

Electronic Motor Vehicle Financial Security Verification System Task Force

RESPONSE TO UNINSURED MOTORISTS—SECOND YEAR REPORT

CONCLUSIONS AND RECOMMENDATIONS

In its discussion of the criteria established by 2007 SCR 1603 and in consideration of the need to continue legislative oversight through this Task Force, the Task Force makes a number of conclusions and recommendations:

- **While the Task Force makes no recommendation on an electronic verification system, it does encourage continued monitoring of a number of issues identified during its meetings.**

The Task Force notes its reviews of states' efforts in addressing a more "real-time" verification system to better understand who is uninsured and for how long. The Task Force recognizes the role law enforcement plays and encourages these agencies and other agencies, such as the Department of Revenue and the Department of Transportation, *to compile data about uninsured motorists*. The data would include which states' motorists most frequently drive through Kansas. Compiling such data would assist in the design of a real-time verification system and the development of a better standard for a national model. Additionally, the Legislature must continue *to monitor the most effective ways to reduce the number of uninsured motorists*, a goal of this Task Force. The Task Force suggests consideration of efforts in the states and at the national level, including the efforts seen in New Jersey. The Task Force continues to call for evaluation of "*real-time*" verification and believes consideration should be given to verifying insurance a few months after renewal of registration to see whether the insurance coverage has been maintained or canceled.

- **The Task Force encourages the American Association of Motor Vehicle Administrators (AAMVA), the National Association of Insurance Commissioners (NAIC), and the National Conference of Insurance Legislators (NCOIL) to adopt standards for states to use in developing their electronic financial security verification systems.**

The Task Force urges these representative organizations to review the standards offered in the NAIC white paper to help states find a more uniform approach to a real-time solution for electronic verification. A lack of leadership could lead to states having separate and conflicting standards, which could translate to unnecessary costs to insurance companies and to the states themselves. States must be given the opportunity to develop and review the criteria for standards developed by these organizations. Such standards could assist the Kansas Department of Revenue as it moves forward with its Vehicle System enhancement.

- **The Task Force calls on the Legislature to evaluate lower-cost insurance options and review the compulsory requirements for proof of auto insurance.**

The Task Force acknowledges that there are two areas of concern: *individuals who cannot afford the insurance required by law and those individuals who do not meet the lawful presence requirements and who may be undocumented immigrants and cannot get insurance without a driver's license.* The former topic could be addressed by reviewing the penalty requirements under the Kansas Auto Injury Reparations Act and making the penalty more closely associated with the amount the insurance coverage would have cost. The latter issue could be addressed by disassociating the driver's license and the insurance coverage requirements, as some unlicensed individuals are likely to continue driving. The Task Force notes that the Legislature has a no pay-no play bill (an uninsured vehicle owner cannot collect property damages in an accident) before it (HB 2378), and law enforcement officials continue to encourage no jail time for violations due to limited bed capacity and resources.

Proposed Legislation: None. (The Task Force is not permitted to introduce legislation.)

BACKGROUND

The 2007 Legislature considered proposals to address uninsured motorists' issues, including the recommendations of a task force convened during the 2006 Interim. During its review the Legislature passed **SCR 1603**, which reauthorized the task force enacted by the 2006 Legislature (**SCR 1619**). The Task Force was again called to study the design of an electronic motor vehicle financial verification system for real-time verification of compliance with the financial security requirements of KSA 40-3401 *et seq.* to combat [problems created by] uninsured motorists.

The resolution stated that the design of an electronic motor vehicle financial security verification system needs to include the following factors:

- The likelihood the system would reduce the number of uninsured motorists in the state;
- The likelihood the system would aid law enforcement in the identification of uninsured motorists in this state;
- The reliability of the system;

- The cost-effectiveness of the system;
- Privacy protections of the system;
- Data security and integrity of the system; and
- Any other issue related to the proper design and implementation of the system.

The 18 members of the Task Force were appointed as follows:

- The Insurance Commissioner or designated representative;
- The Secretary of Revenue or designated representative;
- The Director of the Division of Motor Vehicles or designated representative;
- Four legislators - one member each appointed by the Senate President, the Senate Minority Leader, the Speaker of the House of Representatives, and the House Minority Leader;

- One member representing a domestic property and casualty insurance company appointed by the Insurance Commissioner from a list submitted by the Kansas Association of Property and Casualty Insurance Companies;
- One member representing a foreign property and casualty insurance company appointed by the Insurance Commissioner from a list submitted by the Kansas Association of Property and Casualty Insurance Companies;
- One member representing foreign stock insurance companies appointed by the Insurance Commissioner from a list submitted by the American Insurance Association;
- One member representing automobile insurance companies appointed by the Insurance Commissioner from a list of the top six automobile insurance premium writers in Kansas;
- One member representing a property and casualty company appointed by the Insurance Commissioner from a list submitted by the Property Casualty Insurers Association of America;
- One member representing a property and casualty company appointed by the Insurance Commissioner from a list submitted by the National Association of Mutual Insurance Companies;
- One member representing the Kansas licensed insurance agents appointed by the Insurance Commissioner from a list submitted by the Kansas Association of Insurance Agents;
- One member representing licensed Kansas insurance agents appointed by the Insurance

Commissioner from a list submitted by the Kansas Association of Insurance and Financial Agents;

- Two members appointed by the Governor representing law enforcement; and
- One member appointed by the Governor representing the consumer interests.

SCR 1603 requires a report that contains the results of the Task Force's study and its recommendations and conclusions be transmitted to the Speaker of the House of Representatives, the Senate President, the Chairperson of the House Insurance and Financial Institutions Committee, and the Chairperson of the Senate Financial Institutions and Insurance Committee no later than the convening of the 2008 Kansas Legislature.

TASK FORCE ACTIVITIES

The Task Force conducted its meetings in the State Capitol on Friday, August 31, 2007, and Wednesday, September 19, 2007. Task Force meetings included testimony from representatives of the Kansas Department of Revenue (KDOR), the Kansas Department of Transportation, the Insurance Industry Committee on Motor Vehicle Administration (IICMVA), and the National Association of Insurance Commissioners (NAIC).

During its August meeting, the Chairperson welcomed task force members and Rep. Delia Garcia was selected as the task force's vice-chairperson. Task Force staff reviewed the report of the 2006 Interim Electronic Motor Vehicle Electronic Verification System Task Force (authorized by 2006 SCR 1619) and highlighted the 2007 legislative action.

The 2006 Task Force report contained the following conclusions and recommendations:

- Find Kansas-specific solutions to our Uninsured Motorist Rate (UMR) and related issues.
- Review the current system used to track and report uninsured motorists and the resulting enforcement.
- Define “real time” as the term applies to verification of auto insurance coverage.
- Integrate any systems created by the implementation of the Real ID Act.
- Reflect on the feasibility study being conducted by the Kansas Department of Revenue.
- Authorizing the release of data maintained in connection with the issuance of DLs for future exchange between other agencies/states.
- Removing “a birth certificate issued by any country” as an acceptable document in proving one’s identity.
- Authorizing the Division of Vehicles to cancel the DL or ID Card if it is determined that the cardholder is not lawfully present.
- Prohibiting the Division from issuing an ID to a person who has a valid DL (and vice versa), unless the first ID or DL has been physically surrendered.

A copy of the Task Force report to the 2007 Legislature can be requested from the Kansas Legislative Research Department.

Real ID, Lawful Presence. Carmen Alldritt, Director, Division of Vehicles, KDOR, and Task Force member, provided an overview of the federal Real ID Act requirements and the requirements of 2007 SB 9. Real ID, signed into law in May 2005, requires all U.S. jurisdictions to follow new driver’s license (DL/ID) cards issuance and document standards. The Division received a Notice of Proposed Rulemaking on March 1, 2007, and awaits the final regulations. SB 9 provides the Division with the authority and tools necessary to uncover, prevent, and decrease fraud, including provisions of interest to the Task Force:

- Providing for a DL issuance only for the time the applicant is authorized to stay in the United States.
- Requiring an applicant provide proof of lawful presence and Kansas residency (if a valid Social Security number is not available).

The Task Force discussed the issues around “lawful presence.” Any applicant who cannot prove residency and lawful presence is not issued a drivers license. Without a driver’s license, a person cannot obtain vehicle insurance, which adds to the uninsured motorist problem. This results, the Director noted, in the motorist being unlicensed and uninsured. Information provided to the Task Force indicated that the new law could affect thousands of people, with the state’s illegal immigrant population estimated at 50,000 to 70,000. The Task Force discussed a legislative remedy and whether an individual could be permitted to buy insurance (separate from the driving record). The Task Force discussed the identity management requirements from the Real ID Act and how states were responding to the federal requirements.

Information Technology Planning. Tim Blevins, Task Force member and Chief Information Officer, KDOR, provided an update of the Department’s current Information Technology plans. It was noted, during FY 2007, the Division of Motor Vehicles completed its Project 2010 feasibility study. The study focused on the needs of the Division in relationship to the replacement of the VIPS (Vehicle Information

Processing System), the KDLIS (Kansas Drivers License Information System), and the KVIS (Kansas Vehicle Information System). The results of the study have been presented to the Joint Committee on Information Technology. The goal of Project 2010, Mr. Blevins stated, will be to modernize the Division of Vehicles with all licensing, titling, registration, inventory and driving records supported by a central computer system. The requested FY 2009 funding for the replacement of the three systems totals \$34 million, and the new system will require an additional \$6 million of internal salary costs. The anticipated duration of the project is 36 to 48 months.

The Motor Vehicle Division will review any requirements to integrate functionality of an Electronic Motor Vehicle Financial Security Verification System at the time of the detailed systems requirements and design of Project 2010. Additionally, it was noted that IT planning for the Division of Motor Vehicles must incorporate requirements from federal agencies including the Departments of Treasury, Homeland Security, and Transportation, and the Social Security Administration. It also was noted that the Motor Carrier Bureau is working on the replacement of the International Registration Plan (IRP) system for registration and apportionment (this system has a direct relationship and communicates in real time to both the new Highway Patrol Commercial Vehicle Information Exchange Window (CVIEW) system and the KBI Criminal Justice Information System (KCJIS) and Nlets networks).

The Task Force then discussed the information currently being reported by insurers and the state's mandatory insurance reporting program.

Kansas Traffic Records Coordinating Committee (TRCC). Terry Heidner, Legislative Liaison for the Kansas Department of Transportation, provided testimony regarding the TRCC and related federal funding, noting the TRCC is an inter-agency committee that has been

working since June 2005 to develop a statewide Traffic Records System (TRS). The TRS was formed to address, among other things, the need for more efficient communication between state agencies, federal partners, and local associations to facilitate improved collection, analysis, and dissemination of traffic records data. The Liaison highlighted the availability of federal funding for associated agencies' IT projects and noted that, should the state continue to be eligible for these grant dollars, the scope of the electronic motor vehicle financial security verification system should be examined to determine if it is eligible for this funding. This project could then be inserted in the TRCC's Traffic Records Strategic Plan and prioritized accordingly. The estimated aggregated cost of the plan is \$55 million; to date, 62 projects have been identified. The Task Force then discussed efficiencies associated with vehicle insurer verification and noted the importance of avoiding unnecessary costs and duplication of effort.

Insurance Industry and States' Activities, Electronic Verification. Loren McGlade, IICMVA Chairman, next briefed the Task Force on states' electronic insurance verification systems. IICMVA, it was noted, does not advocate insurance reporting programs as a means of reducing uninsured motorist rates. Mr. McGlade noted states' activities, including:

- 19 states (formerly 21) require some type of Commercial Auto DMV reporting (Colorado and Maine canceled their programs in 2007). Of these states, only two require full VIN-specific reporting for all insured vehicles (New York, Massachusetts).
- Several states exempt reporting when the vehicle is part of a Fleet Registration program. Additionally, five states have voluntary reporting programs for Commercial Auto Reporting.

- 13 states require VIN-specific reporting for Non-Fleet Commercial Auto policies only (including Kansas).
- 32 states have some type of verification (*e.g.* X12 format; EDI; tape; Electronic - PIER). Kansas' was identified as proprietary, with verification for online registration (renewal) for personal vehicles. Kansas' commercial was verified, if the VIN was known. The data source is the book of business (which insurers submit monthly). Task Force member Blevins and Division of Vehicles' representatives noted that Kansas accepts only the ANSI EDI 811 data format.
- 3 states have random sampling programs (Alabama, Delaware (Commercial exempt), and Illinois). Minnesota has sunset its program.

Mr. McGlade noted that widespread dissatisfaction with current reporting systems has promoted an industry search for alternatives, with industry seeking a single uniform approach offering greatly improved accuracy and consistency; lower development and maintenance costs; and greater benefit to the public and jurisdictions. He also noted that the industry views web-based technology as an answer and states, like Kansas, need to do a cost-benefit analysis. States' costs were noted in the experience of Missouri and Colorado. A web-based approach represents:

- Standardized approach across states.
- Simple internet-based tools.
- On-demand verification requests are sent to insurers facilitating an immediate, accurate response as well as corrections.
- Security.
- Lower cost, better performance for all customers.

The technology would use inexpensive internet connectivity; be built on proven,

web-based protocols (XML) widely in use; ensure secure transactions with SSL and user authentications; and meet ANSI (American National Standards Institute) and ACORD (Association for Cooperative Operations Research and Development) standards.

Task Force members discussed states' experiences and asked about states utilizing web-based programs. It was noted that Florida has a pilot-only program (no law), Wyoming has legislation for a pilot (if approved, live July 1, 2008), and Oklahoma also has legislation to examine a web-based approach and an RFP was expected to be issued in late 2007. Florida's pilot project has two phases with five insurers participating in the first phase. The Task Force questioned why smaller carriers did not participate. The conferee noted the expense to the carrier and that small carriers should consider outsourcing with vendors. The Task Force also discussed data transactions over law enforcement networks, with the conferee indicating the industry was comfortable corresponding with the DMV. The Task Force also addressed how success would be measured for a web-based model. Declining cost of uninsured motorist coverage (not yet seen in this approach) and fewer uninsured vehicles would indicate success. The conferee indicated that economic and income issues still need to be addressed and are important for consideration.

Vehicle Insurance Verification. In September, the Task Force heard from Deann Williams, Chief of Motor Carrier Vehicles, KDOR, who described the commercial aspect of motor vehicle insurance verification. She noted the Department verifies valid insurance through any one of three ways: federal forms filed with the Department; forms filed with the Kansas Corporation Commission; or, for independent operators, lease agreement settlements. The Division of Vehicles Director added that when a carrier is found to not have insurance, a letter is sent to the carrier and, if there is no response within ten days, the carrier's registration is revoked. Responding to a Task Force question,

Ms. Alldritt stated real-time response would require an accessible database.

Toni Roberts, Project Manager, Office of Director of Vehicles, KDOR, discussed the state's history in verifying personal vehicle insurance: paper proof, January 2000; voluntary reporting by insurance companies, 2002; and as a result of 2004 HB 2545, mandatory reporting by insurance companies. Currently, 230 companies send electronic reports each month. Responding to the Task Force's questions, Ms. Roberts noted that daily reporting could be handled by allocating additional staff. A more in-depth analysis of the reports would require additional software development. Insurance verification occurs only at the time of the registration of the vehicle. Task Force member Blevins noted that there currently is inter-connectivity with AAMVA and KCJIS. Data is exchanged with law enforcement through KCJIS and Nlets.

AAMVA, State Data Comparison. Marci Ralston, Chief of Driver Control, KDOR, next provided information about the function of the American Association of Motor Vehicle Administrators (AAMVA). AAMVA, Ms. Ralston commented, initiated a project to provide online verification of motor vehicle insurance via the Internet. It was noted that four states currently use electronic verification (web-based): Florida, Oklahoma, Texas, and Wyoming. Her report included a comparison of these states' real-time verification including any associated state laws or regulations; one-time costs associated with implementation; selected vendors; number of participating insurance companies; number of registered vehicles; and required data fields. Ms. Ralston also provided Calendar Year 2006 Kansas Driver Control statistics, including:

- Number of convictions for no insurance: 14,247
- Number of insurance verification forms received from Kansas law enforcement agencies or courts: 128,420

- Number of warning notices issued for possible suspension of driving and registration privileges for failure to provide proof of insurance at time of accident/at time of traffic stop or file with DMV: 6,943/25,896
- Number of notices issued for suspension of driving and registration privileges for failure to provide proof of insurance at time of accident/at time of traffic stop or file with DMV: 4,318/23,543

NAIC report, Vehicle Insurance Verification. Davin Cermak with the National Association of Insurance Commissioners (NAIC) updated the Task Force on an NAIC White Paper, "Uninsured Motorists: A Growing Problem for Consumers" (March 2006), commenting that a national model is needed in order for states to share data. He reviewed the best practices for a model policy developed by the NAIC Uninsured Motorist Issues Working Group, including technology processes; accurate data; accessibility; enforcement; privacy and confidentiality; protection of citizens; alternate or reduced insurance coverage requirements; state owned data; commercial insurance; measurements; vendor neutrality; and NAIC/AAMVA involvement.

Task Force members discussed alternative low-cost or reduced auto insurance coverage (as an alternative method for compliance with the compulsory financial security requirement), the costs and benefits of a verification system, and the availability of federal funding. Also discussed was information provided by the Insurance Department about Texas' financial responsibility verification program. It was noted that Texas' program will become operational in 2008 after four years of study with a design calling for out-sourcing or privatizing the development, operation, and maintenance of the program.

Task Force Discussion. Task Force members then reviewed information received

at both meetings and discussed how the state might accommodate a verification system. Task Force members Blevins and Alldritt noted that the planned Vehicle System replacement could be developed to accommodate a statewide insurance verification database. However, the Vehicle System replacement is a separate project. Developing a statewide insurance verification database, the representatives noted, would require additional funding. The Vehicle System replacement will include federal Real ID requirements. A representative of the Highway Patrol noted that, during a traffic stop, officers with real-time data could provide better enforcement and the ideal would be information from a national database.

CONCLUSIONS AND RECOMMENDATIONS

By consensus, the Task Force makes a number of conclusions and recommendations:

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