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REPORT TO THE LEGISLATURE  
ON INSURANCE VERIFICATION PROGRAM

PREPARED BY:  
THE COMMISSIONER OF PUBLIC SAFETY  
IN RESPONSE TO

MINNESOTA LAWS 2005  
1<sup>ST</sup> SPECIAL SESSION  
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## EXECUTIVE SUMMARY

People driving without automobile insurance create potential problems for other drivers, insurers, and regulators. All insured drivers must bear the additional risks and costs due to these uninsured motorists. In addition to paying the costs for their own actions, insured drivers also must pay a portion of the costs for those who drive without insurance.

Minnesota, along with forty-five other states and the District of Columbia, has a compulsory insurance law that requires motorists to maintain automobile injury liability insurance. Despite this law, many drivers choose to operate their vehicles without the required insurance coverage.

To combat this problem, Minnesota and other states have implemented various insurance verification programs to track compliance with their insurance liability statutes. The rate of uninsured motorists per state has been tracked by the Insurance Research Council using the ratio between the uninsured motorist claims frequency and the bodily injury liability coverage claim frequency to estimate the likely number of uninsured drivers at fault in crashes involving at least one injury. Both the national average and the Minnesota average of uninsured motorists in these studies have decreased slightly since 1989.

In an effort to reduce Minnesota's uninsured rate, the state implemented a random sample insurance verification program in 2003. This program required randomly selected individuals to supply the insurance company and policy number information on all of the motor vehicles owned at a time other than their registration renewal period. Previously, owners would report their insurance information as part of the vehicle registration process. This information was not verified by Driver and Vehicle Services (DVS), nor was it recorded on the vehicle registration record. The random sample program did not effectively address no fault insurance coverage which led to its suspension and, ultimately, to its repeal.

Several other states have implemented insurance verification programs to reduce their uninsured motorist rate. These database programs have been expensive to implement and have not reduced the uninsured motorist rates in those states to a percentage lower than the uninsured motorist rate in Minnesota. Numerous flaws have been reported related to the administration of these programs.

A few state's random sample programs have experienced problems similar to those cited in Minnesota's program review. The uninsured motorist rate in Illinois has actually increased after implementation of their program. In Alabama, the rate of uninsured motorists increased to a rate twice that of Minnesota's after implementation of their program.

The working group's major finding is that Minnesota's current insurance verification methods are sufficient and cost effective in maintaining a relatively low uninsured motorist rate.

## MANDATORY AUTOMOBILE INSURANCE

Minnesota's mandatory automobile insurance law is one of the most significant consumer protection measures required in state statutes. Individuals must carry their insurance cards in their vehicles and must show it upon request to a law enforcement officer. A person's signature on Minnesota's application for vehicle registration is considered affirmation that the vehicle will be insured throughout the registration period. Prior to June 13, 2003, an applicant was required to indicate the insurance company name and policy number on any application for renewal of vehicle registration. This requirement was eliminated by the Legislature in order to facilitate the use of electronic measures to renew vehicle registration.

Minnesota currently verifies insurance coverage in all of the following situations: reportable accidents (90,000 in 2004), no proof of insurance reports (5,753 in 2004), failure to provide insurance information reports (10,699 in 2004), no insurance convictions (6,317 in 2004) and notifications of dropped insurance coverage. If DVS verifies that a driver has no insurance coverage, the individual's driver's license will be suspended or revoked, and the vehicle's license plates will be revoked. Enforcing current motor vehicle insurance laws has reduced Minnesota's UMR to lower than when DVS implemented more intrusive enforcement actions.

Using the methods listed above, the number of individuals checked for insurance has increased in comparison with the number of drivers sampled during DVS' administration of the random sample program. Current enforcement procedures target the problem driver rather than the law abiding citizen who simply neglects to respond to an insurance verification check. These methods are also able to directly impact the use of a motor vehicle being driven without insurance, tracking the vehicle being driven at the time of the possible violation.

## OVERVIEW: INSURANCE VERIFICATION PROGRAM

The Minnesota Legislature passed legislation in 2003 mandating the Commissioner of Public Safety to implement a monthly sampling program to verify insurance coverage required under sections 65B41 to 65B.71 (Minnesota Laws 2003, 1<sup>st</sup> Special Session, Chapter 19, Article 2, section 30). The program required the department to sample at least two percent of all drivers, one-half of whom during the previous year had been convicted of at least one vehicle insurance law violation, had a driver's license revoked or suspended due to habitual violation of traffic laws, had no insurance in effect at the time of a reportable crash, or had been convicted of an alcohol-related motor vehicle offense. The program was initiated in March 2004 and operated until its suspension in March 2005.

The program randomly chose licensed drivers from these two distinct groups of license holders. Correspondence was sent listing all of the motor vehicles registered in

Minnesota to each randomly selected individual, requesting that the individual respond within thirty days, listing the insurance coverage on each vehicle or indicating why the vehicle was not required to comply with the terms of section 65B.48. The most common reasons for non compliance were that the vehicle had been sold or that the vehicle was not in use at the time of the random selection. The responses received by DVS were verified with the named insurance company. The insurance company was required to notify DVS of any false statements regarding coverage. DVS, on behalf of the commissioner, was required, without any preliminary hearing, to suspend the drivers' license of any individual who either falsely claimed coverage, indicated that no coverage was in effect at the time sampled, or failed to respond to the request to furnish proof of insurance.

During the operation of the DVS random sample program, 91,346 drivers were sampled with a response rate of only 60 per cent. A total of 37,998 suspension (second) notices were mailed out by DVS. Ultimately, 4,606 individuals had their drivers' license suspended (5 per cent of the total sample and 12 per cent of those notified).

In addition to the low response rate to the requests for insurance verification, DVS received a large volume of mail returned by the post office. As a result, DVS experienced difficulty in meeting the program's requirement to randomly select the required amount of problem drivers, since few problem drivers owned vehicles registered under their own names.

DVS received hundreds of complaints. The majority of which could be classified into the following categories: insured license holders who believed they were being singled out and harassed; insured license holders who failed to receive the notification from DVS that they were required to verify insurance coverage because they had failed to update their address and consequently, had their drivers' licenses suspended; insured license holders who had coverage incorrectly denied due to a mismatch on information between DVS and the insurance company; and individuals who did not have insurance and questioned the effectiveness of the verification program. In addition, many members of the Legislature were contacted by their constituents about having their driver's licenses suspended, and, as a result, also questioned the program requirements and its effectiveness at reducing the rate of uninsured motorists.

As a result, the 2005 Legislature suspended the insurance verification program (Minnesota Laws 2005, 1<sup>st</sup> Special Session, Chapter 6, Article 3, section 91) and required the Department of Public Safety to report to the Legislature on the program's impact on the identification and number of uninsured motorists in Minnesota and on the viability of any changes in the program's requirements which could lead to a reduction in the number of uninsured motorists.

#### INSURANCE VERIFICATION WORKING GROUP

The Department of Public Safety established a working group of representatives of the insurance industry, law enforcement, courts, and state agencies to review the

effectiveness of the random sample program as well as the current motor vehicle insurance requirements in order to recommend any changes to the law or to the program which would improve no fault insurance compliance. This group met three times to review DVS' administration of the random sample program, the impact of other state's insurance verification programs on the rate of uninsured motorists, and to discuss what, if any, motor vehicle insurance requirements could reduce the number of Minnesota's uninsured motorists.

### UNINSURED MOTORIST RATE (UMR) IN MINNESOTA

According to the Insurance Research Council, the rate of uninsured motorists in Minnesota has remained fairly constant over the years with its highest rate, 15.8 per cent, in 1993 and its lowest rate, 10.3 per cent in 1997. The national average rate of uninsured motorists has moderately increased every year since 1999.

Year	Minnesota	National
1989	14.2	16.3
1990	14.8	15.4
1991	14.0	15.1
1992	14.8	15.6
1993	15.8	16.0
1994	13.5	15.1
1995	11.8	14.2
1996	12.8	13.8
1997	10.3	13.2
1998	not available	not available
1999	10.7	12.7
2000	11.4	13.4
2001	11.5	14.2
2002	11.5	14.5
2003	11.5	14.9
2004	10.4	14.6

Source: Insurance Research Council, *Uninsured Motorists 2000 edition and 2006 edition*

### EFFECTIVENESS OF INSURANCE VERIFICATION PROGRAMS

There are three categories of individuals that comprise the uninsured motorist population in the United States:

1. Individuals who might comply with insurance laws, if they were able to afford to purchase insurance.
2. Individuals able to afford insurance and comply with the insurance laws, but who fail to do so for personal reasons not identified in any of the research reviewed by the working group.

3. Individuals who philosophically object to the principle of the no fault insurance law, refusing to purchase insurance regardless of the law and who would not easily comply with any insurance verification program.

The effectiveness of any insurance verification program, designed with the intent of lowering the uninsured motorist rate, is contingent upon reducing the numbers of individuals in these three groups. Those who cannot afford insurance, while easily identified in any verification program, would still be unable to comply with insurance laws due to the cost of obtaining the required coverage. Therefore, any program that targets this population would not be effective in raising the overall compliance rate without a change in the cost of vehicle insurance.

The working group was unable to identify specific reasons why some uninsured drivers refuse to purchase insurance. Without addressing the specific reasons for non-compliance, no increase in the rate of insured motorists within this group of uninsured motorists will take place.

Those who refuse to comply with insurance laws as a matter of principle, regardless of any penalties imposed upon them, also limit the effectiveness of any insurance verification program established to reduce the uninsured motorist rate.

The working group was unable to quantify the number of individuals within each group discussed above. Members of the working group concluded that those who cannot afford coverage make up the largest number of uninsured motorists in Minnesota. Therefore, any program to increase compliance solely through an insurance verification program would not have a significant impact on the number of Minnesota uninsured motorists.

#### INSURANCE VERIFICATIONS PROGRAMS IN OTHER STATES

To combat the problem of uninsured vehicles, some states have developed databases to verify liability insurance. A database that can match insurance coverage with motor vehicle registration records, coupled with effective enforcement and meaningful penalties, can significantly reduce the number of uninsured vehicles. Even though its program did not involve enhanced enforcement, Colorado found that verifying liability insurance through their database reduced the percentage of uninsured motor vehicles from 33 per cent in 1998 to 15 percent in 2004.

##### Colorado

The state of Colorado implemented the Colorado Motorist Insurance Identification Database Program (MIIDB) on July 1, 1999 to identify insured motorists, assist in the enforcement of motor vehicle liability insurance requirements, and to provide law enforcement officials, the Motor Vehicle Division and other state entities with an on-line tool to assist in the identification of insured motorists. A private vendor maintains the Colorado database of registered vehicles and liability insurance. The goal of the MIIDB system is to reduce the number of uninsured motor vehicles operating in Colorado. In the

same studies referenced earlier related to UMR statistics, Colorado had an average uninsured rate of 33.4 per cent from 1989-1997 followed by a drop to 29.2 per cent in 2002, 21.6 per cent in 2003 and by 2004, a drop to 15.0 per cent.

MIIDB created a database of all insured vehicles and operators, all Colorado licensed motor vehicle operators, and all Colorado registered vehicles. The system performs a matching routine to compare the insured data with the registered data. Any owner of any vehicle that has not been identified as insured for 60 consecutive days is sent a notification letter providing the owner with specific actions required to rectify the insurance status. The Colorado legislature appropriated \$3,374,500 in the first year to create this database and imposes a 50 cent per year surcharge on all motor vehicle registration renewals to fund the ongoing operations of this program.

It should also be noted that Colorado addressed the concerns of the first grouping of uninsured motorists (those who cannot afford insurance coverage). Colorado was a no-fault state up until July 1, 2003. Under Colorado's no-fault law, an injured party was required to have medical costs exceeding a \$2500 tort threshold before a bodily injury (BI) claim could be filed against an insured driver, but uninsured motorists (UM) claims had no such threshold.

On July 1, 2003, the state of Colorado became a tort state, repealing its no-fault system and reducing the tort threshold. These changes were significant factors in lowering the price of insurance to Colorado residents and, therefore, lowering the rate of uninsured motorists.

While it may appear that a significant drop in the uninsured motorist rate occurred between 2003-2004 in Colorado, the original rate of noncompliance in Colorado between 1989-2003 was inflated due to the UM:BI issue described above. With no difference in claim filing thresholds, Colorado's UM to BI claim frequency ratio was 15 percent as was always suspected. And so, while the uninsured motorist rate has decreased somewhat in Colorado, the rate of noncompliance is still 50 per cent higher than the rate currently in Minnesota. The decrease in noncompliance cannot be attributed solely to Colorado's insurance verification program, but rather to a combination of the verification program and the switch to a tort system from a no-fault system.

In addition, Colorado has recently decided to bring their insurance verification program "in-house" after experiencing some problems with its private vendor. Colorado officials determined that the vendor had listed certain vehicles as "commercial" vehicles and thus as "insured" when, in fact, the vehicles in question were neither "commercial" nor "insured". This discrepancy resulted in a lower rate of insured motorists in Colorado being reported than was actually the case.

## Georgia

The state of Georgia implemented the Georgia Electronic Insurance Compliance System (GEICS) on October 8, 2003. Insurers issuing motor vehicle liability insurance policies in

Georgia are required to electronically report insurance information to the Department of Revenue's (DOR) insurance database within 30 days of the date insurance coverage begins. Terminations, additions, or deletions of vehicles from existing policies must also be reported. The GEICS database is cross-referenced with the vehicle identification number (VIN) on the DOR tag and the title database, called GRATIS. If a match is found, a valid insurance coverage indicator is placed on the vehicle's record. If no match is found, the vehicle owner will be unable to register and purchase Georgia license plate registration. Law enforcement and County Tax Commissioner personnel have access to GRATIS in order to check the insurance status of any vehicle registered.

According to the Insurance Research Council, Georgia's uninsured motorist rate (UMR) prior to the implementation of GEICS (between 1989 and 1997) was estimated to be 15 per cent. In 2004 after the implementation of GEICS, Georgia's UMR was reduced to 9.6 per cent.

### Texas

The state of Texas is currently debating whether they could reduce the number of uninsured drivers by creating a database to identify uninsured vehicles and cancel the vehicle registrations if their owners do not obtain and maintain insurance coverage. Texas estimates that approximately 20 per cent of all motorists in Texas drive without insurance. The Insurance Research Council report lists Texas with an average 19.7 per cent uninsured motorist rate from 1989-1997 and dropping to 16.5 per cent in 2004. Texas is also investigating the factors that determine automobile insurance rates with a view of making insurance more affordable.

The state of Texas estimates that the annual cost to operate an insurance database which matches insurance coverage with motor vehicle registration records and includes costs for effective enforcement using meaningful penalties, would be as follows:

Year	Database Operations	Second Letter Mailings	Publicity	Total Annual Cost
2007	\$6,449,040	\$1,080,000	\$150,000	\$7,679,040
2008	\$6,602,400	\$1,080,000	\$150,000	\$7,832,400

Texas also estimates that the state would collect a reinstatement penalty of \$250 on each vehicle for cancellation of registration for failure to provide proof of insurance. Revenue estimates were as follows:

Year	First Letters Warning of Possible Cancellation and Reinstatement Penalties Mailed	Vehicles Reinstated and Number of Penalties Collected	Deposited in General Revenue from Penalties
2007	720,000	72,000	\$18,000,000
2008	720,000	72,000	\$18,000,000

The state analysis assumes that the volume of mail would increase as the program gets underway, but, after two years of operation, the mail volume may decline with the decline in the number of uninsured motor vehicles.

## Alabama

The state of Alabama does not have a database system to verify insurance coverage. Instead, the state has used a random sample system beginning in 2001 similar to the program that was previously administered here in Minnesota.

Insurance questionnaires are sent to randomly selected owners while previously identified problem drivers must be included in the random sample selection for three years after the violation or period of no insurance. Alabama selects approximately 4/10 of 1 percent of registered vehicles per month. The owner(s) must then submit their response via a web site administered by a private vendor.

If the owner does not have insurance on the verification date, the owner does not respond within 30 days, or the insurance company denies issuing the policy, Alabama initiates steps to suspend the license plate registration unlike the drivers' license suspensions that were mandated in Minnesota.

To combat the problem of incorrect addresses on the state's motor vehicle database, Alabama adds a notation to the vehicle's records if a survey letter is returned to the state as undeliverable. The county license bureau must then obtain a new address at the next registration cycle, and the survey is sent again to the vehicle owner at that time to prevent individuals from supplying incorrect addresses in order to avoid receiving and/or replying to a survey. No action is taken against the vehicle's registration based solely on undeliverable mail.

Alabama's rate of uninsured motorists from 1989-1995 averaged 27.5 per cent. In the first year of its random sample program, the uninsured motorists' rate dropped to 21.5 per cent; the rate has risen in subsequent years and in 2004 rate was at 24.8 per cent. In comparison with Minnesota's uninsured motorist rate, Alabama has steadily maintained a rate double that of Minnesota.

## Illinois

Illinois, like Minnesota, stipulates that an individual's signature on the vehicle registration application affirms that the vehicle in question will be insured throughout the registration period. Illinois uses a random sample program to verify compliance with its mandatory automobile liability insurance law. Under the Illinois program, 5,000 to 8,000 vehicles are randomly selected per week, and the owners are sent an insurance verification form that must be completed and returned within 30 days. The vehicles are pulled from the general pool of all vehicles registered in Illinois and from smaller special pools of vehicles that have previously been identified as uninsured. The Illinois program differs from the suspended Minnesota random sample program in that it selects vehicles rather than drivers. For example, an Illinois resident could own five vehicles, and only one vehicle may be selected for any particular sample.

Once sampled, the vehicle owner must respond by mail or fax; Illinois' system does not permit electronic responses over the internet. All responses are manually entered into a spreadsheet by the vehicle identification number, NAIC insurance company code, and the given policy number. The approximately 800 insurance companies licensed to do business in Illinois are broken down into four groups; once a month, each group receives the spreadsheet of responses for their companies to verify. Most are sent by mail, with only 12 companies receiving electronic requests. Once the insurance company has verified the list, it is returned; the results are manually entered into the Illinois record base. Illinois sends letters to all vehicle owners who fail to respond, have insurance coverage denied, or who responded that they had no insurance on the given date. The vehicle's license plates are suspended until insurance is obtained and a \$100 reinstatement fee is paid. Like Alabama, Illinois takes action against the vehicle rather than the vehicle owner as was the case here in Minnesota. To compliment the plate suspension requirement, Illinois has a minimum \$1,000 fine for driving a vehicle with suspended license plates from a previous insurance violation.

Illinois allows vehicles in the random sample pool to be reported as "not in use" but will place a notation on the vehicle record to place the vehicle in the short pool of sample participants within 30-90 days after the vehicle has been registered to prevent individuals from attempting to avoid the sample process by claiming non-use. The random sample program in Minnesota did not track non-use responses.

Illinois had an average rate of 12.1 per cent uninsured motorists between 1989-1995; the rate has been consistently higher under the random sample program, 16 per cent in 1999, 16.4 per cent in 2000, 16.8 per cent in 2001, 16.2 per cent in 2002 and 2003, and 16.1 per cent in 2004.

## CONCLUSION

The information reviewed by the Insurance Verification Working Group does not prove that administering an insurance verification program to target a relatively small number of uninsured motorists (i.e., those who can afford insurance, but for unknown reasons do not obtain insurance) would be cost effective and reduce the current rate of uninsured motorists in Minnesota.

The sixteen states administering insurance verification systems (other than Pennsylvania) have higher uninsured motorists claim rates and/or bodily injury claim rates than Minnesota, according to the 2006 report prepared by the Insurance Research Council.

## RECOMMENDATIONS

Based on the working group's findings, the Department of Public Safety recommends to the Legislature that the Division of Driver and Vehicle Services continue its administration and enforcement of Minnesota's motor vehicle insurance laws. Current procedures have resulted in decreasing Minnesota's rate of uninsured motorists. The Department's review of other state insurance verification programs does not provide evidence that creating an expensive verification program will result in the lowering of a state's uninsured motorist rate.