduce UM rates. This is demonstrated by the fact that, despite spending hundreds of millions of taxpayer dollars over many years, there is no significant difference between the UM rates of states that currently have reporting programs (approximately 33 states) and those that do not. In fact, several states with reporting programs have UM rates significantly higher than the national average. According to the Insurance Resource Council's most recent numbers (published in 2011 using 2009 data), Mississippi leads the country in UM at 28% despite having a database program. Florida and New Mexico also have UM rates well above the national average despite having their own database-based systems**. Remarkably, most states identified by the IRC as having an above-average UM rate have database programs. If you review the IRC report I handed out, you'll note that three of the top five states with both the highest (Florida, New Mexico and Oklahoma) and lowest (Massachusetts, New York and Pennsylvania) rates of uninsured motorists all have reporting programs.**

There are many reasons for why these programs do not work, but it all basically boils down to the fact that trying to maintain coverage data for each vehicle on the road is a Herculean task. This is why we recommend states do NOT adopt electronic reporting programs. They just don't work.

If not an electronic reporting program, then what? There are several alternative approaches to addressing the UM problem that are much more simple and less costly than database programs, including:

- The adoption of mandatory fees for driving without insurance that may not be reduced by judges (who often times do reduce fees based on hard luck stories).
- The allocation of additional funds to local police departments for the monitoring of courthouse parking lots to ensure motorists who either have their driver's license revoked or suspended, or who are unable to produce evidence of insurance to a judge, do not then get right back into their car and drive away.
- A database program that only tracks those motorists previously ticketed or convicted of driving without insurance, who are shown to be those most likely to drive without insurance. Such a targeted program is much more manageable than a program that attempts to track millions of drivers. Indiana established such a database, the Previously Uninsured Motorists Registry, three years ago.

If a state feels it must adopt a broad-based statewide program, then we would suggest adoption of a web services-based program. And with that, I'll turn it over to Mr. George Cooper of State Farm/IICMVA.

Insurance Research Council

News Release

The Institutes™
Proven Knowledge. Powerful Results.

Date: April 21, 2011

Contact: David Corum, CPCU
Phone: (484) 831-9046
E-mail: corum@TheInstitutes.org

Recession Marked by Bump in Uninsured Motorists

IRC Analysis Finds One in Seven Drivers Are Uninsured

MALVERN, Penn.—April 20, 2011— Across the United States, chances are roughly one in seven that a driver is uninsured, according to new estimates from the Insurance Research Council (IRC). The estimated percentage of uninsured motorists declined four straight years before rising to 14.3 percent in 2008 and dropping to 13.8 percent in 2009. The economic downturn is thought to be a major factor in the brief increase.

"The leveling trend in the percentage of uninsured motorists is an unfortunate consequence of the economic downturn and illustrates how virtually everyone is affected by recent economic developments," said Elizabeth A. Sprinkel, senior vice president of the IRC. "Despite laws in many states requiring drivers to maintain insurance, about one in seven motorists remain uninsured. This forces responsible drivers who carry insurance to bear the burden of paying for injuries caused by drivers who carry no insurance at all."

In a new study, *Uninsured Motorists, 2011 Edition*, IRC estimates the percentage of uninsured drivers countrywide and in individual states for 2008 and 2009. The IRC estimates are based on the ratio of uninsured motorist (UM) insurance claim frequency to bodily injury (BI) claim frequency. UM claims are made by individuals who are injured in accidents caused by uninsured drivers. BI claims are made by individuals injured in accidents caused by insured drivers. The magnitude of the uninsured motorist problem varies from state to state. In 2009, the five states with the highest uninsured driver estimates were Mississippi (28 percent), New Mexico (26 percent), Tennessee (24 percent), Oklahoma (24 percent), and Florida (24 percent). The five states with the lowest uninsured driver estimates were Massachusetts (4.5 percent), Maine (4.5 percent), New York (5 percent), Pennsylvania (7 percent), and Vermont (7 percent).

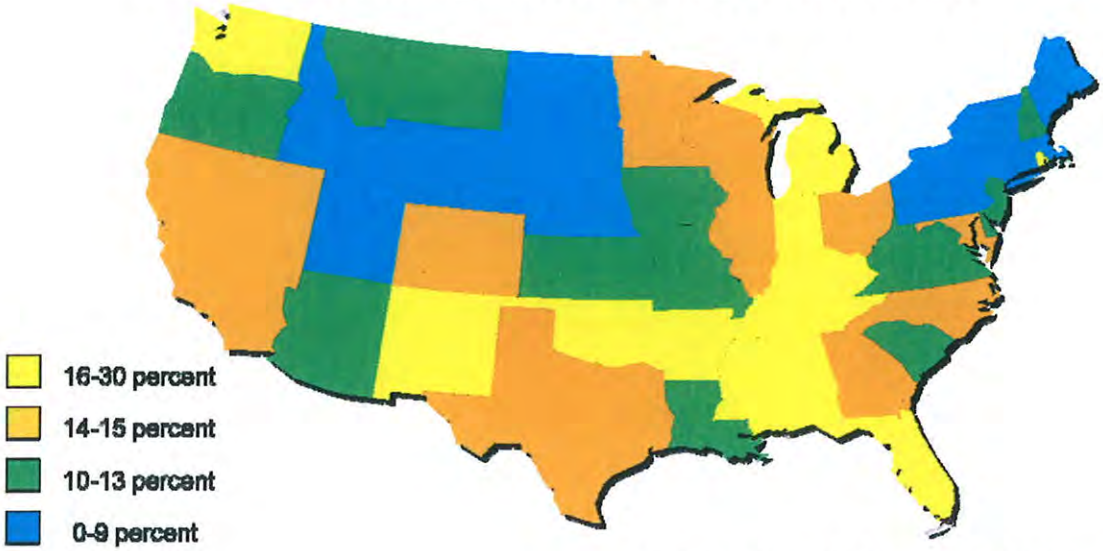
In a previous report, the IRC anticipated a trend reversal in the countrywide estimate of the percentage of uninsured motorists, citing a strong historical relationship between the national unemployment rate and the national UM to BI ratio. The strength of the historical relationship appears to have diminished slightly with the inclusion of more recent data. Several possible reasons for this are discussed in the report.

The IRC study examines data collected from nine insurers, representing approximately 50 percent of the private passenger auto insurance market in the U.S. For more information on the study's methodology and findings, contact David Corum, at (484) 831-9046, or by e-mail at irc@TheInstitutes.org. Copies of the study are available for $125 for an electronic version, or $140 for a printed copy. Visit IRC's Web site at www.ircweb.org for more information.

###

NOTE TO EDITORS: The Insurance Research Council is a division of the American Institute For CPCU (The Institutes). The Institutes are an independent, nonprofit organization dedicated to providing educational programs, professional certification, and research for the property-casualty insurance business. The IRC provides timely and reliable research to all parties involved in public policy issues affecting insurance companies and their customers. The IRC does not lobby or advocate legislative positions. It is supported by leading property-casualty insurance organizations.

Percent of Motorists Uninsured by State in 2009*



*Estimated using UM to BI claim frequency ratios

Estimated Percent of Uninsured Motorists by State in 2009

State	Uninsured	State	Uninsured	State	Uninsured
Mississippi	28%	Maryland	15%	Virginia	11%
New Mexico	26%	Texas	15%	Delaware	11%
Tennessee	24%	Illinois	15%	South Carolina	11%
Oklahoma	24%	Wisconsin	15%	Wyoming	10%
Florida	24%	Missouri	14%	Oregon	10%
Alabama	22%	North Carolina	14%	Kansas	10%
Michigan	19%	Nevada	13%	Connecticut	10%
Kentucky	18%	Minnesota	13%	North Dakota	9%
Rhode Island	18%	Alaska	13%	South Dakota	9%
Indiana	16%	Louisiana	13%	Utah	8%
Washington	16%	Arizona	12%	Idaho	8%
Arkansas	16%	Iowa	11%	Nebraska	8%
Ohio	16%	Montana	11%	Vermont	7%
Georgia	16%	Hawaii	11%	Pennsylvania	7%
District of Columbia	15%	New Jersey	11%	New York	5%
Colorado	15%	New Hampshire	11%	Maine	4%
California	15%	West Virginia	11%	Massachusetts	4%

PCI
Property Casualty Insurers Association of America
Shaping the Future of American Insurance

UM Rate & Reporting Program Type

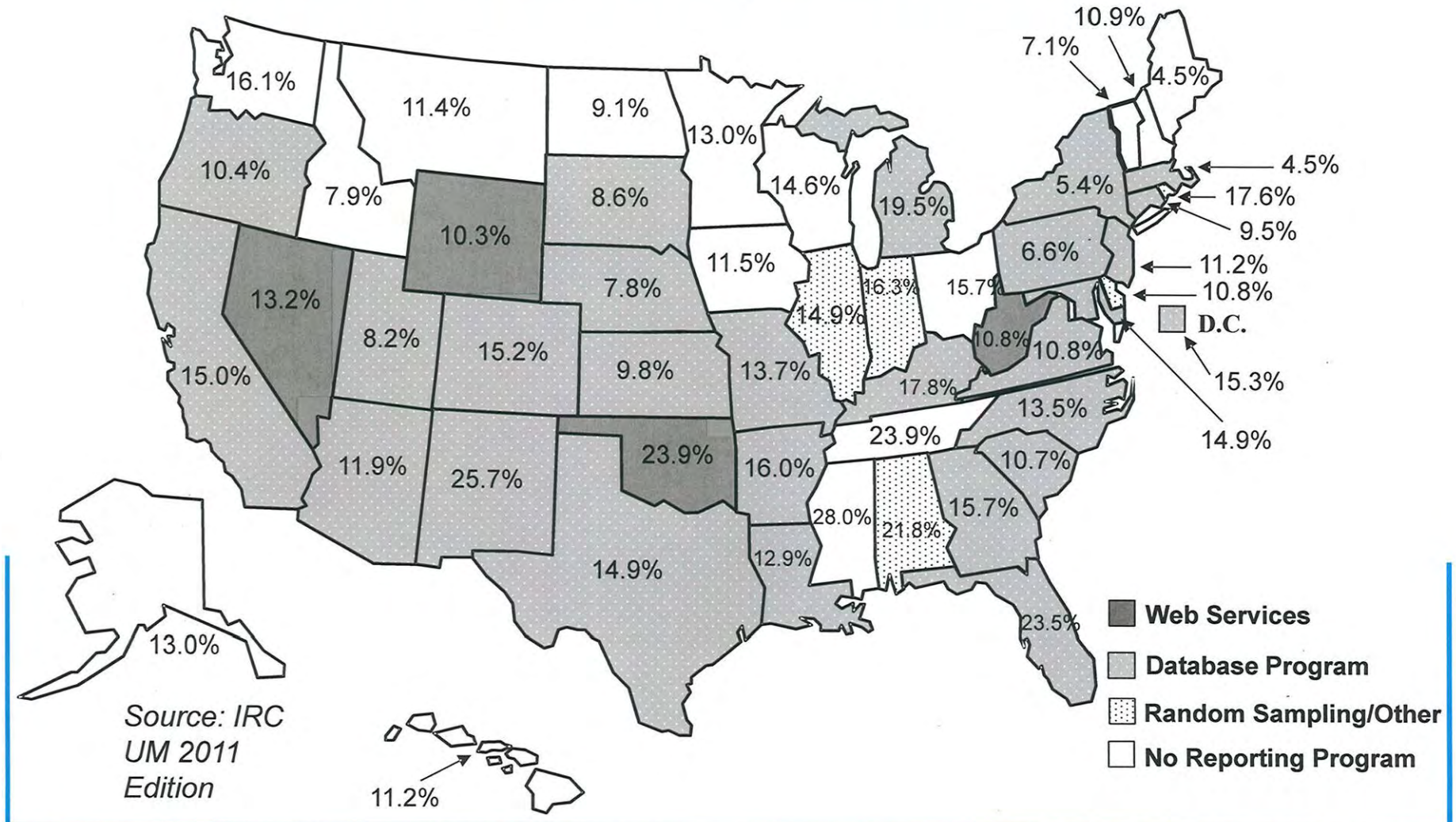


EXHIBIT A-3

WHITE PAPER

Making the Case for Using Web Services to Verify Evidence of Auto Liability Insurance

August 2010

Insurance Industry Committee on Motor Vehicle Administration

Executive Summary

Mandatory liability insurance laws currently exist in 49 of the 50 states. Auto Liability Insurance Reporting (ALIR) programs, often referred to as State Reporting systems, are designed to enforce compulsory insurance laws in 32 states at the time of this publication. Additional states are considering implementing similar programs.

From an insurance company perspective, evidence suggests that state reporting programs have not effectively met their main objective: to identify and track uninsured motorists. These programs are costly, difficult to implement, hard to maintain, and a burden for insured drivers.

Recent and ongoing advances in technology, such as Web services and Internet-based transaction processing provide insurance carriers with an opportunity to provide online auto insurance verification to state jurisdictions.

These technological developments offer many benefits and reduce detriments to all stakeholders concerned with enforcing mandatory liability insurance laws. The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) believes that Web service technology is a solution to address the need by state agencies to verify evidence of auto liability insurance.

Purpose

The purpose of this paper is to propose a system to provide documentation of insured status through a partnership of the states, the public, and insurers. This system is intended to be uniform, cost effective for the states, cost effective for insurers, and beneficial for the public interest.

Foreword

About the IICMVA

IICMVA was formally organized in January 1968. Prior to this time, industry ad hoc committees were assembled as needed by each state to assist with the implementation of compulsory insurance and financial responsibility laws.

Ad hoc committees, which operated at the individual state level, were restrictive and inconsistent in function and composition. IICMVA was formed to provide consistent, industry-wide exchange between the insurance industry and all state jurisdictions.

IICMVA's basic organization is built around insurers and insurance trade associations. The American Insurance Association (AIA), National Association of Mutual Insurance Companies (NAMIC) and Property Casualty Insurers Association of America (PCI) comprise the three major trades. Non-affiliated insurers round out the IICMVA roster.

IICMVA is not a lobbying organization. Instead, the Committee serves as a liaison between the insurance industry and state motor vehicle departments in the following subject areas: drivers licensing, vehicle titling/registration, motor vehicle records, compulsory insurance laws, and financial responsibility programs. IICMVA also maintains a close working relationship with the American Association of Motor Vehicle Administrators (AAMVA).

Business Direction and Vision

Business Direction

Technology has evolved significantly since the late 1950s when states began enforcing their compulsory automobile liability insurance laws. Paper verifications were followed by tape-based cancellation reporting systems. Eventually electronic reporting came into use.

Today, however, we are in an age of Internet-based, shared services. Businesses will increase their use of Web services defined by *The Wall Street Journal* as "software that many computer experts believe will usher in a new era of secure but simple interconnections among computer systems at different companies." [1]

IICMVA views the use of this new technology as the best way to resolve what has become a controversial public policy issue: enforcement of mandatory or compulsory insurance laws.

Enforcement of mandatory or compulsory insurance laws should be limited to event-based situations. Examples of these events could be, but are not limited to: vehicle registrations, traffic stops and accidents. If a jurisdiction

desires additional pre-emptive enforcement, that enforcement should be by random sample verification of insurance by the appropriate government department.

Secured Web applications make event-based verification of auto liability insurance both possible and desirable. Accessing data to conduct business is nothing new to consumers who regularly bank, shop, or bid over the Internet. It is also nothing new to jurisdictions which disseminate information, collect citizen input, and conduct the business of state government over the Internet. Giving jurisdictions the capability of verifying insurance in a secured Web environment is an extension of this concept.

On September 17, 2003, IBM and Microsoft announced that they had come to an agreement on software standards for Web services; therefore, the possibility of integrating systems among different trading partners could soon be a reality in the realm of insurance verification. [2]

IICMVA believes the industry must respond.

Vision

The Committee strongly supports an event-based, online inquiry approach to insurance verification.

IICMVA's vision includes simple online applications that can support single policy inquiries. This vision includes the utilization of true Web services that can support the interconnection of systems between authorized trading partners, namely insurance carriers and state agencies.

An online inquiry approach to insurance verification provides many benefits:

- Jurisdictions can obtain the documented online status of insurance information at any point in time within certain business constraints.
- Jurisdictions can incorporate online verification systems into their license plate renewal programs.
- There is no need to exchange massive amounts of data that is rarely, if ever, referenced, let alone 100% accurate and/or timely.
- The confidentiality of insurance information is protected within the confines of each insurance carrier's IT environment.
- The matching limitations and data integrity issues of current state reporting programs is minimized or reduced.
- Customer service is improved because primary search criteria would be based on the business rules within each company.
- Commercial insurance carriers are in a better position to comply with state mandates.
- Carriers realize the cost effective use of resources since an inquiry system can be built one time for all states, leaving room for simple upgrades as future needs arise.
- Privacy is protected: Only designated, legally authorized entities have access. The information to be provided is very limited and state of the art technological safeguards, such as the latest methods of encryption, are included.

IICMVA must clarify that its vision does <u>not</u> include any of the following approaches:

- National database reporting systems
- Data clearing houses
- Invasive data extraction programs or gleaner programs from third parties
- Radio Frequency Identification (RFID) technologies

This vision is IICMVA's attempt to work with state agencies to resolve a public policy issue: enforcement of mandatory insurance laws.

Background

Beginning in the mid-1920s, states have made an increasing number of attempts to accomplish several worthwhile, socially valuable goals. Among these is the recognition that citizens who exercise their privilege to own and operate a motor vehicle on the public roadways must be held accountable for injuries or damages such ownership and operation may cause.

In this context, the term "held accountable" means being financially responsible. Financial responsibility is the principal argument that supports compulsory insurance legislation in 47 of the 50 states today.

The primary goal of this legislation is to have no uninsured motorists or uninsured vehicles within the jurisdiction.

A subsequent objective is to identify those motorists and/or vehicles that do not carry mandatory auto liability insurance when operating within a state's jurisdiction.

There are two sources of information that can be used to confirm auto liability insurance:

1. **The Individual Driver**

   Several states make use of this primary source of information and enable citizens to "self-certify" that they have auto liability insurance. This approach requires drivers to sign an affidavit stating they will always carry insurance on the vehicles they register and/or operate on the public roadways.

2. **The Insurance Industry**

   As of this writing, 32 states use insurance industry information and require the insurance industry to report information about their insureds in one of the following ways:

   - **Book of Business Data Transfers**

     Usually done on a monthly basis, each carrier authorized to write insurance in the state submits its entire active book of policy information. This is the "policy in force" method whereby states are able to perform month-by-month comparisons to identify those individuals and/or vehicles that were insured at one time but are no longer insured.

     In 2001 one state combined a random sampling process with a monthly reporting flow. Normally the industry approves of random sampling programs, but the reporting aspect of this approach has created customer service concerns due to data mismatches.

   - **Cancellation Reporting**

     Other states require carriers to report policies that have cancelled, lapsed, or non-renewed. This is the "no insurance now" method and the states that use it proactively follow-up with individual vehicle owners who have been identified as potentially uninsured motorists through this process.

   - **Comprehensive Database Approach**

     Many state reporting programs use the "comprehensive database" approach which requires insurance carriers to provide extensive information about their entire books of business. Comprehensive programs require each insurer to submit an "initial load" data file followed by regular daily, weekly, or monthly updates. The premise behind this model is that states can compare insurance data to their own vehicle registration data to identify uninsured motorists. This approach assumes that it is theoretically possible for a state to know about every instance of insurance within the jurisdiction at every point in time, both now and in the future.

Statement of Problem

There will always be citizens who ignore or actively seek to avoid the laws on compulsory insurance. This is the fundamental non-compliance problem.

The states' attempts to eliminate or reduce uninsured motorists via state reporting programs raise the following additional concerns:

1. Data Problems Cause Insureds to be Mistakenly Identified as Uninsured

The effectiveness of all computer systems depends on the accuracy of the data they contain. Output depends on input. Automobile liability insurance reporting (ALIR) systems are no exception to this rule.

The effectiveness of traditional 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**

  Simply put, it is impossible for either a jurisdiction or an insurance company to collect and maintain VINs that are 100% accurate and complete. At any point in time, some data maintained by either party may be incorrect or outdated.

  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 from the customer causes the data to become obsolete and incorrect. Customers do not consistently notify all necessary parties when vehicles are bought, sold, or otherwise acquired and disposed.

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

- **Timeliness**

  The result of the varying business issues that affect insurance carriers and state agencies contribute to problems associated with the timeliness of data.

  The difference between the timeframes that states allow for drivers to acquire insurance and register their vehicles often conflicts 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 and seeks to match 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 specifically added to a policy, an insurance carrier will not have a trigger it can use to transmit insurance policy data to the state regarding that particular vehicle.

  Other insurance business issues that complicate issues of timely reporting include the various grace periods allowed under state law for renewal payments and the underwriting binder periods insurers use to underwrite policies.

  The result of these issues is the same: insured drivers may appear to be uninsured.

- **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 when comparing data from the two databases.

  Sometimes states require carriers to report only vehicles registered in those jurisdictions, but carriers typically do not collect data that reflects the vehicle 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.

2. Reporting Systems Are Costly for Jurisdictions, Insurers, and Consumers

The current reporting systems consume significant state and insurance company resources. Ongoing maintenance and operation of these programs require staff-intensive efforts by jurisdictions and insurers. Ultimately, these costs are borne by consumers.

- **Implementation Costs for State Jurisdictions**
  - The state of New York paid Anderson Consulting **$4.5 million** to implement its program. The project began in fiscal year 1999-2000. [3]
  - 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. [4]
  - 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 equivalent (FTE) employees to manage the MIIDB program: one Office Manager and seven Administrative Assistant IIs. The state also pays a vendor to manage the database. [5]
  - 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. [6]

  NOTE: The implementation costs identified above do not include revenues generated through fines by the state jurisdictions after implementation.

- **Costs for Insurers**
  - In 2000 it is estimated that the New York Insurance Information Enforcement System (IIES) cost four major carriers an average of $408,000 to develop and implement. [7] There are approximately 300 insurance carriers in New York.
  - Commercial automobile insurers spend $30 million annually to develop and maintain reporting programs. [8]
  - In one state alone, it has been estimated that commercial insurers spend $50 on database maintenance per insured vehicle. [9] For example, a commercial fleet policy with 9,000 vehicles for a rental car company costs $450,000 to maintain the data reporting system each year.
  - Negative publicity and customer experiences adversely affect 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 unique systems for each of the state programs.

- **Costs for Consumers**
  - Consumers may pay higher insurance premiums to offset insurer costs.
  - Consumers as citizens pay for jurisdictional expenses via fees, assessments, and taxes.
  - 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 errors that are not within their control. Also, increased regulatory costs reduce competition, giving consumers less choice in the marketplace. Ironically, insured motorists bear all the costs of the very systems that are meant to track the uninsured.

3. Reporting Programs Do Not Conform to the Needs of Commercial Insurers and Their Customers

Vehicle verification systems do not acknowledge the complexities of how auto insurance is written. No single methodology is followed by all companies.

The Commercial Automobile Insurance Industry reports data to departments of motor vehicles (DMV) in 14 states. IICMVA continues to stress that commercially insured vehicles should be exempt from these reporting programs for the following reasons:

- Commercial insureds do not register all vehicles the same way and do not use personal identifiers such as name, address, and VIN. This causes matching errors. The inability to match to DMV registration databases results in undue hardships for these customers.

- Commercial businesses typically own large capital assets and willingly buy high limits of insurance to protect them. Commercial clients are less likely to allow their employees to drive uninsured.
- The complexity of tracking the multi-state operations of many commercial customers makes it impossible to accurately report this unique customer data.

Ex. *ABC Insurance Company* insures *XYZ Corporation* which has operations in all 52 jurisdictions of the United States. *ABC* insures 186,000 vehicles in those jurisdictions covered under a single commercial fleet policy.

XYZ rotates up to 6,000 vehicles on and off the policy since the vehicles rotate in and out of the fleet on a weekly basis. This activity is typical of a fortune 1000 company with multi-state operations, and it makes data reporting an onerous task for commercial insurers.

Absent a full exemption, the use of Web services and online inquiries serves as the best way for commercial carriers to mitigate the problems associated with reporting programs, as well as an advantageous way to comply.

4. No Correlation Exists Between Reporting Programs and the Number of Uninsured Motorists

Despite the lack of objective evidence that state reporting programs are, or can be, effective at identifying uninsured motorists, new state reporting programs continue to become law and continue to be implemented.

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 5 years or more, 12 showed an increase in uninsured motorists and 6 experienced improvements. These results suggest there may be other factors involved, such as level of enforcement and consistency of penalties.***
>
> ***There are a number of reasons why compliance can never be 100%. Notwithstanding compulsory insurance laws, vehicle owners will continue to violate the mandate, just as we see with DUI and other traffic laws.*** [10]
>
> ***From a technological 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…Considerations must weigh the costs, the payback realities, and intrusion on law-abiding citizens.*** [11]

Proposal/Diagram

In order to modernize the exchange of information between carriers and jurisdictions, IICMVA believes attention must be focused on why insurance data is being exchanged so that current technology can be leveraged to meet that need.

Ideally, verification of insurance should occur in "real time". Given the various business issues that occur, true "real time" status is not entirely possible. Premium payments in transit, underwriting binder periods, delayed applications, grace periods, and newly acquired but unprocessed vehicles are just a few situations that complicate this vision. An online verification system will permit improved data accuracy because such a system would reflect the documented insurance policy.

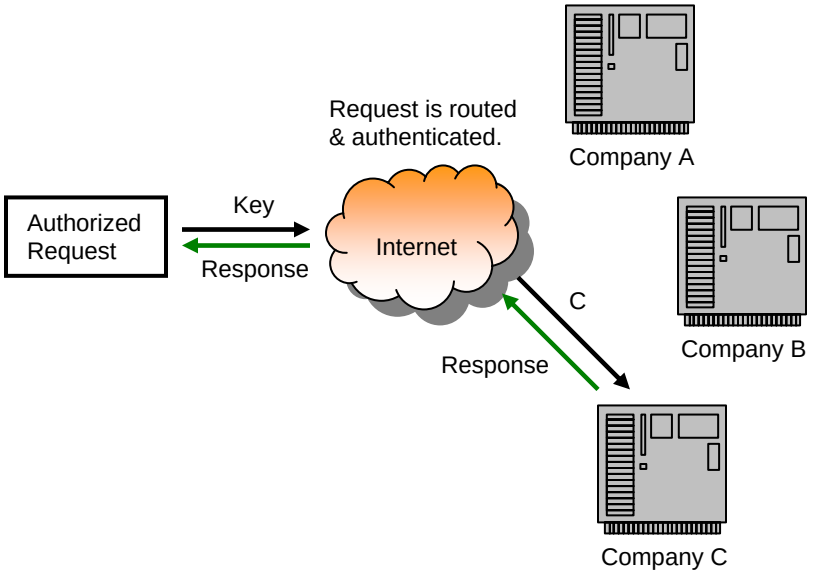
The need to verify insurance and identify uninsured vehicles should be in response to an event- based situation: vehicle registration, traffic stop, or accident.

To this end, IICMVA proposes an automobile insurance verification system based on Web services technology. IICMVA envisions the following elements and steps as necessary:

- Each insurance company is responsible for maintaining the data necessary to verify auto liability insurance provided to their own customers.

- Each insurance company is responsible for maintaining a Web portal or service through which online insurance verification can take place by trading partners.
- Valid verification inquiries are made using key information to route a request to the appropriate carrier for a response.
- The information exchanged is limited to only those items needed to accurately route the request and confirm evidence of auto liability insurance, keeping any privacy concerns to a minimum.
- The methods used to make requests can vary, as long as they are ultimately transmitted in a standard format set by the industry. For example, the key information is entered into an Internet site which appropriately formats a request.
- Confirmation of evidence of auto liability insurance, or lack thereof, is sent back to the requesting entity for appropriate action.

An insurance verification request is made for a person insured by Company C with the key information provided by that company.



Conclusion

IICMVA supports an event-based approach to enforcing mandatory insurance laws. State jurisdictions have a need to verify the existence of auto liability insurance. Utilizing state of the art technology, online verification promises to be a cost effective way to address this need, benefiting the states, insurers, and consumers.

Using Web services to verify auto liability insurance affords insurance companies numerous quantitative and qualitative benefits. Companies are able to transfer the efficiencies gained from one state's program to another. In addition, the industry has the potential for establishing core technical competencies as a result of putting in place Web service-based programs that can be leveraged by other business units within each insurance company.

More importantly, online verification provides a very practical application that the industry can offer states to identify uninsured motorists. Taking a proactive approach to addressing an important public policy issue will also have a positive effect on consumers.

Appendix A:

Comprehensive Database / Cancellation Reporting Systems
Arizona (X12)
Arkansas (proprietary)
California (X12) Used for Online Registration – Voluntary Web Services
Colorado (X12)
Connecticut (proprietary)
District of Columbia (proprietary)
Florida (proprietary)
Georgia (proprietary)
Kentucky (proprietary)
Louisiana (proprietary)
Maryland (X12)
Massachusetts (proprietary)
New Jersey (proprietary)
New Mexico (X12)
New York (X12)
North Carolina (proprietary)
Oklahoma (tape; proprietary)
Oregon (X12)
Pennsylvania (proprietary)
South Carolina (X12) – with voluntary Web Services
Virginia (X12)
Book of Business Data Transfers
Kansas (proprietary) - Used for Online Registration
Michigan (proprietary) - Used for Registration
Missouri (proprietary; enhanced random sampling with book of business reporting)
Nebraska (proprietary)
Texas (proprietary)
Utah (proprietary)
Random Sampling Programs
Alabama (Website)
Illinois (proprietary)
Web Services-Online Verification
Nevada
Oklahoma
Wyoming

Notes

1. William M. Bulkeley, "Microsoft, IBM Set Standards Pact." *The Wall Street Journal*, September 2003, Technology Journal Section, cols. 3-5.
2. Thor Olavsrud, "Microsoft, IBM Set Web Services Standard Pact." *Internetnews.com*, September 18, 2003, Enterprise Section, Jupitermedia Corporation.
3. New York Department of Motor Vehicles in consultation with New York State Insurance Department, "Insurance Information and Enforcement System (IIES)-New Directions in Enforcing Compulsory Insurance Laws," *Report to the Governor and Legislature,* February 1999, pp. 5-7.
4. Utah Office of the Legislative Auditor General, *Audit Report*, 1997.
5. Colorado Department of Regulatory Agencies Office of Policy and Research, "Colorado Motorist Insurance Identification Database Program Act: 2002 Sunset Review," *Report to the Office of Legislative Legal Services,* p. 9.
6. Frank Ruggiero, "Insurance Information Database: Keeping It Simple…But Making It Effective," *Presentation on the Missouri Enhanced Random Sampling Program to the Nebraska Motor Vehicle Insurance Database Task Force,* June 2003, slide 4 (oral comments).
7. Based on estimated NY IIES implementation costs incurred by four separate and distinct carriers, the results of which can be applied to industry numbers. The estimated implementation costs cited do not include the expenses incurred to implement the cryptographic bar-coded insurance ID card required under the NY IIES mandate. It could be assumed that the industry's estimated cost to implement NY IIES was approximately $122,400,000 (300 carriers X $408,000).
8. Summary of costs incurred by four large commercial insurers.
9. The $50.00 cost per insured vehicle was determined by a review of the incurred daily maintenance costs of four large commercial insurers in a comprehensive reporting state.
10. AAMVA Financial Responsibility & Insurance Standing Committee, Arlington, Virginia, "AAMVA Financial Responsibility & Insurance Resource Guide," *AAMVA FRI Standing Committee Project*, 2002, page 14.
11. AAMVA Financial Responsibility & Insurance Standing Committee, Arlington, Virginia, "AAMVA Financial Responsibility & Insurance Resource Guide," *AAMVA FRI Standing Committee Project,* 2002, page 17.

Insurance Industry Committee on Motor Vehicle Administration (IICMVA)

EXHIBIT B-2

Insurance Verification – A web based model for online (real-time) verification

What is the IICMVA

Insurance Industry Committee on Motor Vehicle Administration

- A non-profit, all industry advisory group
- Liaison between the insurance industry and Motor Vehicle Departments
- Assists with the implementation & maintenance of compulsory insurance and financial responsibility laws
- Advisory & subject matter expert on other significant motor vehicle administration issues

EXHIBIT B-2

- Driver Licensing
- Vehicle titling & branding
- Vehicle registration
- Motor Vehicle Records (MVR) – content & availability
- Proof of Coverage (Auto ID Cards)

Who is the IICMVA

- **30 Individual Member Companies**

  Representing a National Market Share of:

  - 50% Commercial Auto Insurance
  - 70% Personal Auto Insurance

- **3 Trade Associations**

  - AIA – 350 Member Insurers
  - PCIAA – 1000 Member Insurers
  - NAMIC – 1400 Member Insurers

- ***IICMVA is Vendor Neutral***

21st Century Insurance
ACE Group
Allstate Insurance Company
American Family Insurance Company
American Modern Insurance Group
AMICA
Arch Insurance Group
Canal Insurance Company
Chartis U.S.
Cincinnati Insurance Company
CNA Insurance
Direct General
Employers Mutual Casualty
Farmers Insurance Group
Federated Mutual Insurance Company
Fireman's Fund Insurance Company
Foremost Insurance Group
GEICO Corporation
Horace Mann Insurance
Infinity Property & Casualty Corp.
Liberty Mutual Insurance Company
Nationwide Insurance Companies
The Progressive Group
Sompo Japan Insurance Co. of America
State Farm Insurance Group
The Hartford Insurance Group
The Travelers Companies, Inc.
USAA
XL Group
Zurich N.A.
AIA
NAMIC
PICAA

EXHIBIT B-2

Estimated Percentage of Uninsured Motorists by State, 2009 (1)

State	Uninsured	Program	State	Uninsured	Program	State	Uninsured	Program
MA	4%	Y	MT	11%	N	MD	15%	Y
ME	4%	N	NH	11%	N	TX	15%	Y
NY	5%	Y	NJ	11%	Y	WI	15%	N
PA	7%	Y	SC	11%	Y	AR	16%	Y
VT	7%	N	VA	11%	Y	GA	16%	Y
ID	8%	N	WV	11%	N	IN	16%	N
NE	8%	Y	AZ	12%	Y	OH	16%	Y(3)
UT	8%	Y	AK	13%	N	WA	16%	N
ND	9%	N	LA	13%	Y	KY	18%	Y
SD	9%	N	MN	13%	Y	RI	18%	N
CT	10%	Y	NV	13%	Y	MI	19%	Y
KS	10%	Y	MO	14%	Y	AL	22%	Y(3)
OR	10%	Y	NC	14%	Y	FL(2)	24%	Y
WY	10%	Y	CA	15%	Y	OK	24%	Y
DE	11%	Y	CO	15%	Y	TN	24%	N
HI	11%	N	DC	15%	Y	NM	26%	Y
IA	11%	N	IL	15%	Y(3)	MS	28%	N

EXHIBIT B-2

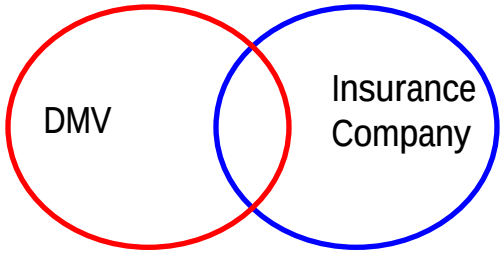
(1) Percentage of uninsured drivers, as measured by the ratio of uninsured motorists (UM) claims to bodily injury (BI) claims frequencies.
(2) In FL, compulsory auto laws apply to PIP and physical damage, but not to third party bodily injury coverage.
(3) Random Sampling Program in Place

Source: Insurance Research Council

Data Reporting - Inherent Problems

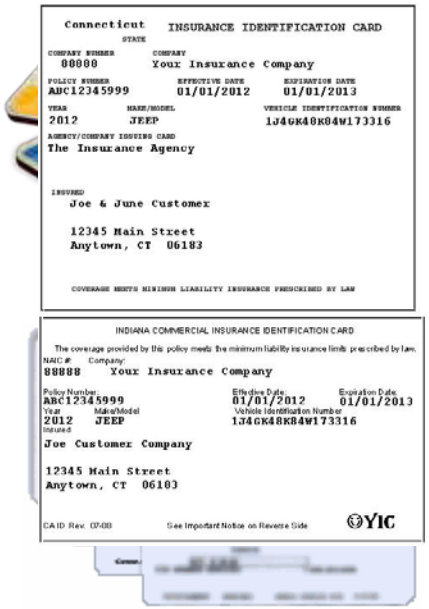
- Data Consistency
  - DMV data vs. Insurance Company data
- Data Accuracy
  - Typographical Errors
  - Miscommunication
  - Outdated/Obsolete data
- Timeliness
  - Data delays inherent with technology
- Security
  - Transmitting large volumes of personal information

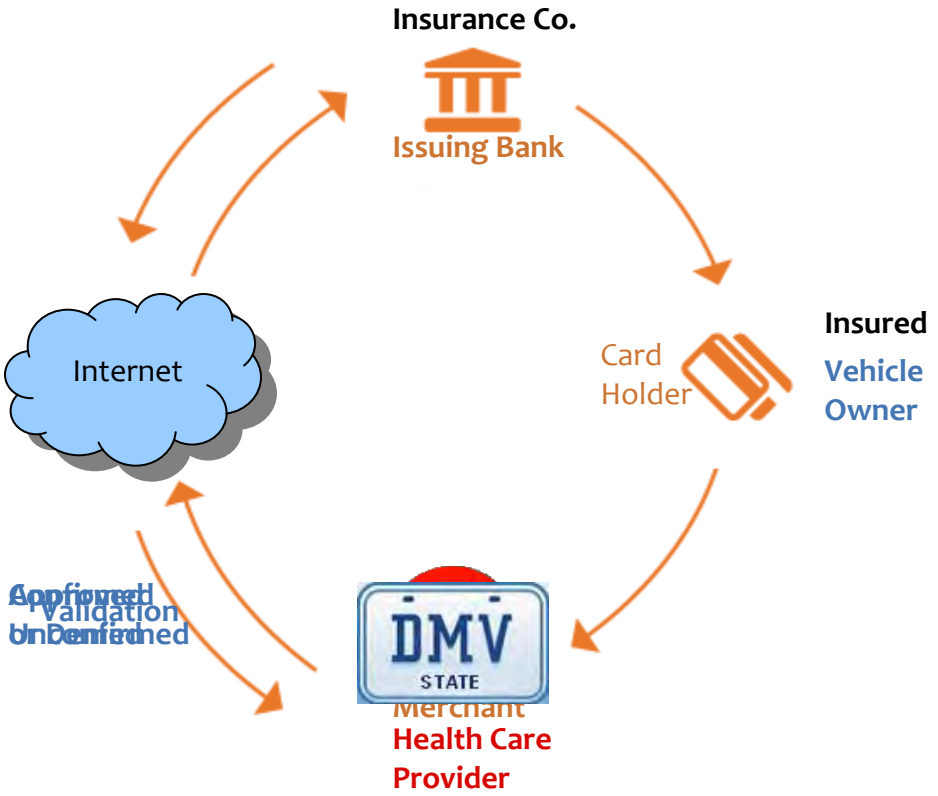
EXHIBIT B-2



Web Service Verification

EXHIBIT B-2





Online Verification (OLV)

Event Based

- Registration/Renewal
- Traffic Stop
- Motor Vehicle Crashes
- Court Proceedings

Required Data Elements

- NAIC number
- Policy Key (Policy Number)
- VIN
- Confirmation Date for evidence of insurance

Response

- Confirmed
- Unconfirmed

EXHIBIT B-2

Verification + Technology

Verification Requests

- Event Based
- Evidence of Insurance
- Utilizes Common Elements
- Real Time Inquiry & Response

Web Services

- Simple mechanism to connect applications regardless of location
- Based on industry standards & protocols
- Leverages the internet for low cost communication
- Real Time Communication between state & insurance providers

EXHIBIT B-2

Benefits of OLV

Business Benefits

- Insurance provider's business decision to verify coverage
- Standardized approach to verification
- Enhanced Customer Service
- Reduces Human Intervention

Customer

- More reliable verification
- Personal Information is not exchanged

IT Benefits & Cost Savings

- Only authorized requestors can use
- Secure & Encrypted request & response
- Services are real-time, available 24/7
- Single, standardized approach
- Scalable
- Interoperability (machine to machine)
- Based on Industry accepted Standards

EXHIBIT B-2

? ? ? ? ? ?

EXHIBIT B-2

George Cooper, State Farm Insurance
Vice Chair, IICMVA Board of Directors
George.Cooper.BQBG@statefarm.com
309-763-8828
www.iicmva.com

Insurance Industry Committee on Motor Vehicle Administration

About the IICMVA

The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) is an all-industry advisory group formed in January 1968 when the *American Association of Motor Vehicle Administrators (AAMVA)* adopted a resolution that an industry committee be formed to work with motor vehicle administrators on matters affecting mutual interests by providing technical expertise and understanding of the subject at hand.

Today the **IICMVA** acts as the liaison between the insurance industry and Motor Vehicle Departments in the US and Canada and primarily assists with the implementation and maintenance of compulsory insurance and financial responsibility laws. In addition, the **IICMVA** also serves as an advisory group and subject matter expert on other significant motor vehicle administration issues including driver licensing, vehicle titling & branding, vehicle registration, motor vehicle record (MVR) content & availability and the issues surrounding the uninsured motorist.

The IICMVA is a vendor-neutral organization; it does not endorse the use of any vendor or product.

EXHIBIT B-3

iicmva

Insurance Industry Committee on Motor Vehicle Administration

www.iicmva.com

iicmva-olv-073009

On Line Insurance Verification Is Here Now!

iicmva

The Source of Insurance Verification

Online Insurance Verification

What is On Line Verification?

On **L**ine **V**erification (OLV) of auto insurance is an inquiry made over the **W**orld **W**ide **W**eb to verify that a vehicle has the auto insurance coverage required by law.

How it Works

Verifying automobile insurance online is the same process as validating health or dental insurance online. The customer provides their ID Card as proof of insurance. The ID Card contains the insurance company information and unique subscriber (policy) number; the information is sent to the insurance carrier for verification using an OLV system. Within seconds, the system responds to the coverage inquiry to verify the vehicle has insurance that meets the minimum financial responsibility requirements with the results: ***CONFIRMED* or UNCONFIRMED.***

To provide the "**Confirmed**" or "**Unconfirmed**" response to the requestor, the **OLV** process developed by the **IICMVA** requires four (4) mandatory data elements:

- **NAIC Number** – Obtained from the Auto Insurance ID Card, the NAIC number identifies the insurance carrier to submit the request to.
- **Policy Key** – An Insurance Carrier's policy number or a unique number that a carrier uses internally to locate a policy record. Also obtained from the Auto Insurance ID Card.
- **Vehicle Identification Number (VIN)** Unique vehicle ID number.
- **Requested Confirmation Date –** Date on which Evidence of Financial Responsibility is being verified.

The Benefits – The E's of Evidence

- **E**vent based system (registration, traffic stop, court inquiry, periodic verification).
- **E**liminates the delay associated with database reporting programs.
- **E**nds the creation and maintenance of data repositories; reduces expenses and labor.
- **E**nhances results with greater accuracy and more precise matching.
- **E**nsures that standardization and future advancements are available to all jurisdictions.
- **E**nhances data security; confidential customer data is not required.
- **E**asily identify counterfeit Auto Insurance Identification Cards.
- **E**vidence of insurance can be used with DMV vehicle registrations and renewals, police roadside inquiries, accident investigations and court requests.

The Technology

- Uses inexpensive internet connectivity.
- Built on proven, web-based protocols called XML to facilitate the sharing of structured data across different information systems.
- Ensures secure transactions with SSL & user authentifications.
- Meets ANSI and ACORD standards.

Note: The insurance company's response indicates whether it can confirm insurance meeting minimum financial responsibility obligations is present on the date in question. *It does not identify the specific limits that are present on an insurance policy or substitute for an insurance company's claims handling function.*

EXHIBIT B-3

Insurance Verification Programs in Use or Under Development

Types of Programs Include:

- Online (Web Based) Verification
- Data Reporting Models Which Include Book of Business and/or Coverage Initiation/Termination Reporting

Web Services – Online Verification	
Alabama	Under development
California	Voluntary adjunct to data reporting
Montana	Implemented 2nd quarter of 2012
Mississippi	New legislation
South Carolina	Voluntary adjunct to data reporting
Utah	New legislation – adjunct to data reporting
West Virginia	Under development
Random Sampling	
Illinois	Sample policies are verified at DMV request
Data Reporting (Book of Business and/or Initiation, Termination of Coverage)	
Arizona	
Arkansas	
California	Used for vehicle registration renewal
Colorado	
Connecticut	
District of Columbia	
Florida	
Georgia	
Kansas	Used for vehicle registration renewals
Kentucky	
Louisiana	
Michigan	Used for vehicle registration renewals
Maryland	
Massachusetts	
Missouri	Includes random sampling based upon data reporting by insurers
Nebraska	Used to facilitate vehicle registration
New Jersey	
New Mexico	
New York	
North Carolina	
Oregon	
Pennsylvania	
South Carolina	
Virginia	

Texas	

No No-Fault Insurance Citations
Issued by the Honolulu Police Department

2003-	30,799
2004-	23,417
2005-	26,811
2006-	26,622
2007-	27,291
2008-	23,331
2009-	18,918
2010-	18,054
2011-	14,177
2012-	6,231*

*As of May 31, 2012