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Standards for Monitoring Compulsory Auto Insurance and Financial Responsibility Laws

Background

Auto insurance is compulsory in most jurisdictions. In spite of the laws that compel the purchase of auto insurance, many people choose to drive without it. Paying for those that are not in compliance with legal requirements is a problem for those that abide by compulsory insurance laws. The costs are passed along to those in compliance with legal requirements in the form of uninsured motorists coverage. Thus, in addition to paying for their own actions, each insured motorists also pays for a portion of the costs for not in compliance with legal requirements.

Many jurisdictions have tried to solve the uninsured motorists problem in a variety of ways. Among the many solutions to the lack of compliance with compulsory auto insurance are mandating the offer or purchase of uninsured motorists coverage. This appears to be a legislative recognition that the compulsory auto insurance law does not work as intended. Other solutions include no-pay, no-play legislation a system in which a person is barred from recovery if that person fails to maintain the minimum required auto insurance coverage and a variety of verification systems. Addressing issues that increase the costs of auto insurance for citizens is a concern for insurance regulators. Further, if a uniform, national cost effective approach can be identified that minimizes the administrative costs associated with gathering information needed to monitor compliance with compulsory auto insurance laws, then insurers, motor vehicle administrators, insurance regulators, law enforcement authorities and the public will be better served. Without a uniform cost effective approach, each jurisdiction will eventually develop its own unique solution. Diversity in this area will run contrary to insurance regulators' current regulatory modernization efforts.

The purpose of this paper is to identify standards that can be applied to systems that monitor the public's compliance with mandatory auto insurance or financial responsibility laws using a uniform, cost effective approach. It is intended to be vendor-neutral so that any vendor that meets the standards set forth in this paper is afforded an opportunity to provide cost effective services to the public, insurers, law enforcement, motor vehicle administrators and insurance regulators.

The NAIC White Paper, prepared by the Property and Casualty Insurance (C) Committee on Oct. 18, 2005, concluded there is an obvious need for a national, standardized data verification system with law enforcement tools that would achieve the five criteria identified by Texas in their recent HB3588 Feasibility Study. And, there should also be strong leadership from the insurance regulatory community, insurance commissioners and the NAIC in this process. To that end, the Property and Casualty Insurance (C) Committee recommended that the NAIC proceed, subject to certain guidelines, with preliminary work on the possible development of a standardized national solution, including discussions with vendors on technology and operational issues surrounding implementation of such a system.

March 24, 2006, the NAIC appointed an Uninsured Motorist Issues (C) Working Group to develop or review standards for a state-based cost-effect

Today, several methods, variations and approaches exist even within the processes described above. As new technologies emerge, new methodologies are also likely to emerge. The best practice therefore should not be to subscribe to any one methodology over another, but rather to set standards of adherence to any monitoring system used. Adherence standards ensure that methods and systems utilized meet a specific threshold of

- Allow a user to only view the minimum amount of data that a State has determined each user needs to fulfill their function within the system;
- Monitor access to the system and be able to spot, deny access and report suspect behavior;
- Report within 24 hours any suspected breach of security, data integrity or

- Matching the tracked data against the approved State list, roster, or other means identified by the State on a periodic basis (monthly at a minimum); and
- An independent auditor, as part of the annual system audit, shall audit data on the use of alternative forms of meeting compulsory auto insurance or financial responsibility requirements. These results shall be included in the report filed with the State motor vehicle administrator.

Best Practices State Owned Data

States must always balance guarding and

- 98 ±2% confidence level in data after purification and validation;
- Correction duration report; and
- An annual audit.

Accessibility Reports and Measurements

- System response time reports and measurements (recommended 5 to 7 seconds);
- Periodic user utilization reports; and
- Ratio of number of potential users vs. the number of actual users during a specific period.

Enforcement Reports and Measurements

- User activity by user type reports; and
- Number of inquiries for specified periods.

Privacy and Confidentiality Reports and Measurements

- Periodic user behavior reports;
- Reports of attacks on the system;
- Password monitoring and expiration reports; and
- Measuring password expirations with changes in passwords.

Use Ability Reports and Measurements

- Number of brochures distributed;
- Number of hits on the website;
- Number of hits by page on the website; and
- Call Center reports that include number of calls, type of calls, and actions taken as a result of call.

Best Practices Vendor Neutrality

Several states currently have in-house or vendor operated compulsory auto insurance and financial responsibility law verification and enforcement systems and some states are in the process of adopting or testing systems. In recognition of that effort and to assure that states benefit from competition among vendors, vendor neutrality is important.

Recommendations: It is the intent of the Working Group to be both vendor and technology approach neutral to ensure its success and flexibility to allow a State to join other states in sharing insured status information and other pertinent data.

Best Practices NAIC/AAMVA involvement

The Working Group believes that both the NAIC and American Association of Motor Vehicle Administrators (AAMVA) need to be involved in monitoring compulsory auto insurance and financial responsibility law verification and enforcement systems.

Recommendations: The Working Group's intent is that both the NAIC and AAMVA will recognize these standards as a starting point for the establishment and on-going monitoring of a cost-effective uniform compulsory auto insurance and financial responsibility law verification and enforcement system that effectively monitors compliance with statutory requirements and reduces the number of uninsured motorists on our nation's highways.

In summary, the Working Group recognizes that establis