INSURANCE INFORMATION AND ENFORCEMENT SYSTEM

(IIES)

New Directions in Enforcing Compulsory Insurance Laws

Report to the

Governor and Legislature

February 1, 1999

EXECUTIVE SUMMARY

Introduction

The New York State Department of Motor Vehicles (DMV) and the New York State Insurance Department (SID) are pleased to have the opportunity to report on the progress being made to implement Chapter 678 of the Laws of 1997 as amended by Chapter 509 of the Laws of 1998. DMV and SID are committed to a successful and effective program and will endeavor to make IIES a model for other states and provinces.
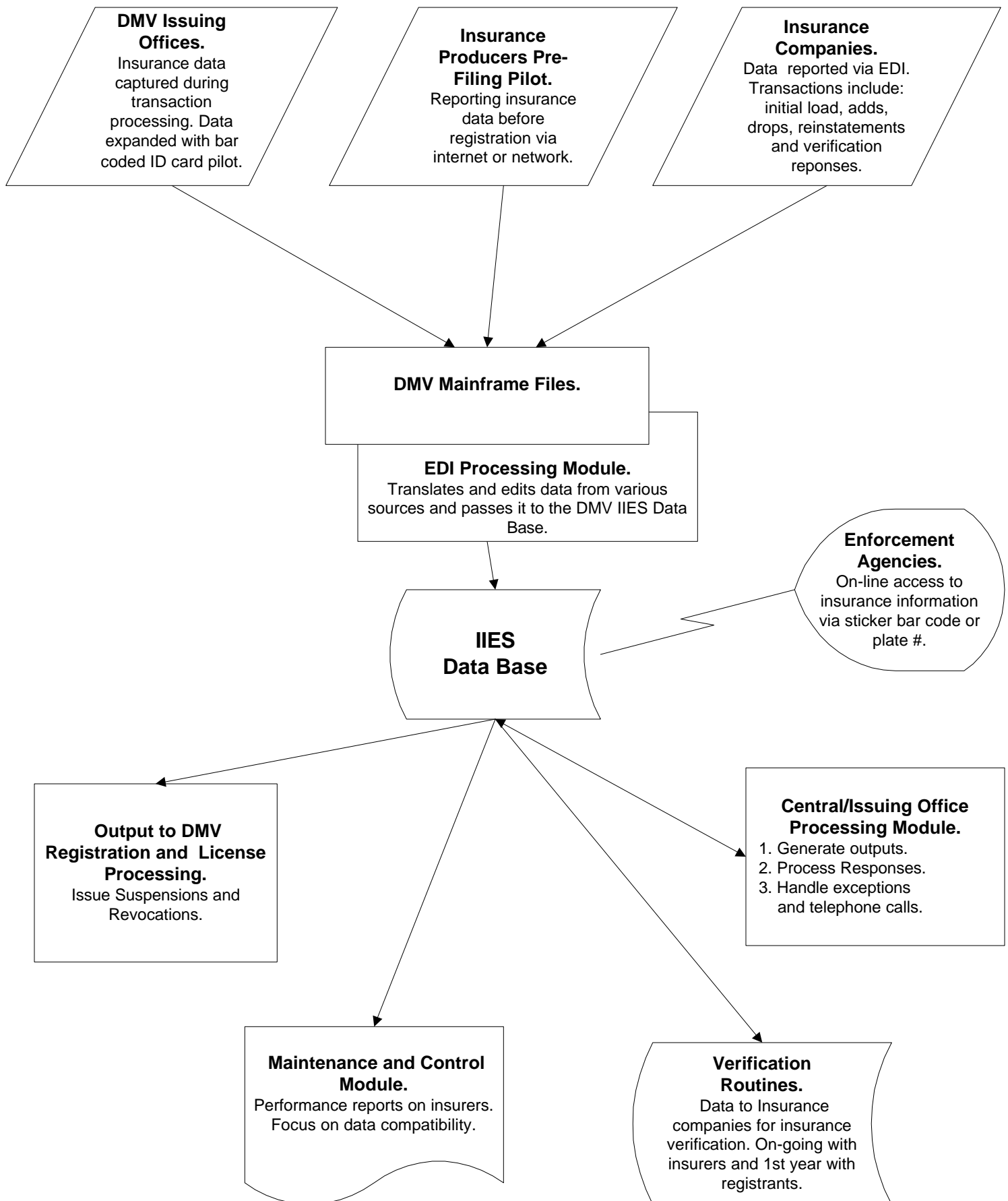
Contractor

Andersen Consulting has just begun to design and develop IIES, working closely with DMV's IIES Project Team. In spite of a later than anticipated start, we remain committed to delivering IIES on time or with only minimal delay.

IIES Project Highlights

- **On-Line Insurer FS Reporting.** The new insurer reporting component of IIES will replace the tape media used in DMV's current production system. Electronic Data Interchange (EDI), using national data standards, will be employed. Prototype testing is anticipated to begin in the summer of 1999.
- **On-Line Insurance Database.** A separate new database will be constructed, maintained and populated with insurance information from insurers and other sources.
- **Verification of Insurance Information.** A first year focus will be on transactions unmatched during initial system loading. Two strategies to be employed include:
  Verification Process #1. Ongoing process to notify insurers that policy confirmations have not been posted to IIES following registration processing. Benefits include aiding in resolution of previously unmatched transactions and detection of ID card fraud.
  Verification Process #2. A one time process to identify and then contact registrants when no confirmation of insurance was posted to IIES either as the result of initial data loading or the resubmission of corrected transactions thereafter. This process completes synchronization of the registration file and the IIES database.
- **Bar Coded Windshield Registration Sticker.** The registration sticker bar code will enable automated access to the IIES database by law enforcement personnel. Alternate access to IIES will also be available to law enforcement by using vehicle license plate number.
- **Expansion of On-Line Reporting and Database to Include For-Hire Vehicles.** IIES will be expanded to include the insurance status of liveries and other for-hire vehicles in conjunction with initial data loading or within one year thereafter.
- **Multiple Concept Security Initiative / Demonstration Pilots.** Purpose: Detect fraud at the beginning of the registration process and deny document, sticker and plates.
  ID Card with Cryptographic 2D Bar Code. Secure insurance data in the bar code.
  Pre-Filing Insurance Information. Report insurance data before registration.
- **Focus on Data Compatibility.** Address all known and potential problems. Clearly and comprehensively detail IIES requirements, rules, definitions, specifications and procedures to reduce unmatched and non-timely submissions to five percent or less.

INSURANCE INFORMATION & ENFORCEMENT SYSTEM (IIES)

DMV Issuing Offices.
Insurance data captured during transaction processing. Data expanded with bar coded ID card pilot.

Insurance Producers Pre-Filing Pilot.
Reporting insurance data before registration via internet or network.

Insurance Companies.
Data reported via EDI. Transactions include: initial load, adds, drops, reinstatements and verification reponses.

DMV Mainframe Files.

EDI Processing Module.
Translates and edits data from various sources and passes it to the DMV IIES Data Base.

IIES Data Base

Enforcement Agencies.
On-line access to insurance information via sticker bar code or plate #.

Output to DMV Registration and License Processing.
Issue Suspensions and Revocations.

Central/Issuing Office Processing Module.
1. Generate outputs.
2. Process Responses.
3. Handle exceptions and telephone calls.

Maintenance and Control Module.
Performance reports on insurers. Focus on data compatibility.

Verification Routines.
Data to Insurance companies for insurance verification. On-going with insurers and 1st year with registrants.

Introduction

The New York State Department of Motor Vehicles (DMV) and the New York State Insurance Department (SID) are pleased to have the opportunity to report on the progress being made to implement Chapter 678 of the Laws of 1997 as amended by Chapter 509 of the Laws of 1998. This enabling legislation has provided new directions for enforcing compulsory insurance laws in New York State. Accordingly, we have an opportunity to improve both program effectiveness and efficiency. However, with such opportunity comes major technical, administrative and operational complexities and challenges that must be addressed and resolved. Certainly one challenge is to design a system and establish system requirements that maximize identification of uninsured motorists while at the same time minimizing unnecessary contacts with insured motorists. Program success will require significant private/public sector cooperation, adherence to the common goal, and the allocation of necessary resources by all stakeholders. DMV and SID are committed to a successful and effective Insurance Information & Enforcement System (IIES). We will endeavor to make IIES a model for other states and provinces.

IIES Contractor: Andersen Consulting

Andersen Consulting has just begun to design and develop IIES, working closely with DMV's internal IIES Project Team. In spite of a later than anticipated start, we remain committed to delivering IIES on time or with only minimal delay.

IIES Project Highlights

DMV will begin replacing its current reporting system with IIES on or around January 1, 2000. The initial phase of IIES will include an on-line reporting component employing electronic data interchange (EDI), using national data standards, as the transmission mechanism for an expanded number of liability insurance transactions between DMV and insurers. Projected transaction types include: initial load, cancellation, reinstatement, new business, and insurance verification inquiries. The first four transactions are insurer initiated. The insurance verification inquiries are DMV initiated. Also included in the initial phase will be implementation of the on-line insurance information database which will be initially populated or loaded with information as insurers report their books of business (insured vehicles registered in NYS) to DMV.

- **On-Line Insurer FS Reporting.** The insurer reporting component of IIES will be a replacement for the current system. It is anticipated that EDI reporting will first be prototype tested with a limited number of insurer partners in the summer of 1999. A key element to be addressed in system design will be the plan for converting from the current system to IIES.

- **On-Line Insurance Database.** A separate database of insurance information will be constructed and maintained. Information will entered into the IIES database primarily via the on-line insurer reporting component. However, information will additionally

be entered as a result of DMV central and issuing office registration and insurance transaction processing. The IIES database will be easily accessible to law enforcement personnel but will be available to other requesters only as authorized by the Federal Driver's Privacy Protection Act (18 U.S.C. 2721 et. Seq.). In order to make the insurance information accessible by law enforcement personnel, technical issues involving communication between different computer file structures must be resolved.

- **Verification of Insurance Information.** Based on insurers' current performance level and the registration population, it is expected that upwards of 1,000,000 transactions submitted during initial data loading will not be electronically linked (matched) to corresponding registration records. A primary DMV focus during calendar year 2000 will be on these unmatched records and synchronizing the IIES on-line database to the registration file. DMV intends to employ two strategic verification routines as follows:

    Verification Process #1. On a regularly scheduled basis an IIES program module will identify all original registration or reregistration (replaced vehicle) transactions where a confirming on-line "add" transaction has not been received from an insurer. IIES will then automatically send on-line inquiries for all such records to appropriate insurers for verification. Insurers must then submit timely on-line responses to DMV in the form of either an insurance "add" or a "no insurance" (repudiation) response. Verification Process #1 will perform two important system functions by providing registration information that will assist insurers in resolving and resubmitting unmatched records and, most importantly, in identifying registration records where fraudulent insurance ID cards were presented.

    Verification Process #2. Beginning approximately nine months after initial data loading, the one-time Verification Process #2 will identify those registration records meeting the following criteria: (1) registration class included in the program, (2) no reregistration (replaced vehicle) activity, and (3) no on-line "initial load" or "add" transaction from an insurer posted to the IIES database. IIES will then generate unique "no insurance activity" inquiry letters to all registrants meeting the profile. Registrants must submit acceptable proof of liability insurance to DMV which is then subject to insurer verification.

Within six months of full IIES system implementation DMV is required to begin the annual negative verification process. However, we are assessing whether multiple factors including: (1) the on-going Verification Process #1, (2) additional insurance information submitted by insurers, (3) administrative and operational steps to be taken by both DMV and insurers to improve data compatibility, (4) new or improved processes used by insurers to resubmit corrected transactions, and (5) more sophisticated DMV exceptions resolution processes may obviate the need for an annual negative verification. Negative verification may be more effectively utilized at the discretion of the Commissioner.

- **Bar Coded Windshield Registration Sticker.** A windshield registration sticker incorporating a 2D bar code will enable law enforcement personnel with the technical means to access the on-line IIES database. IIES insurance information will also be accessible to law enforcement agencies by using a license plate number. DMV will work closely with law enforcement agencies on the issues related to this IIES component.

- **Expansion of On-Line Reporting and Database to Include For-Hire Vehicles.** The on-line reporting and on-line database components of IIES will be expanded to include liveries and other for-hire (FH) vehicles. Although it is DMV's plan to include FH vehicles with the initial data loading of FS vehicles, it is too early to commit to that date for this unique population. Further analysis and design as well as communication with our insurer partners is required. Additionally, a conversion plan must be developed to enable a smooth migration from the current paper system to the IIES on-line system at this time. We anticipate that the FH population will be incorporated into IIES no later than twelve months following initial data loading of IIES.

- **Multiple Concept Security Initiative / Demonstration Pilots.** This initiative will address a vulnerability in current liability insurance enforcement activities by testing two different security measures specifically designed to prevent insurance ID card fraud. Although the Verification Process #1 will detect fraud, it will do so several months after the registration was processed. The primary benefit derived from either security initiative concept would be denial of the registration. A brief description of both security measures is provided below.

  ID Card with Cryptographic 2D Bar Code. The first concept would retain the insurance ID Card issued by producers (agents and brokers), insurers and the New York Automobile Insurance Plan (NYAIP). Fraud would be addressed by requiring that a signed cryptographic 2D bar code be printed on the ID card. This methodology relies on securing the actual information contained in the bar code printed on the document rather than the document itself. Documents remain vulnerable to replication, theft and non-detection when paper-based security measures such as watermarks, latent images, patterned backgrounds, copy void pantagraphs, micro encoding, security threads, bleed-through inks, holograms, etc. are employed. Securing the actual information within a tamperproof bar code additionally enables the use of plain paper as well as facsimile and Internet transmission to enhance customer service. Information contained within the bar code would be used in conjunction with registration processing and then be transmitted to the IIES database. Insurance information provided on producer generated ID cards would be verified with insurers as described in the "Verification of Insurance Information" section of this report.

  Pre-Filing Insurance Information. The second concept would replace or significantly diminish the role of the ID Card. Insurance producers (agents,

brokers, direct writers, and the NYAIP) would be required to electronically pre-file insurance information (the same data that would be included in the cryptographic 2D bar code) with DMV. This information would be stored in a "pending" status in the IIES database awaiting processing of the registration transaction. Following registration processing, this producer supplied insurance information would be verified as described in "Verification of Insurance Information". DMV anticipates that the two pilots, to be conducted with the participation of insurance industry volunteers and the SID, will begin in the summer of 1999.

- **Focus on Data Compatibility.** In conjunction with building IIES, DMV will address all known and potential data compatibility problems of the current insurance system. Technical advancements in the form of on-line reporting and an on-line database will not overcome administrative and operational deficiencies and improper practices that cause most of the current insurance system's approximately 260,000 unmatched transactions annually. If these problems are not effectively addressed, we can expect an estimated 1,000,000 plus unmatched records annually based on projected annual transaction volumes of 10,000,000 for IIES. DMV intends to clearly and comprehensively detail the requirements, rules, definitions, specifications, and procedures that must be followed to reduce both unmatched and non-timely submissions to levels of five percent or less.

Issues to be Examined as Specified by Chapter 678 of the Laws of 1997

feasibility and cost-effectiveness of developing an instant on-line registry of insurance to identify uninsured motor vehicles

DMV and SID have determined that the development of an on-line database of insurance information is feasible. Delivery of an operational system that is projected to go into production on or around January 1, 2000 is a priority project of the Department of Motor Vehicles. IIES will effectively close loopholes in our current insurance system and provide a new tool in the form of additional and more timely information on the insurance status of individual registrants. The initial experience is likely to be a combination of: (1) increases in DMV administrative sanctions (definite registration and license suspensions and civil penalties collected), (2) a renewed awareness and more effective on-road enforcement, and (3) new insurance premiums collected. Over time benefits could include: (1) a significant reduction in the uninsured motorist population with a corresponding increase in direct premiums paid to insurers and (2) a decrease in inconvenient and costly contacts with registrants who are insured.

develop a plan on the feasibility of implementing a uniform statewide central registry of holders of motor vehicle insurance

IIES is currently being developed as a production program by DMV and its contractor, Andersen Consulting, using an open process that includes participation, input and

guidance from interested stakeholders. IIES advisors include representatives from insurance companies, insurance producers, insurance industry associations, law enforcement agencies, the New York State Insurance Department, the New York Automobile Insurance Plan, the New York State Assembly and Senate, as well as technical consultants and purchasers of liability insurance. In addition to having the capability to aid in the identification of uninsured motorists, IIES will also provide the desired registry of insured motorists.

a) investigate the feasibility of developing and implementing an instant on-line registry

As stated in our response to the first issue above, an on-line registry is certainly feasible, and is currently under development.

b) detail the costs of establishing such a system

DMV is not yet in a position to project, with authority, the total costs of the on-line insurance registry system as envisioned by Chapter 678 of the Laws of 1997. However, DMV has incurred certain costs directly related to the mandate of this law and has committed to other future expenditures which it has determined are essential to the development of a successful system. Based upon those actions, we submit the following estimates and projections.

Estimated costs for Fiscal Year 1998-99:

- By March 31, 1999, DMV will have incurred expenses for a project team to develop a Request for Proposal (RFP), oversee the evaluation of the proposals, negotiate a contract and provide direction to the contractor.

    DMV Personal Services Expenditure… $ 75,000

- In addition, DMV prepared office space, purchased furniture, equipment, and software for a contractor team of approximately 20 personnel.

    DMV Nonpersonal Services Expenditures… $ 105,000

- DMV has entered into a contract with Andersen Consulting for a total of $4.5 million for an eleven month project (not including post-production support) to implement IIES. The early January approval of this contract will authorize the contractor to commence activities which may require expenditures of approximately $800,000 of that amount prior to March 31, 1999.

    DMV Contractual Services Expenditures… $ 800,000

    Total Costs for FY 1998-99… $ 980,000

<u>Projected Costs for Fiscal Year 1999-2000:</u>

- During fiscal Year 1999-2000, DMV anticipates continuing costs for the direct oversight and coordination that its staff will provide to the contractor.

  Projected Personal Services… $ 250,000

- DMV also anticipates certain nonpersonal service costs such as travel, which may be outside the scope of the contract.

  Projected Nonpersonal Services… $ 20,000

- The remaining tasks for the contractor to complete the systems development will likely be completed during 1999-2000. Costs associated with that portion of the contract are currently estimated at $3.7 million.

  Projected Contract Costs… $3,700,000

  Total Costs Projected for FY 1999-2000… $3,970,000

<u>System Costs Beyond Fiscal Year 1999-2000:</u>

There are a number of costs which may extend beyond the project development phase. The manner in which the contract between DMV and Andersen Consulting is constructed anticipates a planning phase which will require approximately $2.2 million of the $4.5 million contract amount. Subsequent to the planning phase, costs will be specified for the mandated deliverables for the system. It is anticipated that those costs will remain within the total cost of the contract. However, DMV does anticipate, but cannot now estimate, the costs for this system which will extend beyond the contract period. For example:

- DMV's responsibilities to assist the insurance industry in implementing this system will certainly extend beyond FY 1999-2000.

- DMV may require additional computer system enhancements for new hardware, peripheral devices, communications, or data storage.

- There may be licensing fees or software maintenance charges associated with the new system.

- However, the new system may yield processing savings over the current state and may foster savings to offset future costs.

c) identify the parameters for entering and retrieving data from such registry

Entry. The IIES database will initially be populated with insurance information entered from several sources as follows:

- Insurers: on-line via EDI.   Most information will be received from this source regardless of whether the transaction represents an insurer initiated transmission or a response to an insurance verification inquiry originating with DMV.

- DMV Central Office (Insurance Services Bureau): on-line or as a daily batch process. Includes automated entry of insurance information obtained from responses to various types of DMV generated registrant inquiry letters and suspension orders.

- DMV Issuing Offices: on-line.   Includes both automated entry of basic insurance information (insurance company code, insured's name and vehicle description) as part of registration processing and entry of insurance and compliance information obtained from processing responses to various types of DMV generated inquiry letters and suspension orders.

In addition to the preceding entry sources, full implementation of one or both of the previously described Multiple Concept Security Initiative processes would result in significantly expanded insurance information being transmitted to IIES by insurance producers as follows:

- ID Cards Issued by Producers via Registration Processing in DMV Issuing Offices: on-line.   Comprehensive insurance information, contained in a cryptographic 2D bar code on the ID card- including: insured's name and address; full vehicle description; policy effective date; a binder, policy number or other unique identifier; producer's name and license number; etc.- will be entered in the IIES database as part of registration processing.

- Pre-Filing by Producers: on-line through a servicing agent. Comprehensive insurance information, exactly the same as that contained in the cryptographic 2D bar code, would be transmitted to the IIES database prior to registration processing.

Retrieval. Insurance information in the IIES database will be easily accessible to law enforcement personnel using the bar code on the windshield registration sticker or license plate number. Insurance information will additionally be available using current manual and automated processes in response to other specific, individual requests as authorized by the Federal Driver's Privacy Protection Act (18 U.S. C. 2721 et. Seq.).

d) evaluate the value of establishing such registry in identifying uninsured motor vehicles and removing such vehicles from this state's roadways

IIES will provide significant advancements that will be used by DMV to more effectively and efficiently address the uninsured motorist problem. However, DMV's role is limited to applying administrative sanctions. It falls to the law enforcement community to actually remove truly uninsured motorists and their vehicles from the state's roadways. DMV recommends that law enforcement officers rely primarily on registration and license suspension information provided to them by DMV information systems.   A termination transaction posted to IIES, without a corresponding suspension order, should only be used as an indication that the motorist may be uninsured.

e) determine the feasibility of establishing by January 1, 2000, a pilot program to establish a data base for instant on-line electronic data from insurers writing policies on livery vehicles and determine whether it is practicable for policies of motor vehicle insurance covering losses or liabilities arising out of ownership of a livery vehicle to include the owner of such vehicle as an insured party under such policy and the name of the person to which such vehicle is registered

As described in Expansion of On-Line Reporting and Database to Include For-Hire Vehicles, DMV is planning to incorporate liveries and other FH vehicles in IIES. DMV's effort is directed to designing and building for-hire vehicles into the IIES production environment. Our goal is to include FH vehicles in the initial data loading for IIES, projected to begin on or around January 1, 2000. Should a separate phase-in become necessary, it would occur within a year of initial system loading.

At the present time approximately 5,100 of the approximately 15,800 livery registrations in NYS have owners who are different than the registrants. Based on a survey of the largest for-hire insurance writers in New York State, livery vehicle owners are regularly listed on registrants' insurance policies as either additional insureds or loss payees.

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