**Senate Infrastructure and
Development Committee Meeting
May 5, 2004**

Interim Charge #2
Insurance Feasibility Study

House Bill 3588, passed during the 78th Regular Legislative Session, charged the Department of Public Safety and the Department of Insurance to conduct a feasibility study to determine the feasibility, affordability, and practicability of using a database interface software system for verification of liability insurance coverage on motor vehicles in Texas. In order to ensure a complete comprehensive assessment of the charge for this study the committee was formed to include the Department, the Department of Insurance and the Department of Transportation.

This committee has reviewed three primary insurance verification options which are:
1. Random sampling – a number of motor vehicle registrations are identified and sent letters requesting proof of insurance coverage, this process may or may not authenticate policy validity with the insurance carrier;
2. Database reporting - insurance carriers provided their entire book of business to the state and a comparison was made using various identifiers to match coverage with the state's registration file; and the
3. Interface approach – a direct connection is made with each insurance carrier's policy database and verification is made interactively utilizing various identifiers, primarily a policy number.

In researching what states are doing to reduce the uninsured motorist rate (UMR), we have found that 47 states have mandatory liability insurance statutes. Of those, 27 states have opted for an insurance verification program. The majority are using either option 1 or 2 listed above. To date, there is no direct interface verification program in production.

A survey was sent to 19 states with either a random sampling or database approach to verifying coverage, 11 responses were received. This survey has provided information regarding the states' experience regarding cost, UMR reduction, and error processing. (Attachment 1) The average pre implementation UMR is 25.85%. The average post implementation UMR is 9.39% with an average reduction in the UMR of 16.46%.

Nationally it is estimated by the insurance industry that the UMR ranges from a low of 5% to a high of 30%, with a national average of 20%. To determine the effectiveness of a verification program in Texas, we must first determine the uninsured motorist rate. This number is a very difficult to isolate. For the purposes of this study, we opted to use two accepted methods of determining the UMR:

Method 1 – the number of motor vehicles identified as uninsured in crashes during the crash investigation. It is derived as follows:

$$\text{UMR\%} = \frac{\text{Number of Vehicles Uninsured in Crashes}}{\text{Number of Vehicles Involved in Crashes}} \times 100$$

The UMR using this method is 20%

Method 2 – the Department of Insurance receives the number of insured vehicles from the Private Passenger Automobile Statistical Plan and the Commercial Lines Stat Plan. This number is compared to the number of registered vehicles in Texas (from TXDOT).

The UMR using this method is 19.48%

Texas could reasonably expect a reduction in the UMR to approximately 5-8% based on the experience of other states as indicated in Attachment 1.

Each approach to addressing the UMR presents their own set of concerns. Under current statute, Texas has an event based system. This means that proof of coverage must be presented during specific activities such as registration, motor vehicle inspection and during crash investigation or citation issuance. While this is the less intrusive approach, it has not proven to be effective. Fraudulent insurance cards are used for the required transactions and policies are cancelled following those required transactions without the possibility of being identified. Cancelled policies usually leave the motorist with what appears to be a valid and authentic insurance card. As you know currently there is no verification process.

The random sampling approach establishes a specific number of vehicles to be sent notices requesting proof of coverage. As indicated in Attachment 2 samplings vary from 6% to 10% of the vehicle registration file annually. For the State of Texas this would only result in approximately 1.7 million verifications (10%) made on the file of approximately 17 million registered vehicles. It requires identifying a pool of vehicles, mailing notices and tracking those that fail to respond. Once the proof of coverage is submitted, it must either be accepted at face value or authenticated with the issuing insurer. This can be a very labor intensive process requiring data entry and data submission for verification. If an automated process were available, a database reporting system or a direct interface to insurer's databases must be developed.

The database reporting approach requires that each company authorized to write motor vehicle liability coverage submit their book of business to the state; or, if outsourced, a selected vendor. A comparison is then performed between the database created from insurance companies and the motor vehicle registration file. Normally specific identifiers are used for this purpose such as Vehicle Identification Number, policy number, driver license number, etc. This approach is problematic in that the matching process does

produce an unmatched error rate where properly insured vehicle owners are identified as uninsured. This rate is reduced by an increase in the number of identifiers used for the comparison. A hardship is placed on the public, the insurance company and the state when there is a high error rate. Another concern is timely reporting by insurance companies. Reporting varies by state from once a quarter to weekly. This results in a delayed snapshot of insured vehicles. In most instances registration is not suspended or cancelled until the vehicle has been identified as uninsured for a period ranging from 30 days to 60 days. During that time, the owner is mailed notices to provide proof of coverage. Using the database approach provides for a "forced compliance" by the public since they will be identified as uninsured.

The interface approach has been recommended by the Insurance Industry Committee on Motor Vehicle Administration (IICMVA) and provides for a direct connection to insurance company databases. It provides timely and accurate responses, however, it has been recommended to be used as an event driven system (registration, vehicle inspection, crash, citation). It would significantly reduce the use of fraudulent or cancelled insurance cards but would not "force compliance". This is a new concept and no system is in use presently.

If the committee were to provide a recommended approach today for reducing the UMR in Texas, it would be our concurrence that a combination of approaches be used. The combination would be the database reporting and interface systems. As mentioned earlier, the database approach would provide the "forced compliance" and monitoring of the entire registration file while the interface system can be used during any of the event driven instances to authenticate coverage in a timely manner. While HB 3588 authorizes the implementation of a monitoring system it does not fully address the needs for this service. Additional legislation will be required to further define these requirements, such as funding, re-instatement fees, suspension/cancellation actions, and reporting requirements.

We anticipate that the final report will be completed and a formal recommendation made in May, 2004.

TEXAS MOTOR VEHICLE LIABILITY
INSURANCE VERIFICATION STUDY

1. What system does your state use to verify or authenticate liability insurance?
    a. Database?
    b. Random sampling?
        i.   If random sampling, what percentage is sampled and the frequency?
        ii. Are all responses to the request for proof authenticated?
            1. If only a percentage of responses, what percent?
            2. How are they authenticated?
    c. Insurance company database interface?
    d. Other: Please explain

2. State owned or outsourced?
    a. If outsourced, current vendor.
    b. Have you switched from state owned to outsource?
        i.   Why? Advantages/disadvantages
    c. Have you switched from outsourced to state owned?
        i.   Why? Advantages/disadvantages

3. How did you benchmark your uninsured motorist rate?

4. How have you benchmarked your uninsured motorist rate following implementation?
    a. How long have you been operating this system?
    b. Last benchmark date?
    c. What is your current uninsured motorist rate?

5. How did your state arrive at the decision to use the current system?
    a. Study conducted?
        i.   If so, can you provide documentation?
        ii. What alternatives were considered?
    b. Legislation?
        i.   Was your agency involved?
        ii. Input provided?
            1. Fiscal impact?
                a. Can you provide fiscal note?
    c. Other: Please explain

6. What is the annual operating cost?
    a. Funding mechanism?
    b. Is this per-transaction based?
    c. If not transaction based, how is it funded?

7. How is this system used in your state to reduce the uninsured motorist rate?
    a. Is the system used only by law enforcement to verify coverage?
    b. Does your agency use this system to verify coverage?
        i.   If a vehicle is identified as uninsured, is the owner contacted?
            1. How contacted?
            2. What is the timeframe for contact?
        ii. Is the registration canceled/suspended?
            1. Does a reinstatement fee apply?

a.   How much is it?
             iii. Is the owner's driver license canceled/suspended?
                    1.   Does a reinstatement fee apply?
                          a.   How much is it?
      c.   Is this system used at the point of sale for registration renewal/issuance?
             i.   If so, is the transaction stopped at that time?
             ii. If stopped, did the state lose revenue? How much?
             iii. If not stopped, what is your procedure to validate coverage?

8. Does insurance apply to the motor vehicle or to the owner/driver?

9. How are SR-22 filings handled?
      a.   Is there electronic reporting?
      b.   Is it required following suspension/cancellation of registration/driver license?
      c.   Other?

10. How are the registration and driver license files queried for authentication?
      a.   What matching criterion is used?
      b.   Has this changed since your program was implemented? Why?

11. Have you established an error rate for mismatched information?

12. How has your program been accepted by your citizens?

13. How was your program accepted by the insurance industry?

14. The insurance industry has indicated that authenticating coverage for commercial vehicles can
    be problematic.
      a.   Has this been a problem in your state?
      b.   Are commercial motor vehicles excluded or matched in your system?
      c.   What has been your experience with commercial motor vehicles?

15. Are proof of coverage forms still carried in vehicles?
      a.   Did you change the form format?
             i.   What changes were made?
      b.   Has fraud been an issue?
      c.   Did you add security features to combat fraud?
             i.   What security features?

16. Number of state FTE's required?

17. How many licensed drivers are in your state?

18. How many registered motor vehicles are in your state?

19. What lessons have been learned concerning insurance verification/authentication?
      a.   What would your agency do differently?
      b.   What recommendations can be provided to assist in the development of a system in
            Texas?

Contact Information:

Jurisdiction: _____

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Agency: _____

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