



FINANCIAL RESPONSIBILITY STUDY COMMITTEE REPORT



**OHIO DEPARTMENT
OF PUBLIC SAFETY**
SAFETY • SERVICE • PROTECTION



**OHIO DEPARTMENT
OF INSURANCE**

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EXECUTIVE SUMMARY

With more than half of the states now operating, or in the process of implementing, electronic insurance reporting programs, Ohio has reached a critical juncture in its efforts to enforce its 60-year-old financial responsibility law.

Since 1998, Ohio has verified compliance with the law via a *Random Selection Program* that has identified thousands of drivers who chose to flout the law by driving without insurance. In the process, however, the program also has inconvenienced far more law-abiding drivers while permitting many other uninsured drivers to escape detection. In short, the program – at the time of its debut forward-thinking and state-of-the-art – has not kept pace with advancements in technology.

With the passage of House Bill 278 in March 2013, a Study Committee was created to determine the feasibility of requiring insurance companies to report policy information to the Ohio Bureau of Motor Vehicles in order to enable the state to implement an electronic insurance verification program. During the past six months, the committee has conducted extensive research and interviews, gathered data and listened to presentations from insurance-verification vendors in order to make recommendations on a system that would replace the BMV's Random Selection Program.

This is an issue that legislatively

mandated insurance verification study groups in Ohio have tackled before. In 2001, another study committee examined the feasibility of implementing an electronic insurance reporting program. It ultimately demurred, concluding that electronic programs were too expensive, that they involved burdensome data-matching capabilities, and that they hadn't demonstrated they could significantly lower states' uninsured motorist rates.

A dozen years hence, much has changed. Technology has improved and Ohio's uninsured motorist rate has continued to hover at about 15% – among the top third in the nation.

Although comprehensive pre- and post-implementation compliance data from states that have launched electronic verification systems is difficult to obtain, New York, South Carolina, Utah and Virginia all have reported dramatic reductions in their uninsured motorist rates, ranging from 6% to 20%.

The cost of these systems varies widely. The four states mentioned above report that they spend between \$50,000 and \$160,000 a month to operate their systems. Interestingly, states with lower electronic verification system costs, notably Missouri and Nebraska, did not report a reduction in their uninsured motorist rates.

States that have already implemented electronic insurance reporting systems are operating database systems, web-based systems or a hybrid of the two. As can be expected, these systems have both benefits and drawbacks, which require further study in order to reach a consensus. Consequently, the committee makes the following recommendations: Ohio should replace its *Random Selection Program*. In its place, the state should purchase or build an insurance verification system that takes advantage of recent advances in technology. We recommend that Ohio use in-house resources, a vendor or a combination of the two to construct a database system, web-based system or a hybrid system that will significantly out-perform the state's current random selection model. *In making this recommendation, we are purposely declining to endorse a specific vendor's electronic insurance reporting program or to embrace a specific state system* because we believe that all stakeholders should re-convene to assist the Department of Public Safety in the development of Ohio's system requirements. Participants, in addition to the departments of Public Safety and Insurance, should include representatives of the insurance industry, courts, law enforcement and citizen advocates. We also recommend that the Department of Public Safety be given the flexibility to determine the best approach for system construction and development. *Any new system should enjoy legal protections that are consistent with current Ohio laws.*





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LEGISLATIVE BASIS

In March 2013, the passage of House Bill 278 created a *Study Committee* to research the feasibility of requiring insurance companies to report vehicle insurance policy information to the Bureau of Motor Vehicles (BMV). The committee was tasked with preparing a comprehensive report on whether the BMV should implement an electronic insurance verification program; whether insurers should be required to report to the BMV all new vehicle insurance policies, renewals, cancellations and lapses within a certain timeframe; and whether sanctions should be imposed against insurers for failing to provide policy information to the BMV in a timely manner.

Creation of the *Study Committee* followed previous legislative efforts to enforce and monitor compliance with Ohio's 1953 financial responsibility law, which requires anyone who operates a motor vehicle in the state to maintain insurance coverage throughout the vehicle's registration period. In Ohio and other states, non-compliance with compulsory insurance laws has burdened the vast number of citizens who maintain insurance coverage by requiring them to pay for uninsured motorist coverage.

In 1995, Amended Substitute Senate Bill 20 required the Registrar to implement a *Random Verification Program* with input from the *Task Force on the Enforcement of the Financial Responsibility Laws of Ohio*. The program, which was considered to be state-of-the-art when it was initiated in 1998, currently screens approximately 280,000 drivers a year for proof of financial responsibility.

Spurred by complaints from the public that Ohio's *Random Verification Program* disproportionately inconvenienced the majority of law-abiding citizens who were complying with the financial responsibility law, the General Assembly in 2000 created a committee to study the feasibility of requiring insurance companies to report policy information to the BMV. However, after reviewing electronic insurance reporting programs in several states, the committee concluded that the technology was still immature and prohibitively expensive. In addition, the committee reported that most of the states that had introduced electronic insurance reporting programs had not achieved a level of compliance equal to Ohio's *Random Verification Program*.

In response to HB 278's mandate, this *Study Committee* has revisited the question of whether Ohio should implement an electronic insurance verification program, given the passage of time and improvements in technology. In doing so, the *Study Committee* took the following steps:

- ♦ Developed a survey, which was posted on the American Association of Motor Vehicle Administrators' website, to gauge other states' experience with electronic insurance reporting programs.
- ♦ Conducted detailed interviews with BMV personnel in six benchmark states that have implemented electronic insurance reporting programs. The interviews also elicited information on the public's acceptance of their programs.
- ♦ Analyzed survey data to identify best practices and determine the benefits of pursuing a database system, a web-based system or a hybrid system to electronically verify insurance data.
- ♦ Consulted insurance industry executives regarding their experiences with implementing electronic insurance reporting programs in other states.
- ♦ Viewed presentations by several vendors who operate financial responsibility reporting programs.

Members

House Bill 278 created a 12-member *Study Committee* to include

- the Department of Public Safety director or the Director's designee;
- the Superintendent of Insurance or the Superintendent's designee;
- six members appointed by the Governor;
- two members appointed by the Speaker of the House of Representatives; and
- two members appointed by the President of the Senate.

Of the members appointed by the Governor, the bill required that one representative of each of the following groups be appointed:

- an Ohio-based automobile insurance company;
- an automobile insurance agent; the Buckeye State Sheriff's Association;
- the Ohio Association of Chiefs of Police;
- the Ohio Clerk of Courts Association; and
- a representative of Ohio's municipal court judges.

The bill also required the House Speaker and Senate President to each appoint one Republican legislator and one Democratic legislator to the panel.

Following are the members of the *Financial Responsibility Study Committee*:

Ohio Department of Public Safety Director's Designee — Assistant BMV Registrar Don Petit

Ohio Department of Insurance Director's Designee — Deputy Director Jillian Froment

Senate President appointee - R — Sen. Frank LaRose

Senate President appointee - D — Sen. Edna Brown

House Speaker appointee - R — Rep. Kristina Roegner

House Speaker appointee - D — Rep. Sean O'Brien

Insurance company representative — Dan Kelso, President, Ohio Insurance Institute

Insurance agent representative — John Koetz, President, W.E. Davis Insurance

Buckeye State Sheriff's Association — Col. Chad Dennis, Licking County Sheriff's Department

Ohio Association of Chiefs of Police — Chief Bruce Pijanowski, Delaware Police Department

Ohio Clerk of Courts Association — Daniel Horrigan, Summit County Clerk of Courts

Municipal Judge — Judge Kenneth Spanagel, Parma Municipal Court



Background

DESPITE THE FACT THAT FINANCIAL RESPONSIBILITY IS COMPULSORY, A SIGNIFICANT MINORITY OF CITIZENS CHOOSE TO IGNORE THE LAW AND DRIVE WITHOUT INSURANCE.

As a consequence, the cost of their non-compliance is borne by the majority of law-abiding citizens, who pay for the irresponsibility of the minority in the form of uninsured motorist¹ premiums.

Over the years, efforts to address Ohio’s uninsured motorist rate have yielded mixed results. The state’s *Random Selection Program*, Ohio’s current solution for identifying uninsured vehicles, disproportionately targets insured drivers (96% of the drivers selected to submit proof of insurance are determined to be insured), while many Ohioans who do not have insurance are never randomly selected and continue to drive.

Although approximately 11,000 drivers are suspended annually for failing to provide proof of insurance, one of the weaknesses in Ohio’s program is that the algorithmic formula used to ensure randomness excludes for 18 months drivers whose vehicles previously have been selected. Given the likelihood that a significant percentage of offenders are likely to re-offend, excluding these vehicles from the selection group tacitly permits some offenders to drive without insurance.

House Bill 278’s mandate to study electronic insurance reporting began with the premise that an electronic insurance reporting program would more effectively target uninsured drivers. Doing so would not only reduce Ohio’s uninsured rate, but also would eliminate the inconvenience experienced by insured drivers under the *Random Selection Program*.

Although reliable data in some cases was unavailable or difficult to obtain, the *Study Committee* considered the following factors while trying to determine the feasibility of implementing an electronic insurance reporting program:

- ◆ Likelihood of reducing the number of uninsured motorists
- ◆ System reliability
- ◆ Cost-effectiveness
- ◆ Data security and integrity

The committee also sought to determine Ohio’s uninsured rate in order to compare our state with other states and to provide a basis for measuring improvement following implementation of an electronic insurance reporting program. Based on two analyses, Ohio’s uninsured rate appears to be approximately 15%.

BMV data show that there are 7.7 million drivers in Ohio, with 1.1 million of those drivers under active non-compliance (i.e., no insurance) suspensions. Calculating those 1.1 million drivers as Ohio’s uninsured population, the state’s uninsured rate is 14.3%.² Separately, the Insurance Research Council, an independent, nonprofit organization, determined Ohio’s uninsured rate to be 15.7%.³



1. It should be noted that insurance companies insure vehicles, not motorists. Therefore, the term “uninsured motorist” refers to a driver who owns an uninsured vehicle.
 2. Some drivers may have procured insurance even though they remain under a non-compliance suspension. This would effectively reduce Ohio’s uninsured rate to less than 14.3%.
 3. The Insurance Research Council’s calculation is based on the ratio of the frequency of uninsured motorist insurance claims vs. the frequency of bodily injury claims. Uninsured motorist claims are filed by people injured in accidents caused by uninsured drivers. Bodily injury claims are filed by people injured in accidents caused by insured drivers.

Previous Studies

THE OHIO GENERAL ASSEMBLY HAS TRIED IN PRIOR YEARS TO DETERMINE THE BEST METHOD OF ENFORCING AND MONITORING OHIO’S SIX-DECADE-OLD FINANCIAL RESPONSIBILITY LAW.

- In 1995, Senate Bill 20 mandated that proof of financial responsibility should be provided whenever a police officer issues a traffic citation; at all vehicle-inspection stops; at all traffic court appearances; after every motor vehicle crash; and via random checks by the BMV. The bill also created the *Task Force on the Enforcement of the Financial Responsibility Laws of Ohio* to research the best methods of administering the financial responsibility law and verifying proof of insurance.
- In 1998, the BMV launched its *Random Selection Program*. The program, still in effect today, requires drivers whose vehicles are selected by computer at random to provide either proof of insurance for a specific date or documentation showing that their vehicles should be exempted from the program. If they do not submit acceptable documentation, their driving and registration privileges are suspended.
- In 2001, House Bill 163 attempted to alleviate the inconvenience to which the *Random Selection Program* subjected law-abiding citizens by establishing a *Financial Responsibility Study Committee* to analyze the program and ensure that citizens’ driving privileges were not being suspended unfairly. As a result, several modifications were made to the random selection process. These included requirements that the BMV compare addresses in its databases to ensure that notices were being mailed to drivers’ most recent addresses; that the BMV send letters of acknowledgment after receiving proof of financial responsibility; and that the BMV send out an additional notice of suspension before suspending a citizen’s driving privileges.
- Before these changes to the *Random Selection Program* could be measured, House Bill 600 was passed. It created another *Financial Responsibility Study Committee* whose charge was to study “the feasibility of requiring insurance companies issuing motor vehicle liability insurance policies in Ohio to report certain policy information to the Registrar of Motor Vehicles.”

AFTER HOLDING SIX MEETINGS DURING THE FIRST HALF OF 2001, THE STUDY COMMITTEE ISSUED THE FOLLOWING FINDINGS:

- ♦ **Electronic insurance reporting programs were expensive in relation to the benefit they provided.**
- ♦ **The programs required extensive coordination of data-matching between the insurance industry and the BMV, giving rise to numerous inaccuracies.**
- ♦ **Many states with electronic insurance reporting programs had uninsured rates that were no better, and in some cases worse, than Ohio’s uninsured rate.**

Ohio's Random Selection Program

The *Random Selection Program* was implemented by the BMV on December 7, 1998, in accordance with Ohio Revised Code Section 4509.101. Under the program, drivers whose vehicles are selected by a computer at random must provide proof of insurance for a specific date or documentation showing that their vehicles should be exempted. Examples of acceptable exemptions are inoperable vehicles, seasonal vehicles, vehicles owned by military personnel and stored vehicles. If drivers do not submit acceptable documentation, their driving and registration privileges are suspended.

Approximately 280,000 Ohio drivers a year are randomly selected for insurance verification. Of those, about 4% (11,000) are suspended for failure to provide proof of insurance. The annual program cost of this effort is \$550,000.⁴ Although the Random Selection Program has undoubtedly induced more drivers to comply with Ohio's financial responsibility law out of fear of being randomly selected, the program has not kept up with technology and has become a victim of its own success.

Random Selection Program
<\$600,000
 ANNUAL PROGRAM COST

Additional details on the *Random Selection Program*, including a Flow Chart and Data Tables, can be found in the section tabbed "Random Selection."

Legislative Questions

House Bill 278 mandated that the *Financial Responsibility Study Committee* examine the following questions:

- Whether insurers should be required to report all new motor vehicle liability insurance renewals, cancellations or lapses to the Registrar and, if so, the time within which the report should be made.
- Whether insurers should be required to report the issuance of new motor vehicle policies to the Registrar and, if so, the time within which the report should be made.
- The impact of such required reporting on the costs incurred by the insurance industry and the potential for increased insurance premiums.
- The form and content of any recommended reports.
- Whether the Director of Public Safety, the Superintendent of Insurance or the Registrar should be required or authorized to adopt rules under chapters 111 or 119 of the Revised Code to implement any recommended reporting requirements.
- What sanctions should be imposed for any failure by an insurer to timely file any required report?
- What uses should be made of the reported information, including whether the information should be excluded from the public records provisions of Section 149.43 of the Revised Code?
- What notice, if any, should be provided to the person whose insurance has been reported lapsed or canceled?
- Whether the insurer should be granted immunity from civil liability for failure to make a report.
- Any other related issues the Registrar or the members of the Study Committee consider relevant.

THE FINANCIAL RESPONSIBILITY STUDY COMMITTEE STROVE TO COMPLY WITH THE GENERAL ASSEMBLY'S INSTRUCTIONS TO ADDRESS EACH OF THESE QUESTIONS. ANSWERS TO MANY OF THEM ARE CONTAINED IN THE BODY OF THIS REPORT. SOME OF THE QUESTIONS MERIT FURTHER STUDY OR PRESUMED THAT OHIO WOULD EMBRACE A CERTAIN TYPE OF ELECTRONIC INSURANCE REPORTING SYSTEM THAT THE COMMITTEE IS NOT PREPARED TO ENDORSE.

4. Due to postage increases, the renewal of the contract for the next fiscal year will cost the BMV \$597,064.

Between June 2013 and November 2013, the *Study Committee* held six monthly meetings. The meetings allowed the committee to hear formal presentations by experts in the insurance field, to discuss key issues and solutions related to the implementation of an electronic insurance reporting program in Ohio, and to examine best practices in other states that already have implemented electronic programs.

Following are summaries of the six meetings. Meeting minutes and handouts may be found in the “Meeting Notes” tab of this report.

MEETING 1: JUNE 12, 2013

- The committee reviewed modifications to Ohio’s financial responsibility law over the years and the state’s efforts to reduce the incidence of uninsured driving. The review included prior reports by the BMV in 1997 (see tab “1997 Task Force”) and 2001 (see tab “FR Report 2001”).
- The committee also compiled a list of survey questions to gauge other states’ experience with electronic insurance reporting programs.⁵
- In addition, the committee discussed Ohio’s *Random Selection Program*, reviewed program statistics and discussed whether the program has helped reduce Ohio’s uninsured rate (see tab “Random Selection”).
- A proposal was made to implement an electronic insurance reporting program in which proof of insurance would be presented at Deputy Registrar agencies at the time of driver license or registration renewal.

JULY 10, 2013

- Statistical data from the BMV’s *Random Selection Program* were further discussed. The committee was told that 96% of the drivers randomly selected were found to have insurance; the other 4% were not.
- In addition, the results of the survey placed on the American Association of Motor Vehicle Administrators’ Website were presented via PowerPoint (see tab “AAMVA Survey 07/10/13”).
- Committee members asked the BMV to request more detailed information from six states with electronic insurance reporting programs that responded to the survey: Alabama, California, New York, South Carolina, Utah and Virginia.
- George Cooper, underwriting manager for State Farm Insurance Company, discussed the challenges of electronic insurance reporting programs to the insurance industry; the implementation and operational costs to consumers, insurance companies and the BMV; and the accuracy of the data.
- The BMV was asked to gather more information on costs and data-accuracy problems (see tab “State Farm”).

MEETING 3: AUGUST 14, 2013

- The BMV presented the results of an in-depth survey of electronic insurance reporting programs operated in Alabama, California, New York, South Carolina, Utah and Virginia (see tab “AAMVA Update 9/11/13”).
- The committee also conducted a conference call with representatives from the states of Virginia, New York and California ask more detailed questions and to assess the successes and drawbacks of their programs.
- Representatives from the Professional Independent Agents Association of Ohio, a trade association representing independent insurance agents, cited several examples in which states’ uninsured rates dropped after they implemented electronic insurance reporting programs.

MEETING 4: SEPTEMBER 11, 2013

Three electronic insurance reporting program vendors were asked to provide presentations.

- Validati, a division of PASCO, presented information on three types of insurance verification programs it operates – random verification; a database book-of-business system in which insurers are required to submit insurance coverage information to a centralized database; and a web-based system that monitors compliance on an event basis and transfers the burden to the data user instead of the insurers. PASCO is Ohio’s current *Random Verification Program* vendor.
- VeriSol presented an online real-time vehicle insurance verification process that it debuted three years ago as part of a pilot program with the Insurance Industry Committee on Motor Vehicle Administration. The system routes a verification request to the last insurer of record in a pointer file, which responds immediately with a “confirmed” or “unconfirmed” result. The system then continues to verify with other insurers to obtain a definitive “confirmed” or “unconfirmed” result.
- InsureNet operates a web-based system that claims to be the only instant insurance status verification system in the world. It is hosted by NLETS, the National Law Enforcement Telecommunications System. However, at this time, InsureNet has no state clients and the firm declined to provide a copy of its presentation.

MEETING 5: OCTOBER 9, 2013

- Representative Roegner presented House Bill 71 to committee members.
- The bill would eliminate the BMV’s *Random Selection Program* and replace it with an electronic insurance reporting program. The bill would require insurers that write vehicle liability policies in Ohio to provide specified policy information to the BMV within five business days after the date that a policy has been issued, canceled or has lapsed (see tab “HB-71,” including Representative Roegner’s sponsor testimony).

MEETING 6: NOVEMBER 13, 2013

- The committee reviewed and discussed House Bill 278.
- Topics of discussion included:
 - whether insurers should be required to report all motor vehicle liability insurance renewals, lapses, cancellations and new policies to the BMV;
 - the effect this provision would have on insurers, customers and law enforcement; and
 - the cost of implementing such a requirement.
- The committee also reviewed all of the interviews and information that had been collected since June to form the basis for its findings and recommendations.

5. The survey subsequently was posted on the American Association of Motor Vehicle Administrators survey site (see tab “AAMVA Survey 7/10/13”).

The committee drafted a series of questions to gauge other states' experiences with electronic insurance reporting programs. The survey, posted on the American Association of Motor Vehicle Administrators (AAMVA) survey site, was supplemented by data from two other recent AAMVA surveys.

When the AAMVA survey was initially designed, the Study Committee was unaware of the different types of electronic insurance reporting programs. Survey responses and other research conducted by the committee identified three methodologies of electronic reporting that states use to verify drivers' insurance coverage:

- Database systems – These systems rely on Book of Business (BoB) data transfers from insurance companies to the BMV. This is usually done monthly. Every insurance company authorized to write policies in a given state submits its entire book of insurance policy information. States then use the data to identify drivers and/or vehicles that were insured at one time but are no longer insured. In most cases, database systems provide real-time access.
- Web-based systems – These systems allow the BMV or law enforcement agencies to directly query insurance companies' databases. This approach provides improved data accuracy because it reflects documented insurance policy information at the time an inquiry is made. Web-based systems provide real-time data.
- Hybrid systems – These systems offers elements of database systems and web-based systems, as well as other functionality such as alternative reporting requirements for smaller companies. A state's primary method for verifying insurance may be through a web-based system, but it might continue to collect book of business data on a weekly or monthly basis as a backup data source.

It should be noted that, due to the problems inherent in reporting policy information on commercial vehicles, some states exclude them from their electronic verification reporting. Commercial vehicles may not be registered in the same manner as non-commercial vehicles. For example, commercial vehicles do not use personal identifiers such as name and address. This causes matching errors. The inability to match registration information to commercial vehicle insurance policy information results in undue hardships for customers. Additionally, commercial businesses typically own large fleets of vehicles and buy high limits of insurance to protect their assets. Also, as a rule, commercial clients are less likely to allow their employees to drive uninsured. Finally, the complexity of tracking the multi-state operations of many commercial customers makes it extremely difficult to accurately report this unique customer data.⁶

6. For example, ABC Insurance Company insures XYZ Corporation, which has operations throughout the United States. ABC insures 186,000 XYZ vehicles under a single commercial fleet policy. XYZ rotates up to 6,000 vehicles on and off the policy on a weekly basis. This activity, which is typical of a Fortune 1000 company with multi-state operations, makes insurance reporting an onerous task for commercial insurers.

Following are the survey’s questions, along with summaries of the responses (see tab “AAMVA Survey 7/10/13”):

1.) Does your state have an Electronic Insurance Verification Program (EIVP)? If so, when was it implemented?

Sixty-five percent of the reporting states (26 of 40) have implemented electronic insurance reporting programs. Two states are in the process of developing programs and were not counted in this total. Twelve states reported their implementation dates. The dates of implementation range from 1994 to 2004.

2.) If yes, was this program developed “in house” or with assistance from a third-party vendor? If a third-party vendor, who is the vendor?

Seventeen of 28 states (61%) developed their electronic insurance reporting programs in-house. Eleven states used a third-party vendor. While there is no clear trend on preferred vendors, MV Solutions, VeriSol, Validati and Insure-Rite Inc. all were listed twice. Additionally, two states (Alabama and Nevada) developed their in-house systems using the Insurance Industry Committee on Motor Vehicle Administration model.⁷

STATES THAT USED A VENDOR TO DEVELOP THEIR ELECTRONIC INSURANCE REPORTING SYSTEMS	
STATE CUSTOMERS	THIRD-PARTY VENDOR
California, New Mexico	PASCO, dba Validati
Colorado	NIC
D.C., Wyoming	VeriSol
Maryland	MS Technologies Corp.
Montana, South Carolina	MV Solutions
Utah	Insure-Rite Inc.
West Virginia	Insure-Rite Inc. and HDI Solutions
Rhode Island	Looking for vendor via RFP process

3.) Is your EIVP updated in real time?

Only 36% of states (4 of 11) update their electronic insurance reporting programs in real time. This question was difficult to measure because states differentiate between updating insurance information in real time and having the ability to perform a real-time query.

This issue introduced the committee to the concepts of real-time access versus real-time data. Real-time access allows a law enforcement officer or BMV employee to query an electronic insurance reporting program and receive an immediate response. However, the information returned is only as good as the information in the database. Because policy information provided by an insurance company can easily be 30 to 60 days old, real-time access would reflect the dated information. In contrast, real-time data provides the most current policy information at the time an inquiry is made.

4.) How many vehicles (and what percentage of vehicles) are checked per month under your electronic insurance verification system?

The number of vehicles verified each month varies from state to state, as does the number of vehicles each state registers. However, when you consider the percentage of vehicles checked each month, there is a trend. Five states check 100% of their registered vehicles every month.⁸ Two states check 50% or more of their vehicles per month.

7. California’s program was developed and is administered in-house. Online verification is provided by California’s vendor, Validati.

8. This means 100% of the vehicles subject to verification or 100% of the vehicles that were registered each month.

5.) What is your current percentage of uninsured vehicles? Also, what was your uninsured rate prior to implementing an EIVP?

The survey provided limited data in response to this question. Officials in many of the surveyed states didn't know their uninsured rates. Of the six states that were able to provide uninsured-rate data both pre- and post-implementation, two states (Nebraska and Oregon) reported that the uninsured rate did not change, while four states reported an improved uninsured rate (New York, South Carolina, Utah and Virginia). The states that showed an improvement reported decreases ranging from 6% to 20%.

The start year of the electronic insurance reporting program did not seem to have a bearing on the effectiveness of a state's program. There is some correlation between how often a state verifies insurance and its overall improvement rate. For example, states that continuously monitor vehicle insurance or verify insurance at registration and at cancellation show the most improvement in decreasing their uninsured rates.

UNINSURED VEHICLE RATES PRE / POST ELECTRONIC INSURANCE VERIFICATION IMPLEMENTATION				
STATE	CURRENT UNINSURED RATE	UNINSURED RATE PRIOR TO EIVP	EIVP START YEAR	VERIFICATION
Alabama	22%	Unknown	2013	400,000 vehicles monthly (over 4.8M so far this year)
Missouri	Unknown	7 - 10%	1990	Verifies insurance at vehicle registration
Nebraska	8%	8%	2004	Verifies insurance at vehicle registration and during traffic stops
New York	2%	11%	2000	10.2M vehicles continuously monitored (87.2% of all vehicles registered)
Oregon	10%	10%	1995	Approximately 2,840 vehicles show as 'canceled' or 'no insurance on file.' Less than 2%
South Carolina	8%	28%	2004	Vehicles are checked at registration renewal, traffic stops and cancellations
Utah	3%	21%	1995	100% are verified twice a month
Virginia	8%	14%	1996	1 million: Checks newly registered vehicles and cancellations

6.) What is the monthly cost of operating your EIVP?

The committee obtained limited data on this question, but there appears to be a slight correlation between cost and a state’s uninsured rate. States that improved their uninsured rates (New York, South Carolina, Utah and Virginia) spend between \$50,000 and \$160,000 a month. States with the lowest costs – Missouri (\$2,164 per month) and Nebraska (negligible) – did not report an improvement. Because Alabama recently implemented its electronic insurance reporting program (at a cost of \$30,000 a month), it is too early to measure change in its uninsured rate.⁹

7.) At what point is a customer's insurance verified? (Please indicate all that apply)

- a.) At vehicle registration
- b.) Upon notification that a customer’s insurance has been canceled
- c.) During a traffic stop
- d.) At any time (real-time verification)

Of the 25 responses to this question, 16 (64%) answered “a,” 11 (44%) answered “b,” 16 (64%) answered “c,” and four (16%) answered “d.” The table below illustrates the data from the four states that reported decreases in their uninsured rates after implementing an electronic insurance program.

When is a customer’s insurance verified?				
STATE	REGISTRATION	CANCELLATION	TRAFFIC STOP	ANY TIME
New York	●	●	●	
South Carolina	●	●	●	
Utah			●	●
Virginia	●	●	●	

9. In comparison, Ohio spends about \$46,000 a month to operate its Random Selection Program.

8.) Are insurance companies required by law to report new policies, renewals, cancellations and lapses of coverage? If so, what is the reporting timeframe?

There were 13 responses to this question. Eighty-five percent (11) require this reporting. It is important to note that states require different reporting timeframes, depending on the transaction type. For example, a state might require new policies to be reported within 15 days while a cancellation has a 30-day reporting period.

STATE(s)	TIMEFRAME
Maryland	Immediate
New York (new policies)	Weekly
Florida	10 days
Louisiana, Nebraska (3rd & 13th), Oregon (new policies), Utah (7th & 21st)	Twice monthly
California (registration date), Missouri, New York (cancellations), Oregon (cancellations), Virginia	Monthly
California (cancellations)	45 Days

8.a.) Are there penalties for insurance companies that fail to report changes to a customer’s policy in a timely manner?

Eleven states said insurance companies must report vehicle insurance policy information, but only five (out of 10) responding states indicated that they enforce those mandates. Officials in several states that do not have penalty statutes recommended that Ohio impose fines for failure to report timely insurance data. Their experience was that, without “teeth,” any electronic insurance reporting program that Ohio might implement would not see the desired results.¹⁰ Finally, states that penalize insurers for failing to report policy information have assigned this enforcement responsibility to state insurance departments instead of departments of motor vehicles.

STATE(s)	RESPONSE
Florida, Nebraska, New York, Rhode Island, Utah	Yes
Missouri, Oregon, South Carolina, Virginia ¹¹	No
Maryland	No response

10. Failure-to-report penalties would only apply to database systems. Web-based systems would not experience this problem.

11. Legislation is being drafted, and is expected to be presented during the 2014 Virginia General Assembly session, to assess a monetary fine for non-compliance.

8.b.) By law, what notice is sent to customers from either the insurance companies or the department of motor vehicles to notify them that their insurance has been reported lapsed or canceled?

Eight states responded to this question. Of that group, most require that the BMV send a letter to the customer. The number of notifications varies from one to three letters, along with a notice-of-suspension letter. Additionally, the states mail notification letters at different intervals, varying from 15 days to 60 days apart. Two states require the insurance company (in lieu of, or in addition to, the BMV) to send a notice of cancellation to the customer.

Notifications are used in different manners. While some states send notices to the customer after receiving data from an insurer that the customer's policy was canceled, other states allow the customer to register his vehicle without proof of insurance and only send a notice if insurance information is not reported within 60 days of registration. Some states also are required to offer administrative hearings to customers before they can take final action for failure to provide proof of insurance.

9.) What is your process for addressing customer issues when a change in insurance has not been reported timely on the customer's behalf?

Officials in three of eight states indicated that they have an online process for customers to submit proof of insurance. Louisiana allows customers to submit paper verification of insurance to the BMV. In contrast, Nebraska refers complainants to its Department of Insurance, which can assess fines against insurance companies. Data-matching problems can make it appear that an insurance company is not responding timely on a customer's behalf. For example,

California indicated that most late-reporting issues result from incorrect VINs on the insurance or registration records. California's notice-of-intent and notice-of-suspension letters advise customers to compare the VIN on the insurance policy against the VIN on the registration documents for errors.¹² Virginia stated that if a late-reporting trend is identified with a particular insurance provider, the state contacts the company to resolve the issue. In contrast, Oregon places the burden on customers, advising them to contact the insurance company if their insurance information is inaccurate.

10.) What mechanisms do you employ to enforce vehicle registration suspensions resulting from a lapse in insurance? For example, confiscating license plates or immobilizing automobiles with wheel boots.

Eight of twelve states (67%) seize license plates, three states impound vehicles, two states suspend driver licenses, and two states do not take further action after registration suspension.¹³

11.) Are insurance records provided by insurance companies shielded from public records requests?

There were 13 responses to this question. Of those, six (46%) responded that they do shield these records from discovery via public records requests and seven states (54%) said they do not. There were two qualified answers among the states that answered "no." Louisiana and Nebraska permit law enforcement agencies and insurance companies to submit public records requests.



12. VeriSol, one of the electronic insurance verification vendors whose system the committee viewed, demonstrated a product that addresses these data-matching issues, even if the VIN is a digit off.

13. Louisiana and Rhode Island seize plates and impound vehicles. Ohio seizes plates and suspends driver licenses.

Committee members asked the BMV to request detailed information from six states with electronic insurance reporting programs – Alabama, California, New York, South Carolina, Utah and Virginia. These states were chosen as benchmarks for several reasons. Alabama was selected because the state had recently implemented its system. California was chosen because, in addition to its electronic verification program, the state offers online verification, which allows customers to submit proof of insurance electronically. California also has a random selection process for commercial vehicles that are otherwise exempt from the electronic certification process. Finally, New York, South Carolina, Utah and Virginia were selected because they all demonstrated a significant decrease in their uninsured motorist rates after implementing electronic insurance reporting programs (see tab “Six States: Detailed Data”).

Following phone interviews by a committee researcher, the committee held conference calls with representatives from three states – California, New York and Virginia. Following are summaries of those discussions:

CALIFORNIA	NEW YORK	VIRGINIA
DATABASE		
California operates a database system that the state has administered in-house since its inception in 1998. State officials report that the system was well-received by the public because customers no longer had to produce proof of insurance to renew a vehicle registration and because the system allowed them to renew their registration online.	New York operates a database system that has information on more than 34 million vehicles. New York has discussed migrating to a web-based system, but the DMV has decided that building a new system would be prohibitively expensive.	Virginia has operated an electronic insurance reporting database system since 1997, but the state aspires to launch a web-based system in the future.
INSURANCE VERIFICATION		
Since 2009, California also has offered online insurance verification under a vendor contract. A customer typically uses online verification after receiving a letter from the DMV, advising him that the agency does not have proof of insurance and that his registration is in jeopardy of being suspended. Once an inquiry is sent to the insurance company via the online verification system, the policy is either confirmed or unconfirmed. If the latter, the customer is asked to email proof of insurance to the DMV.	Some insurers employ a vendor to transmit policy information to New York’s database. All companies that report information to the database are required to go through certification testing before they can do so. As an added layer of protection, New York requires customers to present an insurance card with a scannable 2D barcode at the time of vehicle registration. The barcode contains updated ID and insurance information.	Insurance companies have 60 days to verify a customer’s insurance. Virginia does not assess penalties against insurers for failing to report policy information, but the state recommends that Ohio should consider doing so if it implements an electronic insurance reporting system.
CUSTOMER SERVICE/COMMUNICATION		REVENUE
Insurance companies are required to report policy information to the database system, while online verification remains voluntary for insurers.	New York requires insurers to provide two contacts for the DMV. In turn, the DMV offers a dedicated email inbox for insurers. The DMV also maintains a website for its industry partners, which it uses to communicate system updates, maintenance outages or changes in reporting.	Previously, the state operated a random verification system much like Ohio’s. Under that system, Virginia collected \$3.5 million in reinstatement fees; under the current system, the state collects \$12.5 million in reinstatement fees. Virginia also advises that Ohio should not demand too much information from insurers (such as premium rates) because some insurers balk at providing such information to a public agency due to privacy issues.

Fifteen years after its debut, Ohio's *Random Selection Program* has outlived its usefulness. It punishes responsible citizens by requiring them to provide proof of insurance within 21 days or face a license suspension. In addition, many drivers who lack insurance coverage are

never among the 5% of Ohio drivers who are randomly selected for compliance, and so they continue to drive uninsured.

Technological advances make the implementation of an electronic insurance reporting program a promising venture.

Systems being successfully operated by other states include database book of business systems, web-based systems or hybrids of the two.

The committee's analysis of the pros and cons of the two primary systems are as follows:

DATABASE SYSTEM

PROS

- Decrease the opportunity for fraud and "gaming" the system by rendering ineffective the use of fraudulent or altered insurance cards and the cancellation of insurance policies following registration.
- Accuracy. The potential for error rates can be reduced by increasing the number of identifiers used for comparison, including vehicle identification number (VIN), policy number, driver license number, etc.

CONS

- Generation of false negatives. These systems are prone to errors associated with combining insurance company databases and motor vehicle registration information. This can be due to differences in database elements and formats, as well as data fields that were incorrectly entered (for example, a VIN may be off by one digit). Data-matching errors can cause insured motorists to be mistakenly identified as being uninsured. In turn, customers may be inconvenienced by being forced to spend their time correcting errors that are not within their control.
- Insurance industry costs. Insurers are responsible for the development, implementation, maintenance and connectivity of data transfers and corrections.
- The systems are costly for states, insurers and consumers.
- Data security and the ramifications to the state when a security breach occurs.
- Data accuracy. Data becomes increasingly outdated between reporting intervals.

WEB-BASED SYSTEM

- The confidentiality of insurance information is protected within the confines of each carrier's IT environment. Only designated, legally authorized employees have access. The information to be provided is limited and state-of-the-art technological safeguards, including the latest methods of encryption, are utilized.
- The matching limitations and data-integrity issues of current state reporting programs are minimized.
- Customer service is improved because primary search criteria are based on the business rules of each company.
- 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.
- Downtime. Insurers' databases require updating. A web-based query will not receive a response if an insurer's database is down for maintenance. In order to mitigate this issue, states must require insurers to report downtime, have a back-up method to verify insurance such as dated book of business information and/or offer flexibility as to how long a customer has to prove financial responsibility.
- Insurance industry overhead. Although costs for web-based systems are lower than for database systems, every insurance company is responsible for maintaining customer data, along with a web portal or service through which online insurance verification can take place. Small insurance companies may not have sufficient IT resources to support 24/7 access.
- Most web-based systems are solely event-based.
- Web-based insurance verification is a newer technology. Only five states have implemented a web-based model.¹⁴

¹⁴ The five states using a web-based insurance verification system are Alabama, Montana, Nevada, South Carolina and Utah (law enforcement only).



FINANCIAL RESPONSIBILITY STUDY COMMITTEE

Report Recommendations

AFTER AN EXTENSIVE REVIEW OF ALL OF THE RESEARCH AND INTERVIEWS CONDUCTED BY THE COMMITTEE, WE MAKE THE FOLLOWING RECOMMENDATIONS:

1. Eliminate the *Random Selection Program*. The program targets likely insured drivers and results in unnecessary inconvenience and complaints. Because 96% of the drivers selected to submit proof of insurance to the BMV are actually insured, the program simply annoys them. Random selection should be replaced **or phased out** with an insurance-verification process that can provide measurable results.
2. Utilize new technology. Electronic insurance verification is the logical choice to replace random selection because it provides more timely and accurate access to a customer's insurance information. States with successful electronic insurance verification programs report reductions in their uninsured rates ranging from 6% to 20%.
3. **All information or data collected or generated by an electronic insurance verification program should enjoy legal protections that are consistent with current Ohio laws.**
4. Permit flexibility in defining electronic insurance reporting program specifications.
 - The **departments of Public Safety and Insurance** should have wide latitude to develop the system requirements and determine whether the new system should be developed in-house or with a third-party vendor.
 - The committee proposes that all stakeholders should participate in a system-requirement gathering session in order to reach a consensus on the specifications for the new system.

