

1998 Special Report

Motorist Insurance Identification Database Results

A Special Report to the Colorado General Assembly



Submitted by the Department of
Regulatory Agencies

October 15, 1999

Members of the General Assembly
State Capitol Building
Denver, Colorado 80203

Dear Members of the General Assembly:

The Colorado Department of Regulatory Agencies has completed the evaluation of the motorist insurance identification database program results as required by §42-7-608, C.R.S.

Sincerely,

M. Michael Cooke
Executive Director

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Background

The Department of Regulatory Agencies (DORA) is required by §42-7-608 (1), Colorado Revised Statutes (C.R.S.), to conduct a review of the Motorist Insurance Identification Database Program Act (Act). The Act requires DORA to review the operation and performance of the program to determine if the number of uninsured motorist claims reported by insurers have declined since July 1, 1997.

The Act was originally created by the General Assembly with the passage of SB 95-172 and was known as the Uninsured Motorist Identification Database Program. SB 95-172 directed the Transportation Legislation Review Committee to examine Colorado's compulsory motor vehicle insurance system and the problem of uninsured motorists in the state for the purpose of proposing legislation to "...alleviate if not eliminate the problem."

In 1997, HB 97-1209 was passed by the General Assembly and signed into law. This bill amended several provisions in the motor vehicle statutes and created the Motorist Insurance Identification Database Program. The bill amended both the Uninsured Motorist Identification Database Program and added a new provision to Title 10 of the C.R.S., requiring all insurance companies licensed in Colorado to underwrite motor vehicle insurance to make reports according to the provisions of the Act.

HB 97-1209 authorizes the Division of Motor Vehicles (Division) in the Department of Revenue (DOR) to establish funding for the program by creating an additional fee for motor vehicle registrations, not to exceed one dollar, to be implemented effective September 1, 1997. The program, as expanded by HB 97-1209 requires the DOR to contract with a vendor to establish a database to match motor vehicle insurance policies as reported by insurers with motor vehicle registrations filed with DOR.

The Act was amended again in 1998 by HB 98-1213, which amended the statute to prohibit the initial registration, or renewal of a motor vehicle without proof of valid insurance. Further, the Commissioner of Insurance (Commissioner) is required to inform the public of the requirements of mandatory motor vehicle insurance and the prohibition against operating a motor vehicle without insurance coverage.

Statutory Summary

The major provisions of the Motorist Identification Database Program Act are contained in §42-7-601, C.R.S., et seq. Part six begins by stating that the effective date of the program shall be July 1, 2001, unless a review conducted by DORA shows the number of uninsured motorist claims have declined between July 1, 1997 and the date of the review.

As previously stated, the Act directs the Transportation Legislation Review Committee to conduct an examination of the problem of uninsured motorists and propose legislation to alleviate the problem. The Committee is also directed to review the mandatory motor vehicle insurance requirements in Colorado and uninsured motorist database programs in other states.

The Act states that the intention of the General Assembly is to reduce the uninsured motorist population in the state. The General Assembly recognizes that information required of insurance carriers is proprietary in nature and directs parties with access to the information to maintain confidentiality with respect to any proprietary information.

The Division of Motor Vehicles is directed by the Act to contract with a private vendor, termed a designated agent, by January 1, 1998. The designated agent is required to convene a work group consisting of representatives of the insurance industry, the Division of Insurance (DOI), the Colorado Department of Public Safety, Division of Motor Vehicles, and DOR to develop a plan to implement the database program.

The Act requires the designated agent to establish a database of insured motorists, cross-referenced with Division motor vehicle registrations and drivers license information by January 1, 1999. The Division is required to develop procedures so the database is easily assessable by law enforcement personnel. The designated agent is required to update the database monthly, beginning January 1, 1999. The Division is directed to contact the owner of a motor vehicle that has been reported by the designated agent to be without insurance for three consecutive months and notify the owner that he or she has 45 days to demonstrate that the vehicle either has or is exempt from insurance requirements or the license plates of the vehicle will be subject to seizure. (§42-7-605(1), C.R.S.)

All insurance companies underwriting motor vehicle insurance in Colorado are required by the Act to report policyholder information and uninsured motorist claims to the Commissioner. The DOI is required by the Act to contract with a vendor to compile information reported by insurance companies to the Commissioner for the purpose of comparing claims prior to the implementation of the program to those after the program has been established.

Section 42-7-606, C.R.S. details information required to be included in the database and restricts access to the information to specific agencies and individuals identified in the statute. Unauthorized disclosure of confidential information included in the database is a Class I misdemeanor punishable under §18-1-106, C.R.S.

The Act contains a repeal date of July 1, 2001 subject to a review by DORA to determine whether there has been a decline in the number of uninsured motorist claims. The DORA report is to be submitted to the General Assembly by October 15, 1999.

Related Statutes

The purpose of the database program is to enforce the provisions of Articles 3 and 4 of Title 42, which concern the regulation of motor vehicles and traffic. Included in these articles are the requirements for registration of motor vehicles with the DOR and the compulsory insurance requirements for motor vehicles (§42-4-1409 and 1410, C.R.S.). Section 42-7-501, C.R.S., provides an exemption from the compulsory insurance provision for owners of fleets of more than 25 vehicles meeting the requirements for self-insurance under §10-7-716, C.R.S.

Insurance companies are licensed and regulated by the Commissioner of Insurance and the provisions of Title 10 of the C.R.S. The Commissioner is required by §10-1-108 (17)(a) C.R.S. to inform the public about the state compulsory insurance requirements. The provisions detailing the requirements of motor vehicle insurance are contained in §10-7-705 C.R.S. Section 10-4-604.5, C.R.S. requires insurance to issue proof of insurance to consumers. While most regulatory authority over insurance companies, including disciplinary actions, is vested in the Division of Insurance, the DOR has the ability to fine companies failing to report required auto insurance policy information \$250 per day of noncompliance under the provisions of §10-4-615 (4)(a) C.R.S.

PROGRAM DESCRIPTION

In accordance with the Act the DOR has contracted with a designated agent to compile the database. The working group required by §42-7-604(4)(b), C.R.S., developed reporting procedures and format. The Division and insurance companies began submitting insurance policy, vehicle registration and driver license information to the designated agent in March of 1999. The first policy information matching began in April of 1999.

According to DOR there are approximately 600 insurance companies reporting policy information on approximately three million vehicles to the designated agent on a monthly bases. Forty nine companies have been issued warnings by DOR for failure to supply data in the timeframes required by the Act. The DOR supplies the designated agent registration information for just approximately million vehicles each month.

Colorado motor vehicle statutes require that all accidents involving motor vehicles must be reported to the Division. The Division compiles accident data reported by law enforcement agencies and parties involved in the accident. If law enforcement agencies respond to an accident, the officer requests documentation of insurance. If documentation is not submitted, the officer may issue a ticket for no proof of insurance. If the party who did not have proof of insurance is able to subsequently document that insurance was in force at the time of the accident, no additional action is taken. If the vehicle in question was not insured, the Division begins suspension proceedings under the state motor vehicle Financial Responsibility Act (FRA) provisions. The Division has provided a monthly analysis of FRA actions since July 1, 1997. These actions are detailed in Table 1.

TABLE 1
FRA SUSPENSIONS

MONTH	FISCAL YEAR 1997/98	FISCAL YEAR 1998/99	FISCAL YEAR 1999/2000
July	4,084	2,227	1,385
August	3,003	1,811	1,556
September	2,191	1,866	1,730
October	275	2,180	
November	235	1,377	
December	2,916	1,866	
January	2,512	906	
February	2,961	1,778	
March	3,239	2,112	
April	1,492	2,030	
May	3,545	1,878	
June	1,414	1,396	
TOTAL	27,867	21,427	*4,671

*First quarter data

FRA actions directly correlate to accidents involving uninsured motorists. According to the information in Table 1, accidents involving uninsured motorists declined 23 percent, from 27,867 to 21,427 from fiscal year 1997/98 to 1998/99. It appears from this information that uninsured claims should have decreased 23 percent over the time period reviewed. However, the number of accidents involving uninsured motorists does not necessarily correlate to uninsured motorist claims. Also, accidents involving uninsured motorist must be compared to the total number of accidents to give a more accurate portrayal of the percentage of accidents involving uninsured motorists. Table 2 details the total number of accidents by month for the period covered.

TABLE 2
TOTAL ACCIDENTS REPORTED

MONTH	FISCAL YEAR 1997/98	FISCAL YEAR 1998/99	FISCAL YEAR 1999/2000
July	16,335	14,058	10,892
August	12,672	13,959	11,287
September	12,474	15,741	12,971
October	13,959	12,870	
November	12,177	8,223	
December	12,276	17,622	
January	13,464	14,553	
February	16,632	13,464	
March	15,345	18,216	
April	16,751	10,989	
May	7,623	13,365	
June	19,107	12,088	
TOTAL	168,815	165,148	35,150

*First quarter data

It is necessary to point out that any reduction in the number of uninsured motor vehicle accidents during this time period are not necessarily attributable to the Motorist Insurance Identification Database, since the program did not actually become operational until April, 1999. Data supplied by the designated agent since April, 1999 show an increase in the percentage of insured vehicles identified in the database. The maximum insured rate has increased approximately five percent since the program implementation in April. However, this does not necessarily mean more vehicle owners are complying with the compulsory insurance laws. Better reporting of data by insurance companies, the Division, and improved procedures implemented by the designated agent also contribute to the improved percentage. Until the program has been operational for two complete vehicle registration cycles, the data reported by the designated agent does not have a valid baseline with which to evaluate compliance. The most recent information available from the designated agent is contained in Table 3.

TABLE 3

1999 MOTORIST INSURANCE IDENTIFICATION DATABASE STATISTICS

	APRIL	MAY	JUNE	JULY	AUGUST
Registered Vehicles	3,817,904	3,859,361	3,939,350	3,981,028	3,756,122
Vehicle Policies	2,931,343	2,985,696	3,144,145	3,205,585	3,112,808
Policies Matched	2,879,663	2,938,371	3,060,215	3,109,103	3,049,130
Unknown Policies	51,680	47,325	83,930	96,482	63,678
Unmatched Vehicles	938,241	920,990	879,135	878,925	706,992
Uninsured Rate	24.68%	23.86%	22.32%	21.90%	18.83%
Max Insured Rate	76.78%	77.36%	79.81%	80.52%	82.87%

- Vehicle policies are those vehicles, identified by vehicle identification number (VIN) in insurance policies reported to the designated agent by insurance companies.
- Policies matched are those vehicles identified by insurance companies as insured that match with vehicles registered with the Division.
- Unknown policies are those policies that identify vehicles not registered with the Division.
- Unmatched vehicles are those registered vehicles without a specific policy identified in the database.
- Uninsured Rate is the percentage of unmatched vehicles to total vehicles.
- Max insured rate is the maximum percentage of vehicles that could be covered by reported insurance policies.

Analysis

The of this review, as required by §42-7-608(1), C.R.S. is to determine if the number of uninsured motorist claims has decreased between July 1, 1997 and the date of the report. There are conflicting requirements in the Act. The sunset provision for the Act contains a repeal date of July 1, 2001 unless this review required by §42-7-608 (1), C.R.S. and submitted by October 15, 1999 finds a reduction in uninsured motor vehicle claims. However, §42-7-608, C.R.S. also refers to the sunset statute, §24-34-104, C.R.S., which requires a review according to the provisions of the sunset repeal schedule.

The sunset repeal schedule, §24-34-104 (30)(a)(VI), C.R.S., requires that a review of the insurance company reporting requirements contained in §10-4-615, C.R.S., be submitted to the General Assembly by October 15, 2000. The insurance company reporting requirements then refer back to the report required by §42-7-608 (1), C.R.S.

In addition, § 42-7-601, 608 and 609 of the Act require DORA to determine if the number of uninsured motorist claims have decreased between July 1, 1997 and the date of the report. However, §42-7-603 (7), C.R.S., requires the Division of Insurance to contract with a company to provide the General Assembly with statistics on the frequency of uninsured motorist claims based on the fiscal year ending June 30, 1997. This report is due January 1, 1999 and each January 1 thereafter.

Colorado's compulsory insurance laws are based on a modified "no-fault" model. The concept compulsory insurance is that if all motor vehicles are insured, the public will be protected from losses caused by most bodily injury and property damage accidents.

When a state mandates insurance and forms of coverage, it influences the market for the insurance product, thereby affecting the price and availability of the product. Premiums for automobile insurance in Colorado have steadily increased over the past decade. The high cost of insurance is one factor cited for the number of individuals operating motor vehicles without required insurance. However, one component of the cost of insurance is a factor for uninsured motorists. The 1995 sunset review of the Division of Insurance estimated that uninsured motorists costs have increased premiums for compliant consumers between 10 and 15 percent. A study commissioned by the American Association of Motor Vehicle Administrators (AAMVA) in January of 1999 showed that in the seven states examined, uninsured motorist claims increased compulsory insurance rates from between \$100 to \$300 per year.¹

Colorado adopted its first compulsory automobile insurance law in 1963. Since that time, enforcement of the law has been an issue. In 1995 the

¹ "Electronic Insurance Reporting" AAMVAnet Inc. January 1999, p9.

Division of Insurance estimated that 20-25 percent of the motor vehicles operating in the state did not have the required insurance.

Requiring vehicle owners to have insurance has not resulted in universal compliance. Efforts to enforce motor vehicle insurance statutes include a requirement for the owner of a vehicle to sign an affidavit at the time of registration stating the vehicle has insurance, that it will be maintained, and requiring vehicle owners to carry proof of insurance in the vehicle at all times. Obtaining insurance and the resulting documentation (proof of insurance certificate) is relatively easy to do. However, it is also easy to cancel the insurance and use the documentation that does not have a valid policy attached to it to circumvent random checks by law enforcement officials.

Modern technology provides additional mechanisms for the state to enforce compulsory insurance laws. A recent trend in compulsory insurance enforcement is linking law enforcement officials with a computerized database that cross-references registered motor vehicles with insurance policies. Utah is one state reporting that this program has been successful in increasing compliance with compulsory motor vehicle insurance requirements.

The development of the database has been controversial. Some insurance companies have resisted the reporting requirement, based on their concern that proprietary information, such as customer lists could be obtained by competitors. There was also a concern that reporting requirements would increase costs to the companies, which would be passed on to consumers.

Difficulties in reaching agreements on the reporting requirements and other regulatory issues delayed the implementation of the program. While the General Assembly envisioned a fully operational program by no later than January 1, 1999, the program did not begin until April of 1999. Critics and advocates of the program agree that the first few months the program had operational difficulties. The data was questionable and information obtained by matching vehicles to insurance policies contained frequent errors.

The first month the program was operational, DOR reported 3,818,904 registered vehicles that should have had insurance. Insurance companies reported policies covering 2,931,343 vehicles. As shown in Table 3 on page ? only 2,879,663 policies matched vehicles registered with the DOR. This meant that 938,241, or 24.68%, of the registered vehicles could not be matched with an insurance policy. However, it is likely that 51,680 vehicles reported as Unmatched Policies actually had insurance, since the insurance companies reported that coverage was in force.

There are several reasons a vehicle may not match directly with a reported insurance policy. The most common involves a newly purchased vehicle. Owners of newly purchased vehicles have 45 days under Colorado law to register their vehicle. However, most insurance policies require vehicle owners to report the purchase of the vehicle to their agent within 48 hours to

maintain coverage. This creates a possibility for lag time between the time the insurer has information on the vehicle and the time the DOR has information. This will result in some discrepancies. To address this discrepancy, the statute allows for a vehicle to be reported as without insurance for three consecutive months before the DOR begins sending notices of administrative procedures to revoke the vehicle registration.

There are also valid reasons for some registered vehicles not to have corresponding policy information reported by insurance companies. Commercial vehicles that are covered under a general liability policy are registered with the DOR. However the policy may not list vehicles by individual VIN. Some owners of seasonal use vehicles, such as motorcycles, cancel liability insurance coverage during the portion of the year that the vehicle is not in use. However the vehicle will still show up in the DOR database. As long as seasonal use vehicles are not driven on public roadways without insurance coverage, the owner/operator is not in violation of the state compulsory insurance laws.

When DOR mailed the first notices in July of 1999, another source of discrepancies was discovered. A significant number of individuals sent notices were able to document insurance. It was discovered that in many cases, the cause of the discrepancy and subsequent notice was that an incorrect VIN had been reported either to DOR or to the insurance company.

By August of 1999, the most recent month with complete data, over 81 percent of the registered vehicles were matched with a valid insurance policy by the designated agent. Additionally, there were approximately 64,000 policies that did not match registered vehicles, bringing the possible percentage of insured vehicles to 82.87 percent.

The goal of the Uninsured Motorist Database program is to reduce uninsured motorist claims through compliance with compulsory insurance statutes. One factor necessary to determine if claims have been reduced is the establishment of a baseline. The statute designates the 12 months prior to July 1, 1997, as the year to be used to establish the baseline for uninsured motorist claims for purposes of the review to be conducted by DOI and reported each January. However, DORA is required to determine if the number of uninsured liability claims have declined from July 1, 1997 and the date of the review.

A measurement tool to evaluate compliance must be utilized to determine the effectiveness of the program. There are several options available to evaluate compliance: the percentage of registered vehicles with insurance, the dollar amount of claims involving uninsured vehicles, and the raw number of uninsured vehicle claims. Each of these measurements has advantages and disadvantages. The percentage of vehicles with insurance is probably the easiest to obtain, since that is what the database is designed to compile.

However, the fact that a vehicle does not have insurance does not necessarily impact insurance rates or liability claims.

Liability claims are directly related to insurance rates for consumers. However, calculating and comparing liability claims from year to year is complex. Dollar figures need to be adjusted for inflation, and large court settlements can distort results. Even defining what constitutes an uninsured motorist liability claim can be subject to debate. For example, a person injured in a motor vehicle accident may seek civil remedies for pain and suffering only if medical bills exceed \$2,500 when the vehicle is insured. If the vehicle is not insured, the injured individual may seek civil remedies with no medical bills.

Determining the number of uninsured liability claims is more complex than calculating the percentage of insured vehicles. It is easier to define than liability claims in terms of numbers than dollars. However, variations in numbers of claims are not necessarily directly reflected in insurance rates.

CONCLUSION

As previously shown, accidents involving uninsured motorists reported to the Division decreased 23 percent from fiscal year 1997/98 to fiscal year 1998/99. This should indicate a corresponding decrease in the number of liability claims. However, there is insufficient data at this time to conclude that the Act has positively impacted compliance with compulsory insurance statutes or that insurance rates will decline as a result of the program required by the Act.

In considering one of the stated goals of the Act, reducing the population of uninsured motorists again the data is inconclusive. 1995 estimates by the DOI placed the uninsured population at between 20-25 percent of the registered motor vehicles. As of August of 1999 the database shows an estimate of 18.83 percent of vehicles uninsured. However, this is more likely a more accurate reflection of the estimated population rather than an actual decrease.

In 1995 the City of Aurora conducted an insurance compliance checkpoint. The process for this checkpoint was to stop all drivers at a designated intersection for one afternoon to verify proof of insurance. That check revealed that 11.5 percent of the vehicles stopped did not have proof of insurance. A similar checkpoint in September of 1999 revealed that 11.9 percent of the vehicles stopped did not have proof of insurance. The number of vehicles checked in each of these actions were too small to be considered a valid sample for a statewide comparison. However, it does seem to indicate the uninsured population has not changed in that jurisdiction.

It is too early in the program to evaluate effectiveness at this time. Rather, information gathered for this review should be used in future evaluations for comparison purposes.