The Road to Online Insurance Verification

Mandatory liability insurance laws exist in 49 of 50 states. Auto Liability Insurance Reporting (ALIR) state laws are currently in place in 32 states, with several more in development.

Evidence suggests, however, that some of these reporting laws may be failing to meet their primary objective: the enforcement of financial responsibility and the identification of uninsured motorists. Not only are some of these laws not working, they are costly, difficult to maintain and a burden for insured drivers.

Fortunately, the development of web services and Internet-based transaction processing provides insurance carriers with the capability to provide online verification of evidence of insurance to state jurisdictions with increased accuracy and at less cost than traditional reporting systems. The **Insurance Industry Committee on Motor Vehicle Administration** (**IICMVA**) believes web service technology should be explored by states as a method of verifying evidence of auto liability insurance.

Some Current Laws are Costly to Administer with Inherent Limitations

Some state laws, as currently designed, consume significant state and insurance company resources while having negligible impact on the overall uninsured motorist rate. The effectiveness of these laws may be hampered by data integrity issues related to consistency, accuracy and timeliness.

▪ Consistency

Customers are hardly consistent in their use of personal data, often times providing different parties with accurate but somewhat varying information. For example, a driver may register his vehicle with the state under the name "James Robert Smith," but apply for an insurance policy under the name of "Bobby Smith."   The inconsistency between these values make it difficult, if not impossible, to match when comparing data from the two databases. While this data may be similar, the independent and unique purposes for which it is collected adversely affect the ability of the state to successfully match records.

▪ Accuracy

Typographical errors caused by keystroke mistakes or customer miscommunication are common during the collection of data by both state jurisdictions and insurance carriers. The Vehicle Identification Number (VIN), a unique identifier commonly composed of 17 characters, is the most common data element subject to errors.

▪ Timeliness

Insurer and state business practices differ and sometimes conflict. For example, a state's requirement of valid

> ### *Highlights*
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> - **When insurance verification is mandated, the <u>IICMVA</u> encourages states** to consider the insurance industry supported insurance verification web service developed by the IICMVA, rather than enacting a traditional database program which attempts to track registrant's coverage all the time.
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> - The IICMVA web service model is an efficient, cost effective and vendor neutral solution that provides real time verification and is based on the concept of only checking for coverage when the state needs to confirm coverage such as at a traffic stop or during registration.
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> - The web service model eliminates the need to exchange and maintain massive amounts of information.

evidence of insurance before a vehicle is permitted to be driven or registered conflicts with an insurance policy's typical provision of coverage for a newly acquired vehicle for a period of time without adding it to the policy. Moreover, once an automobile is added to a policy an insurer's business practice may mean the vehicle isn't even added to their database until days or even weeks later. These timing issues obviously impact the ability to match registered vehicles to reported insurance data.

In addition, batch processing of insurance records required by database reporting laws (i.e. weekly or monthly reporting) means the data is obsolete the moment it leaves the insurer's database. The inherent delay of database reporting laws means the state is verifying evidence of insurance based on out-of-date information.

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

Consumers Pay Twice

Consumers are forced to pay twice under these laws. They pay higher insurance premiums to offset insurer costs associated with these laws. They pay again as citizens when they pay for jurisdictional expenses associated with the program via fines, fees, assessments and taxes.

The cost to consumers is compounded by the fact that they are frequently forced to spend their time correcting data errors that incorrectly identify them as uninsured.

Costs to Business Customers

These laws do not account for the complexities of how auto insurance is written for vehicles owned and insured by commercial entities. Most notably:

- Commercial businesses typically own large capital assets and willingly purchase high limits of insurance to protect them. Commercial clients are less likely to allow their employees to drive uninsured.

- 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 evidence of insurance information to DMV registration databases results in undue hardships for these customers.

- The complexity of tracking the multi-state operations of many commercial customers makes it almost impossible to accurately report this unique customer data.

While the commercial uninsured rate is calculated to be approximately 3% nationwide; commercial customers bear a disproportionate amount of the costs associated with database laws, particularly when they are more likely to be mistakenly identified as uninsured due to data limitations and the unavailability of the necessary data for matching.

Web Services Solution

The verification of evidence of auto liability insurance and identification of uninsured vehicles should be event-based, such as vehicle registration, traffic stop or after an accident. To this end, IICMVA has developed an insurance industry supported alternative to verify evidence of automobile insurance based on web services technology.

This online inquiry approach for verifying evidence of auto liability insurance provides many benefits:

- Jurisdictions are able to obtain real time status of insurance information.

- Jurisdictions are able to incorporate online verification systems into their license plate renewal laws.

- 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.

- Privacy is protected because only legally authorized entities will have access. The information provided is limited and technological safeguards, such as encryption, are included.

IICMVA Model

The IICMVA Model Guide provides a set of recommendations for online insurance verification web services for providing real time evidence of insurance verification:

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

- Each insurance company is responsible for maintaining a web portal or service through which online evidence of insurance verification can take place by trading partners.

- Valid verification inquiries are made using unique 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 insurance, keeping 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.

- Confirmation of evidence of auto liability insurance, or lack thereof, is sent back to the requesting entity, in real time, for appropriate action.

Conclusion

The IICMVA OnLine Verification (OLV) model provides states with a tool to support enforcement of financial responsibility laws and aid in the identification of uninsured motorists. A proven, practical tool, OLV reduces operational and maintenance costs and benefit states, insurers and consumers by eliminating the data integrity problems associated with some current laws.

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

Despite the lack of evidence that state reporting laws are effective at identifying uninsured motorists, new state laws are continually implemented. The American Association of Motor Vehicle Administrator's (AAMVA) Financial Responsibility & Insurance Resource Guide published in 2002 states:

"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. Insurance Research Council studies of states with reporting programs in place for 5 years or more showed 2/3's of those states showed an increase in the uninsured motorists and only 1/3 showed a reduction. These results suggest there may be other factors involved in determining the success level of these programs, factors such as level of enforcement and consistency of penalties. 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."