



# **Uninsured Motorists: A Growing Problem for Consumers**

*An NAIC White Paper*

**Prepared by the  
NAIC  
Property and Casualty Insurance (C)  
Committee**

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## Introduction

The National Association of Insurance Commissioners (NAIC) has been asked to consider a ~~solution~~-uniform cost effective approach to an age-old issue of how to minimize the number of motorists that are operating without the insurance that is required by state law in most jurisdictions. Before proceeding with an exploration of any particular solution, the NAIC members asked that the Property and Casualty Insurance (C) Committee explore the extent of the problem and identify solutions that states have implemented.

The purpose of this white paper is to document the state requirements related to maintenance of auto insurance and activities that have been undertaken to address concerns over uninsured motorists. Information is also included on known vendors of uninsured motorist tracking solutions.

## State Requirements Related to Maintenance of Auto Insurance

Auto insurance is compulsory in most jurisdictions, although the type of insurance and the amount of coverage required varies widely. Forty-six states and the District of Columbia require citizens to maintain auto insurance (see attachments). Even in the four states where auto insurance is not compulsory (New Hampshire, Tennessee, Virginia and Wisconsin), a financial responsibility law exists that imposes insurance requirements on those citizens that have demonstrated a lack of fiscal responsibility for a past auto accident.

In spite of these laws that compel the purchase of auto insurance, many people choose to drive without it. Paying for those that choose fiscal irresponsibility is a problem for those that abide by compulsory insurance laws. The costs are passed along to the law abiding public in the form of uninsured motorists coverage. Thus, in addition to paying for their own actions, each insured motorists also pays for a portion of the costs for others that choose to disobey the law.

Many jurisdictions have tried to solve the uninsured motorists problem in a variety of ways. Among the many solutions to the lack of compliance with compulsory auto insurance are mandating the offer or purchase of uninsured motorists coverage. This appears to be a legislative recognition that the compulsory auto insurance law does not work as intended. Other solutions include no-pay, no-play legislation where a person is barred from recovery if they fail to maintain the minimum required auto insurance coverage and a variety of verification systems.

Addressing issues that increase the costs of auto insurance for citizens is a concern for insurance regulators. Further, if a ~~single, uniform, national solution~~-cost effective approach can be identified that minimizes the administrative costs associated with gathering information needed to monitor compliance with compulsory auto insurance laws, then insurers, motor vehicle administrators, insurance regulators, law enforcement authorities and the public will be better served. Without a ~~single system~~-uniform cost effective, each jurisdiction will eventually develop its own unique solution. Diversity in this area will run contrary to insurance regulator's current regulatory modernization efforts.

## Research on Uninsured Motorists Issues and Existing Solutions

Our research has uncovered four significant resource documents concerning the uninsured motorist issues and existing solutions.

**The Financial Responsibility and Insurance Committee Resource Guide**—This guide is a project of the American Association of Motor Vehicle Administrators (AAMVA). The latest edition is dated March 2005. This document can be downloaded at <http://www.aamva.org/Documents/drvFinRespResourceGuide5.pdf>.

This reference guide was first initially assembled in 2002 and is periodically updated as jurisdictions report their status on compulsory insurance and financial responsibility issues and programs tracking the uninsured motorist. The guide contains a comprehensive summary of the public policy issues related to those individuals that choose to drive uninsured. It also provides

jurisdiction-based fact sheets documenting compulsory insurance and financial responsibility requirements and programs for tracking the uninsured motorist.

**Online Insurance Verification**—This March 15, 2004 white paper is published by the Insurance Industry Committee on Motor Vehicle Administration (IICMVA). This document can be found at <http://www.senate.state.tx.us/75r/Senate/commit/c640/downloads/testimony/050504/onlineins.pdf>.

This white paper's stated purpose is to "propose a system to provide documentation of insured status through a partnership of the states, the public, and insurers." It reviews existing systems and offers a proposed solution from the insurance industry. It calls for "an event-based approach to mandatory insurance laws" that uses web-based technology for an online verification process.

**HB3588 Feasibility Study of an Interface Motor Vehicle Financial Responsibility Verification System**—This report was published in 2004 by the Texas Department of Public Safety and the Texas Department of Insurance. This document can be found at <http://www.tdi.state.tx.us/commish/>.

This feasibility study was a mandated review and evaluation of the existing programs across the country. It was developed in response to a legislative mandate to study the feasibility and costs of implementing a tracking database in Texas that could be used to verify that a driver had the mandatory liability insurance coverage required by Texas law.

**Requirements for Model Motor Vehicle Liability Insurance Reporting**—Dated December 1998, this report contains joint recommendations of the AAMVA's Financial Responsibility Committee and the IICMVA. This document can be found at <http://www.aamva.org/documents/drvfinanresponselectronicreportingfinaldec98.pdf>.

This report is intended to provide documentation of an electronic means to exchange information that would allow a jurisdiction to confirm compliance with its compulsory motor vehicle insurance requirements. It suggests that everyone use the ANSI ASC X12 standard data format for exchange of electronic insurance reporting information where required by legislation to do so. The document has a useful glossary of terms that are commonly used.

## Findings

### The Financial Responsibility and Insurance Committee Resource Guide

The most noteworthy finding in this document is observed (on page 16) in the review of the stakeholders involved in the uninsured motorist issue. The resource guide describes the various perspectives of the general public, lawmakers, law enforcement, motor vehicle administrators, service providers and the insurance industry. What's missing is ~~any~~ mention of insurance commissioners; state insurance regulators, or the NAIC in what is defined on page 11 as *the Background of the Uninsured Motorist Insurance Issue*. This oversight misses completely the public perspective that the fiscally responsible parties are paying for those that choose not to purchase the coverage required by law.

Other interesting points are:

"Each year, according to some estimates, losses from automobile collisions in the United States exceed \$150 Billion. Although it is very difficult to determine, the insurance industry estimates the uninsured motorist population in each U.S. jurisdiction to range from as low as five percent to as high as 30 percent" (Page 6)

"Among the uninsured driver group, 82% indicated they either can't afford insurance or the vehicle is inoperable or not in use." (Page 14)

"Technology and proprietary software provide the answer to the uninsured problem. Programs are well suited for jurisdictions that wish to privatize or outsource the database management process. The funding issue is solved if legislation includes an addition to the fee for vehicle registration. Vendors in Utah and Colorado indicate their program has resulted in a dramatic reduction in uninsured motorists." (Page 17)

"The theory underlying compulsory insurance is sound, but when put to the test, falls short of expectations. It seems contradictory that insurers don't support mandatory insurance when it potentially means more sales. The reality is that any increased sales are short-lived, spiking upward when a new law is enacted, then retreating to prior levels after a few months. Further, reporting programs are expensive to implement and maintain and have not demonstrated any positive impact on the uninsured population. The number of uninsured motorist coverage claims can measure any immediate or long-term results. Generally those claims have not decreased, even in Utah and Colorado." (Page 17)

"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. Unreliable data raises questions about the intensity of law enforcement measures, if indeed law enforcement is incorporated into a state's program." (Page 17)

"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 improvement. These results suggest there may be other factors involved such as level of enforcement and consistency of penalties." (Page 14)

#### **Online Insurance Verification**

Again, the most noteworthy finding is no mention of insurance commissioners; state insurance regulators or the NAIC within the pages of this study. Although, "IICMVA was formed to provide consistent, industry-wide exchange between the insurance industry and all state jurisdictions." (Page 1)

"The IICMVA basic organization is built around insurers and insurance trade associations. Property Casualty Insurers Association of America (PCI, formerly the National Association of Independent Insurers and the Alliance of American Insurers) and the American Insurance Association (AIA) comprise the two major trades. Non-affiliated insurers round out the IICMVA roster" (Page 1)

"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)." (Page 1)

"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." (Front cover-Executive Summary)

"There will always be citizens who ignore or actively seek to avoid the laws on compulsory insurance. This is the fundamental non-compliance problem." (Page 4)

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

- Data Problems Cause Insured to be Mistakenly Identified as Uninsured
- Reporting Systems Are Costly for Jurisdictions, Insurers, and Consumers
- Reporting Programs Do Not Conform to the Needs of Commercial Insurers and Their Customers
- No Correlation Exists Between Reporting Programs and the Number of Uninsured Motorists" (Pages 4-7)

“The cost to the industry is compounded by the fact that insurers are responsible for the development, implementation, maintenance, and administration of multiple systems for various states.” (Page 6)

“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. 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.” (Page 6)

“ICMVA supports an event-based approach to enforcing mandatory insurance laws. State jurisdictions have a need to verify insurance coverage. With the advent of new technology, online verification promises to be a cost effective way to address this need, benefiting the states, insurers, and consumers.” (Page 9)

“Using Web services to verify liability coverage will afford insurance companies numerous quantitative and qualitative benefits. Companies will be able to transfer the efficiencies gained from one state’s program to another. In addition, the industry would have 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.” (Page 9)

“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.” (Page 9)

#### **HB3588 Feasibility Study of an Interface Motor Vehicle Financial Responsibility Verification System**

“House Bill 3588, passed during the 78th Regular Legislative Session, charged the Department of Public Safety and the Department of Insurance to jointly conduct a study to determine the feasibility, affordability, and practicability of using a database interface software system for the verification of liability insurance coverage on motor vehicles in Texas and to make a determination of whether such a system should be implemented in Texas. A task force was formed to include the staff of the Department of Public Safety, the Department of Insurance, and the Department of Transportation. The task force compiled and gathered information through surveys of other states, meetings with vendors of verification systems, and staff research and analysis.” (Page 3)

“This report provides background information on the uninsured motorists’ problem in Texas and, in accordance with HB 3588, the report considers the following five factors to determine whether such an insurance verification system is feasible:”

- Likelihood to reduce the number of uninsured motorists in this state;
- System reliability;
- Cost-effectiveness;
- Privacy protections; and
- Data security and integrity.” (Page 3)

“Based on these numbers and the estimated UMR (*Uninsured Motorist Rate*) in Texas of 20%, it is possible that there could be a 12 to 13 point reduction in the UMR in Texas, which could mean a drop in the UMR to as low as 7%-8%. The highest reductions in the UMR were in states that had a database reporting/verification system.” (Page 5)

“It is the opinion of the task force that the problems with database reporting systems that have been experienced by other states can be reduced or eliminated by careful and thoughtful design and implementation of the system. For example, reducing the number of properly insured vehicle owners who are identified as uninsured can be reduced by increasing the number of identifiers used for the comparison. Education and monitoring can assist in ensuring insurance company compliance with system requirements which is essential to system operation reliability.” (Page 7)

“The task force is not aware of any state that currently has a database interface software system that provides the required verification and on-going monitoring components necessary to achieve the objectives ... The task force recommends that Texas not implement a database interface system at this time and that specific information be obtained on designing a system that meets all of the requirements ...” (Page 12)

### Requirements for Model Motor Vehicle Liability Insurance Reporting

"Interactive options are now available and can be used by the jurisdictions and the industry when a jurisdiction requires reporting of automobile insurance information. The IICMVA maintains a position opposing electronic exchange of information as a method of controlling the uninsured motorists in any state. The IICMVA, however, does support the use of ANSI ASC X12 standardized record layout and reporting format, as presented in this document, in jurisdictions which have enacted legislation mandating electronic reporting of insurance information." (Page 3)

"Due to the problems inherent in reporting commercial vehicles, it is strongly recommended they be excluded unless specifically mandated by law." (Page 3)

"Both AAMVA and IICMVA support the use of the standard data format ANSI ASC X12 for the exchange of electronic insurance reporting information between trading partners where required by legislation." (Page 4)

"The efficiencies if a standard data set can minimize the difficulties that could be incurred if each institution were to impose its own formats on every institution with which it does business." (Page 4)

### Vendors Providing Database Tracking Services

There are several vendors offering potential solutions to address the issue of identifying the uninsured. Among the many vendors are:

#### InsureNet

InsureNet is a vendor of motor vehicle tracking services. InsureNet was founded in 2000 for the purpose of providing insurance status verification. The InsureNet system is proprietary (patent pending according to its web site) and provides instant verification to users. Its founders claim to be world leaders in smart card solutions for insurance status and identification verification. They offer the Instant Insurance Status Verification System. It appears InsureNet's primary function is that of a data matching service. The InsureNet system requires insurance companies to report daily any changes in insurance and then makes those daily changes available to law enforcement. States currently utilizing data matching systems generally do not require such daily updates from the insurance companies or DMV.

InsureNet describes its system as having the following key components:

- Daily, mandatory reporting of insurance status in order to operate in real time;
- The addition of a unique identifier code to identify the policy and the vehicle link;
- Immediate access to law enforcement personnel;
- Compliant with privacy laws;
- Able to be used by individual insurers or by government; and
- Able to identify fraud rings or repair scams.

InsureNet's web site has this to say about its Instant Insurance Status Verification System. InsureNet maintains that it "offers a complete solution to all problems with previous systems.

- It is completely non-invasive.
- It provides dramatic benefits for policyholders, including: far safer streets, better insurance service, known status when renting or purchasing a vehicle, and more convenience with insurance purchase. It also provides status for test drives, title transfers, and vehicle registration. Over time, these efficiencies and others are certain to result in lower premiums.
- The system provides dramatic benefits for insurers, especially regarding increased revenues from the following sources: additional policy volume based on new policy initiations, volume based on the ability to instantly track and requirement to maintain Uninsured Motorist Coverage, Comprehensive and Collision coverage in compliance with liens, policies that last far longer and cost less to re-initiate and maintain, policies that continue to move "up market" and generate increased revenue as policyholders, now held accountable, drive more responsibly."

InsureNet's joint head offices are in Atlanta, Georgia and Grand Rapids, Michigan and support a network of additional offices throughout the United States. InsureNet is also represented in Australia, The Netherlands, France, Morocco, Germany and The United Kingdom.

According to InsureNet, its system has been implemented in the State of Delaware.

#### Comments on the InsureNet Approach

~~Unique identifier codes assigned to a policy number are meant to establish a link between an individual, the insurance policy and a vehicle. Current DMV systems use registration or license plate numbers to establish the relationship between an individual and a vehicle. An additional unique identifier code would require insurance companies and DMVs to modify existing systems to allow for this code and would prevent use of the X-12 standardization for communications. Additionally, these unique identifiers may require insurance companies to re-write their current databases to accommodate unique links such as families insuring several vehicles and all possible unique identifiers that result therein.~~

~~InsureNet directs responsibility for all enforcement and notification back to the state. Beyond the AAMVA assisting NLETS in building standardized XML versions of driver status, driver history and the registration response messaging, it is unclear just what information would be available to the state if it wanted to pursue other types of enforcement.~~

~~What also remains unclear are InsureNet's utilization costs and anticipated percentage of savings. As reported in the AAMVA Resource Guide, data matching has not resulted in any increased savings to the insurance industry to date.~~

#### Insurance Vehicle Identification Network

The Insurance Vehicle Identification Network (IVIN) claims to be a secure self-revenue generating, digital information network that provides stakeholders instant, secure access to critical data needed to control the increasing problem of uninsured motorists. IVIN is intended to provide easy access to tools needed by law enforcement authorities to effectively enforce compulsory auto insurance laws. It claims to reduce the cost burden of uninsured drivers and can be used to combat fraud.

The IVIN product provides each stakeholder with a unique view of only that information to which the stakeholder is entitled access. These specific viewing levels are designed to protect the privacy and confidentiality of sensitive information. Thus, an insurer would not be privy to information about another insurer's customers. Law enforcement authorities would simply see that a person is either properly insured or uninsured. It is a flexible system that is controlled by its administrator with fully traceable audit capabilities.

IVIN claims that its program will lower everyone's premium by lowering the number of uninsured motorists and increase insurer's premium writings as those that are previously uninsured purchase compulsory insurance coverages.

The founders of the IVIN system have suggested that it could play a role in the NAIC's regulatory modernization. Its founders believe that an NAIC-IVIN partnership would be a beneficial addition to the NAIC's market regulatory modernization efforts. They see the following regulatory purposes for the system:

- Standardized national reporting of the status of auto insurance coverage;
- Use of an insurance industry developed ANSI ASC X12 standardized record layout and reporting format that will minimize compliance costs for the insurance industry,
- Decreases in the number of uninsured motor vehicles resulting in lower costs for auto insurance for law abiding drivers;
- Enhancement of anti-fraud efforts by regulators and insurers;
- Creation of a nationwide secure digital tool for management and enforcement of compulsory insurance laws; and
- Facilitating the ability for the state insurance regulators to utilize NAIC as a clearinghouse of factual, timely data with regard to motorists and vehicles enhancing its other market regulatory data offerings to state regulators.

The IVIN system starts with a data repository that collects information from insurers using the ANSI ASC X12 standardized record layout and reporting format and from state DMVs. The system matches the data from each entity and has a process to deal with non-matches. Once it determines that a person is uninsured, the system generates a letter to the person advising that they are uninsured, informing them of the penalties for noncompliance and suggesting that they purchase the compulsory insurance

immediately. IVIN maintains for each jurisdiction, a call center that would be used to communicate about enforcement efforts. The call center would be set up to work with insurers, insurance producers and the DMV to address discrepancies in insured status shown in the system. Law enforcement authorities would be able to access information about insured status remotely and could take actions authorized by state law.

### Comments on the IVIN Approach

~~It appears that the IVIN system addresses the five factors for a successful auto insurance verification system mentioned in the Texas feasibility study (<http://www.tdi.state.tx.us/commish/>). Its system appears to be a workable solution that addresses the deficiencies identified by the IICMVA. In addition to simply implementing a data matching system, the IVIN system has logical method to sort out and correct data matching problems. Further, its call center approach is one that does not rely entirely on state law enforcement authorities to implement. The correspondence to uninsured motorists should lead to a significant number of them purchasing insurance simply because they know somebody is watching them. The direct correspondence with the uninsured adds an element that does not appear in any other system. The funding mechanism seems logical and has a financial incentive for the insurance industry that does not appear in other programs.~~

### Conclusion

There are at least 23 states trying to solve the issues of the uninsured motorist through data verification of some sort (See Attachments One and Two). The first three reports question the capability of existing data verification systems to adequately reduce the number of uninsured motorists, to protect privacy information and to provide the critical law-enforcement tools necessary.

~~There is a clear lack of national insurance regulatory leadership regarding this issue. While the AAMVA clearly has a vested interest in the problem they offer little in the way of solutions. The Insurance industry, in the meantime, has clearly been working on a solution to address this issue. Despite everyone agreeing that this is an insurance issue it is unclear why these interested parties have not included the insurance commissioners and the NAIC in these discussions and studies, other than the limited presentation that was made on Sept. 13, 2003 before the NAIC's Industry Liaison Committee.~~

The Texas feasibility study concluded that although there was a need for a data verification system, and that such a system was feasible, none of the current and existing systems or those proposed in other states fully met the simple criteria of:

- Likelihood to reduce the number of uninsured motorists in this state;
- System reliability;
- Cost-effectiveness;
- Privacy protections; and
- Data security and integrity.

Their recommendation was to look for other solutions or to build a system themselves.

~~The NAIC's leadership role would be to assist in developing a standardized national database system cost effective uniform approach for reducing the number of uninsured motorists on the nation's highways. The goal is to create a national insurance verification system that not only provides support and tools for law enforcement but also to meets the criteria set forth by the NAIC. This provides necessary tools and support for the protection of the consumer, insurance regulatory bodies, states, insurers and other stakeholders. An NAIC recognized system approach would go beyond mere data matching as indicated in the criteria established by Texas in their recent HB3588 Feasibility Study.~~

~~In conclusion, there is an obvious need for a national, standardized data verification system uniform cost effective approach with law enforcement tools that would achieve the five criteria identified by Texas. There should also be strong leadership from the insurance regulatory community, insurance commissioners and the NAIC in this process. To that end, the Property and Casualty Insurance (C) Committee recommends that the NAIC, in cooperation with AAMVA, IICMVA and national insurance trade associations, proceed, subject to certain guidelines, with preliminary work on the possible development of a standardized national solution, uniform cost effective approach including discussions with vendors on technology and operational issues surrounding~~

~~implementation. of such a system. Legal Division study the legal aspects associated with the options available to the state insurance regulators and report back to the committee with its recommendations as soon as possible.~~

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