

October 1, 1997

Senator L. Steven Poulton
Utah State Senate
319 State Capitol Building
Salt Lake City, Ut 84114

Subject: Uninsured Motorist Identification Program (Report #97-05)

Dear Senator Poulton:

As you requested, our office has conducted a review of the state's Uninsured Motorist Identification Program. Overall, we concluded that Insure-Rite (the private contractor selected by the state to administer the program) appears to do an acceptable job of identifying uninsured motorists. Tests of Insure-Rite's system found that Insure-Rite appears to correctly match state motor vehicle registration records with information from private insurance companies and that Insure-Rite also appears to correctly identify uninsured motorists. For the purpose of this report, uninsured motorists are considered to be owners of registered vehicles without liability insurance coverage. Over the last year, Insure-Rite has reported Utah's uninsured motorist rate to be approximately 12 percent. (The uninsured motorist rate reported by Insure-Rite only accounts for registered vehicles without insurance. It does not include unregistered vehicles that may also be uninsured.) However, when Insure-Rite first began reporting data in July of 1995, they estimated that the uninsured motorist rate was approximately 23 percent. While our tests documented that the currently reported rate appears to be accurate, a lack of data prevented us from confirming or denying that the rate reported in 1995 was actually 23 percent. Data from the first year of the program's operation was not maintained by Insure-Rite or the Tax Commission.¹ Consequently, we are unable to determine what impact the program has had on reducing the state's insured motorist population. Insure-Rite officials note that their

¹Motor vehicle information for the state is coordinated through three divisions within the Tax Commission: the Customer Service Division, the Processing Division, and the Technology Management Division. For convenience, we will refer to motor vehicle information and data supplied, maintained, and managed by these divisions as coming from the Tax Commission.

contract with the state does not require them to maintain data for audit purposes, but indicate that they will begin storing this information for future audit purposes.

Our review of enforcement measures taken by the state, after uninsured motorists are identified through the program, found the overall level of enforcement to be lacking. Basically, the state's enforcement effort consists of sending letters to individuals identified as being uninsured. The letters alert vehicle owners that they have been identified as possibly being uninsured and provides them with information about the law requiring liability coverage to be maintained on any vehicle operating on a highway within the state. No further enforcement action is taken by the state. After receiving a letter, uninsured vehicle owners elect to either obtain insurance coverage or ignore the letter. Our tests found that a large number of those receiving letters ignore the letter and fail to obtain insurance coverage. Officials from the Tax Commission indicated that letter campaigns from the first year of the program may have encouraged some uninsured motorists to obtain insurance, but acknowledge that letters have had little effect on the uninsured population over the last year. Again, it should be noted that we were unable to verify what effect letter campaigns have had on the uninsured motorist population because of a lack of data.

In other states we found varying levels of enforcement action. Some states do little by way of enforcing mandatory insurance laws while other states have extensive identification programs coupled with aggressive enforcement action. States which use aggressive enforcement actions suspend vehicle registrations, confiscate license plates, and issue fines to uninsured vehicle owners. Officials from states with aggressive enforcement programs believe punitive measures have a significant impact on reducing the number of uninsured motorists. In Utah, the Legislature should consider whether punitive enforcement measures are needed in connection with the identification program. Public outcry over uninsured motorists driving on the state's highways needs be weighed against the potential backlash from overly aggressive enforcement action. Those in favor of increased enforcement argue that having an uninsured motorist identification program without punitive enforcement measures makes little sense and insist that the uninsured motorist population will likely remain at its current level unless stricter enforcement measures are imposed. Nationally, public opinion polls tend to show resentment towards uninsured drivers. Many feel that uninsured motorists are free riders who impose extra costs on citizens who buy liability insurance. Our review found that while the state's identification program seems to do a good job of estimating the number of uninsured motorists on the highway, it has had little effect in reducing the number of uninsured motorists over the last year.

The remainder of this report will provide further detail on our review of Insure-Rite's matching accuracy and identification of uninsured motorists, issues surrounding punitive enforcement measures, and administrative procedures that need to be strengthened in order to improve the state's uninsured motorist identification program.

Insure-Rite Achieves a High Level of Matching Accuracy

The Legislature established the Uninsured Motorist Identification Database Program in 1994,

Utah Code 41-12a-801. Insure-Rite Incorporated is the company the state has contracted with to administer the identification program. The program is funded by a \$1 dollar fee charged to vehicle owners at the time of vehicle registration. Insure-Rite is paid \$.056 per vehicle each month to document the vehicle's insurance status. Annually, nearly \$1 million is paid to Insure-Rite to administer the program. Insure-Rite uses a novel computer program to match information from the state's motor vehicle database to records collected from insurance companies that provide liability coverage within the state. Statute requires all insurance companies that provide automobile insurance in Utah to submit policy information to Insure-Rite on a monthly basis. Representatives from Insure-Rite indicate that they obtain a high level of accuracy in matching state motor vehicle information with insurance company records through a series of cross-checks and unique computer verification programs. Once owners of unmatched vehicles are identified, they are sent a letter alerting them that their vehicle has been identified as possibly being uninsured and informs them of the state law requiring insurance coverage. The letter requests that they contact Insure-Rite with documentation on the insurance status of the vehicle in question. Letter recipients then either choose to contact Insure-Rite with proof of insurance, or offer some explanation as to why their vehicle does not need insurance coverage, or they choose to ignore the letter. If the owner of an uninsured vehicle chooses to ignore the letter, no further enforcement action is taken by the state. Each month, Insure-Rite reports the number of unmatched registered vehicles. This report does not account for unregistered vehicles that may be driven without insurance coverage.

Insure-Rite achieved a 96 percent level of matching accuracy.² A key component to the state's uninsured motorist identification program centers on Insure-Rite's ability to accurately match vehicle registration information with insurance company records. In order to determine Insure-Rite's level of matching accuracy, we conducted two tests using registration and insurance data gathered by our office. In Test #1, we submitted to Insure-Rite a list of registered vehicles whose insurance coverage and policy information was independently documented by our office. Registered vehicles were obtained through random selection from the state's motor vehicle database. Insurance coverage was documented by sending a letter to the vehicle owners requesting that they provide evidence of insurance to our office. Evidence of insurance includes: the insurance policy, a binder notice, an insurance renewal notice, a card issued by an insurance company, or a certificate of insurance. Once registration information and evidence of insurance was obtained for a statistically valid sample, we asked Insure-Rite to verify each vehicle's registration and insurance coverage using the information from their system. Auditors from our office were present as Insure-Rite looked-up each vehicle and reported the registration and insurance data. Insure-Rite had no prior knowledge of any of the information on the vehicles selected for Test #1 or the insurance information gathered by our

²After conducting Test #1, we were able to conclude that Insure-Rite achieves a 4 percent error rate in matching accuracy with a +/- 3 percent level of precision at the 90 percent confidence level. In other words, 90 percent of the time, Insure-Rite successfully matches between 93 to 99 percent of registered vehicles with insurance records.

office prior to the test being conducted. Overall, Insure-Rite achieved a 96 percent level of matching accuracy.

Errors found during Test #1 occurred for the following reasons: First, there may have been a failure on the part of Insure-Rite to correctly match state motor vehicle registration data with insurance company records; and second, there may have been a failure on the part of insurance companies to comply with state law requiring that all policy records be submitted to Insure-Rite. We documented two instances where Insure-Rite failed to match state motor vehicle information to the records that were sent to them by insurance companies. Matching errors resulted in 1.6 percent of the 4 percent total error rate found in Test #1. We also documented two instances where insurance companies failed to submit required records to Insure-Rite. Without this information, Insure-Rite cannot accurately match state motor vehicle registration information with insurance company records. These errors also resulted in 1.6 percent of the 4 percent total error rate found in Test #1. *Note: we do not mean to imply that the insurance companies in question are not sending any information to Insure-Rite. Records clearly show that Insure-Rite receives the majority of the information from insurance companies required by statute.* Matching errors and errors resulting from insurance companies not submitting records to Insure-Rite cause vehicle owners with insurance coverage to be inaccurately identified as uninsured. It should be noted that one insurance company refused to disclose whether they had sent policy information to Insure-Rite. As a result, we were unable to determine whether the remaining .8 percent of the 4 percent total error rate found in Test #1 was due to matching errors or insurance companies not submitting records.

Insure-Rite correctly identified 98 percent of vehicles without insurance. In Test #2, we submitted to Insure-Rite a list of vehicles with "dummy" registrations and no insurance coverage. Working with the Tax Commission, dummy registrations were entered onto the state's system and sent to Insure-Rite as part of the state's normal monthly downloading of data to Insure-Rite. The dummy vehicles were given license plate numbers, vehicle identification numbers, and owner information. Insure-Rite could not distinguish the dummy registrations from legitimately registered vehicles. Obviously these dummy vehicles did not have insurance coverage because they do not actually exist. Again, as our auditors watched, we asked Insure-Rite to look-up each vehicle on their system and report on the vehicle's insurance coverage. Insure-Rite had no prior knowledge of any of the information on the dummy vehicles selected for Test #2. In this test, Insure-Rite achieved a 98 percent level of accuracy. In other words, in 98 percent of the cases, Insure-Rite correctly concluded that the dummy vehicles were not insured, but in two percent of the cases Insure-Rite erroneously matched a dummy registration with insurance coverage.

The accuracy of the Insure-Rite's system is important not only because it is used to estimate the uninsured motorist rate, but because state regulatory agencies frequently access Insure-Rite's database to electronically verify the insurance status of vehicles. For example, during traffic stops, law enforcement officers routinely make a request to the state's computer system regarding insurance coverage on a certain vehicle or driver's license. When the request is received, Insure-

Rite sends the insurance verification information to the officer. Insure-Rite reports that they receive between 6,000 to 8,000 requests from law enforcement officers per day. In addition, prosecutors use information supplied by Insure-Rite in the prosecution of uninsured motorist cases. Lastly, officials from the Tax Commission and Drivers License are supplied with monthly reports on vehicles currently operating without insurance.

Decrease in Uninsured Motorist Rate Cannot be Confirmed or Denied

As part of our review, we were asked to determine whether the uninsured motorist identification program has been effective in reducing the number of uninsured motorists in Utah. Unfortunately, we were unable to make this determination because of insufficient data. Working with the Division of Public Safety, Insure-Rite began collecting data in April of 1995 and issued their first estimate on the uninsured motorist rate in Utah in July of 1995. At that time, Insure-Rite calculated Utah's uninsured motorist rate to be approximately 23 percent. After two years of operation, Insure-Rite reports the number of uninsured motorists has fallen to about 12 percent. We were asked to verify whether the reported decline from 1995 to the present was accurate. However, data from the first year of operation was not kept by Insure-Rite. Each month Insure-Rite receives an updated version of all state motor vehicle data which it matches with insurance policy information. In order to verify the reported decline in the uninsured motorist rate, documentation of matching results from 1995 would need to be available for review. Without a copy of the data as it existed in 1995, we were unable to verify that the uninsured motorist rate was actually 23 percent at that time. To be clear, it should be emphasized that we are not suggesting that the 23 percent figure reported in 1995 was inaccurate, only that we cannot confirm or deny that estimate. Based on the results of our audit tests it appears Insure-Rite's current reporting is accurate, but we have no way of documenting that the same procedures or methodology were used during the first year of the program. In order to avoid this problem in the future, we recommend that Insure-Rite develop a method for storing data for audit purposes. At the onset of the uninsured motorist identification program, a top priority should have been to preserve baseline data from the first year of operation in order to establish a benchmark for comparison purposes. Without an established benchmark, the effectiveness of the program and its impact on the number of uninsured motorists cannot be measured.

In an attempt to gain some perspective on what the uninsured motorist rate may have been prior to 1995, we looked at a number of studies on uninsured motorists and uninsured motorist identification programs in other states. In general, we found a wide disparity in estimates. For example, a survey by **Roper Reports Americas** reported that nationwide the percent of vehicles without insurance declined from 9 percent in 1980 to 5 percent in 1989. The All-Industry Advisory Council estimated the national uninsured motorist rate at 13 percent, by comparing the frequency of claims against uninsured motorists with the frequency of claims under liability

insurance between 1981 to 1986. Two surveys reported in **Best's Insurance Management Reports** in 1990 attempted to calculate the uninsured motorist rate by comparing the estimated number of insured vehicles with vehicle registrations. Both surveys emphasized the problems associated with attempting to compare two separately derived data series which may not be directly comparable. The results of these surveys varied greatly: Arizona reported a 4 percent uninsured motorist rate in the first survey and 20-30 percent in the second; while Florida reported a rate of 29 percent in the first survey and 31 percent in the second. In 1991, the California Department of Insurance estimated that 30 percent of vehicles in that state were without insurance. Random audits in Illinois, Maryland, North Carolina, and Virginia during the same time period found uninsured motorist rates ranging between 3.5 percent to 8 percent.

We also contacted officials from a number of other states for estimates on their current uninsured motorist rate. The following table summarizes the responses we received. Again, we found a wide disparity in the numbers reported. Overall, we learned that there are a variety of methods used by other states to estimate the uninsured motorist population. We will not debate whether one method is better than another in this report. Officials from every state with an uninsured motorist identification program believed that their program was successful in identifying uninsured motorists. It should be noted however, that the estimated uninsured motorist rates received from other states were not audited by our office. While we attempted to contact knowledgeable individuals from each state, we had no way of documenting the accuracy of their numbers.

Figure I
Uninsured Motorist Rates
Reported by Other States in 1997

State	Estimated Uninsured Motorist Rate
Utah	12%
California	20-25%
Colorado	Less than 10%
Connecticut	10%
Idaho	No Estimate Available
Maryland	3%
Montana	20-25%
New Jersey	8-12%
Oregon	10%
Washington	8-9%
Wyoming	No Estimate Available

Methods used by other states to identify uninsured motorists include random audits of registered vehicle owners, policy verification programs through insurance companies, investigations of insurance policy cancellations, and so on. Some states do not have identification programs but use other methods to estimate their uninsured motorist rate. The estimates shown above were provided by officials from each state, but were not audited for accuracy by our office.

An official from Wyoming indicated that they had looked into establishing an uninsured motorist identification program similar to Utah's, but decided not to because of concerns over the cost of administering the program and a seeming lack of enforcement penalties. Apparently Legislators felt enforcement penalties were insufficient; therefore, they could not justify the expense of implementing an uninsured motorists identification program. Legislators evidently adopted an attitude of, *"Why bother to identify uninsured motorists if no enforcement action is going to be taken."* Like Wyoming, Utah does not take enforcement action against uninsured motorist identified through the program. The next section of this report discusses concerns over Utah's lack of enforcement in conjunction with its uninsured motorist identification program.

Enforcement Action is Lacking

Utah does not take direct enforcement action against uninsured drivers identified through its uninsured motorist identification program. The only enforcement action taken in conjunction with the program comes in the form of letters sent to owners of unmatched vehicles. The letters inform vehicle owners of the law requiring mandatory insurance coverage and alerts them that they have been identified as possibly being uninsured. There are no penalties or fines levied against uninsured vehicle owners identified through the program. It should be pointed out that enforcement action is taken if a law enforcement officer stops an uninsured driver for a traffic violation and the driver is cited for not having proof of insurance. However, this enforcement action is not directly linked to the identification program. During our audit we looked at enforcement measures connected with uninsured motorist identification programs in other states. Overall we found that most other states take some sort of direct enforcement action against uninsured vehicle owners identified through their program.

The following are examples of enforcement measures taken by other states after uninsured motorists have been identified. In Arizona, a notice is sent to the vehicle owner that the registration will be suspended if proof of insurance is not received within a specified number of days. Connecticut also sends the vehicle owner a notification requesting proof of coverage and if proof is not provided, the vehicle's registration is suspended and the owner is required to file a noncancellable certificate of financial responsibility with the state for three years, plus they must pay a \$100 restoration fee. New Jersey goes a step further by suspending the vehicle registration and sending the owner a notice allowing 30 days to either show proof of insurance or surrender their tags. If the owner does not respond within 30 days, their registration is suspended and another notice is sent. If there is still no response after another 30 days, the driver's license is suspended. Once suspension occurs, a \$50 restoration fee is assessed for restoration of both the registration and the driver's license after proof of insurance is provided. Lastly, Maryland requests that the vehicle owner submit evidence of insurance. Failure to submit evidence of insurance within 30 days results in a registration suspension and an order to pick-up suspended tags. If evidence is submitted but shows a lapse of insurance at any given time, a penalty must be paid before the suspension is withdrawn or new tags issued. The fee for a 1 to 30 day lapse in coverage is \$150, plus \$7 per day for every day without coverage beyond the initial 30 days.

Our review found that enforcement measures associated with Utah's uninsured motorist identification program appear to be lacking. Tests show that the uninsured motorist rate has remained unchanged at about 12 percent over the last year and that the current letter campaigns appear to have little effect on reducing the number of uninsured motorists. One weakness we observed with the current letter campaigns is that only a small number of letter recipients appear to obtain insurance as a result of receiving the letter. For example, in March 1997, Insure-Rite mailed 16,214 letters to individuals suspected of being uninsured. Our review of the March 1997 letter campaign found that only 15 percent of the individuals that received a letter bothered to contact Insure-Rite regarding the status of their insurance coverage. Of the 15 percent that contacted Insure-Rite, tests show that only 4 percent obtained insurance. This seems to point to the

conclusion that most of the individuals receiving letters choose to ignore them.

Officials from the Department of Public Safety believe the letter campaigns have had a positive effect on reducing the number of uninsured motorists in the state. Reports suggest that uninsured motorists fall into basically four categories: (1) individuals that will get insurance once they have been caught--after receiving the initial letter; (2) individuals that will get insurance after receiving a second, more demanding letter; (3) individuals that will only get insurance if punitive enforcement action is taken; and (4) individuals that will never get insurance. However, if these reports are correct, letter campaigns from 1995 may have eliminated most of the individuals willing to obtain insurance after receiving a letter and more punitive enforcement measures may be needed to lower the uninsured motorist rate below its current level. This theory seems to be supported by the fact that Insure-Rite has reported a relatively constant uninsured motorist rate of approximately 12 percent over the last year.

Studies conducted by various groups on the uninsured motorist problem show that a number of drivers who ignore laws requiring liability coverage do so for economic reasons. They typically have low incomes and few assets to protect from lawsuits. Adding to the problem is the fact that many of these individuals are high-risk drivers and the cost of insurance for high risk drivers is exceptionally high. Basically, they lack the means and incentive to purchase liability coverage. Experts estimate that a core group of approximately 2 to 5 percent of the nations drivers are not only uninsured but also drive unregistered vehicles. It is extremely unlikely that any type of identification or enforcement program will have a significant impact on this group. Nevertheless, other studies point to the importance of building enforcement into an uninsured motorist identification program. Officials from Illinois indicated that the success of their uninsured motorist identification program is directly related to enforcement measures built into the program. Illinois uses random audits to identify uninsured motorists. Enforcement measures consist of suspending the registration of first-time offenders until a \$100 reinstatement fee and proof of insurance are submitted. For repeat offenders, a four-month suspension must be served along with payment of the reinstatement fee. Since the inception of Illinois' program in 1988, the uninsured motorist rate has fallen from approximately 17 percent to 4.4 percent.

Administrative Procedures Need to be Strengthened

During our audit we became aware of certain administrative procedures that need to be strengthened in order for the state to have a more efficient uninsured motorist identification program. First, we found that the Tax Commission sends Insure-Rite information on vehicles that were previously sold by the owner or whose owner has moved out of state. Each month the Tax Commission downloads its entire database of motor vehicle records to Insure-Rite. Information on these vehicles is maintained in the motor vehicle database for a variety of legitimate reasons. However, we do not understand the reason for sending the information to Insure-Rite. Tests found that approximately 16 percent of the individuals receiving letters from Insure-Rite had either previously sold the vehicle or moved out of state. This practice does not seem to make sense because owners of previously sold vehicles and owners of vehicles registered and operated in another state are not required to be registered or carry insurance in Utah. Moreover, our review of motor vehicle records found that the Utah title had already been canceled and the previous owner was no longer on record for a large number of these vehicles. This creates a problem because some of the complaints received about the state's uninsured motorist program have come from individuals receiving notification letters months after their vehicle had been sold or the owner had moved out of state.

In our opinion, it is unnecessary for the Tax Commission to send Insure-Rite information on vehicles with records confirming that the vehicle has been sold or moved out of state. It is uneconomical to pay Insure-Rite to attempt to match registration and insurance information on these vehicles. It is also uneconomical to pay the expense of sending letters to the owners of these vehicles. Since only a fraction of the individuals identified as possibly being uninsured are sent letters, it would appear to make more sense to concentrate letter campaigns on vehicle owners with a higher probability of violating Utah law. We are pleased to report that Tax Commission officials have indicated that it is possible to filter the vehicles in question out of the data sent to Insure-Rite each month.

Another area where improvements need to be made involves implementing control procedures for verifying and monitoring the data and monthly billing statements submitted by Insure-Rite. Each month Insure-Rite uses the information sent to them by the Tax Commission to calculate the number of currently registered vehicles in the state. Insure-Rite is paid based on the number of currently registered vehicles reported each month. At the end of the month, Insure-Rite sends an invoice to the Department of Public Safety (DPS) for payment. We found a number of weaknesses in this process. First, when DPS officials were asked how the accuracy of Insure-Rite's billing statement was verified prior to making payment, they reported that they did not verify the accuracy of the statement. DPS officials supposed that someone from the Tax Commission verified Insure-Rite's numbers each month. However, when we talked to motor vehicle officials, they also indicated that they did not verify the accuracy of Insure-Rite's monthly statement. Apparently, a employee that was heavily involved in setting up the uninsured motorist identification program had left the Tax Commission some months ago and no one had been assigned the duty of verifying the monthly billing statements submitted by Insure-Rite.

Further review found that no one from the Tax Commission was entirely certain about the methodology or procedures used by Insure-Rite to calculate the uninsured motorist rate each month. In other words, no one was familiar enough with Insure-Rite's operation to properly monitor the accuracy of the data being reported. This is one reason why no one could explain why information on vehicles that had been sold or moved out of state was being sent to Insure-Rite. We expressed concern to Tax Commission officials over the lack of control and oversight in this area. Tax Commission officials indicated that someone from data processing would be assigned to be a "specialist" to coordinated directly with Insure-Rite and that controls would be implemented to verify and monitor Insure-Rite's data and billing statements. We are pleased to report that a specialist has been assigned by the Tax Commission and controls have been implemented.

Along the same lines, we feel it is important for the Tax Commission to independently verify the accuracy of the uninsured motorist rates issued by Insure-Rite. Therefore, we recommend that the Tax Commission begin conducting audits to verify the accuracy of Insure-Rite's matching process. Tax Commission auditors could use tests similar to the ones conducted by our office to periodically document how well Insure-Rite matches motor vehicle information with insurance company records.

Recommendations:

1. We recommend that the Legislature consider incorporating stricter enforcement measures which will increase the effectiveness of the uninsured motorist identification program.
2. If stricter enforcement measures are not adopted, we recommend that the Legislature review whether the uninsured motorist identification program is necessary and whether the cost of a program is justified.
3. If the program is maintained, we recommend that the Tax Commission conduct audits to verify the accuracy of Insure-Rite's reported data.

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We hope this letter addresses your concerns. Response letters from Insure-Rite, Utah State Tax Commission and the Department of Public Safety are attached. If there is any additional information you need or if you have any further questions, please feel free to contact our office.

Sincerely,

Wayne L. Welsh
Auditor General

WLW:KDB/lm