Online Insurance Verification

Using Web services to verify auto insurance coverage

Version 1.0
March 15, 2004

Executive Summary

Mandatory liability insurance laws exist in 47 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 23 states. Two new programs are currently in development (Appendix A).

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 may 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 should be explored as a solution to address the need by state agencies to verify auto insurance coverage.

Insurance Industry Committee on
Motor Vehicle Administration

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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. 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.

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 now make event-based verification of insurance coverage 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 also includes the exploration 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 coverage verification would provide many benefits:

- Jurisdictions could obtain the documented online status of insurance information at any point in time within certain business constraints.
- Jurisdictions could incorporate online verification systems into their license plate renewal programs.
- There would be 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 would be protected within the confines of each insurance carrier's IT environment.
- The matching limitations and data integrity issues of current state reporting programs would be minimized or reduced.
- Customer service would be improved because primary search criteria would be based on the business rules within each company.
- Commercial insurance carriers would be in a better position to comply with state mandates.
- Carriers would realize the cost effective use of resources since an inquiry system would be built one time for all states, leaving room for simple upgrades as future needs arise.

- Privacy will be protected: Only designated, legally authorized entities will have access. The information to be provided will be very limited and state of the art technological safeguards, such as the latest methods of encryption, will be included.

IICMVA must clarify that its vision does not 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 insurance coverage when operating within a state's jurisdiction.

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

1. **The Individual Driver**

   Several states make use of this primary source of information and enable citizens to "self-certify" that they have insurance coverage. 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, 23 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 coverage 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 multiple systems for various states.

- **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 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.

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

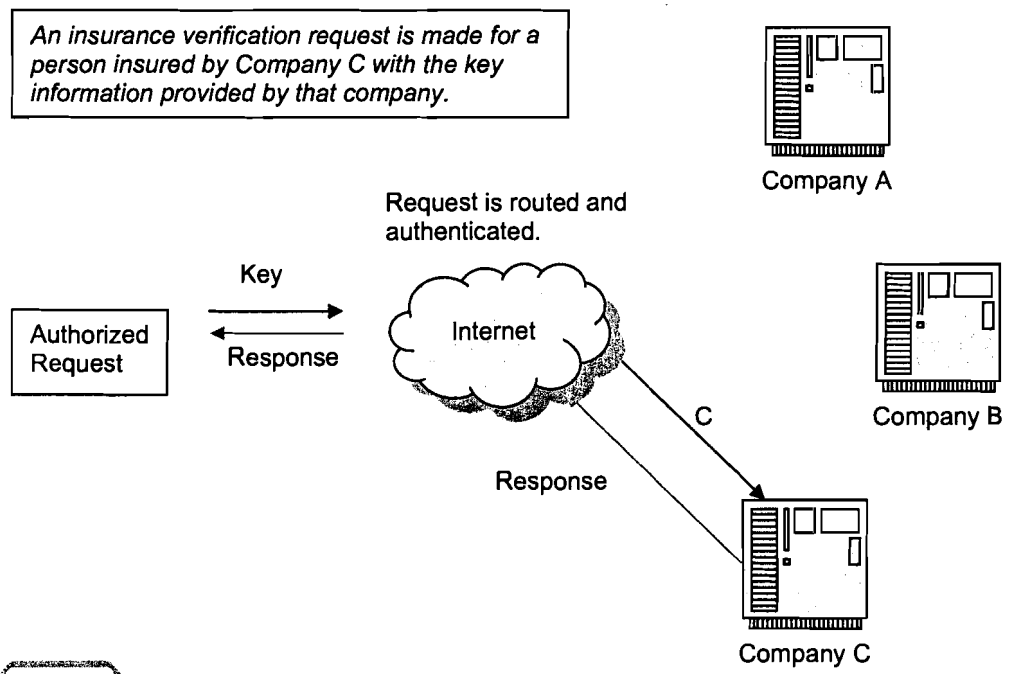
In order to modernize the exchange of information between carriers and jurisdictions, IICMVA believes attention must be focused on why insurance data is being exchanged so that current technology can be leveraged to meet that need.

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 coverage.

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 would be responsible for maintaining the data necessary to verify the insurance coverage provided to their own customers.
- Each insurance company would be responsible for maintaining a Web portal or service through which online insurance verification can take place by trading partners.
- Valid verification inquiries would be made using key information to route a request to the appropriate carrier for a response.
- The information exchanged would be limited to only those items needed to accurately route the request and confirm coverage, 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 could be entered into an Internet site that would appropriately format a request.
- Confirmation of coverage, or lack thereof, would be sent back to the requesting entity for appropriate action.



Next Steps

The insurance industry and the states should cooperatively examine this proposal expeditiously because of the many potential benefits to all parties. Among the next steps are:

- The technical requirements necessary to render this solution must be identified (e.g., security, authentication, business-to-business/b2b standards, routing of requests, etc...).
- State jurisdictions must be invited to help develop the business requirements that need to be addressed (e.g., data elements needed, search criteria, use cases).

Conclusion

IICMVA 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.

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.

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.

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.

Appendix A:

Comprehensive Database/Cancellation Reporting Systems
Arizona (X12)
Arkansas (EDI; proprietary)
California (X12-voluntary) Used for Online Registration
Colorado (X12)
Connecticut (tape; proprietary)
District of Columbia (paper)
Florida (tape/EDI; proprietary)
Georgia (EDI; proprietary)
Kentucky (tape; proprietary)
Louisiana (proprietary)
Maine (EDI; proprietary; in development since 2001)
Maryland (X12)
Massachusetts (EDI; proprietary)
Nevada (tape; proprietary)

New Jersey (tape; proprietary)
New Mexico (X12)
New York (X12)
North Carolina (EDI; proprietary)
Oklahoma (tape; proprietary)
Oregon (X12)
Pennsylvania (tape; proprietary)
South Carolina (paper->converting to EDI using X12, proprietary, or Web)
Virginia (X12)
Book of Business Data Transfers
Kansas (proprietary-voluntary) Used for Online Registration
Michigan (proprietary-voluntary) Used for Telephone Registration
Missouri (proprietary; enhanced random sampling with book of business reporting)
Nebraska (proprietary-in development since 2003) Used for Online Registration
Utah (proprietary)
Random Sampling Programs
Alabama (Website)
Delaware ***(not in use)***
Illinois (tape; proprietary)
Minnesota (in development since 2003)