Approved: 1-31-06
Date

MINUTES OF THE SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

The meeting was called to order by Chairman Ruth Teichman at 9:30 A.M. on January 25, 2006 in Room 234-N of the Capitol.

All members were present.

Committee staff present:
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Ken Wilke, Office of Revisor of Statutes
Bev Beam, Committee Secretary

Conferees appearing before the committee:
Maren Turner, State Director of AARP
Senator Derek Schmidt
Randy L. Rogers, Kansas Sheriff's Association (written testimony only)
Lee Wright, Farmers' Insurance
Rich Wilborn, Farmers' Alliance
Bill Sneed, State Farm

Others attending:
See attached list.

The Chair welcomed back Maren Turner, State Director of AARP Kansas, to continue testimony on Medicare Part D Prescription Drug Program. Ms. Turner said the Medicare prescription drug program will provide millions of Americans with the opportunity to access affordable prescription drugs. She said AARP is hearing stories of people who have successfully enrolled in the program; however, there are also unacceptable problems with the planning and implementation of the new Medicare Plan, she said. She added, some people have been denied coverage and are not getting the prescription drugs they need when they need them. She said AARP applauds the Governor and participating pharmacies for their bold action in providing a temporary solution to protect our most vulnerable seniors under the new Medicare program. Ms. Turner said AARP is committed to doing what it takes to help solve these problems and will continue to reach out to members and the general public to provide them with information and support that will lead to informed decisions about the Medicare benefit. (Attachment 1)

Introduction of Bills

Jarrod Forbes, Government Affairs Officer, Kansas Insurance Department, introduced legislation that allows a consumer to list a lienholder on an insurance policy covering a motor vehicle. Senator Steineger moved to introduce the Bill. Senator Brownlee seconded the motion. Motion passed. (Attachment 2)

Wendy Harms of the Kansas Aggregate Producers Association, she said it has come to the attention of KAPA through their membership that their industry has been faced with exclusions in their insurance policies regarding silica exposure. Ms. Harms said their members are exposed because they deal with rocks, sand, gravel and concrete on a regular basis and silica is a very fine particle that can be found in those products. We have been working with the Revisor's Office on this bill, and we hope it is a simple bill, to restore these silica exclusions back into our members' insurance policies, she said. Our members are paying high premiums for their insurance policies because those exclusions are in there. Senator Steineger moved introduction. Senator Barnett seconded. Motion passed.

Continued Hearings

(**SB 321**) – relating to the Kansas Department of Revenue; providing for the development and implementation of an electronic motor vehicle financial security verification system; and

(**SB 322**) – relating to the Kansas automobile injury reparations act; concerning certain penalties; providing for triple damages

The Chair said Senator Derek Schmidt, Majority Leader, was present to explain the penalties of (**SB322**).

Senator Schmidt said the bill provides for two changes to the current law for the third conviction for driving criminally without insurance. First change is, the third conviction will become a low-level felony. I am not under the impression that change in and of itself is particularly controversial, he said. It was one we thought made sense for individuals who are persistent offenders. They just keep doing it and at some point you need to ratchet up the consequences. The other change proposed in the bill is the nature of that felony. The bill as drafted proposes to make that particular felony for third time drivers without insurance an inherently dangerous felony. The committee is aware once a felony is an inherently dangerous felony, if a person is killed during the commission of that felony, the person who committed the felony is subject to prosecution for murder as opposed to for whatever the felony is. That provision only kicks in when somebody dies as a result of an accident, Senator Schmidt said.

The Chair asked for a run down in writing at a future meeting of what those various penalties in (**SB 322**) are.

The Chair told the Committee there is information in their packet from Randy Rogers, Legislative Chair, Kansas Sheriff's Association for them to read at their leisure. (Attachment 3)

Bill Sneed, Legislative Counsel, State Farm Insurance Companies, said since we just concluded with (**SB 322**), let me start there. Mr. Sneed said his client, State Farm Insurance Companies, respectfully requests that the Committee not act favorably on (**SB 321**) and consider a Senate and/or Concurrent Resolution authorizing a task force whose goal would be to develop an electronic motor vehicle financial security verification system for the State of Kansas. (Attachment 4)

Mr. Sneed said with regard to (**SB 322**), State Farm Insurance Companies, respectfully requests that the Committee not act favorably on (**SB 322**) and consider a Senate and/or Concurrent Resolution authorizing a task force whose goal would be to develop an electronic motor vehicle financial security verification system for the State of Kansas. (Attachment 5)

The Chair called on Brad Smoot, Legislative Counsel, American Insurance Association, for his testimony. Mr. Smoot said AIA recommends special consideration be given to the problem of commercial auto insurance, which generally applies to fleets of vehicles owned by businesses. Such policies may cover large numbers of cars and trucks. The insurer is not likely to collect and maintain tag numbers or vehicle identification numbers of each vehicle. The insurer will not know which vehicles are added or removed from the fleet during the term of the policy and consequently, would not be able to provide the type of verification that might otherwise be available from a personal auto policy. He said AIA and their member companies would be pleased to offer assistance to the state of Kansas as it explores this issue and would encourage the committee formalize a study process that includes all the interested parties and government agencies.(Attachment 6)

The Chair asked Lee Wright, Governmental Affairs Representative, Farmers' Insurance Group, for his testimony on (**SB 321**). Mr. Wright said Farmers' Insurance Group supports the idea of having the appropriate government agencies and auto insurers work together to construct a financial security verification system as suggested in (**SB 321**). Farmers Insurance would also welcome the opportunity to assist in the development of such a system. (Attachment 7)

The Chair called on Richard E. Wilborn, Farmers Alliance, for his testimony. Mr. Wilborn said his company believes a uniform national cost effective approach is the answer. It is important that all of the stakeholders; including insurers, insureds, the Insurance Commissioner, law enforcement officials, representatives from the Department of Motor Vehicles, and other interested parties be included in any discussion of proposed changes to the current system. We do know that the NAIC and other organizations are working on a standardized approach, Mr. Wilborn said. (Attachment 8)

MINUTES OF THE Senate Financial Institutions and Insurance Committee at 9:30 A.M. on January 25, 2006 in Room 234-N of the Capitol.

Following discussion, the Chair said the Committee would take up this Bill next week for final action.

Meeting adjourned at 10:30 a.m. The next meeting of this Committee is scheduled for January 26, 2006.

FINANCIAL INSTITUTIONS & INSURANCE COMMITTEE GUEST LIST

DATE: January 25, 2006

NAME	REPRESENTING
Bill Sneed	State Farm
Lee Wright	FARMERS INS
Ron Gaches	GBBA
[illegible]	KID
Brad Arnett	AIA
Woody Moses	KAPA
Wendy Hanns	ICAPA
David Hanson	KS Insur Assns & PCI
Larrie Ann Lower	KAHP
Nancy Pierce	KHCA
Matt Goddard	HCBA
Mike Peterson	Intern - Senator Barone
Joni Roberts	Division of Vehicles - KDOR
Jennifer Hermann	Division of Vehicles - KDOR
Mandy Miller	Senator Schmidt
Mary Tintsch	AARP Kansas
Kyle Kessler	SRS
Jeff Bo Horbach	Kansas Sheriffs' Assn's
JOHN EICHKORN	KHP
Randy Rogers	Kansas Sheriffs Assoc.
Ken Gudenkauf	KDOT
Dave Wareham	KBA
Shannon Applegate	KDOR
Rick Wilson	Farmers Alliance

AARP Kansas

January 24, 2006

Good morning Chairperson Teichman and members of the Financial Institutions and Insurance Committee. My name is Maren Turner. It is my pleasure as the director of AARP Kansas to participate in this information gathering hearing regarding the rollout of Medicare Part D in Kansas.

The Medicare prescription drug program will provide millions of Americans with the opportunity to access affordable prescription drugs. We are hearing stories of people who have successfully enrolled in the program. There are, however, also unacceptable problems with the planning and implementation of the new Medicare plan.

Some people have been denied coverage and are not getting the prescription drugs they need when they need them. We applaud the Governor and participating pharmacies for their bold action in providing a temporary solution to protect our most vulnerable seniors under the new Medicare program. It demonstrates that Kansas is putting the needs of our citizens first. On behalf of our more than 350,000 members, we support their actions and vow to continue reaching out to older Kansans.

On a national level, AARP is in constant contact with Medicare administrators to monitor their progress in addressing concerns. Here in the state, we are also taking the concerns of our members and the public very seriously. They are telling us that they have concerns about being unable to navigate the system either on a computer—if they have access to one and know how to use it, which many don't—or through the toll free Medicare number when they can't get through to speak to a person or because they don't like wading through all the prompts. Many complain that having in excess of 40 plans to choose from is confusing. Others haven't received confirmation that they are in the plan they enrolled in. Many are distressed when they hear about the donut hole, or gap in coverage, and wonder if they will be able to afford their drugs when they reach the gap. Others are frustrated when they receive conflicting answers to their questions.

AARP is committed to doing what it takes to help solve these and other problems. Here in the state, we are working with CMS, the Governor's Medicare Part D Committee, the Kansas Health Institute, Area Agencies on Aging (including monthly information sessions with Jayhawk AAA), the Shepherd's Center and other entities to develop more effective strategies to answer the questions of our members and the general public. Specifically, we have

- Offered and provided assistance in understanding the benefit to people who call our office or walk in wanting assistance. When they are ready to explore a specific plan or make a decision about a specific plan, we refer them to SHICK or ask them to talk with someone they trust.

Senate FI&I Com
Attachment 1
January 25, 2006

555 S. Kansas Avenue, Suite 201 | Topeka, KS 66603 | toll-free 866-448-3619 | 785-232-8259 fax | toll-free 877-434-7598 TTY
Marie F. Smith, President | William D. Novelli, Chief Executive Officer | www.aarp.org/ks

- Encouraged our members to look at additional options to save money on their prescription drugs, such as Evidence Based Research.
- Made efforts to help recruit more SHICK volunteers, including encouraging some of our own volunteers to take the training.
- Encouraged our members to bring any and all enrollment documentation, government issued Medicare card and photo identification to the pharmacy. If they are having trouble at one pharmacy, and have the ability to go to another pharmacy, we encourage them to do so, given that some pharmacies are handling filling prescriptions differently.

AARP Kansas will continue our efforts to reach out to members and the general public to provide them with information and support that will lead to informed decisions about the Medicare benefit. Some of our efforts will include:

- Support for efforts that require plans to register with the state so the Commissioner can better assist with problem solving.
- Support for efforts that increase funding and outreach for training SHICK volunteers, particularly in the rural areas of the state.
- Support for efforts that will further assist those with limited incomes, including a state based pharmacy assistance program that would wrap around the Medicare program.
- A focus on working with CMS to address the operational barriers that keep people from receiving the prescription drugs they need when they need them.

In summary, the Medicare prescription drug program has been a long time coming. It is one of the most significant changes to Medicare and we are glad that many older Kansans will be able to take advantage of this much needed benefit. The Program, after being in effect for just a few weeks, continues to face some very real challenges. We believe that many of these challenges will be resolved soon. We will continue to monitor the progress made by CMS and the plans to determine if an extension of the sign up period is needed.

Thank you for this opportunity to express our views. Please call on us if we can be helpful.

Kansas
Insurance
Department

Sandy Praeger COMMISSIONER OF INSURANCE

SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

REQUEST FOR BILL INTRODUCTIONS
BY
JARROD FORBES
KANSAS INSURANCE DEPARTMENT
JANUARY 25, 2006

Madam Chair and members of the Committee:

Thank you for allowing me to appear before you. Today I am asking for the introduction of one committee bill. This legislation allows a consumer to list a lienholder on an insurance policy covering a motor vehicle.

Know that we will provide more details about the regulation of these plans at the time of the bill hearing, but for now Madam Chair, I respectfully request this bill be introduced as a committee bill.

Again, thank you for the opportunity to appear before you today, and I am happy to answer any questions you may have.

Jarrod Forbes
Government Affairs Officer

Senate FI&I Com
Attachment 2
January 25, 2006

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2006 5rs1760

SENATE BILL NO. ____

By Committee on Financial Institutions and Insurance

AN ACT concerning insurance; pertaining to allowing certain lienholders and mortgagees to be shown on the application for insurance; amending K.S.A. 40-955 and repealing the existing section.

Be it enacted by the Legislature of the State of Kansas:

Section 1. K.S.A. 40-955 is hereby amended to read as follows: 40-955. (a) Every insurer shall file with the commissioner, except as to inland marine risks where general custom of the industry is not to use manual rates or rating plans, every manual of classifications, rules and rates, every rating plan, policy form and every modification of any of the foregoing which it proposes to use. Every such filing shall indicate the proposed effective date and the character and extent of the coverage contemplated and shall be accompanied by the information upon which the insurer supports the filings. A filing and any supporting information shall be open to public inspection after it is filed with the commissioner. An insurer may satisfy its obligations to make such filings by authorizing the commissioner to accept on its behalf the filings made by a licensed rating organization or another insurer. Nothing contained in this act shall be construed to require any insurer to become a member or subscriber of any rating organization.

(b) Any rate filing for the basic coverage required by K.S.A. 40-3401 et seq. and amendments thereto, loss costs filings for workers compensation, and rates for assigned risk plans established by article 21 of chapter 40 of the Kansas Statutes Annotated or rules and regulations established by the commissioner shall require approval by the commissioner before its use by the insurer in this state. Policy forms shall require approval by the commissioner before use by insurers in this state, consistent with the requirements of K.S.A. 40-216 and amendments thereto. As soon as reasonably possible after such filing has been made, the commissioner shall in writing approve or disapprove the same, except that any filing shall be deemed approved unless disapproved within 30 days of receipt of the

filing.

(c) Any other rate filing, except personal lines filings, shall become effective on filing or any prospective date selected by the insurer, subject to the commissioner disapproving the same if the rates are determined to be inadequate, excessive, unfairly discriminatory or otherwise fails to meet the requirements of this act. Personal lines rate filings shall be on file for a waiting period of 30 days before becoming effective, subject to the commissioner disapproving the same if the rates are determined to be inadequate, excessive, unfairly discriminatory or otherwise fail to meet requirements of this act. The term "personal lines" shall mean insurance for noncommercial automobile, homeowners, dwelling fire-and-renters insurance policies, as defined by the commissioner by rules and regulations. A filing complies with this act unless it is disapproved by the commissioner within the waiting period or pursuant to subsection (e).

(d) In reviewing any rate filing the commissioner may require the insurer or rating organization to provide, at the insurer's or rating organization's expense, all information necessary to evaluate the reasonableness of the filing, to include payment of the cost of an actuary selected by the commissioner to review any rate filing, if the department of insurance does not have a staff actuary in its employ.

(e) If a filing is not accompanied by the information required by this act, the commissioner shall promptly inform the company or organization making the filing. The filing shall be deemed to be complete when the required information is received by the commissioner or the company or organization certifies to the commissioner the information requested is not maintained by the company or organization and cannot be obtained. If the commissioner finds a filing does not meet the requirements of this act, the commissioner shall send to the insurer or rating organization that made the filing, written notice of disapproval of the filing, specifying in what respects the filing fails to

comply and stating the filing shall not become effective. If at any time after a filing becomes effective, the commissioner finds a filing does not comply with this act, the commissioner shall after a hearing held on not less than 10 days' written notice to every insurer and rating organization that made the filing issue an order specifying in what respects the filing failed to comply with the act, and stating when, within a reasonable period thereafter, the filing shall be no longer effective. Copies of the order shall be sent to such insurer or rating organization. The order shall not affect any contract or policy made or issued prior to the expiration of the period set forth in the order.

In the event an insurer or organization has no legally effective rate because of an order disapproving rates, the commissioner shall specify an interim rate at the time the order is issued. The interim rate may be modified by the commissioner on the commissioner's own motion or upon motion of an insurer or organization. The interim rate or any modification thereof shall take effect prospectively in contracts of insurance written or renewed 15 days after the commissioner's decision setting interim rates. When the rates are finally determined, the commissioner shall order any overcharge in the interim rates to be distributed appropriately, except refunds to policyholders the commissioner determines are de minimis may not be required.

Any person or organization aggrieved with respect to any filing that is in effect may make written application to the commissioner for a hearing thereon, provided the insurer or rating organization that made the filing may not proceed under this subsection. The application shall specify the grounds to be relied on by the applicant. If the commissioner finds the application is made in good faith, that the applicant would be so aggrieved if the applicant's grounds are established, and that such grounds otherwise justify holding such a hearing, the commissioner shall, within 30 days after receipt of the application, hold a hearing on not less than 10 days' written notice to the applicant and every insurer and rating organization

that made such filing.

Every rating organization receiving a notice of hearing or copy of an order under this section, shall promptly notify all its members or subscribers affected by the hearing or order. Notice to a rating organization of a hearing or order shall be deemed notice to its members or subscribers.

(f) No insurer shall make or issue a contract or policy except in accordance with filings which have been filed or approved for such insurer as provided in this act.

(1) On an application for personal motor vehicle insurance where the applicant has applied for collision or comprehensive coverage, the applicant shall be allowed to identify a lienholder listed on the certificate of title for the motor vehicle described in the application.

(2) On an application for property insurance on real property, the applicant shall be allowed to identify a mortgagee listed on a mortgage for the real property described in the application.

(g) The commissioner may adopt rules and regulations to allow suspension or modification of the requirement of filing and approval of rates as to any kind of insurance, subdivision or combination thereof, or as to classes of risks, the rates for which cannot practicably be filed before they are used.

(h) Except for workers compensation and employer's liability line, the following categories of commercial lines risks are considered special risks which are exempt from the filing requirements in this section: (1) Risks that are written on an excess or umbrella basis; (2) commercial risks, or portions thereof, that are not rated according to manuals, rating plans, or schedules including "a" rates; (3) large risks; and (4) special risks designated by the commissioner, including but not limited to risks insured under highly protected risks rating plans, commercial aviation, credit insurance, boiler and machinery, inland marine, fidelity, surety and guarantee bond insurance risks.

(i) For the purposes of this subsection, "large risk" means: (1) An insured that has total insured property values of $5,000,000 or more; (2) an insured that has total annual gross revenues of $10,000,000 or more; or (3) an insured that has in the preceding calendar year a total paid premium of $50,000 or more for property insurance, $50,000 or more for general liability insurance, or $100,000 or more for multiple lines policies.

(j) The exemption for any large risk contained in subsection (h) shall not apply to workers compensation and employer's liability insurance, insurance purchasing groups, and the basic coverage required by K.S.A. 40-3401 et seq. and amendments thereto.

(k) Underwriting files, premium, loss and expense statistics, financial and other records pertaining to special risks written by any insurer shall be maintained by the insurer and shall be subject to examination by the commissioner.

Sec. 2. K.S.A. 40-955 is hereby repealed.

Sec. 3. This act shall take effect and be in force from and after its publication in the statute book.

Kansas Sheriffs' Association

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Fax 785-827-5215

To: Senate Committee on Financial Institutions and Insurance
Re: SB322

The Kansas Sheriff's association comes before this committee in support of this bill.

Repeatedly in Kansas Law enforcement officers work accidents in which it is discovered that an individual does not possess Insurance for the vehicle in which they are driving. Who pays the price? My answer would be multiple people. First the other party in the accident who has automobile insurance, their insurance company ends up footing the bill or in some cases when a person only has liability insurance they are unable to repair their vehicle and are presented the unique challenge of finding transportation in the future.

Further, Kansans in general pay the price, everyday in Kansas there are many people without automobile insurance driving the streets. When uninsured motorists choose to drive on roadways in Kansas they are putting all of us at risk. In most cases the failure to have automobile insurance is not a mistake, rather an intentional act. They do not care if someone falls victim to them if involved in an accident. I can promise that in many cases they are back out on the street driving again and continue to drive without insurance and in many cases a driver's license.

Therefore, the Kansas Sheriff's Association would support this legislation to penalize and hold accountable those that choose to ignore the laws of this state by driving motor vehicles without insurance and are then involved in accidents.

Sincerely,

Randy L. Rogers
Legislative Chair
Kansas Sheriff's Association

Senate FI&I Com
Attachment 3
January 25, 2006

Polsinelli | Shalton
Welte | Suelthaus PC

Memorandum

TO: THE HONORABLE RUTH TEICHMAN, CHAIR
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
THE STATE FARM INSURANCE COMPANIES

RE: S.B. 321

DATE: January 23, 2006

Madam Chair, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for The State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. We appreciate the opportunity to review S.B. 321. Based upon our review, although we support the concept embodied in S.B. 321, we must oppose this bill as it is currently written.

Much has been discussed about the uninsured motorist situation in the United States. In our own state, figures range for an uninsured population of anywhere from five to ten percent. It should be noted that this is extremely low, particularly given that we have a mandatory insurance law. Certainly any uninsured who is involved in an accident is one too many, but we should not lose sight of the fact that we do have a low population of uninsureds, and when crafting any type of verification solution, it should be done in such a manner as to not hamper the current system.

Our current system in Kansas generally allows for quick access to affordable automobile insurance. The more hoops government installs in that program, the harder it becomes to gain access to the insurance markets, and it does increase costs.

Notwithstanding that, my client does support verification programs, and after a few comments regarding the testimony by the proponents, I will provide a quick analysis of the current status.

My client would like to identify several points brought up in the presentations by the proponents in order to make sure there is a clear picture of this proposal. Mr. Scott Lakin of the Insurance Vehicle Identification Network ("IVIN") discussed several issues regarding insurance

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information identification. First, unless I missed it in his presentation, there was no mention of the fact that IVIN is a for-profit entity in the business of providing software for projects such as this. Whether or not IVIN provides an appropriate product is really irrelevant at this stage of the discussion. It is, however, important to remember that IVIN does have a vested interest in these programs.

Several times during the course of his discussion, Mr. Lakin used the term "bad data." Unfortunately, and based upon some of the questions asked by the Committee, this seemed to leave an impression with the Committee that there is a multitude of "erroneous" or "incorrect" data being processed. What was generally referred to as "bad data" means data that is inconsistent. In other words, Company A formulates its data in one format versus a different format generated by Company B. The data is not necessary wrong, it is simply formatted differently. Further, when referring to "incorrect" data, certainly there are instances of incorrect data being submitted throughout the entire insurance process. Regardless of how perfect we would all like to be, this information, from start to finish, is inputted by human beings, and human beings make mistakes.

Finally, Mr. Lakin talked about the various states that in one form or another have implemented some sort of vehicle identification matchup with insurance coverage. Although it is true that there are a variety of states that have tried different programs, as pointed out in the NAIC white paper, most if not all of these programs are expensive and have not demonstrated any decrease in uninsured motorists.

On the other hand, this topic is of important and widespread interest, and the insurance industry has been working on this project in hopes of promoting a responsive program to the needs of not only the motor vehicle divisions, but of the insurance industry, and most importantly, its customers. Before embarking on the current state of affairs, however, I would like to take a moment to review some historical background.

For many, many years, motor vehicle departments have been involved in an association called the American Association of Motor Vehicle Administrators ("AAMVA"), and over time this Association has relied upon the insurance industry to provide input on various programs they have worked on over the years. Approximately thirty years ago, the AAMVA decided to create a free-standing ad hoc group that could provide input on a regular basis rather than simply forming the group whenever the need arose. This group became the Insurance Industry Committee on Motor Vehicle Administration ("IICMVA"). This is in essence an advisory group to the AAMVA. The IICMVA has twenty-four members who represent the majority of major insurance companies and their trade associations. The group has worked on a variety of issues with the AAMVA, and most recently they have commenced work on the issue of insurance verification. I am attaching two papers from IICMVA, one dated March 15, 2004, and the other dated August 15, 2005. In summary, the group has proposed an on-line verification system in which the individual insured is checked by virtue of whatever agency needing verification has access to an on-line web page. Several states are examining this program, and recently Florida and the industry began working to put together a pilot project through which to run a demonstration over the next several months.

The documents attached speak for themselves, and I will not add to them through this memorandum. What we believe this information does demonstrate is that S.B. 321 has a good concept, but many components of the bill are unnecessary.

Also, I am attaching a copy of a letter that IICMVA sent in response to the NAIC white paper. This is the white paper that was attached to the Kansas Insurance Department's testimony.

It would be my client's suggestion that in lieu of S.B. 321, the Legislature pass a resolution establishing a task force to do what is described in New Section 1 of S.B. 321. Thereafter, a report can be given to the Legislature, and the Legislature can evaluate the program proposed by the task force in order to assure an appropriate check and balance.

Thus, we respectfully request that the Committee not act favorably on S.B. 321 and consider a Senate and/or Concurrent Resolution authorizing a task force whose goal would be to develop an electronic motor vehicle financial security verification system for the State of Kansas. Again, thank you for the opportunity of allowing us to present this information, and if you have any questions, please feel free to contact me.

Respectfully submitted,

William W. Sneed

WWS:kjb

019646 / 032884
WWSNE 1277864

Online Insurance Verification

Using Web services to verify auto insurance coverage

Version 1.0
March 15, 2004

Executive Summary

Mandatory liability insurance laws exist in 47 of the 50 states. Auto Liability Insurance Reporting (ALIR) programs, often referred to as State Reporting systems, are designed to enforce compulsory insurance laws in 23 states. Two new programs are currently in development (Appendix A).

From an insurance company perspective, evidence suggests that state reporting programs have not effectively met their main objective: to identify and track uninsured motorists. These programs are costly, difficult to implement, hard to maintain, and a burden for insured drivers.

Recent and ongoing advances in technology, such as Web services and Internet-based transaction processing may provide insurance carriers with an opportunity to provide online auto insurance verification to state jurisdictions.

These technological developments offer many benefits and reduce detriments to all stakeholders concerned with enforcing mandatory liability insurance laws. The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) believes that Web service technology should be explored as a solution to address the need by state agencies to verify auto insurance coverage.

Insurance Industry Committee on
Motor Vehicle Administration

Online Insurance Verification

Using Web services to verify auto insurance coverage

Version 1.0
March 15, 2004

Insurance Industry Committee on
Motor Vehicle Administration

Online Insurance Verification

Using Web services to verify auto insurance coverage

Purpose

The purpose of this paper is to propose a system to provide documentation of insured status through a partnership of the states, the public, and insurers. This system is intended to be uniform, cost effective for the states, cost effective for insurers, and beneficial for the public interest.

Foreword

About the IICMVA

IICMVA was formally organized in January 1968. Prior to this time, industry ad hoc committees were assembled as needed by each state to assist with the implementation of compulsory insurance and financial responsibility laws.

Ad hoc committees, which operated at the individual state level, were restrictive and inconsistent in function and composition. IICMVA was formed to provide consistent, industry-wide exchange between the insurance industry and all state jurisdictions.

IICMVA's basic organization is built around insurers and insurance trade associations. Property Casualty Insurers Association of America (PCI, formerly the National Association of Independent Insurers and the Alliance of American Insurers) and the American Insurance Association (AIA) comprise the two major trades. Non-affiliated insurers round out the IICMVA roster.

IICMVA is not a lobbying organization. Instead, the Committee serves as a liaison between the insurance industry and state motor vehicle departments in the following subject areas: drivers licensing, vehicle titling/registration, motor vehicle records, compulsory insurance laws, and financial responsibility programs. IICMVA also maintains a close working relationship with the American Association of Motor Vehicle Administrators (AAMVA).

Business Direction and Vision

Business Direction

Technology has evolved significantly since the late 1950s when states began enforcing their compulsory automobile liability insurance laws. Paper verifications were followed by tape-based cancellation reporting systems. Eventually electronic reporting came into use.

Today, however, we are in an age of Internet-based, shared services. Businesses will increase their use of Web services defined by *The Wall Street Journal* as "software that many computer experts believe will usher in a new era of secure but simple interconnections among computer systems at different companies." [1]

IICMVA views the use of this new technology as the best way to resolve what has become a controversial public policy issue: enforcement of mandatory or compulsory insurance laws.

Enforcement of mandatory or compulsory insurance laws should be limited to event-based situations. Examples of these events could be, but are not limited to: vehicle registrations, traffic stops and accidents. If a jurisdiction desires additional pre-emptive enforcement, that enforcement should be by random sample verification of insurance by the appropriate government department.

Secured Web applications now make event-based verification of insurance coverage both possible and desirable. Accessing data to conduct business is nothing new to consumers who regularly bank, shop, or bid over the Internet. It is also nothing new to jurisdictions which disseminate information, collect citizen input, and conduct the business of state government over the Internet. Giving jurisdictions the capability of verifying insurance in a secured Web environment is an extension of this concept.

On September 17, 2003, IBM and Microsoft announced that they had come to an agreement on software standards for Web services; therefore, the possibility of integrating systems among different trading partners could soon be a reality in the realm of insurance verification. [2]

IICMVA believes the industry must respond.

Vision

The Committee strongly supports an event-based, online inquiry approach to insurance verification.

IICMVA's vision includes simple online applications that can support single policy inquiries. This vision also includes the exploration of true Web services that can support the interconnection of systems between authorized trading partners, namely insurance carriers and state agencies.

An online inquiry approach to insurance coverage verification would provide many benefits:

- Jurisdictions could obtain the documented online status of insurance information at any point in time within certain business constraints.
- Jurisdictions could incorporate online verification systems into their license plate renewal programs.
- There would be no need to exchange massive amounts of data that is rarely, if ever, referenced, let alone 100% accurate and/or timely.
- The confidentiality of insurance information would be protected within the confines of each insurance carrier's IT environment.
- The matching limitations and data integrity issues of current state reporting programs would be minimized or reduced.
- Customer service would be improved because primary search criteria would be based on the business rules within each company.
- Commercial insurance carriers would be in a better position to comply with state mandates.
- Carriers would realize the cost effective use of resources since an inquiry system would be built one time for all states, leaving room for simple upgrades as future needs arise.

- Privacy will be protected: Only designated, legally authorized entities will have access. The information to be provided will be very limited and state of the art technological safeguards, such as the latest methods of encryption, will be included.

IICMVA must clarify that its vision does not include any of the following approaches:

- National database reporting systems
- Data clearing houses
- Invasive data extraction programs or gleaner programs from third parties
- Radio Frequency Identification (RFID) technologies

This vision is IICMVA's attempt to work with state agencies to resolve a public policy issue: enforcement of mandatory insurance laws.

Background

Beginning in the mid-1920s, states have made an increasing number of attempts to accomplish several worthwhile, socially valuable goals. Among these is the recognition that citizens who exercise their privilege to own and operate a motor vehicle on the public roadways must be held accountable for injuries or damages such ownership and operation may cause.

In this context, the term "held accountable" means being financially responsible. Financial responsibility is the principal argument that supports compulsory insurance legislation in 47 of the 50 states today.

The primary goal of this legislation is to have no uninsured motorists or uninsured vehicles within the jurisdiction.

A subsequent objective is to identify those motorists and/or vehicles that do not carry mandatory insurance coverage when operating within a state's jurisdiction.

There are two sources of information that can be used to confirm insurance coverage:

1. **The Individual Driver**

   Several states make use of this primary source of information and enable citizens to "self-certify" that they have insurance coverage. This approach requires drivers to sign an affidavit stating they will always carry insurance on the vehicles they register and/or operate on the public roadways.

2. **The Insurance Industry**

   As of this writing, 23 states use insurance industry information and require the insurance industry to report information about their insureds in one of the following ways:

   - **Book of Business Data Transfers**

     Usually done on a monthly basis, each carrier authorized to write insurance in the state submits its entire active book of policy information. This is the "policy in force" method

whereby states are able to perform month-by-month comparisons to identify those individuals and/or vehicles that were insured at one time but are no longer insured.

In 2001 one state combined a random sampling process with a monthly reporting flow. Normally the industry approves of random sampling programs, but the reporting aspect of this approach has created customer service concerns due to data mismatches.

- **Cancellation Reporting**

  Other states require carriers to report policies that have cancelled, lapsed, or non-renewed. This is the "no insurance now" method and the states that use it proactively follow-up with individual vehicle owners who have been identified as potentially uninsured motorists through this process.

- **Comprehensive Database Approach**

  Many state reporting programs use the "comprehensive database" approach which requires insurance carriers to provide extensive information about their entire books of business. Comprehensive programs require each insurer to submit an "initial load" data file followed by regular daily, weekly, or monthly updates. The premise behind this model is that states can compare insurance data to their own vehicle registration data to identify uninsured motorists. This approach assumes that it is theoretically possible for a state to know about every instance of insurance within the jurisdiction at every point in time, both now and in the future.

Statement of Problem

There will always be citizens who ignore or actively seek to avoid the laws on compulsory insurance. This is the fundamental non-compliance problem.

The states' attempts to eliminate or reduce uninsured motorists via state reporting programs raise the following additional concerns:

1. Data Problems Cause Insureds to be Mistakenly Identified as Uninsured

The effectiveness of all computer systems depends on the accuracy of the data they contain. Output depends on input. Automobile liability insurance reporting (ALIR) systems are no exception to this rule.

The effectiveness of traditional ALIR systems depends on their ability to match vehicle/VIN, driver, or registered owner information from a state's database with the same data stored on an insurance carrier's database. The following data integrity issues adversely affect this process:

- **Accuracy**

  Simply put, it is impossible for either a jurisdiction or an insurance company to collect and maintain VINs that are 100% accurate and complete. At any point in time, some data maintained by either party may be incorrect or outdated.

  Typographical errors caused by keystroke mistakes or customer miscommunication are common during the collection of data by state jurisdictions or insurance carriers.

In many cases, a lack of ongoing communication from the customer causes the data to become obsolete and incorrect. Customers do not consistently notify all necessary parties when vehicles are bought, sold, or otherwise acquired and disposed.

State jurisdictions and insurance carriers have not been very successful at convincing their mutual customer to provide timely notice when a change of information occurs.

- **Timeliness**

  The result of the varying business issues that affect insurance carriers and state agencies contribute to problems associated with the timeliness of data.

  The difference between the timeframes that states allow for drivers to acquire insurance and register their vehicles often conflicts with the timeframes that insurance carriers allow for insureds to notify them of newly acquired vehicles. Considerable time can pass before a state is aware of a new registration and seeks to match an insurance record.

  Newly acquired vehicles are typically covered contractually by insurers for a certain period of time, even before they are added to a policy. Thus, until a vehicle is specifically added to a policy, an insurance carrier will not have a trigger it can use to transmit insurance coverage data to the state regarding that particular vehicle.

  Other insurance business issues that complicate issues of timely reporting include the various grace periods allowed under state law for renewal payments and the underwriting binder periods insurers use to underwrite policies.

  The result of these issues is the same: insured drivers may appear to be uninsured.

- **Consistency**

  Often customers provide accurate, but different, information to a jurisdiction and insurance carrier. A customer's name is the most common situation. For example, a driver may have registered his name with the state as "James Robert Smith," but applied for an insurance policy under the name of "Bobby Smith." The inconsistency between these values makes them difficult, if not impossible, to match when comparing data from the two databases.

  Sometimes states require carriers to report only vehicles registered in those jurisdictions, but carriers typically do not collect data that reflects the vehicle registration state. Mismatches or data errors are common for these programs when insureds move into a state, take out a policy for insurance, but fail to register their vehicles in that state.

2. Reporting Systems Are Costly for Jurisdictions, Insurers, and Consumers

The current reporting systems consume significant state and insurance company resources. Ongoing maintenance and operation of these programs require staff-intensive efforts by jurisdictions and insurers. Ultimately, these costs are borne by consumers.

- **Implementation Costs for State Jurisdictions**
  - The state of New York paid Anderson Consulting **$4.5 million** to implement its program. The project began in fiscal year 1999-2000. [3]
  - A 1997 audit conducted by the Utah Office of the Legislative Auditor General indicates the state spent **$1.2 million** to implement and administer its system when the reporting program was initiated in 1995. [4]

- The Colorado Department of Regulatory Agencies (DORA) indicates the Colorado Motorist Insurance Identification Database (MIIDB) has cost the state approximately **$7.1 million** since 1997. The state employs eight full time equivalent (FTE) employees to manage the MIIDB program: one Office Manager and seven Administrative Assistant IIs. The state also pays a vendor to manage the database. [5]
- The Missouri state reporting program is financed by an MIIDB Fund that collects 6% of the net General Revenue portion of the Insurance Premium Tax. As of June 2003, this Fund was collecting $3.2 million a year, but the Fund was not enough to cover the **$3.7 million** needed that year to maintain the system. [6]

NOTE: The implementation costs identified above do not include revenues generated through fines by the state jurisdictions after implementation.

- **Costs for Insurers**
  - In 2000 it is estimated that the New York Insurance Information Enforcement System (IIES) cost four major carriers an average of $408,000 to develop and implement. [7] There are approximately 300 insurance carriers in New York.
  - Commercial automobile insurers spend $30 million annually to develop and maintain reporting programs. [8]
  - In one state alone, it has been estimated that commercial insurers spend $50 on database maintenance per insured vehicle. [9] For example, a commercial fleet policy with 9,000 vehicles for a rental car company costs $450,000 to maintain the data reporting system each year.
  - Negative publicity and customer experiences adversely affect policyholder retention.
  - Considerable indirect expenses include legal, training, and public relations costs.

  The cost to the industry is compounded by the fact that insurers are responsible for the development, implementation, maintenance, and administration of multiple systems for various states.

- **Costs for Consumers**
  - Consumers may pay higher insurance premiums to offset insurer costs.
  - Consumers as citizens pay for jurisdictional expenses via fees, assessments, and taxes.
  - Insured drivers are fined inappropriately when mistakenly identified as uninsured.

  The cost to consumers is compounded by the fact that law abiding citizens are negatively affected. Consumers frequently spend their time correcting state reporting errors. Also, increased regulatory costs reduce competition, giving consumers less choice in the marketplace. Ironically, insured motorists bear all the costs of the very systems that are meant to track the uninsured.

3. Reporting Programs Do Not Conform to the Needs of Commercial Insurers and Their Customers

Vehicle verification systems do not acknowledge the complexities of how auto insurance is written. No single methodology is followed by all companies.

The Commercial Automobile Insurance Industry reports data to departments of motor vehicles (DMV) in 14 states. IICMVA continues to stress that commercially insured vehicles should be exempt from these reporting programs for the following reasons:

- Commercial insureds do not register all vehicles the same way and do not use personal identifiers such as name, address, and VIN. This causes matching errors. The inability to match to DMV registration databases results in undue hardships for these customers.
- Commercial businesses typically own large capital assets and willingly buy high limits of insurance to protect them. Commercial clients are less likely to allow their employees to drive uninsured.
- The complexity of tracking the multi-state operations of many commercial customers makes it impossible to accurately report this unique customer data.

  Ex. *ABC Insurance Company* insures *XYZ Corporation* which has operations in all 52 jurisdictions of the United States. *ABC* insures 186,000 vehicles in those jurisdictions covered under a single commercial fleet policy.

  XYZ rotates up to 6,000 vehicles on and off the policy since the vehicles rotate in and out of the fleet on a weekly basis. This activity is typical of a fortune 1000 company with multi-state operations, and it makes data reporting an onerous task for commercial insurers.

Absent a full exemption, the use of Web services and online inquiries serves as the best way for commercial carriers to mitigate the problems associated with reporting programs, as well as an advantageous way to comply.

4. No Correlation Exists Between Reporting Programs and the Number of Uninsured Motorists

Despite the lack of objective evidence that state reporting programs are, or can be, effective at identifying uninsured motorists, new state reporting programs continue to become law and continue to be implemented.

As stated in the 2002 AAMVA Financial Responsibility & Insurance Resource Guide:

> ***In general, there is no correlation between compulsory insurance and the number of uninsured motor vehicles on the highway. The same absence of correlation can be said of insurance data reporting programs. Between the 1989 and 1999 IRC studies, of the 18 states with reporting programs in place for 5 years or more, 12 showed an increase in uninsured motorists and 6 experienced improvements. These results suggest there may be other factors involved, such as level of enforcement and consistency of penalties.***
>
> ***There are a number of reasons why compliance can never be 100%. Notwithstanding compulsory insurance laws, vehicle owners will continue to violate the mandate, just as we see with DUI and other traffic laws.*** [10]
>
> ***From a technological viewpoint, insurance data reporting, particularly via electronic means, works well in moving data between entities. What happens beyond that has achieved mixed results. Matching of data is critical, but may never reach comfortable levels due to data accuracy issues, differences in database elements and formats, and a laundry list of items that generate false negatives on the DMV database…Considerations must weigh the costs, the payback realities, and intrusion on law-abiding citizens.*** [11]

Proposal/Diagram

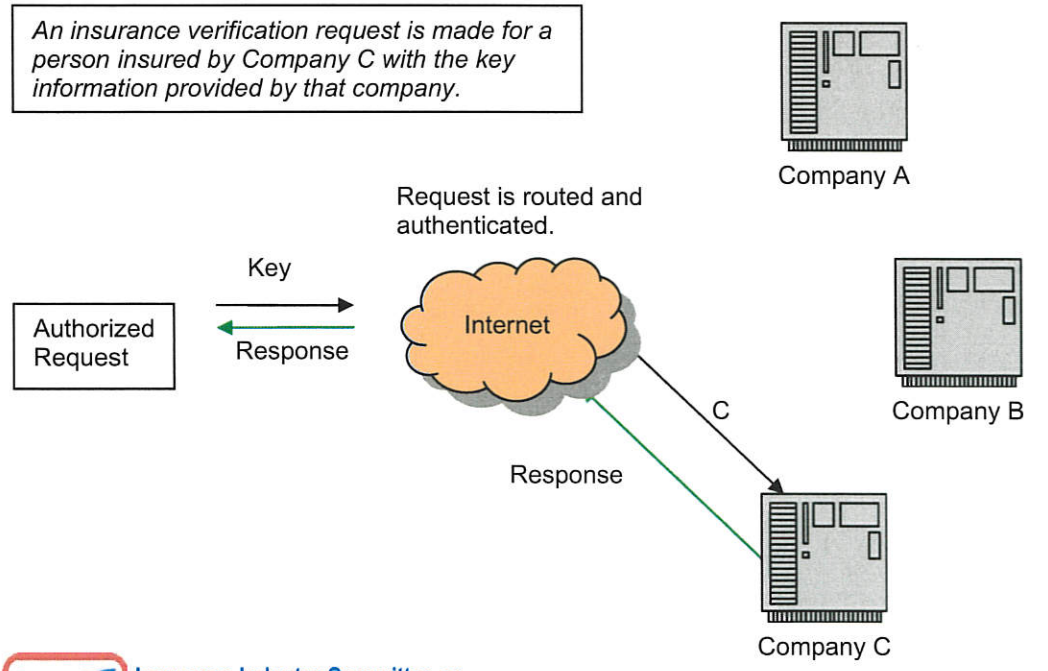
In order to modernize the exchange of information between carriers and jurisdictions, IICMVA believes attention must be focused on why insurance data is being exchanged so that current technology can be leveraged to meet that need.

Ideally, verification of insurance should occur in "real time." Given the various business issues that occur, true "real time" status is not entirely possible. Premium payments in transit, underwriting binder periods, delayed applications, grace periods, and newly acquired but unprocessed vehicles are just a few situations that complicate this vision. An online verification system will permit improved data accuracy because such a system would reflect the documented insurance coverage.

The need to verify insurance and identify uninsured vehicles should be in response to an event-based situation: vehicle registration, traffic stop, or accident.

To this end, IICMVA proposes an automobile insurance verification system based on Web services technology. IICMVA envisions the following elements and steps as necessary:

- Each insurance company would be responsible for maintaining the data necessary to verify the insurance coverage provided to their own customers.
- Each insurance company would be responsible for maintaining a Web portal or service through which online insurance verification can take place by trading partners.
- Valid verification inquiries would be made using key information to route a request to the appropriate carrier for a response.
- The information exchanged would be limited to only those items needed to accurately route the request and confirm coverage, keeping any privacy concerns to a minimum.
- The methods used to make requests can vary, as long as they are ultimately transmitted in a standard format set by the industry. For example, the key information could be entered into an Internet site that would appropriately format a request.
- Confirmation of coverage, or lack thereof, would be sent back to the requesting entity for appropriate action.



Next Steps

The insurance industry and the states should cooperatively examine this proposal expeditiously because of the many potential benefits to all parties. Among the next steps are:

- The technical requirements necessary to render this solution must be identified (e.g., security, authentication, business-to-business/b2b standards, routing of requests, etc…).
- State jurisdictions must be invited to help develop the business requirements that need to be addressed (e.g., data elements needed, search criteria, use cases).

Conclusion

IICMVA supports an event-based approach to enforcing mandatory insurance laws. State jurisdictions have a need to verify insurance coverage. With the advent of new technology, online verification promises to be a cost effective way to address this need, benefiting the states, insurers, and consumers.

Using Web services to verify liability coverage will afford insurance companies numerous quantitative and qualitative benefits. Companies will be able to transfer the efficiencies gained from one state's program to another. In addition, the industry would have the potential for establishing core technical competencies as a result of putting in place Web service-based programs that can be leveraged by other business units within each insurance company.

More importantly, online verification provides a very practical application that the industry can offer states to identify uninsured motorists. Taking a proactive approach to addressing an important public policy issue will also have a positive effect on consumers.

Notes

1. William M. Bulkeley, "Microsoft, IBM Set Standards Pact." *The Wall Street Journal*, September 2003, Technology Journal Section, cols. 3-5.
2. Thor Olavsrud, "Microsoft, IBM Set Web Services Standard Pact." *Internetnews.com*, September 18, 2003, Enterprise Section, Jupitermedia Corporation.
3. New York Department of Motor Vehicles in consultation with New York State Insurance Department, "Insurance Information and Enforcement System (IIES)-New Directions in Enforcing Compulsory Insurance Laws," *Report to the Governor and Legislature,* February 1999, pp. 5-7.
4. Utah Office of the Legislative Auditor General, *Audit Report*, 1997.
5. Colorado Department of Regulatory Agencies Office of Policy and Research, "Colorado Motorist Insurance Identification Database Program Act: 2002 Sunset Review," *Report to the Office of Legislative Legal Services,* p. 9.
6. Frank Ruggiero, "Insurance Information Database: Keeping It Simple…But Making It Effective," *Presentation on the Missouri Enhanced Random Sampling Program to the Nebraska Motor Vehicle Insurance Database Task Force,* June 2003, slide 4 (oral comments).
7. Based on estimated NY IIES implementation costs incurred by four separate and distinct carriers, the results of which can be applied to industry numbers. The estimated implementation costs cited do not include the expenses incurred to implement the cryptographic bar-coded insurance ID card required under the NY IIES mandate. It could be assumed that the industry's estimated cost to implement NY IIES was approximately $122,400,000 (300 carriers X $408,000).
8. Summary of costs incurred by four large commercial insurers.
9. The $50.00 cost per insured vehicle was determined by a review of the incurred daily maintenance costs of four large commercial insurers in a comprehensive reporting state.
10. AAMVA Financial Responsibility & Insurance Standing Committee, Arlington, Virginia, "AAMVA Financial Responsibility & Insurance Resource Guide," *AAMVA FRI Standing Committee Project*, 2002, page 14.
11. AAMVA Financial Responsibility & Insurance Standing Committee, Arlington, Virginia, "AAMVA Financial Responsibility & Insurance Resource Guide," *AAMVA FRI Standing Committee Project,* 2002, page 17.

Appendix A:

Comprehensive Database/Cancellation Reporting Systems
Arizona (X12)
Arkansas (EDI; proprietary)
California (X12-voluntary) Used for Online Registration
Colorado (X12)
Connecticut (tape; proprietary)
District of Columbia (paper)
Florida (tape/EDI; proprietary)
Georgia (EDI; proprietary)
Kentucky (tape; proprietary)
Louisiana (proprietary)
Maine (EDI; proprietary; in development since 2001)
Maryland (X12)
Massachusetts (EDI; proprietary)
Nevada (tape; proprietary)

New Jersey (tape; proprietary)
New Mexico (X12)
New York (X12)
North Carolina (EDI; proprietary)
Oklahoma (tape; proprietary)
Oregon (X12)
Pennsylvania (tape; proprietary)
South Carolina (paper->converting to EDI using X12, proprietary, or Web)
Virginia (X12)
Book of Business Data Transfers
Kansas (proprietary-voluntary) Used for Online Registration
Michigan (proprietary-voluntary) Used for Telephone Registration
Missouri (proprietary; enhanced random sampling with book of business reporting)
Nebraska (proprietary-in development since 2003) Used for Online Registration
Utah (proprietary)
Random Sampling Programs
Alabama (Website)
Delaware ***(not in use)***
Illinois (tape; proprietary)
Minnesota (in development since 2003)

Model User Guide for Implementing Online Insurance Verification

Using Web services to verify auto insurance coverage

Version 1
August 15, 2005

Insurance Industry Committee on Motor Vehicle Administration

4-17

Executive Summary

IICMVA's ***Model User Guide for Implementing Online Insurance Verification*** serves as a technical follow up to the Committee's 2004 white paper publication entitled, ***Online Insurance Verification – Using Web Services to Verify Auto Insurance Coverage Version 1.0*** ***(*** http://www.iicmva.com/websvc.pdf ***)***.

In the 2004 white paper, IICMVA identified the following benefits of online insurance verification:

- Jurisdictions could obtain the documented online status of insurance information at any point in time within certain business constraints.
- Jurisdictions could incorporate online verification systems into their license plate renewal programs.
- There would be no need to exchange massive amounts of data that is rarely, if ever, referenced, let alone 100% accurate and/or timely.
- The confidentiality of insurance information would be protected within the confines of each insurance carrier's IT environment.
- The matching limitations and data integrity issues of current state reporting programs would be reduced.
- Customer service would be improved because primary search criteria would be based on the business rules within each company.
- Commercial insurance carriers would be in a better position to comply with state mandates.
- Carriers would realize the cost effective use of resources since an inquiry system would be built one time for all states, leaving room for simple upgrades as future needs arise.
- Privacy will be protected: Only designated, legally authorized entities will have access. The information provided will be very limited and state of the art technological safeguards, such as the latest methods of encryption, will be included.

IICMVA believes that Web service technology should be explored as a solution to address the need by state agencies to verify auto liability insurance coverage.

This model guide serves as a technical "how to" for implementing an auto insurance verification program using externally consumable Web services. The guide has been developed only by insurance company representatives from the IICMVA, and it has been written as a vendor-neutral resource. Since it is based on open standards, the guide provides state jurisdictions with the choice of either developing an online verification program with internal or third party resources.

Table of Contents

1.0 Introduction to the Model User Guide

1.1 User Guide Purpose

The purpose of this guide is to provide insurance companies, state motor vehicle administrations (MVAs), or their respective agents with the information needed to conduct online auto liability insurance verification via Web service applications.

This guide provides a mix of business and technical information to define how ***authorized requesters*** (e.g., motor vehicle departments) can submit insurance verification requests to Web services hosted by insurance carriers participating in this program.

1.2 Program Goal

The goals for online insurance verification via Web services include:

- Providing an accurate, flexible, and simple method of auto liability insurance verification that will improve customer service.
- Developing a standardized program that can be used by all states.
- Improving data security since detailed policy information will not be transmitted between participants.

1.3 Program Purpose

The purpose of online insurance verification is to assist in the enforcement of motor vehicle liability insurance requirements.

The current state reporting model requires insurance carriers to report insurance information so that it can be compared to vehicle registration data maintained by motor vehicle departments. Under the reporting model, any vehicle registrations not tied to an insurance record are considered uninsured. Unfortunately, data integrity problems inherent to the reporting process make it an inaccurate method of verifying coverage.

IICMVA offers an approach that differs from state reporting: ***online insurance verification or inquiry via Web services.***

IICMVA's vision includes simple online applications that can support single policy inquiries submitted through Web service applications by an interconnection of authorized trading partner systems (i.e., insurance carriers and authorized state agencies).

Under the online insurance inquiry model, the presence of auto liability insurance coverage may be verified when an authorized requester is presented with a financial responsibility event for a driver.

Online verification bypasses the need to identify a match between insurance carrier and motor vehicle department information. Instead, a real time response can be provided to an insurance inquiry that contains standardized request information. More importantly, an accurate response can be provided.

Online verification allows authorized requesters to go directly to the source of insurance information -- the insurance companies themselves.

1.4 Program Overview

For the online insurance verification model, IICMVA identifies the standards, processes, requirements, and technical specifications necessary to interact with externally consumable Web services hosted by insurance carriers. In addition, IICMVA defines the confirmation responses that state agencies may receive in response to their insurance inquiry requests.

IICMVA does not define the ***user interface*** or method through which an authorized requester submits a coverage confirmation request to these Web services.

When presented with a financial responsibility event, an authorized requester simply submits a standardized, ***coverage confirmation request*** to the Web service of a participating insurance carrier. In turn, the insurance carrier replies with a standardized, ***coverage confirmation response***.

> ***Note:*** The insurance company's response indicates whether it can confirm minimum liability coverage is present on a date in question. *It does not identify the liability limits that are present on an insurance policy or substitute for an insurance company's claims handling function since it is not able to confirm an insurance carrier's liability for any claim in question.*

1.5 Web Services Background

The following background provides helpful detail about Web services. This section serves as a reference for terms and concepts that will appear throughout this guide.

Web Services

Web services describe the standardized way that a Web user or Web-connected program can call another Web-based application hosted on a business' Web server.

There are two parties involved in the communication, a Web service client [request] and the Web service [response]. An authorized Web user or client can use or ***"consume"*** the service by submitting a request over the Internet to the Web server where the service is located. When called or consumed by a Web user or program, the Web service fulfills a request and submits the response.

Businesses that host Web services are called ***application service providers***. For the insurance verification application, participating insurance carriers would serve as the application service providers.

If Web services were not available, application service providers would have to offer access to application services from their own enterprise computers. This is a benefit of Web services. They are not "hard-wired" to a company's file system. Instead, a Web service is a program that performs a repeatable task when invoked by an authorized user for a specific purpose.

Used primarily as a means for businesses to communicate with each other and with clients, Web services allow organizations to communicate data without intimate knowledge of each others' IT systems behind the firewall.

Open Standards

Web services integrate Web-based applications using open standards over an Internet protocol. These open standards include the following:

- ***Extensible Markup Language (XML)*** is a flexible way to describe data and the format of that data over the Internet. XML allows systems designers to create their own customized tags, enabling the definition, transmission, validation, and interpretation of data between applications and organizations. For online insurance verification, the data exchanged in the coverage confirmation request and response would be "tagged" in XML. Sometimes developers refer to this data as the ***"XML payload message."***

  XML schemas for online insurance verification have been independently developed by the ***American National Standards Institute (ANSI)*** and the ***Association for Cooperative Operations Research and Development (ACORD).***

- ***Simple Object Access Protocol (SOAP)*** is used to transfer XML payload messages or data. SOAP allows programs running in the same or different operating systems to communicate with each other using a variety of Internet protocols such as Simple Mail Transfer Protocol (SMTP), Multipurpose Internet Mail Extensions (MIME) and ***Hypertext Transfer Protocol (HTTP).*** SOAP messages are independent of any operating system or protocol. This guide will focus on HTTP.

  Specifically, SOAP is a lightweight XML-based messaging protocol used to encode the information in Web service request and response messages before sending them over a network. Simply put, SOAP serves as the envelope that wraps around the XML payload message, and it glues together different computing systems so companies can interact with each other. Some refer to it as the SOAP ***"wrapper."***

- ***Web Services Description Language (WSDL)*** is an XML-based language used to describe a Web service's capabilities as collections of communication endpoints capable of exchanging messages.

  In other words, WSDL describes the business services offered by an application service provider and the way other businesses can electronically access those services.

- ***Universal Description, Discovery, and Integration (UDDI)*** is an XML-based, distributed directory that enables businesses to list themselves on the Internet and discover each other, similar to a traditional phone book's yellow and white pages. WSDL is the means used to identify services in the UDDI registry. UDDI is used for listing what services are available.

Open standards foster the use of common technologies. The following standards bodies are important to keep in mind as they are referenced in this guide:

- ***The Web Services Interoperability Organization (WS-I)*** is an industry group that ensures Web service specifications are compatible and interoperable across platforms, operating systems, and programming languages. WS-I has captured its interoperability research in a document called the ***WS-I Basic Security Profile 1.0***.

- The ***Organization for the Advancement of Structured Information Standards (OASIS)*** is a not-for-profit, global consortium that drives the development, convergence, and adoption of e-business standards.

- ***The World Wide Web Consortium (W3C)*** is an international consortium of companies involved with the Internet to develop open standards so that the Web evolves in a single direction rather than being splintered among competing factions.

Internet

The following Internet concepts and terms will be referenced throughout this guide:

- ***Transmission Control Protocol/Internet Protocol (TCP/IP)*** is the basic two-layer suite of communication protocols, ***or rules***, used to connect hosts on the Internet.

  The TCP layer breaks down a message file into smaller units of data called a ***packet*** and transmits that packet over the Internet to another TCP layer. The receiving TCP layer reorganizes the data into the original message file.

  The IP layer serves a postal function as it ensures the packet reaches the correct address or destination on the Internet. This destination is sometimes referred to as the ***IP address***.

- ***Hypertext Transfer Protocol (HTTP)*** is the set of rules that define how messages are formatted and transmitted over the Internet. HTTP defines what actions should be taken by Web servers and browsers in response to various commands. HTTP runs on top of the TCP/IP suite of protocols.

Security

Security has been the driver behind the kinds of information that carriers can readily share through the online insurance verification application. Security specifications are significant points of discussion in this guide due to the nature of the insurance verification application. The following are important security specifications referenced in this guide:

- ***Web Service Security (WS-Security)*** is a security specification that encrypts information and ensures that it remains confidential as it passes between companies. ***Authentication*** is the process of verifying the identity of a person or entity. For online insurance verification, this person or entity would be the authorized requester.

  WS-Security provides authentication at the message level (i.e.; ***message level authentication***), and it was developed by OASIS.

- ***Secured Sockets Layer/Transport Level Security (SSL/TLS)*** uses certificates to authenticate the identity of the endpoints, or ***"sockets,"*** of a trusted session or message transmission (i.e.; ***transport level authentication***). TLS is derived from SSL and has succeeded SSL as the protocol for managing the security of a message over the Internet.

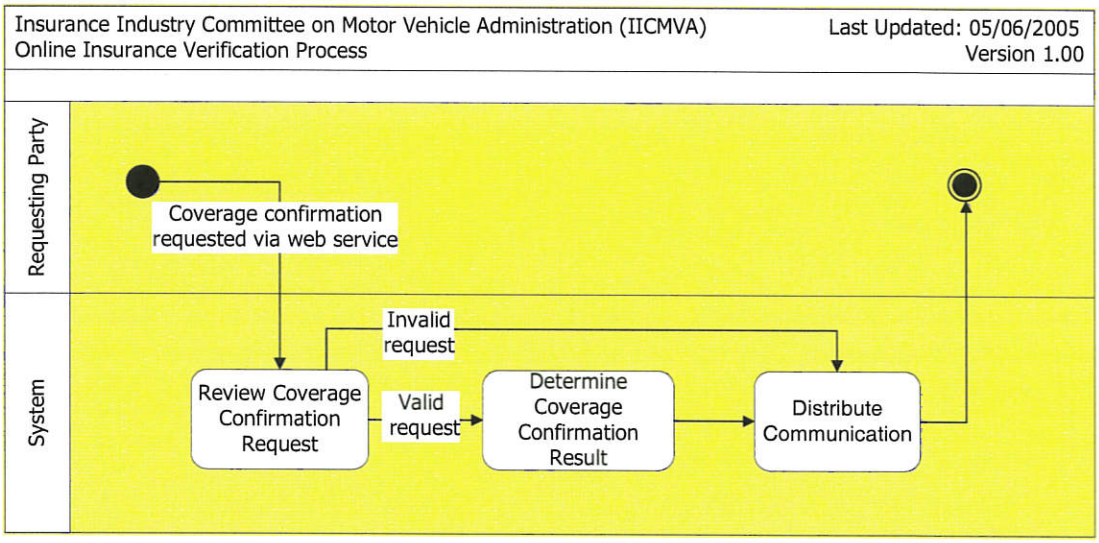
  SSL and TLS are integrated into most Web browsers and servers, but they are not interoperable. However, a message sent with TLS can be handled by a Web browser or server that uses SSL, but not TLS.

  SSL/TLS runs between the HTTP and TCP/IP layers.

2.0 Inquiry Process

This section describes the inquiry process that occurs when an authorized party submits a coverage confirmation request to an insurance carrier's Web service application.

The following swim lane diagram has been provided to illustrate the inquiry process:



2.1 Authorized Requesting Party Submits Coverage Confirmation Request

An authorized requesting party submits a coverage confirmation request or inquiry to the insurance verification Web service application of a participating auto insurance carrier.

The request will be sent in an XML payload message. The message content key from the requesting party shall include the following ***mandatory*** data elements:

- Unique Key or Policy Number
  Note: *The unique key for each insurance carrier may be included in a carrier's policy number, or it may be a stand alone identifier.*

- Vehicle Identification Number (VIN)

  Note: *VIN is used by carriers that will be confirming coverage at the vehicle level. Some carriers may choose to confirm coverage at the policy level.*

- National Association of Insurance Commissioners (NAIC) Code
- Requested Confirmation Date

The message content key from the requesting entity may include the following ***optional*** data elements:

- Tracking or Reference Number

  Note: *The system shall provide the ability to accept and return a reference number so that an authorized requester can tie together a coverage confirmation request with a coverage confirmation response.*

- Drivers License Number
- Named Insured Name
- Address:
  1. Street/PO Box
  2. City
  3. State
  4. Zip
- Vehicle Make
- Vehicle Model
- Vehicle Year
- Federal Employer Identification Number (FEIN)

2.2 System Validates Coverage Confirmation Request

The Web service application of the participating insurance carrier validates the coverage confirmation request to confirm the presence of auto liability coverage:

- The system verifies that the coverage confirmation request is from an authorized requesting party.
- The system verifies that the coverage confirmation request has the required message content or policy information.
- The system verifies that the policy information provided by the coverage confirmation request is in the correct format.

If the request is ***invalid***, the system responds with the following ***coverage confirmation result***: ***UNCONFIRMED.***

If the coverage confirmation result is UNCONFIRMED due to an invalid request, the Web service application communicates one or more of the following messages back to the requesting party:

- Incorrect Data Format
- Missing Policy Number/Unique Key
- Missing NAIC Code
- Missing VIN
- Missing Coverage Confirmation Date
- Unauthorized Requester

If the request is ***valid***, the Web service application continues with the verification process and attempts to determine if auto liability coverage is present.

2.3 System Determines Coverage Confirmation Result

The Web service application takes the valid request and evaluates whether policy coverage was present:

- The system evaluates whether the policy information provided in the coverage confirmation request is present on the insurance carrier's database.

- The system determines if auto liability coverage was present and the policy was active on the requested coverage confirmation date.

2.4 System Distributes Communication

For valid coverage confirmation requests,

If auto liability coverage was present and the policy was active on the requested coverage confirmation date, the system responds with the following ***coverage confirmation result***: ***CONFIRMED.***

If auto liability coverage was not present and the policy was not active on the requested coverage confirmation date, the system responds with the following coverage confirmation result: ***UNCONFIRMED.***

If the coverage confirmation result is UNCONFIRMED, the Web service application communicates one of the following messages back to the requesting party:

- System Cannot Locate Policy Key Information
- System Found Policy Key/No Active Coverage On Date Requested
- System Found Policy Key/VIN Cannot Be Verified
- System Found VIN/Policy Key Cannot Be Verified
- System Unavailable

Note: *It is important to note that IICMVA gave a great deal of consideration to the type of response provided by the Web service application described in this guide.*

Due to privacy concerns, it was decided that detailed policy information could not be a part of the coverage confirmation result since it would have to travel over the public

Internet. However, the coverage confirmation result does provide what is most important: confirmation of auto liability insurance coverage.

The Web service application bypasses the need to transport vast amounts of data. In addition, the application enables authorized requesters to confirm coverage in an online environment directly with the source of the policy information—the insurance carrier.

IICMVA believes this is a more accurate approach.

3.0 Requirements

3.1 Business Requirements

The foundation for the inquiry process described in Section 2.0 of this guide is based on the business, functional, and technical requirements developed by the IICMVA Web Services Business Team.

The business requirements were originally identified in the March 2004 IICMVA white paper publication entitled, ***Online Insurance Verification – Using Web Services to Verify Auto Insurance Coverage Version 1.0***: http://www.iicmva.com/websvc.pdf.

These business requirements are traceable to the technical specifications outlined later in this section.

The following chart outlines the **B**usiness, **F**unctional, and **T**echnical requirements referenced:

Business Requirements	
ID #	**Description**
B1	**Each participating insurance company will maintain the data necessary to verify the insurance coverage provided to their own customers.**
B2	**Each insurance company will be responsible for maintaining a Web service through which online insurance verification can take place by trading partners.**
F2.1	Each participating insurance company will develop an online, insurance verification system based on Web service technology that authorized state or federal agencies can use to inquire about auto liability coverage.
T2.1.1	The system will be built on an infrastructure (i.e.; ***how*** to send and process a message) based on open standards approved by the World Wide Web Consortium (W3C), WS-I, and OASIS.

F2.2	The system will include enough flexibility to allow for additional data elements if other trading partners want to access the system in the future.
T2.2.1	The inquiry must come from known, authorized trading partners.
F2.3	The system will allow individual policy number searches on individual customer records.
F2.4	The system will allow multiple policy number searches on multiple customer records. *(**Note:** This is not a batch processing requirement.)*
F2.5	The system will provide 7 X 24 hour availability.
T2.5.1	The system will provide the quickest response time possible during the busiest hour of the day while the system is under load.
B3	**Valid verification inquires will be made using key information to route a request to the appropriate carrier for a response.**
F3.1	Carriers will individually decide at what level they will confirm coverage to a requesting entity: *policy level* or *vehicle level.*
F3.2	The system will only accept an inquiry that has a valid verification key before it will perform an inquiry.
F3.3	The verification key will consist of an authentication key and a message content key.
T3.2.1	The authentication key will include an authorized user code.
T3.2.2	The authorized user code will be present first before the system will perform an inquiry based on the message content key.
T3.2.2	The message content key from the requesting entity will include the following mandatory data elements: • Unique Key / Policy Number ***Note:*** *The unique key for each insurance carrier may be included in a carrier's policy number, or it may be a stand alone identifier.* • Vehicle Identification Number (VIN) ***Note:*** *VIN is used by carriers that will be confirming coverage at the vehicle level.* • NAIC Code • Requested Confirmation Date

T3.2.3	The message content key from the requesting entity may include the following optional data elements: ▪ Tracking / Reference Number ***Note:*** *The system shall provide the ability to accept and return a reference number so that an authorized requester can tie together a coverage confirmation request with a coverage confirmation response.* • Drivers License Number • Named Insured Name • Address: 1. Street/PO Box 2. City 3. State 4. Zip • Vehicle Make • Vehicle Model • Vehicle Year • Federal Employer Identification Number (FEIN)
B4	**The information exchanged will be limited to only those items needed to accurately route the request and confirm coverage, keeping any privacy concerns to a minimum.**
F4.1	A legal trading partner agreement between insurance carriers and the requesting entity will be required to exchange data via the Web Service.
F4.2	The requesting entity will be responsible for determining the appropriate company to which it will send a request.
F4.3	The endpoint will be determined through the use of the NAIC identifier as a routing key in a point to point transaction.
B5	**The sources of the data can vary, as long as they are transmitted in a standard format set by the industry.**
F5.1	The system will incorporate basic Web service infrastructure standards.
F5.2	The system will read or interpret the business contents of an inquiry message (or payload) based on one common XML standard.
T5.2.1	The common XML standard chosen will have an approach to align with the other Web service infrastructure standards.
F5.3	The inquiry system will be based on one set of Web service security standards that will be used by all carriers.
F5.4	Carriers will develop an inquiry system based on one set of authentication standards

B6	**Confirmation of coverage will be sent back to the requesting entity for appropriate action.**
F6.1	The system will provide a limited verification response: *"Confirmed" or "Unconfirmed."*
F6.2	The system will provide reason codes for unconfirmed results.
T6.2.1	For an invalid coverage confirmation request, the system will return one or more of the following unconfirmed reason codes: 1. Incorrect Data Format 2. Missing Policy Number/Unique Key 3. Missing NAIC Code 4. Missing VIN 5. Missing Coverage Confirmation Date 6. Unauthorized Requester
T6.2.2	For a valid but unconfirmed coverage confirmation request, the system will return one of the following unconfirmed reason codes: 1. System Cannot Locate Policy Key Information 2. System Found Policy Key/No Active Coverage On Date Requested 3. System Found Policy Key/VIN Cannot Be Verified 4. System Found VIN/Policy Key Cannot Be Verified 5. System Unavailable
F6.3	If the system cannot confirm coverage, it is assumed that the state will rely on its current procedures for insurance verification.

3.2 Technical Specifications

The technical specifications for the Web service application can be traced to the business requirements previously outlined. The chart below outlines the technical specifications identified by the IICMVA Web Services Tech Team:

Technical Specifications	
ID #	**Description**
1	**Each insurance company will be responsible for the data necessary to verify insurance coverage on their own customers.**
1.1	Each company will maintain its own data.
1.2	This data must be accessible by the insurance verification Web service.

2	**Each insurance company will be responsible for maintaining a Web service through which online insurance verification can take place.**
2.1	This Web service will provide a Standard External interface.
2.1.1	This Web service will use SOAP 1.1 message structure.
2.1.2	Each insurance company will be responsible for publishing a WSDL.
2.1.3	WSDLs will be published and accessible via a private registry.
3	**The Web service must be secure.**
3.1	The message must be authenticated.
3.1.1	The message will leverage the WS-Security 1.0 specification to authenticate the message.
3.1.2	The message will be compliant with the WS-I Basic Security Profile 1.0 for interoperability.
3.2	The message must be secure during transportation.
3.2.1	The message transport will be encrypted using SSL 3.0 with a 128 bit key.
4	**It will be the responsibility of the requesting entity to determine the appropriate company to which its sends the request.**
4.1	The endpoint will be determined through use of the NAIC identifier as a routing key.
5	**The Web service will use a standard XML schema.**
5.1	This schema will be owned by a standards organization.
5.2	The standard must be open.
5.3	The standard must use an open process.
5.3.1	The standard must be open during development.
5.3.2	The standard must be open during ongoing maintenance.

4.0 Technical Processes and Considerations

This section describes the technical processes that must be considered if an authorized requesting party wishes to submit a coverage confirmation request to an insurance carrier's Web service application. It explains the responsibilities of both parties as well as a couple implementation considerations. These processes and considerations are based on the technical specifications identified in Section 3.0 of this guide.

4.1 Insurance Company Responsibilities

The business and technical specifications require each participating insurance carrier to develop an insurance verification Web service. The following information explains the technical specifications behind this requirement in more detail.

Build and Maintain a Web Service and Common External Interface

Each participating auto insurance company must design, develop, and maintain a Web service capable of verifying the status of a policyholder's insurance information. Each insurance company's Web service ***must*** have a common, or standard, external interface. Standard interfaces are crucial because they allow authorized requesters to submit a standard request to each insurance company, reducing the time and cost of maintenance.

Web services developed by insurance companies will adhere to the ***SOAP 1.1 open standards***. SOAP 1.1 standards provide a foundation for building Web services, and they are widely supported by many computing platforms. Other Web service standards, such as WS-Security, are built upon the SOAP 1.1 specification.

Leveraging industry standards enables all insurance companies to create a standard external interface. Such a common interface allows each authorized requester to develop just one ***Web service client*** to interact with each participating insurance company.

Distribute the WSDL File Accordingly

The common external interface previously discussed is a collection of ***method signatures*** which define what the Web service is capable of doing and where it may be accessed. These method signatures are described in a file written in the Web Services Description Language (WSDL), an XML-based language. (Sometimes a WSDL file is simply referred to as a company's "WSDL," pronounced "***wizdle***.")

Other than the ***Uniform Resource Locator (URL address),*** or endpoint, of the Web service, each participating carrier's WSDL should look similar.

If an insurance company changes the location of its Web service, it is the company's responsibility to provide all necessary requesting parties with the updated endpoint.

The following is a portion of a sample WSDL file:

```
<s:element name="VerifyInsurance2">
        <s:complexType>
                <s:sequence>
                        <s:element name="VINNumber" type="s:int" />
                        <s:element name="strInsuranceCompany"
                type="s:string" />
                </s:sequence>
        </s:complexType>
</s:element>
<s:element name="VerifyInsurance2Response">
        <s:complexType>
                <s:sequence>
                        <s:element name="VerifyInsurance2Result"
                type="s:string" />
                </s:sequence>
        </s:complexType>
</s:element>
<service name="Service1">
        <port name="Service1Soap" binding="s0:Service1Soap">
        <soap:address
        location="http://inscompany.com/verify/VerifyInsurance.asmx" />
        </port>
</service>
```

Although the endpoint is specified in the sample WSDL file, the requester will actually retrieve the endpoint for the appropriate insurance company via another location, such as a local configuration file. According to industry recommendations, it is more efficient to utilize a single WSDL file and store the endpoint elsewhere, rather than manage multiple WSDL files.

Secure the Web Service

Any type of application service available on the public Internet needs to be secured to prevent certain exposures. Protecting an insurance company's technical infrastructure and data is a primary concern. Therefore, appropriate measures must be taken to prevent unauthorized requesting parties from accessing a policyholder's data.

There are a number of options for securing a Web service. Regardless of the security solution, IICMVA recommends the use of industry standards. Using industry standards provides companies with the ability to secure their Web services while maintaining a level of consistency and flexibility to support multiple platforms (e.g., UNIX or Windows) and any potential changes or modifications due to the evolution of technology.

IICMVA has carefully reviewed two authentication methods to secure the message and the means by which it travels through the Internet. The first, Transport Level Security or Secure Sockets Layer (SSL), uses certificates to prove the identity of the client and server. The second, Web Service Security (WS-Security), provides authentication and integrity at the message level.

SSL is a point-to-point solution. In the case where the authorized requester uses the services of a third party agent or vendor, the insurance company would only be able to verify that the third party is the caller of its Web service. On the other hand, message level security covers the scope of the entire request. Therefore, the IICMVA recommends the use of both transport and message level security. In doing so, IICMVA has adopted a framework for Web services that provides inheriting classes to communicate securely and efficiently over HTTP.

Transport Level Security

For Transport Level Security, insurance companies will use ***SSL 3.0*** for mutual authentication. SSL 3.0 enables authorized requesters to know they are communicating with the correct insurance company. In turn, SSL 3.0 enables an insurance company to know it is communicating with the correct authorized requester.

SSL also provides a secure, or encrypted, channel for applications to communicate with each other, eliminating the need to encrypt data at the application level which could potentially cause slower performance.

Mutual SSL is discretionary. Meaning, insurance companies that wish to use SSL can do so, and insurance companies that do not wish to exchange certificates can simply ignore the client certificate.

Mutual SSL requires insurance companies and authorized requesters to register and obtain a public/private key certificate pair, otherwise known as ***X.509 certificates.*** Under this scheme, the insurance company must trust the requester's certificate, and the requester must trust the insurance company's certificate. This requires that either all certificates are purchased from trusted

distributors. The following table represents some commonly trusted root certificates.

Certificate Authority	Website
Verisign, Inc.	http://www.verisign.com
Entrust	http://www.entrust.com/digital-certificates
Thawte	http://www.thawte.com/

Message Level Security

For Message Level Security, insurance companies will use the ***WS-Security specification protocol*** and will need to support multiple authentication token types. Ideally, the same X.509 certificate sent for Mutual SSL could be sent in the SOAP header for message level authentication. If not, a username and password pair could be used. The message will be compliant with the ***WS-I Basic Security Profile 1.0*** for interoperability.

An authentication token provided in the SOAP header using WS-Security would look similar to the following example:

```
<soap:Header>
…
        <wsse:UsernameToken xmlns:wsu="http://docs.oasis-
                open.org/wss/2004/01/oasis-200401-wss-wssecurity-utility-
                1.0.xsd" wsu:Id="SecurityToken-02cf5c9c-8635-4ac5-b77a-
                666521bc6dff">
                        <wsse:Username>Tester</wsse:Username>
                        <wsse:Password Type="http://docs.oasis-
                                open.org/wss/2004/01/oasis-200401-wss-
                                username-token-profile-
                                1.0#PasswordText">testPassword@1</wsse:Pa
                                ssword>
                        <wsse:Nonce>x/8L/bSduwsMdYmi+cP9iw==</wsse:Non
                ce>
                        <wsu:Created>2004-10-06T19:33:47Z</wsu:Created>
        </wsse:UsernameToken>
…
</soap:Header>
```

Maximum Participation

The use of both authentication methods allows for maximum participation by insurance carriers, regardless of their present infrastructure. States must support both methods to permit all carriers to participate.

Although a transport authentication session by itself provides adequate security levels, the additional message level authentication satisfies the security standards within the IT shops of many large insurance carriers. Additional flexibility is made available by allowing carriers the option to use transport authentication by itself if they are not equipped with the necessary resources to handle message level authentication. On the contrary, carriers could use message only security if that satisfies their requirements.

4.2 Authorized Requesting Party Responsibilities

Each authorized requesting party or state is responsible for developing an insurance verification ***Web service client*** based on the standards identified in Section 4.1 above. The following information explains the technical specifications behind this requirement in more detail:

Collect the Key Information Needed to Submit an Inquiry

Each authorized requesting party must determine how it will collect the basic information needed to submit a standardized inquiry request.

Build and Maintain a Web Service Client

The authorized requesting party must develop a Web service client capable of sending a request to an insurance carrier's Web service. Each requester's Web service client must provide the required information necessary to invoke a request and verify a policyholder's insurance information.

The Web services developed by the insurance companies will adhere to the SOAP 1.1 standards. Therefore, the authorized requester's Web service client must use SOAP 1.1 standards as well. Fortunately, most application development tools provide a framework that supports the standards identified in this model implementation guide.

Manage One Common WSDL File

Each insurance company that develops a Web service application will adhere to the schema chosen. Therefore, the requesting parties have a much easier task of managing a single WSDL file necessary for the client to understand the input requirements of the Web service. In addition, the requesting parties will need to store an endpoint indicating the location of each carrier's Web service. Without the endpoint, no communication can take place.

In theory, one third party vendor or agent could store and maintain a single Web service client and the endpoint for each participating carrier. However, due to the risk of exposing each insurance company's service endpoint, IICMVA recommends that each state host its own Web service client and manage all endpoints for their particular state.

Route the Request to the Appropriate Insurance Carrier

As previously noted, the endpoint tells the Web service client where to send a request. However, the client still needs to know what endpoint to look up. Therefore, the authorized requester's application should contain logic that correlates an insurance company's name or National Association of Insurance Commissioners (NAIC) code with the appropriate endpoint record.

Maintain and Store Access Credentials

Since the insurance verification Web service will support mutual SSL authentication, it is necessary for the authorized requesting party to obtain an X.509 certificate key pair from

a trusted distributor, such as Entrust or Verisign. Companies that distribute certificates have a "Trusted Root Certificate". All keys generated from that company trust each other.

It is absolutely necessary for each company to keep its private key protected from any unauthorized person. As a security measure, all certificates expire after a period of time. Once the certificate has expired, it will no longer be accepted as a valid authentication token. Therefore, it is necessary for each authorized requester to maintain a valid certificate.

The following benefits outweigh the maintenance concerns when using certificates:

- Certificates are more secure than username and password schemes.
- Certificates are easy to implement and use.
- The same public certificate sent for transport level authentication can be sent in the message level.

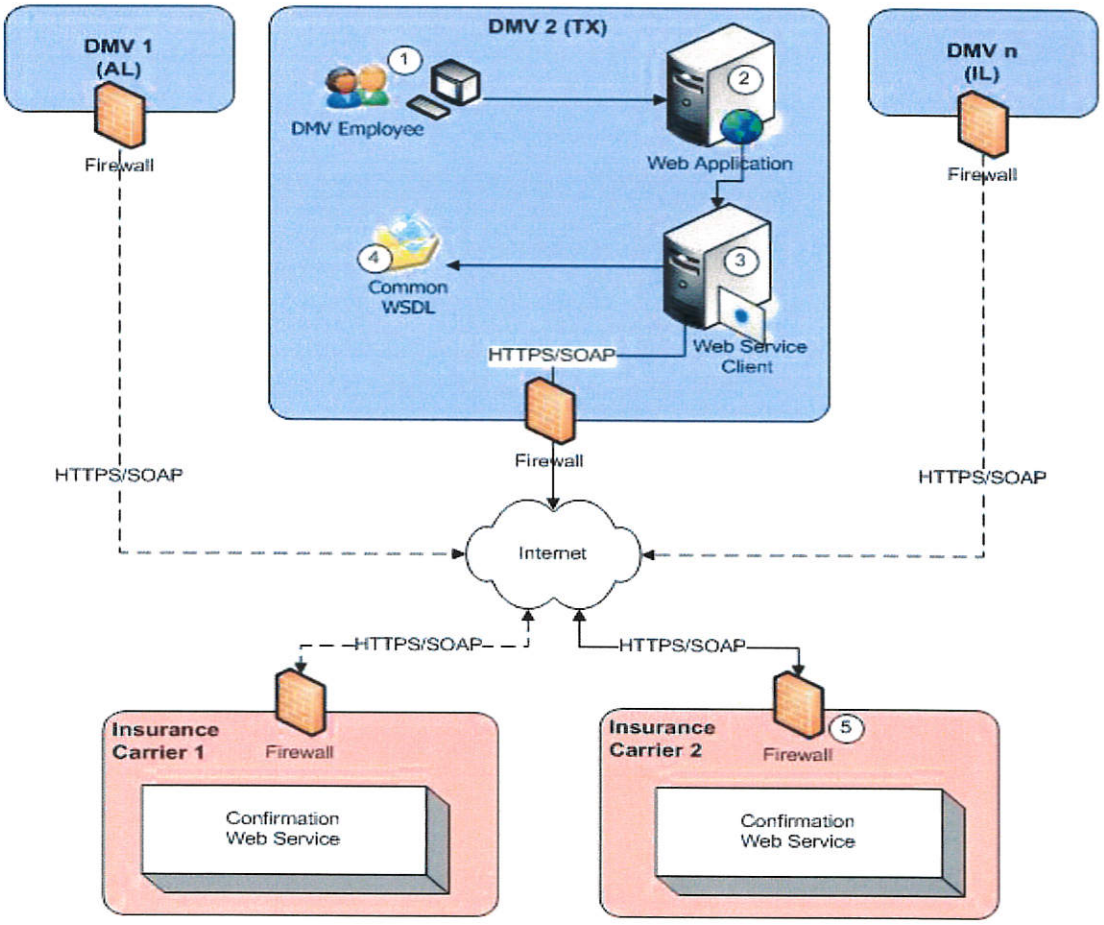
4.3 Implementation Scenarios for Authorized Requesting Parties

The following diagrams have been provided to illustrate the different possibilities that exist when an authorized requester implements a Web service client using internal resources or a third party vendor.

The use of a vehicle registration scenario does not imply the only application for the insurance verification Web service application.

Implementation Scenario #1: No Third Party Intermediary

In this scenario, the authorized requesting party requests the current status of insurance coverage from an insurance carrier. The request is fully automated and enabled by Web services. The coverage request is exchanged directly between a State DMV (authorized requester) and an insurance carrier.



1. During the license plate registration process, an automobile owner provides insurance carrier information about the vehicle being registered. The clerk then enters the policy holder's information into their system.

2. In this scenario, the Web application is located and maintained at the DMV. This is the application used by the DMV clerk in step 1.

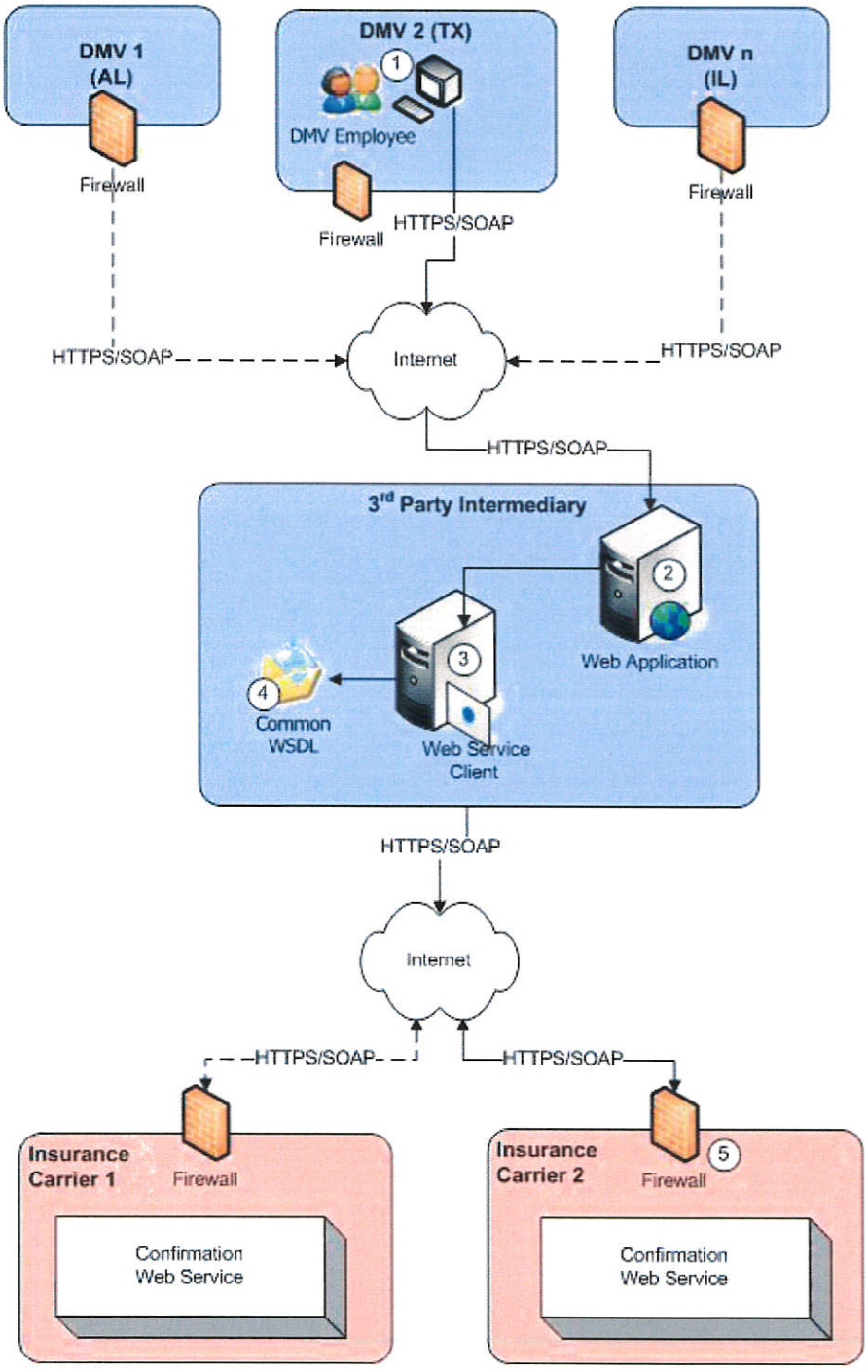
3. There is a logical separation between the Web application and the Web service. Although not required, the Web application and Web service can be located on separate physical servers if desired.

4. Since each carrier's Web service interface will be the same, it is only necessary for the DMV to maintain a single WSDL file. This will likely be located on the same server as the Web service.

5. The insurance carrier's Web service will receive the request, perform backend transactions necessary to determine whether a motorist is insured, then return the confirmation to the DMV.

Implementation Scenario #2: Third Party Intermediary

In this scenario, the authorized requesting party requests the current status of insurance coverage from an insurance carrier through a third party intermediary or vendor. The intermediary third party provides a Web service transaction routing service.



1. During the license plate registration process, an automobile owner provides insurance carrier information about the vehicle being registered. The clerk then enters the policy holder's information into their system.
2. In this scenario, the Web application is located and maintained by a 3rd party agent chosen by the DMV. This is the application used by the DMV clerk in step 1.

3. There is a logical separation between the Web application and the Web service. Although not required, the Web application and Web service can be located on separate physical servers if desired.

4. Again, since each carrier's Web service interface will be the same, it is only necessary for the DMV to maintain a single WSDL file. This will likely be located on the same server as the Web service.

5. The insurance carrier's Web service will receive the request, perform backend transactions necessary to determine whether a motorist is insured, then return the confirmation to the DMV.

4.4 XML Payload Message

XML messages for online insurance verification have been independently developed by the ***American National Standards Institute (ANSI)*** and the ***Association for Cooperative Operations Research and Development (ACORD).***

At this time, both standards bodies have not developed one unified XML schema that IICMVA can reference in this guide.

4.5 Service Level Agreement (SLA) and Volume Metrics

It will be the responsibility of the participating insurance companies to abide by the Service Level Agreement (SLA) established with the authorized requesting party. Each company will have different business volume metrics; therefore, each carrier will need to build an infrastructure that allows for compliance with the established SLA.

Due to the recent advent of externally consumable Web services, an historical SLA has not been established for the insurance verification application.

IICMVA recommends a testing period be established so that insurance carriers and requesting parties can come to a mutually beneficial agreement based on consumption patterns.

4.6 Impact of Batch Requests

Web services are built for online, instant requests and responses. Like a telephone conversation, an authorized requester stays connected to a Web service until the application completes the request, usually within seconds. This is called a ***synchronous request.***

If a requester submits a request that cannot be fulfilled by the application service during the initial network connection, an ***asynchronous request*** has been initiated. Essentially the phone conversation ends and the Web service application has to call the requester back at another time to fulfill the service.

Since the structure of a Web service call is XML, it would be relatively easy to receive multiple verification requests within one Web service call via a batch request. However, there are multiple impacts, including delayed response time and additional infrastructure requirements.

The structure of the request is very flexible because it is string-based and all applications can parse and process the string data structure. The downside, however, is that the structure can produce a significant amount of overhead.

For example, to verify a motorist is currently insured, part of the message may look like the following XML structure:

```
<Motorists>
    <Motorist>
        <PolicyNumber></PolicyNumber>
        <VIN></VIN>
        <NAIC></NAIC>
        <ConfirmationDate></ConfirmationDate>
        <RefNumber></RefNumber>
        <LicenseNumber></LicenseNumber>
        <InsuredName></InsuredName>
        <Address>
            <StreetPOBox></StreetPOBox>
            <City></City>
            <State></State>
            <ZipCode></ZipCode>
        </Address>
        <Vehicle>
            <Make></Make>
            <Model></Model>
            <Year></Year>
        </Vehicle>
        <FEIN></FEIN>
    </Motorist>
</Motorists>
```

This sample XML structure does not include data for each element. However, imagine the example multiplied by 1000. While possible to receive and process, such a request would take a significant amount of time to handle; therefore, it should be processed during non-peak hours. If the request is received at 1:00 PM and processed at 12:00 AM, an asynchronous request would be established.

Of course, asynchronous processing has a significant impact on the authorized requesting party as well. Instead of simply creating a Web service client to submit requests to insurance carrier Web services, authorized requesters would need to develop a Web service to which asynchronous responses could be posted by insurance carriers.

Serious consideration should be given before requesting batch processing via the insurance verification Web service application.

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iicmva Insurance Industry Committee on Motor Vehicle Administration

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August 31, 2005

Eric Nordman
Director of Research
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

RE: NAIC White Paper on Uninsured Motorists

Dear Mr. Nordman:

The Insurance Industry Committee on Motor Vehicle Administration (IICMVA) would like to provide some feedback on the NAIC white paper entitled, "Uninsured Motorists: A Growing Problem for Consumers."

Along with other resource documents, IICMVA publications were used to arrive at the study's conclusion. As an advisory group, IICMVA welcomes the use of its publications for research purposes. However, the Committee feels it is important to clarify the following points made in the NAIC white paper:

- No Insurance Commissioner Involvement in IICMVA's Online Verification Study
- Known Vendors of Uninsured Motorist Tracking Solutions
- Centralized Database Conclusion

No Insurance Commissioner Involvement in IICMVA's Online Verification Study

As an advisory committee, IICMVA has benefited from input by state motor vehicle administrations, AAMVA, data standards bodies, and the US Department of State.

The NAIC study makes note of the lack of insurance commissioner or NAIC involvement in the IICMVA online verification study. When IICMVA began to research online insurance verification, two members from our committee reached out to the NAIC for its involvement during the 2003 Industry Liaison Committee meeting. NAIC did not express interest at the time.

IICMVA has worked very diligently over the last 37 years to build a bridge with jurisdictions on a variety of issues. Online verification research is merely an example of some of the work IICMVA has conducted on this particular concern.

Many of our resources can be obtained on the publications page of our site at: http://www.iicmva.com/IICMVAPublications.html.

Therefore, we certainly hope our work has not been discounted in this regard.

Known Vendors of Uninsured Motorist Tracking Solutions

Many vendors have developed insurance verification programs currently in production around the country. Unfortunately they have not been referenced in the NAIC study. NAIC might find input from these third party agents quite valuable.

While many states develop systems using their own internal IT resources, vendors that have developed or currently operate reporting programs in the following jurisdictions may assist the NAIC with some additional insight for its research: Utah, Colorado, New Mexico, New York, South Carolina, DC, Maine, Alabama, and Ohio.

Centralized Database Conclusion

It is unclear how IICMVA's online verification study ended up being one of the resources used to conclude that a national state reporting database is the solution to the problem of identifying uninsured motorists. Page 3 of IICMVA's online verification white paper indicates that our vision does not include national database reporting systems.

Much of the reason for identifying online verification as an alternative methodology is in response to the difficulties encountered by reporting programs in many states. Often the matching routines that are employed can have unintended consequences whereby insured drivers are identified as uninsured. Expanding such programs to a national level is a concern.

IICMVA is pleased to see that the uninsured motorist problem is garnering attention by the NAIC because it is a very important public policy issue. The national debate is quite consuming.

As IICMVA continues to refine the online verification concept with motor vehicle administrators around the country, we certainly welcome input from the NAIC. On August 3, 2005, IICMVA approved a model technical guide for online insurance verification via Web services. We will soon post the guide to our site for public review.

We appreciate your giving us a chance to comment. If you have any questions, please give me a call at (309) 766-3708. Thank you.

Sincerely,

Donald Michael Coy
Chairman, IICMVA

ACE-INA
Alea North America Insurance Company
Allstate Insurance Company
American Family Insurance Company
American Insurance Association
AIG
American Modern Insurance Group
Cincinnati Insurance Company
CNA Insurance
Encompass Insurance Company
Farmers Insurance Group
Federated Insurance Company
Fireman's Fund
GEICO Corporation
The Hartford Insurance Group
Liberty Mutual Group
Nationwide Insurance Companies
One Beacon Insurance
Progressive Insurance Company
Property Casualty Insurers Association of America
Scottsdale Insurance Company
State Farm Insurance Group
St. Paul Travelers
USAA

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Memorandum

TO: THE HONORABLE RUTH TEICHMAN, CHAIR
SENATE FINANCIAL INSTITUTIONS AND INSURANCE COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
THE STATE FARM INSURANCE COMPANIES

RE: S.B. 322

DATE: January 23, 2006

Madam Chair, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for The State Farm Insurance Companies. State Farm is the largest insurer of homes and automobiles in Kansas. State Farm insures one out of every three cars and one out of every four homes in the United States. We appreciate the opportunity to review S.B. 322.

After reviewing S.B. 322, and based on our testimony regarding S.B. 321, we would respectfully request that the Committee not act favorably on S.B. 322.

It is our position that work on uninsured motorist issues should be done by a task force and evaluated after a program has been put together. It seems, then, more appropriate that once the program has been fully reviewed and ultimately approved by the Legislature, then would be the time for the Legislature to evaluate what type of punishment should be imposed on those who still do not procure mandatory automobile insurance.

There are several other technical problems with the bill as a whole which we would be happy to work on if the Committee does decide to continue work on this bill. However, based upon our proposal for S.B. 321, we would respectfully request that S.B. 322 not be acted on.

Senate FI & I Com.
Attachment 5
January 25, 2006

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Again, thank you for the opportunity of allowing us the opportunity to offer testimony on this legislation, and if you have any questions, please feel free to contact me.

Respectfully submitted,

William W. Sneed

WWS:kjb

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Statement of Brad Smoot
Legislative Counsel
American Insurance Association
Senate Financial Institutions & Insurance Committee
Regarding 2006 Senate Bill 321
January 25, 2006

Madam Chair and Members:

On behalf of the American Insurance Association (AIA), we appreciate this opportunity to comment on SB 321, regarding the development and implementation of an electronic motor vehicle insurance verification system. AIA is a trade association of 430 insurers providing business and personal insurance to customers in all fifty states. Our product lines include business, general liability, workers compensation, malpractice, homeowners and auto.

AIA member companies support state efforts to increase the number of insured drivers. In addition to the obvious business benefits of expanding insurance markets, fewer uninsured drivers means reduced exposure and corresponding premium impact for the uninsured motorist coverage required by state laws. Numerous states are looking at different methods to apply the benefits of electronic information systems to identify those drivers who have failed to maintain mandatory liability coverage. It is safe to say that the various programs have met with mixed results.

We complement the authors of the bill and this committee for considering this issue and believe it is worthy of further study. In particular, we think the bill, Section 1(b) identifies some of the critical questions that will need to be asked and answered before an electronic verification system can be implemented. Unfortunately, Section 1(d) presupposes the answer to these questions by requiring implementation of such a system, notwithstanding the possibility that the Secretary of Revenue might determine that such a system was not reliable, cost-effective or did not protect privacy interests.

In addition, we would recommend special consideration be given to the problem of commercial auto insurance, which generally applies to fleets of vehicles owned by businesses. Such policies may cover large numbers of cars and trucks. The insurer is not likely to collect and maintain tag numbers or vehicle identification numbers of each vehicle. The insurer will not know which vehicles are added or removed from the fleet during the term of the policy and consequently, would not be able to provide the type of verification that might otherwise be available from a personal auto policy.

AIA and our member companies would be pleased to offer our assistance to the state of Kansas as it explores this issue and would encourage the committee formalize a study process that includes all the interested parties and government agencies. Thank you.

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Attachment 6
January 25, 2006

FARMERS

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January 25, 2006

Testimony on Senate Bill 321 for Senate F I & I Committee
By Lee Wright, Governmental Affairs Representative

Madame Chairwoman and Members of the Committee. My name is Lee Wright and I am representing Farmers Insurance. Thank you for this opportunity to appear today.

Farmers Insurance has been doing business in Kansas since 1930. We are very proud to have over 1,800 employees working in Kansas, and more than 300 exclusive Farmers Agents serving customers throughout our state.

In the past, Farmers was generally opposed to initiatives aimed at reducing the uninsured motorist population through electronic verification systems. We felt the necessary technology was still lacking to effectively address the uninsured motorist problem. In addition, the systems being proposed often placed a significant administrative and financial burden on insurers.

However, within the last couple of years, we believe technology has advanced to the point where government may now be able to develop an effective real time financial responsibility verification system that will successfully aid law enforcement in identifying uninsured motorists.

To conclude, Madame Chairperson, Farmers supports the idea of having the appropriate government agencies and auto insurers work together to construct a financial security verification system as suggested in Senate Bill 321. Farmers Insurance would also welcome the opportunity to assist in the development of such a system.

Thank you.

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January 25, 2006

FarmersAlliance

Insuring Rural America Since 1888

To: Senate Financial Institutions and Insurance Committee

From: Richard E. Wilborn

Re: Uninsured Motorist Coverage
S.B. 321
S.B. 322

Date: January 25, 2006

Madam Chairman and Members of the Committee, I appreciate this opportunity to share our views concerning uninsured motorist coverage.

My name is Rick Wilborn. I am Vice President of Government Affairs for the Farmers Alliance Insurance Companies. Farmers Alliance is a domestic property and casualty company that has been operating in and committed to Kansas since 1888. We also write property and casualty insurance in eight other contiguous states.

Most states have compulsory auto insurance, although the type of insurance and the amount of coverage required varies. It has been found that in spite of these laws requiring the purchase of auto insurance, there are always some people who fail to maintain coverage and drive without it. Paying for those that fail to purchase auto liability insurance is a problem for those that abide by compulsory insurance laws. These costs are passed along to the law abiding public in a form of uninsured motorist coverage. In addition to paying for their own actions, each insured motorist also pays for a portion of the cost for others that fail to obey the law.

Many states have tried to solve the uninsured motorist problem in a variety of ways. Among the many solutions considered, one of the primary means is mandating the purchase of uninsured motorist coverage. This appears to be a legislative recognition that the compulsory auto insurance law does not always work as intended since there are always a few that fail to maintain the required coverage. Other solutions that have been considered include "no-pay, no-play" legislation where a person is limited to the damages they can recover if they fail to maintain the minimum required auto insurance coverage. Also there have been

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numerous attempts to develop an electronic verification system that have never the less failed to lower the percentage of uninsured motorist.

Many of these attempts to fix the system instead tend to increase the cost of auto insurance for the people who choose to purchase it.

We think a uniform national cost effective approach is the answer. It is important that all of the stake holders; including insurers, insureds, the Insurance Commissioner, law enforcement officials, representatives from the Department of Motor Vehicles, and other interested parties be included in any discussion of proposed changes to our current system. We do know that the NAIC and other organizations are working on a standardized approach.

The wisdom of the Kansas Legislature over the years has yielded one of lowest uninsured motorist premium rates in the United States. We want to encourage continuation of that good judgment by not rushing to pass the proposed legislation at this time and instead consider authorizing a task force to study and develop a plan to address the uninsured motorist issue.

I would be glad to answer any questions you might have.