



Maryland Department of Transportation
The Secretary's Office

January 9, 2012

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

Beverley K. Swaim-Staley
Secretary

Darrell B. Mobley
Deputy Secretary

The Honorable David D. Rudolph
Maryland House of Delegates
House Office Building, Room 231
6 Bladen Street
Annapolis MD 21401

The Honorable Nancy R. Stocksdale
Maryland House of Delegates
House Office Building, Room 322
6 Bladen Street
Annapolis MD 21401

Dear Delegates Rudolph and Stocksdale:

Attached for your review and comment is the Motor Vehicle Administration's report concerning *Online Motor Vehicle Liability Insurance Verification System*. In 2010, the two of you sponsored House Bill 1528 *Motor Vehicle Administration – Online Motor Vehicle Liability Insurance Verification System – Required Study*. The bill required the Motor Vehicle Administration (MVA) to study implementation of a new online system for verifying automobile insurance. Among other factors, “[t]he study should examine:

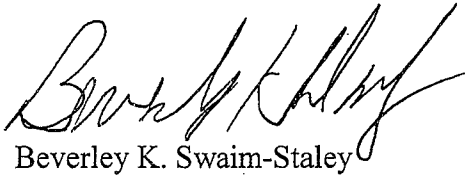
- (1) the cost of establishing and administering such a system;
- (2) how the system will integrate with existing Administration and law enforcement systems;
- (3) appropriate measures to secure data against unauthorized access;
- (4) how the system will accommodate low-volume insurers;
- (5) how the system will track motor vehicles that are subject to another form of security in place of a vehicle liability insurance policy as authorized under § 17-103 of the Transportation Article; and
- (6) any other matter the Administration considers important.”

The MVA recognized that studying an improved automated insurance system could be beneficial to both the motoring public and the State. Although the bill was withdrawn, the MVA agreed to perform this study and report back to the sponsors with an interim report and a final report. The interim report was issued in December of 2010, and attached you will find MVA's final report.

The Honorable David D. Rudolph
The Honorable Nancy R. Stocksdale
Page Two

If you have any questions or concerns regarding this report, please do not hesitate to contact Mr. John T. Kuo, Administrator, Motor Vehicle Administration, at 410-768-7295. Of course, you are always welcome to contact me directly.

Sincerely,

A handwritten signature in cursive script, appearing to read "Beverley K. Swaim-Staley".

Beverley K. Swaim-Staley
Secretary

cc: Mr. John T. Kuo, Administrator, Motor Vehicle Administration

Online Motor Vehicle Liability Insurance Verification System
(Although HB 1528 (2010 Session) was withdrawn,
this Study was completed at the request of Bill Sponsors)

Motor Vehicle Administration

January 2012

Online Motor Vehicle Liability Insurance Verification System

Table of Contents

Legislative Background.....	2
Current Law & Information.....	2
Current Process.....	3
Previously Identified Issues and Possible Solutions - December 2010 Report.....	4
Additional Issues Identified.....	5
Short -Term Process Improvements	5
Benefits of Process Improvements	7
System Options for Further Improvement.....	8
Cost of an Online Verification System.....	9
Conclusion.....	9

Online Motor Vehicle Liability Insurance Verification System

Legislative Background

In 2010, House Bill 1528 *Motor Vehicle Administration – Online Motor Vehicle Liability Insurance Verification System – Required Study*, was introduced by Delegate David Rudolph and Delegate Nancy Stocksdales. The bill required the Motor Vehicle Administration (MVA) to study implementation of a new online system for verifying automobile insurance. Among other factors, “[t]he study should examine:

- (1) the cost of establishing and administering such a system;
- (2) how the system will integrate with existing Administration and law enforcement systems;
- (3) appropriate measures to secure data against unauthorized access;
- (4) how the system will accommodate low-volume insurers;
- (5) how the system will track motor vehicles that are subject to another form of security in place of a vehicle liability insurance policy as authorized under § 17-103 of the Transportation Article; and
- (6) any other matter the Administration considers important.”

The MVA recognized that studying an improved automated insurance system could be beneficial to both the motoring public and the State. Although the bill was withdrawn, the MVA agreed to perform this study and report back to the Sponsors with an interim report and a final report by December 31, 2011. The interim report was issued in December of 2010.

This final report covers issues that have been identified as barriers to a potential online motor vehicle insurance verification system, and possible solutions to overcome those barriers. To date, this report reflects the input MVA has received in separate meetings with the Maryland Insurance Administration (MIA), the Maryland Automobile Insurance Fund (MAIF), the Maryland State Police (MSP), Maryland Chiefs of Police, the Maryland Sheriff’s Association, an open meeting with the insurance industry, separate meetings with individual insurance companies and meetings with multiple software vendors.

Current Law & Information

With the exception of farm equipment, special mobile equipment, or a vehicle crossing the highway from one property to another, all motor vehicles registered in Maryland must maintain at all times minimum levels of insurance. (TR § 17-102) As of January 1, 2011, those minimum limits are set at \$30,000 for the death or bodily injury arising from an accident for one person and up to \$60,000 for the death or bodily injury for any two or more persons. The minimum insurance coverage for property liability arising from an accident is \$15,000. (TR § 17-103)

Maryland statute imposes a fine on individuals of \$150 for days 1-30 for each vehicle uninsured and \$7 per day thereafter with a maximum not to exceed \$2,500 per vehicle in a 12-month period. (TR § 17-106) The public policy supporting the fine is a rationale that it should be more expensive to operate a vehicle without insurance than it is to maintain valid insurance. The fines

Online Motor Vehicle Liability Insurance Verification System

are meant to provide a disincentive against operating a motor vehicle without motor vehicle insurance even for a short time.

There are over 500 active companies authorized by the Maryland Insurance Administration (MIA) to write motor vehicle insurance policies for the over 4.8 million vehicles registered in Maryland.

Maryland calculates that the uninsured vehicle rate has remained stable at around 5% for the past few years. MVA arrives at this number by dividing the number of uninsured vehicles reported to MVA by the number of vehicles registered in the state at any given time.

Current Process

Prior to the year 2001, insurance verifications were performed manually by randomly selecting 5% of vehicles annually for verification. This process was a paper-based, labor-intensive system. The system required the Administration to notify the vehicle owner and required the vehicle owner to contact their insurance provider, which in turn submitted an insurance certification (Form FR-19) to the Administration. This manual system placed a burden on the vehicle owner and the insurance industry and was not an efficient process to penalize owners of uninsured motor vehicles.

In October 2000, the MVA implemented the system that it currently utilizes, an Automated Compulsory Insurance System (ACIS) computer program to track reports of uninsured motor vehicles that are registered for use on public highways in the State of Maryland. This was the first automated system of its kind in the country. MVA no longer needs to audit records of individual vehicles to ensure compliance. Instead, individual insurance carriers transmit information on their customers to the MVA. If an individual terminates an insurance policy (through sale of the vehicle, failure to make payment, or to transfer to another company), the termination information is sent by the insurance carrier to the MVA.

After the policy termination is sent to the MVA, the MVA marks the vehicle record awaiting notification from a new insurance carrier that the customer has switched insurance companies. On the 45th day, if new business is not reported, the MVA will create an insurance inquiry case requesting the vehicle owner(s) to contact their insurance carrier to provide proof of insurance coverage. If the vehicle owner(s) are unable to provide proof of insurance coverage within 15-days the vehicle owner(s) are notified that their vehicle's registration will be suspended. On the 60th day, a second notice is sent and the vehicle's tags are suspended. On the 80th day, a third and final notice is sent. After the third notification, on the 105th day, a tag pick up order is issued on the vehicle's registration to indicate to law enforcement and MVA investigators to seize the vehicle tags.

Maryland Automobile Insurance Fund (MAIF) policy holders are subject to a separate statutory process. Because MAIF drivers are higher risk and have been rejected by at least two (2) private insurance companies, Maryland law requires an expedited time frame for the customer to provide proof of insurance. On the 10th day, if new business is not reported, the MVA will create an

Online Motor Vehicle Liability Insurance Verification System

insurance inquiry case requesting the vehicle owner(s) to contact their insurance carrier to provide proof of insurance coverage; if the vehicle owner(s) are unable to provide proof of insurance coverage within 15-days a second notification is sent stating that the vehicle's registration will be suspended. After the third notification, on the 40th day, a tag pick up order is issued on the vehicle's registration to indicate to law enforcement and MVA investigators to seize the vehicle tags.

During fiscal year 2011, the MVA created 409,720 insurance violation cases. Of those cases, 107,065 (26.1%) were found to involve no actual lapse in coverage. However, those cases required MVA employees to further investigate each to determine that there was no actual lapse, and many required the vehicle owner to obtain verification of coverage from their insurer (i.e. an FR-19). MVA has identified internal process changes that will greatly reduce the number of cases created where there was no lapse in coverage. It is expected that an online verification system would further reduce cases created without a genuine lapse in coverage.

Previously Identified Issues and Possible Solutions - December 2010 Report

In its December 2010 Interim Report, the MVA identified certain existing statutory and regulatory issues that would need to be addressed to successfully implement an online insurance verification system. Those issues and possible solutions to them follow.

1. Maryland law does not require insurance companies to notify the MVA of new customers.

Currently, "[e]ach insurer or other provider of required security immediately shall notify the Administration of those terminations or other lapses that are final." (TR § 17-106(b)(1)) However, there are no statutory or regulatory requirements for insurance providers to notify the MVA of new business. In accordance with the Insurance Article, insurers have a 45-day window in which they can cancel a newly insured customer for any reason. (Insurance Article § 27-602) As a result, many insurance companies do not notify the MVA of their new customers until after this period expires, if at all. This creates significant gaps in insurance information available to the MVA in assessing coverage on a real-time basis.

For any online motor vehicle insurance verification system to be effective, insurance companies must be required to notify the MVA immediately of new business in addition to terminated policies. This would require a change to Maryland statute. This change should be made prior to instituting an online insurance verification system to ensure that the system reflects accurate information, enabling efficient enforcement of motor vehicle insurance requirements.

2. It is not always clear when a vehicle is covered by insurance and when it is not covered by insurance.

There are two situations that have been identified as creating a lack of clarity with respect to whether or not a vehicle is covered by insurance at any given time. The first situation involves an insurance industry practice of allowing an insurance policy that has been terminated due to

Online Motor Vehicle Liability Insurance Verification System

lack of payment, for a certain period of time, which varies from insurer to insurer, to be reinstated from the date of termination once the back payment has been made, as long as there were no accidents during the unpaid period. There is no current law or regulation that addresses this industry practice and the retroactive coverage that results makes it difficult to prosecute and penalize those motorists who operate without insurance during the unpaid period.

The second situation that creates ambiguous insurance coverage is specific to MAIF. Third party underwriters make payments to MAIF on behalf of customers that finance their vehicle insurance through MAIF. If the insured fails to make a scheduled payment to the third party financing company, the financing company can either add a late fee and wait for payment, which may or may not be forthcoming, or notify MAIF of payment pending status, meaning that the insured may be covered at the time, but is pending cancellation. This situation, similar to the first, creates an unpaid period of uncertainty for which retroactive coverage may or may not apply.

Additional Issues Identified

1. Binders

The insurance industry practice of writing a “binder” as the first step in insuring a motorist can present unique problems to implementation of an online system. A “binder” is temporary (generally from 30 to 90 days) insurance that covers an individual who is awaiting approval of a full insurance policy. Some states do not consider binders to be insurance coverage. For example, the state of Oklahoma does not consider binders to be insurance policies. In Oklahoma, law enforcement officers are permitted to accept written proof of a binder as proof of insurance, and where the officer issues a citation, the driver can go to court to contest the citation, at which time the driver’s actual insurance policy should be in effect and the court, which also has access to the online system, can then dismiss the charge. One vendor offers an optional feature that allows insurers to enter temporary records, or binders, for new policies. The system would then monitor that vehicle’s status, awaiting issuance of a policy, and would report to the MVA any vehicles for which a policy was not issued within the binder period.

2. Newly Acquired Vehicle Grace Periods

Another timing issue that could impact implementation of an online system involves grace periods for adding newly acquired vehicles to an insured’s policy. Insurers will typically contractually cover newly acquired vehicles for a certain period of time before the vehicles are actually added to the insured’s policy. Inquiry into coverage for these vehicles will generate a negative response, despite the fact that the vehicle owner’s insurance carrier insures the vehicle.

Short -Term Process Improvements

After a thorough analysis of the current process, it is clear that there are a number of process improvements that could yield significant efficiencies. The MVA has begun to implement the following interim initiatives in an effort to increase the effectiveness of the current system.

Online Motor Vehicle Liability Insurance Verification System

1. Working with insurers to report electronically via file transfer protocol (FTP), for those that are not already reporting in this manner.

MVA receives information from insurers in various forms, requiring various levels of employee processing. The least labor intensive and most secure format involves FTP files, which can be received and processed automatically. File Transfer Protocol (FTP) is a standard network protocol used to transfer files from one host to another over the Internet. It will be imperative for any online system to receive files in FTP format for automatic processing. Accordingly, MVA is working with insurers to transition those not currently reporting via FTP files to start reporting via FTP, and to ensure that all insurers have both the knowledge and capability to transfer their information using that protocol. This will result in more secure and timely data that is more accurate.

2. Encouraging insurers to report their business on a daily basis.

Insurers currently report their business to the MVA at differing intervals, ranging from daily to monthly. While insurers are required to report cancellations immediately, they are not required to report new business at all as detailed in the interim 2010 report. However, generally insurers do report new business, but not within a consistent timeframe. MVA is working with the insurance industry to encourage daily reporting of business. Increasing the frequency of reporting business will result in fewer cases found to involve no actual lapse in coverage.

3. Working to open lines of communication with the Maryland Insurance Administration (MIA) to help ensure that all insurers are fulfilling their reporting obligations to the MVA.

All insurers are required to report their cancellations of coverage to the MVA immediately. The MVA is working with the MIA to establish a process for ensuring that insurers are fulfilling their reporting obligations, since the MIA is the licensing and regulatory agency with authority over the insurance industry.

4. MVA has promulgated regulations requiring notification of vehicles that are self-insured.

Recently, MVA has begun to collect current information to verify vehicles that are part of an approved self-insurance process such as the State of Maryland. MVA now collects information on these vehicles and issues an insurance card for each vehicle containing certain required information. These new requirements will improve the accuracy of the self-insurance data that MVA maintains.

The MVA anticipates having these four process improvements implemented by the end of Summer 2012. Once these short-term process improvements are implemented and MVA is receiving the daily updates on adds and cancellations from every insurance company, the MVA will house a fairly accurate and comprehensive insurance database for every vehicle registered in Maryland. MVA plans to offer this information to law enforcement so that during a traffic stop, or any other time, law enforcement would be able to see up-to-date information on the insurance status of any Maryland registered vehicle on the road. The system would still have limitations in

Online Motor Vehicle Liability Insurance Verification System

that it would only be as accurate as the data reported by insurance companies, the information would likely be a day old, and the system would not compensate for things like newly purchased vehicles and retroactive adds, but it would be more accurate and comprehensive than most systems that currently exist nationally.

Benefits of Process Improvements

The process improvements noted above are expected to provide several benefits to all interested parties. The benefits for the motoring public, for the MVA, for law enforcement, and for the insurance industry are detailed below.

1. Benefits to the Motoring Public

The system would reduce the number of cases found to involve no actual lapse in coverage reported to MVA and would reduce the number of fines directed at individual motorists who are actually covered by insurance. This reduction in the number of cases found to involve no actual lapse in coverage reported to the MVA would also reduce the burden on motorists to prove and verify coverage through their insurers, which currently involves a manual process. Motorists would also benefit from the reductions in uninsured drivers and insurance fraud that would result from better administration and enforcement of the compulsory insurance laws, which would ultimately make Maryland's roadways safer. The reduction in uninsured motorists could also potentially lead to lower insurance rates for all motorists.

2. Benefits to the Motor Vehicle Administration

The reduction in the number of cases found to involve no actual lapse in coverage would also reduce the MVA workload associated with those cases, giving employees additional time to address actual lapses that require more attention. MVA would send out less mail and have to verify fewer cases leading to increased efficiency. The system would also enable the MVA to more quickly address actual insurance lapses by reducing the waiting period between when a cancellation is reported and when the vehicle's tags can be flagged for seizure by law enforcement. Based on the receipt of more timely insurance information, MVA will be reviewing the process for issuing tag pick-up orders in an effort to tighten up that time frame.

3. Benefits to Law Enforcement

An improved system would also strengthen insurance compliance enforcement efforts by giving law enforcement officers a more accurate means to determine whether a motorist is currently insured. The system improvements would also reduce incidences of fraudulent insurance documents, or insurance cards. A motorist would not be able to provide law enforcement with a fraudulent insurance card, because that insurance would not verify through the system. The system would also prevent motorists from obtaining insurance coverage just until they receive their insurance card, at which time they cancel or stop making payments on the policy, but continue to carry the card as if it were valid.

Online Motor Vehicle Liability Insurance Verification System

4. Benefits to Insurance Industry

The strengthening of law enforcement efforts with respect to insurance verification will ultimately benefit the insurance industry as those drivers who are found to be without valid insurance coverage seek such coverage from insurers. Moreover, process improvements will dramatically reduce the number of verifications that insurers have to process, particularly for cases found to involve no actual lapse in coverage. Insurers would also benefit from reduced expenses for fraudulent and uninsured driver claims.

System Options for Further Improvement

The next step toward obtaining more timely and accurate information, beyond the above noted process improvements, would be to implement an online insurance verification system. There is no nationally recognized universal model for an insurance verification system. States tend to design models for insurance verification that are unique to their law enforcement and motor vehicle verification needs. Many states seem to have a model similar to Maryland's current model that will identify insurance lapses after a period of time. Other states have outsourced some or all insurance verification functions including maintenance of the uninsured database, monitoring insurance for all vehicles, notification of lapses, assessment of debt, customer service functions, and collection of fines.

After a review of the various options, MVA recommends a hybrid system that incorporates the best elements of the models studied requiring both an "event-based" and "on-going verification" process.

The "event based" process would be employed when an individual queries the system to determine whether a specific vehicle is currently insured, and the system promptly returns the results of the query. There are multiple methods of running the back end processes to generate this data, but the end result is that the user of the system would get up-to-date information on the insurance status of any vehicle at any given point in time. The "event based" process could also be employed in various MVA processes such as when registration renewal notices are pending.

The "ongoing verification" process would monitor and report insurance coverage on an ongoing basis. Under this process, insurers would report their full book of business via File Transfer Protocol (FTP) at regular intervals to a database. Software would compare the new books of business to the last books reported to determine the changes. The new information is compared with and matched to the registration database to identify insurance lapses that the "event based" system may not have discovered.

This hybrid approach would provide the most comprehensive information on a vehicle's insurance coverage by enabling a historical review of insurance and a point of inquiry into current coverage. Confidentiality of motorists' information would be protected because only authorized users would have access to the information, the information available would be limited, and technological safeguards (e.g. encryption) would be incorporated. The system would provide current status and could be incorporated into the registration renewal process. In

Online Motor Vehicle Liability Insurance Verification System

addition, consistent with their wishes, the system would also provide law enforcement with a clear electronic display indicating that a vehicle is either insured or uninsured.

While the insurance industry consists of a diverse group of businesses with differing processes and technological capabilities, their feedback with respect to this online verification project has been very favorable, and it is anticipated that they generally support the concept to develop such a system.

Cost of an Online Verification System

It is very difficult to estimate the costs of building and maintaining such a hybrid system. There are many different system designs and capabilities. Such systems can either be designed internally or by a third party contractor, and can incorporate various additional services. The task of estimating cost is further complicated by the differences between states in numbers of vehicles monitored, in statutory and regulatory requirements, and in insurance requirements and industry practices.

MVA contacted several jurisdictions that have such systems in place to inquire as to their costs. The state of South Carolina uses a third-party vendor for both their system and their customer contact center, and pays \$1,400,000 annually for the system and \$960,000 annually for the contact center. South Carolina has approximately 3,950,498 registered vehicles, bringing the annual cost per vehicle to approximately 35 cents for the system and 24 cents for the contact center. The state of Wyoming also uses a third-party vendor and pays 3.75 cents per vehicle per month (45 cents per vehicle, annually). Wyoming has approximately 899,983 registered vehicles. The state of Oklahoma designed and implemented their system in-house, with a one-time initial set-up cost and one full-time employee to maintain and monitor the system. Oklahoma has approximately 3,784,306 registered vehicles.

Conclusion

This report has identified the best model for comprehensive insurance verification. The model is technologically feasible and would be of benefit to law enforcement, MVA, and the general public. If the hybrid system discussed in this report were fully implemented, Maryland would again be a national leader in the verification of vehicle insurance.

MVA has begun making internal process changes under existing authority; it is expected that these improvements will make significant improvements in efficiency and accuracy of the insurance reporting system in Maryland.

However, more extensive technology improvements will need to be made in order to achieve a true system of real-time insurance information. This will be a policy decision and require evaluation of available resources to implement this vision.