Final Report To The General Assembly On the Uninsured Motorist Advisory Committee
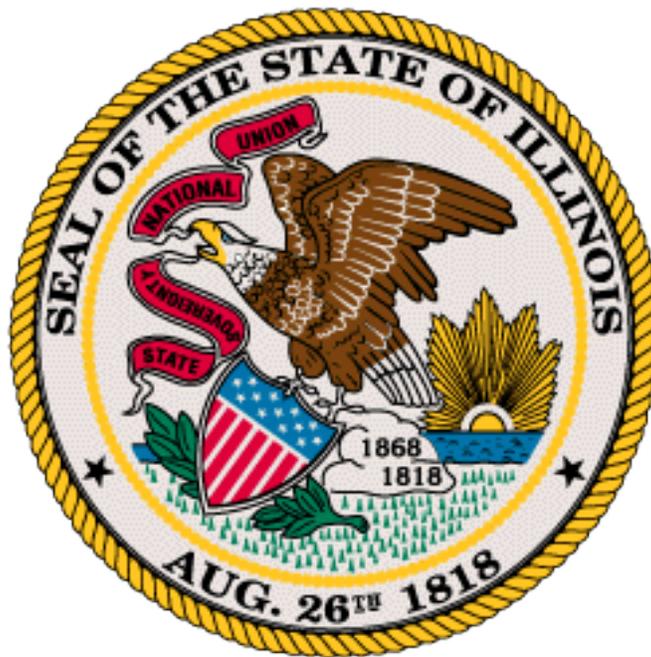
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IL Secretary of State
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Final Report of the Uninsured Motorist
Verification Advisory Committee

The Uninsured Motorist Verification Advisory Committee was established by Public Act 98-787. (See Appendix A.) The Advisory Committee is to report to the General Assembly recommendations for: (1) the design and funding of a program for the electronic verification of motor vehicle liability insurance policies issued and in effect in the State; and (2) legislation to implement the program. Based on legislation adopted pursuant to the recommendations of the Advisory Committee, the Secretary is to adopt rules to implement a program for the electronic verification of motor vehicle liability insurance. P.A. 98-787 also sets forth the minimum requirements for the electronic verification program.

Overview of Advisory Committee's Activities

The initial meetings of the Advisory Committee were held on September 30, 2014, October 28, 2014, February 5, 2015, August 11, 2015, August 12, 2015 and September 22, 2015. At those meetings, presentations were received from state government officials in New York, Alabama, and Nevada and from representatives of the insurance industry regarding various models for enhancing the Secretary of State's current verification program of motor vehicle liability insurance. These models included systems developed internally by state agencies and a state university, as well as systems provided by commercial vendors. Under these various systems, insurance companies either verify evidence of insurance through direct inquiries made by authorized parties, transmit electronic files of policy information to either government agencies or to state authorized third parties, or utilize a combination of the two methods.

Based on these presentations and internal discussions, the committee issued a preliminary report to the General Assembly on February 27, 2015. This preliminary report recommended the following:

- The Secretary of State use the services of a third-party vendor to act as intermediary between insurance companies and the Secretary for purposes of creating and maintaining an electronic mandatory insurance verification system.

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- The Secretary issue a Request for Information (RFI) from potential vendors. The report also set forth the issues that vendors responding to the RFI should be required to address.
- The report noted that the statutory authority for the insurance verification method currently utilized by the Secretary of State was scheduled to be repealed on December 31, 2015. In order to allow adequate time for the committee to complete its work, it was recommended that the repeal date be extended.

Pursuant to the committee's recommendations, the Secretary issued an RFI, and received responses from four qualified vendors. On August 11 and 12, 2015, the committee met with these vendors and observed their presentations regarding automated insurance verification programs. On September 22, 2015, the committee met to discuss the presentations. Below is a list of the vendors and a summary of their presentations:

Validati

Validati has experience in California, Ohio and New Mexico and has a variety of models that a state can pursue. In California, Validati created and ran a program for the initial 5 years and then California took full control of the system, whereas in New Mexico Validati is the primary entity in charge of the verification program. Validati recommends a system that combines a book of business reporting method in conjunction with a web service-event driven/query database program to establish a successful program. Validati estimates an implementation time of approximately 9 months and would require a minimum of 4 data points, VIN, NAIC, Policy #, and Effective date of policy, to verify and match an insurance policy to a particular vehicle.

MV Solutions

MV Solutions has been in the insurance verification business since 2006 and is presently verifying insurance in Connecticut, Washington, D.C., Montana, South Carolina, Rhode Island, Wyoming, and potentially Louisiana. MV Solutions presents an established software program that is modified based on the particular state's existing laws. MV Solutions relies on a business to business approach to verifying insurance. Approximately 80% of all requests for verification are verified on the initial query to the

insurance company on file and the approximately 20% remaining verification requests are sent to all insurance companies in order to verify the policy. MV Solutions can use a series of algorithms to narrow the possibilities in case a vehicle is returned as unmatched prior to sending an inquiry directly to the vehicle owner. MV Solutions does not recommend verifying insurance at the point of registration or at registration renewal and recommends instead a 30 day waiting period to ensure all entities have uploaded the required information for a verification check.

CAPS

The Center for Advanced Public Safety at the University of Alabama (CAPS) is a division of the University's College of Engineering/Computer Science department. CAPS is a not-for-profit entity that currently operates in Alabama. CAPS operates the verification program in a batch program where approximately 1.5 million vehicles are verified on a nightly basis. Approximately 90% of the queries are returned within approximately 0.5 seconds. The approximate 10% that are not verified are to be followed up via a mailer to the vehicle owner. However, due to staffing constraints only 5,000 mailers are sent out per week, although there is the potential to send out 20,000 a week. CAPS also requires a minimum of 4 data points to verify a vehicle's insurance; VIN, NAIC, Policy #, and Effective date of policy. CAPS also would provide online training for law enforcement and recommends a PR campaign be included.

HDI Solutions

HDI Solutions has a presence in Texas and West Virginia. HDI Solutions incorporates a book of business model and a web service system that results in an interfacing system combining the aspects of administration, registration, court, and law enforcement systems. Data provided by the state is queried against data stored in an HDI Solutions database and is matched on average within 10.5 milliseconds in either a one-to-one comparison or in a batch verification system. Queries that are rejected or unmatched are separated and sent to the insurer who either corrects the query and resubmits the data or the insurer confirms the rejection. HDI Solutions can incorporate a customer call center,

an interactive voice response system, mail response, constituent website service, and/or fax response capabilities. In addition, HDI Solutions offers a mobile application option.

<u>Analysis</u>

Based on its research, presentations by representatives of the insurance industry, the vendor presentations, and further discussions and consideration, the committee makes the following analysis of the various programs offered on the market today.

There are four basic models for electronic verification of motor vehicle liability insurance. One verifies coverage against a database of insurance policy information collected from insurers, the second utilizes web services for instantaneous verification of coverage directly with the insurer, the third utilizes both methodologies, and the fourth is a random-sampling method.

Of the approximately 35 states that operate insurance verification programs, approximately 21 operate a traditional database, approximately 11-utilize web services to verify insurance coverage and three states use a hybrid approach. Illinois currently employs a random-sampling insurance verification process.

Database Model

The database model involves the collection of policy data from insurers on a periodic (typically monthly) basis by a jurisdiction, which then matches that information against its vehicle registration database to identify uninsured motorists.

Under the database or batch processing model type of program, each insurance company authorized to do business in the state would provide the administrator of the insurance verification program with its "book of business" on a regular basis, such as once a month. This book of business consists of information regarding all vehicles covered by insurance policies issued by that company at the time the book of business is provided. Under this system, SOS can verify the insurance status of all registered vehicles within the state multiple times throughout the

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year. The queries would be checked against the administrator's database of all insurance companies' books of business. These queries are not insurance company specific; therefore the administrator does not need to know which company to query for a particular vehicle unlike with the web services model. Also, even if a vehicle owner has changed companies since the last time that vehicle was checked, the query should verify insurance with the new company.

As previously mentioned, a majority of jurisdictions that operate verification programs use a database verification program.

Web Services Verification

Web services verification involves sending a query directly to an insurer to verify insurance coverage, either as the result of a particular event (i.e., traffic stop, vehicle registration) and/or on a scheduled basis.

The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) developed the leading model for real time or web services verification. The IICMVA model[1] relies on web based inquiries sent directly to insurance companies to verify evidence of insurance. As noted before, the system verifies insurance coverage directly with insurers, either at the occurrence of a particular event (i.e., vehicle registration, traffic stop or crash), pursuant to a predetermined recurring schedule, or some combination thereof. Under this model:

- 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.

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[1] Information regarding the IICMVA model is primarily taken from the IICMVA publications: "Making the Case for Using Web Services to Verify Evidence of Auto Liability Insurance",
http://www.iicmva.com/White%20Paper%202.0.pdf;
and "The Road To Online Insurance Verification", http://www.iicmva.com/OLV%20Source.pdf.

- Valid verification inquiries are made using unique key information to route a request to the appropriate carrier for a response.

- The information exchanged via web services is limited to only those items needed to accurately route the request and confirm evidence of insurance, keeping privacy concerns to a minimum. Insurers may also provide periodic book of business reports to a jurisdiction as previously described in order for the system to populate those fields with the required information.

Confirmation of evidence of auto liability insurance, or lack thereof, is sent back to the requesting entity essentially instantly for appropriate action.

Hybrid

A hybrid system is a database or batch processing model that includes a web based communication link between the administrator and each insurance company authorized to do business in this state. Two variations exist: (1) Inquiries are initially checked against a database of vehicle registration and policy information maintained by the state or its designated agent and, if a record is not found, a follow-up inquiry can be made to specific or all insurance companies to see if a policy has been issued since the last time its book of business was sent to the administrator or (2) Real-time queries are sent to the insurance company, utilizing insurance company data files to first identify which insurance company to send the query.

A shortcoming of all methodologies is that to greater or lesser extent, they all rely upon on stale data to verify coverage, which decreases their accuracy. Even with a web services component, the system still relies on information contained in a database in order to either verify coverage or to identify the current carrier of record. Because databases necessarily contain dated data, it is entirely possible that a coverage inquiry may be confirmed for a policy that has subsequently been cancelled. But because the coverage has not yet been updated in the database, a web services inquiry is never made.

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Random Sampling

Currently, Illinois employs a random sampling method to verify insurance. Under Section 7-604 of the Illinois Vehicle Code, the Secretary of State may select random samples of registrations to verify whether or not the motor vehicle is insured. A postcard is sent to the registrant and is responsible for completing the requested information and returning the information to the Secretary within 30 days affirming the information in the response is true and correct. The Secretary of State then verifies the information; if the information is unsubstantiated or no response is received, then the registrant is found in violation of the Illinois Vehicle Code and the Secretary may suspend the motor vehicle registration until the owner provides proof of insurance and pays a reinstatement fee of $100 for the first violation.

Conclusion

The committee has spent a considerable amount of time discussing the pros and cons of the four basic methods of verifying liability insurance for motor vehicles. Each method provides the State of Illinois with a unique set of challenges including, but not limited to, enforcement and costs of implementation and maintaining a program.

Enforcement –

If the administrator is unable to verify the existence of a liability insurance policy, the vehicle owner will be sent a written notice, either by U.S. mail or electronic notice, giving the owner 30 calendar days to provide evidence that the vehicle was either insured on the date of the attempted verification of insurance or evidence that the vehicle is no longer operable.   If the vehicle owner fails to respond, or submits a response that indicates the vehicle was not covered by a liability insurance policy, SOS will suspend the registration of that vehicle. The vehicle owner will be required to pay a reinstatement fee and provide proof of current insurance before the registration will be reinstated. This suspension will lead to more frequent verification queries for that vehicle, such as on a weekly or daily basis. More frequent verification queries will also be made for vehicles owned by individuals whose driving privileges have been suspended for driving

without insurance. Additional categories of offenders could be added to the list of those subject to more frequent verification queries.

The committee also believes that where these insurance verification checks or judicial proceedings show that an individual has owned and registered an uninsured vehicle three or more times within a five year period, that individual's driver's license should be suspended for 60 days. If the individual commits additional violations, the length of the suspension should be increased.

Funding Recommendations –
The committee notes that pursuant to Section 8(d) of the Illinois Motor Vehicle Theft Prevention Act, insurance companies currently collect and remit to the State $1 for each motor vehicle insurance policy issued by the company.   Specifically, this subsection provides as follows:

> "Prior to April 1, 1991, and prior to April 1 of each year thereafter, each insurer engaged in writing private passenger motor vehicle insurance coverages which are included in Class 2 and Class 3 of Section 4 of the Illinois Insurance Code, as a condition of its authority to transact business in this State, may collect and shall pay into the [Motor Vehicle Theft Prevention] Trust Fund an amount equal to $1.00, or a lesser amount determined by the Council, multiplied by the insurer's total earned car years of private passenger motor vehicle insurance policies providing physical damage insurance coverage written in this State during the preceding calendar year." 20 ILCS 4005/8(d).

The committee also notes that the motor vehicle theft prevention activities traditionally supported by this fund are not currently active. To take advantage of this established source of revenue, and to revive some of the theft prevention efforts supported by the motor vehicle theft prevention trust fund, it is recommended that the Secretary of State be made the administrator of this fund, and be authorized to expend the monies in this fund for the cost of operating an electronic motor vehicle liability insurance verification program, and to award grants to State and local law enforcement agencies for motor vehicle theft prevention activities.

Final Recommendation

The committee did consider recommending that the state take no action regarding insurance verification. Such a recommendation would have the benefit of sparing the state any potential added expense in attempting to install any new program to verify insurance coverage.

However, after careful and deliberate consideration of the four models, which included obtaining information from other states and from vendors who responded to the request for information issued by SOS, the committee recommends that Illinois use the web based verification method that each insurance company authorized to do business in the state would be required to participate in if the insurance company is in the business of selling motor vehicle liability insurance. A web based verification method is recommended by insurance industry as the preferred model and feedback from various states that the committee consulted also agree that a web based verification program with continuous cooperation of insurance industry appears to be the most beneficial. The committee feels that by implementing a web based insurance verification program that the State of Illinois would best meet the objectives set forth in the Illinois Vehicle Code to ensure that the required motor vehicle owners comply with the minimum mandatory insurance requirements.

Additional Considerations and Comments

The committee discussed a number of other issues regarding an electronic verification program, including the following:

SR-22 – Certain drivers are required to obtain and maintain a prepaid liability insurance policy, referred to as a SR-22 policy. This type of policy requires the insurance company to notify SOS before it cancels a liability insurance policy for failure to pay premiums. Upon receiving this notification, SOS suspends the individuals driver's license. It is recommended that the electronic

communications systems that will be created for the electronic verification program be designed to facilitate communications regarding SR-22 policies.

Type of Vehicles – The committee recommends that any program implemented by the Secretary of State be limited to vehicles that are currently subject to minimum mandatory insurance liability requirements under Section 7-601 of the Illinois Vehicle Code (625 ILCS 5/7-601). This program would apply to motor vehicles that are primarily used for personal or small business use that are not covered by a certificate of self-insurance, are owned by federal, state, or local government agencies, inoperable or stored vehicles, or vehicles complying with other statutory provisions that meet or exceed the amounts of the minimum liability coverage.

Third Party Access – While this electronic verification program will primarily serve to provide for and manage the flow of communications between SOS and the insurance companies, there are other parties who may benefit from access to the system. It is recommended that courts, state's attorney's offices and law enforcement personnel be given the ability to query the system to determine if a particular vehicle is insured at a given point in time. A confirmation of insurance may avoid the issuance of citations and unnecessary trips to the courthouse, while limiting the burden on the judicial system. However, while a confirmation of insurance may be useful information, all parties accessing the system need to recognize that a vehicle may be insured even if the system does not return confirmation of insurance. See the next entry.

"Real Time" Access – Throughout this process there have been repeated references to "real time" access to the insurance verification system that would allow a police officer in a traffic stop, or judge at a hearing, the ability to query the system and learn whether or not a vehicle is insured. As noted above, every vendor and insurance expert we spoke to has confirmed that real time access that definitively proves whether or not a vehicle is insured does not exist and will not exist. As also noted above, a vehicle could be fully insured, but a query seeking proof of insurance for that vehicle would come back negative because it is temporarily covered by a policy on another vehicle, or a policy has been written but not yet recorded in the insurance company's records. Therefore, it is recommended that third parties accessing the system be fully trained in the limitations of the system.

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Privacy Concerns – An electronic verification program may contain substantial amounts of both personal data on individuals and insurance related information; the committee strongly recommends that certain safeguards are implemented to protect the privacy of both constituents and the insurance industry. Limiting who may access the information for data analysis purposes, statistical research, or other purposes is strongly encouraged. In addition, a recommendation was made to the committee to include a Freedom of Information Act exemption to prevent any information being released without the proper oversight, such as a court order, subpoena, or for a law enforcement investigation.

Regulation of Insurance Companies – While the Secretary of State's office will be working with every insurance company authorized to write vehicle liability policies in this state, all oversight and regulation of insurance companies is to remain with the Illinois Department of Insurance. The legislation creating this program will have to require insurance companies to work with the program, and provide for penalties if a company fails to do so. But the imposition of any penalties will be administered by the Department of Insurance.

Legislation – The committee will submit proposed legislation to implement the recommendations and options set forth above.

Respectfully Submitted,
Uninsured Motorist Verification Advisory Committee

APPENDIX A

AN ACT concerning transportation.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 1. Short title. This Act may be referred to as the Uninsured Motorist Verification Advisory Committee Act.

Section 5. Uninsured Motorist Verification Advisory Committee.

(a) The Secretary shall establish and appoint an Uninsured Motorist Verification Advisory Committee consisting of representatives of the Department of Insurance, insurance companies authorized to sell motor vehicle liability insurance policies in this State, insurance producers, and other interested parties as designated by the Secretary, to assist in the design and implementation of a program for the electronic verification of motor vehicle liability insurance for motor vehicles that are subject to Section 7-601 of the Illinois Vehicle Code.

(b) The Uninsured Motorist Verification Advisory Committee shall report to the General Assembly, on or before January 31, 2015, with recommendations for the design and funding of a program for the electronic verification of motor vehicle liability insurance policies issued and in effect in the State and legislation to implement the program that includes at a minimum the elements in subsection (d) of this Section.

(c) Based on the recommendations of the Uninsured Motorist Verification Advisory Committee, the Secretary shall adopt rules to implement a program for the electronic verification of motor vehicle liability insurance by January 1, 2016 if and only if appropriations are made funding the electronic verification database as recommended by the Uninsured Motorist Advisory Committee.

(d) The electronic motor vehicle liability insurance verification program shall have the following elements:
> (1) a requirement that insurance companies authorized to sell motor vehicle liability insurance in the State make available, in a format designated by the Secretary, the following information for each motor vehicle liability insurance policy issued by the company:
> (A) the name of policy holder;
> (B) the make, model, year and vehicle identification number of the covered vehicle;
> (C) the policy number;
> (D) the effective date of the policy; and
> (E) the company's National Association of Insurance Commissioners number;
> (2) a method of searching for motor vehicle liability insurance policies issued and in effect in the State by the keys indicated in paragraph (1) of this subsection;
> (3) a requirement that the Secretary verify the existence of a liability insurance policy as required by Section 7-601 of the Illinois Vehicle Code for every motor vehicle registered in the Secretary's office at least once every 12 months;

(4) a provision that if the Secretary is unable to verify the existence of a liability insurance policy, then the vehicle owner shall be sent a written notice giving the owner 30 calendar days to provide evidence that the vehicle was insured on the date of the attempted verification of insurance, or evidence that the vehicle is no longer operable;

(5) a provision that any vehicle owner who fails to respond, or whose response indicates that his or her operable vehicle was not covered by a liability insurance policy in accordance with Section 7-601 of the Illinois Vehicle Code, shall be deemed to have registered or maintained registration of a motor vehicle in violation of that Section, and the Secretary shall suspend the registration of the vehicle; the vehicle owner shall be required to pay a reinstatement fee of $100 and provide proof of current insurance before the registration may be reinstated under Section 7-606 of the Illinois Vehicle Code; and

(6) a provision that if the owner responds to the request for information by asserting that his or her vehicle was covered by a liability insurance policy on the date of verification stated in the Secretary's request, then the Secretary may conduct a verification of the response by furnishing the necessary information to the insurer named in the response; the insurer shall within 7 calendar days inform the Secretary whether or not on the date of verification the motor vehicle was insured by the insurer in accordance with Section 7-601 of the Illinois Vehicle Code; if the insurer does not confirm insurance was in effect on the verification date, then the Secretary shall suspend the owner's registration of the vehicle; the vehicle owner shall be required to pay a reinstatement fee of $100 and provide proof of current insurance before the registration may be reinstated under Section 7-606 of the Illinois Vehicle Code.

(e) In addition to the annual verification of liability insurance the Secretary may select for verification other vehicles, including, but not limited to, motor vehicles owned or registered by persons:

(1) whose motor vehicle registrations during the preceding 4 years have been suspended under Section 7-606 or 7-607 of the Illinois Vehicle Code;

(2) who during the preceding 4 years have been convicted of violating Section 3-707, 3-708, or 3-710 of the Illinois Vehicle Code while operating vehicles owned by other persons;

(3) whose driving privileges have been suspended during the preceding 4 years;

(4) who during the preceding 4 years acquired ownership of motor vehicles while the registrations of those vehicles under the previous owners were suspended under Section 7-606 or 7-607 of the Illinois Vehicle Code; or

(5) who during the preceding 4 years have received a disposition of supervision under subsection (c) of Section 5-6-1 of the Unified Code of Corrections for a violation of Section 3-707, 3-708, or 3-710 of the Illinois Vehicle Code.

(f) The Secretary shall not have regulatory authority over insurance companies. Regulatory authority over insurance companies shall remain with the Department of Insurance.