

SUBJECT: Creating an electronic auto insurance reporting system

COMMITTEE: Insurance — committee substitute recommended

VOTE: 9 ayes — Smithee, Van de Putte, Averitt, Bonnen, Burnam, Eiland, G. Lewis, Olivo, Wise

0 nays

WITNESSES: For — None

Against — Robert Watkins, State Farm Insurance Company

DIGEST: CSHB 3453 would require the Department of Public Safety (DPS) to create an electronic system establishing proof of motor vehicle insurance. A magnetic card or similar device would allow electronic communication with a database containing information about motor vehicle insurance.

The system would be funded by a \$3 fee collected as part of vehicle registration fees. These fees would be deposited into the state highway fund, which is administered by the Texas Department of Transportation (TxDOT). TxDOT could use these fees to administer the electronic reporting system or to reimburse DPS for its expenses in administering the program.

DPS could enter into a five-year contract with an outside agent to set up the database. The director of DPS would determine the amount the outside agent could be paid, up to 15 cents per month for every vehicle registered in the state. The designated agent would have to provide equipment necessary to communicate with the database to county tax assessor-collector offices or other offices accepting vehicle registrations; vehicle inspection stations; driver's license offices; and other locations where proof of insurance must be presented.

Insurance companies, DPS, and TxDOT would have to supply the designated agent with information about each driver, including information on the cancellation or nonrenewal of a policy, minimum coverage, and any license suspension or revocation. This information would be confidential

and could not be sold or made available except to enforce a state law. Knowingly releasing information retained by the department or its designated agent for any other purpose would be a Class A misdemeanor, punishable by up to one year in jail and a \$4,000 fine.

In counties using TxDOT's automated registration and title system, TxDOT would have to require applicants to include their social security number on registration applications. TxDOT would have to enter the social security number into the database, but not print it on the registration receipt.

Once the electronic system came on-line, standard proof of insurance would be sufficient proof of insurance coverage only during the initial 21-day period after a policy was issued.

Insurance companies would be required to collect from policyholders a one-time \$1 fee for each electronic card and remit the fees to the designated agent. An electronic card would not expire as long as the driver owned the vehicle. Motorists would have to pay another \$1 fee if they purchased another vehicle.

Insurers violating the provisions of the bill would be subject to administrative sanctions, including revocation of their authority to do business in Texas. The insurance commissioner could assess an administrative penalty of up to \$250 for each policy involved for each day of noncompliance.

CSHB 3453 would take effect September 1, 1997, and would apply to registrations issued or renewed after that date. DPS would have to contract with a designated agent by September 1, 1998. Insurance companies would not have to submit the information required in the bill before September 1, 1998.

**SUPPORTERS
SAY:**

CSHB 3453 would effectively prevent use of counterfeit proof of insurance cards and other measures to get around the state's mandatory liability insurance requirement by creating a statewide electronic system to verify proof of insurance. Currently, many people circumvent the mandatory insurance requirement by purchasing counterfeit proof of insurance cards or buying a six-month policy and dropping it after one month. The mandatory

liability law has created an entire black market industry of creating and selling counterfeit proof of insurance cards.

CSHB 3453 would combat these end runs around the law by setting up an electronic system that would allow tax assessor-collectors, highway patrol officers and others to verify proof of insurance through a computer database. Drivers would carry a magnetically encoded card that could access the DPS mainframe, reducing the need for paper proof of insurance coverage and eliminating the business of counterfeit proof of insurance cards.

The bill would not create any additional costs for the state. Funding for the system would come from a \$3 fee on vehicle registrations. This would be more than enough to cover the cost of setting up the electronic system.

Similar electronic reporting programs in Utah and Virginia have helped reduce the number of uninsured drivers in these states. In Virginia, the number of uninsured motorists dropped seven percent when an electronic reporting system was established. The number of uninsured motorists in Utah dropped by one-third when that state adopted an electronic reporting system. Problems with the electronic reporting system in Nevada arose because the designated agent was not ready to handle the reporting requirements. These problems would be addressed in the Texas system.

CSHB 3453 would allow TxDOT and DPS to work together in adopting rules and forms to implement the electronic reporting program, giving the two agencies the flexibility they need to conduct this cooperative effort. Many of the provisions do not specifically direct how funds would be used because these particulars would be accomplished through rulemaking.

The bill would require that the \$3 fee be collected for one year before a designated agent is selected to ensure that the funds are available to operate the program immediately once a designated agent was selected.

**OPPONENTS
SAY:**

CSHB 3453 would require all Texas drivers to pay for an expensive and untested solution to a legitimate, but limited, problem. The bill would imposed additional costs and reporting requirements on insurers, drivers, and state agencies. Rather than improving the system of reporting

mandatory auto coverage, the system could create other more serious problems than the problem of counterfeit insurance cards.

The bill would create a financial windfall for TxDOT and the company that contracted to develop the electronic system. The \$3 annual fee imposed on all drivers in the state would generate an estimated \$41 million. TxDOT estimates that its costs to implement the bill would be \$6.3 million, and DPS estimates its costs at \$2.5 million. The designated agent could be paid no more than \$24 million per year, leaving \$10 million per year in additional money for the state highway fund. Furthermore, drivers would begin paying the fee September 1, 1997, but DPS would not have to select an agent to develop the electronic system until September 1, 1998, adding at least another \$41 million to the state highway fund coffers.

In addition, the bill would not require either TxDOT or DPS to fund the electronic reporting system, only that they adopt rules and develop forms to administer the collection of fees.

Drivers also would have to pay insurers a \$1 fee to cover the cost of printing an electronic card whenever they purchased a new car. This money would be given to the designated agent, presumably to cover the cost of printing the electronic card. However, the bill does not specifically mandate that the designated agent use the entire \$1 fee to cover the cost of the electronic cards. Because these magnetic cards can be printed for much less than \$1 each, the designated agent could receive a financial windfall.

The type of electronic reporting system proposed by CSHB 3453 has never been used in any other state and could generate problems of its own, some more serious than those associated with counterfeit proof of insurance cards. Other states that have adopted electronic reporting systems have experienced problems with delays in entering information into the database. In Nevada, for example, hundreds of insured drivers were arrested for not having insurance because of delays in entering the information into the database. Even though the bill would allow a 21-day waiting period when paper proof of insurance could be used, mistakes could still arise about information in the database. The bill specifies that after the electronic system was in place, drivers could not use printed documents as proof of insurance coverage. If a driver lost or forgot to carry the magnetic card, paper proof of insurance

could not be provided as an alternative. Entirely too much trust would be placed in the accuracy of the electronic system.

Drivers could still buy insurance and drop it after one month or use other methods of getting around the law to register their car and get a driver's license during the 21-day grace period allowed in the bill.

NOTES:

The committee substitute required the designated agent to provide the necessary equipment to county tax assessor-collectors and TxDOT offices, added confidentiality provisions, and stipulated that printed proof of insurance coverage would not be sufficient evidence of coverage after the electronic system was adopted.