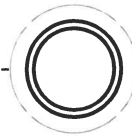


Insurance Fraud Prevention Business Case



**MICHIGAN DEPARTMENT OF STATE
FEBRUARY 2017**

Background

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- Electronic Insurance Verification (EIV) indicator shows Yes or No based on information provided by insurers.

- MCL.257.227

- Proof of insurance is required when registering a vehicle.

- MCL500.3101a

- Insurers shall provide vehicle and insurance policy information to the Secretary of State, every 14 days.
- This determines whether EIV=Y or EIV=N.

2013:

- Noticed obvious fraudulent insurance certificates in branch offices.
- A 10 day pilot of approx. 3,000 EIV=No per day revealed that about 500 insurance certificates presented to MDOS were invalid or fraudulent (16% of the total sample).
- The FAIR (Fight Against Insurance Rip-Offs) task force was created by Secretary Johnson.

2015:

- Insurance Fraud unit was created in February .
 - Manual insurance verification is done for all EIV=No transactions.

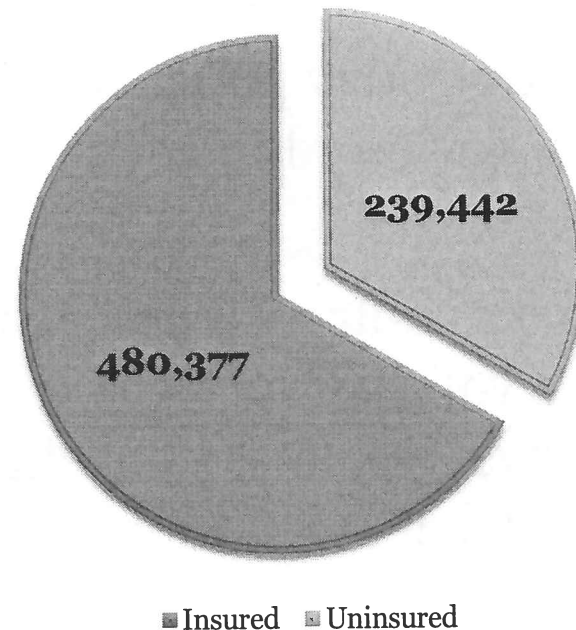
The Problem

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From July 2015 to June 2016

- 719,819 MI vehicle registration transactions were EIV=No.
- 480,377 registrations were EIV=No at the time of renewal but later verified as valid in IFP.
- 239,442 vehicles were uninsured/invalid/fraud.

EIV=No Transactions Verified by IFP



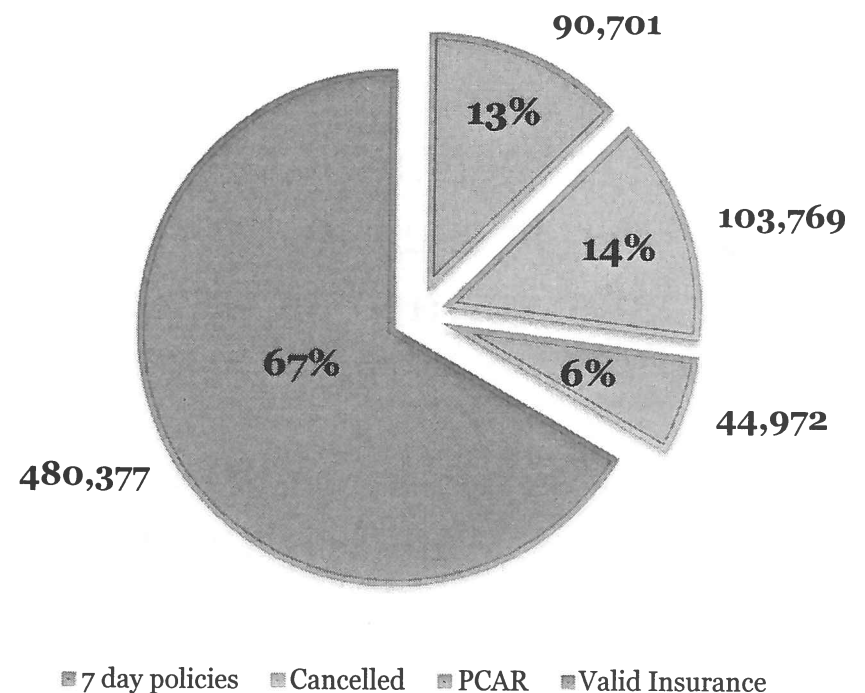
The Problem

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From July 2015 to June 2016

- 103,769 plates were cancelled.
- 90,701 7-day policies have been reviewed in IFP.
- 44,972 insurance policies were valid at the time of renewal but later cancelled (PCAR), leaving them uninsured.

EIV=No Transactions Verified by IFP



The Problem – 7 Day Policies

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Are 7 day insurance policies being misused?

- IFP followed up on a random sample of 7 day policies:
 - Out of 1,743 7 day policies, only 278 vehicles had an EIV indicator of Yes when checked 90 days later. Only 16% of the 7 day policies now have insurance.
- 90,701 7 day policies (13% of all EIV=No) were presented from July 2015 to June 2016.
 - Based upon the random sampling, IFP estimates over 76,000 vehicles using a 7 day policy never were insured for the rest of the registration/plate duration.

The Problem – Cancelling After Renewal

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- 44,972 Policies Cancelled After Renewal = PCAR
- These policies are verified as valid on the day the vehicle is renewed at the SOS branch office.
- The policies are later cancelled, allowing the customer to renew with valid insurance as well as appear to provide proof of “valid” insurance until the certificate expires, often 6-12 months later.
- *Leaving them uninsured the vast majority of the year.*

Insurance Verification Process Flow Chart

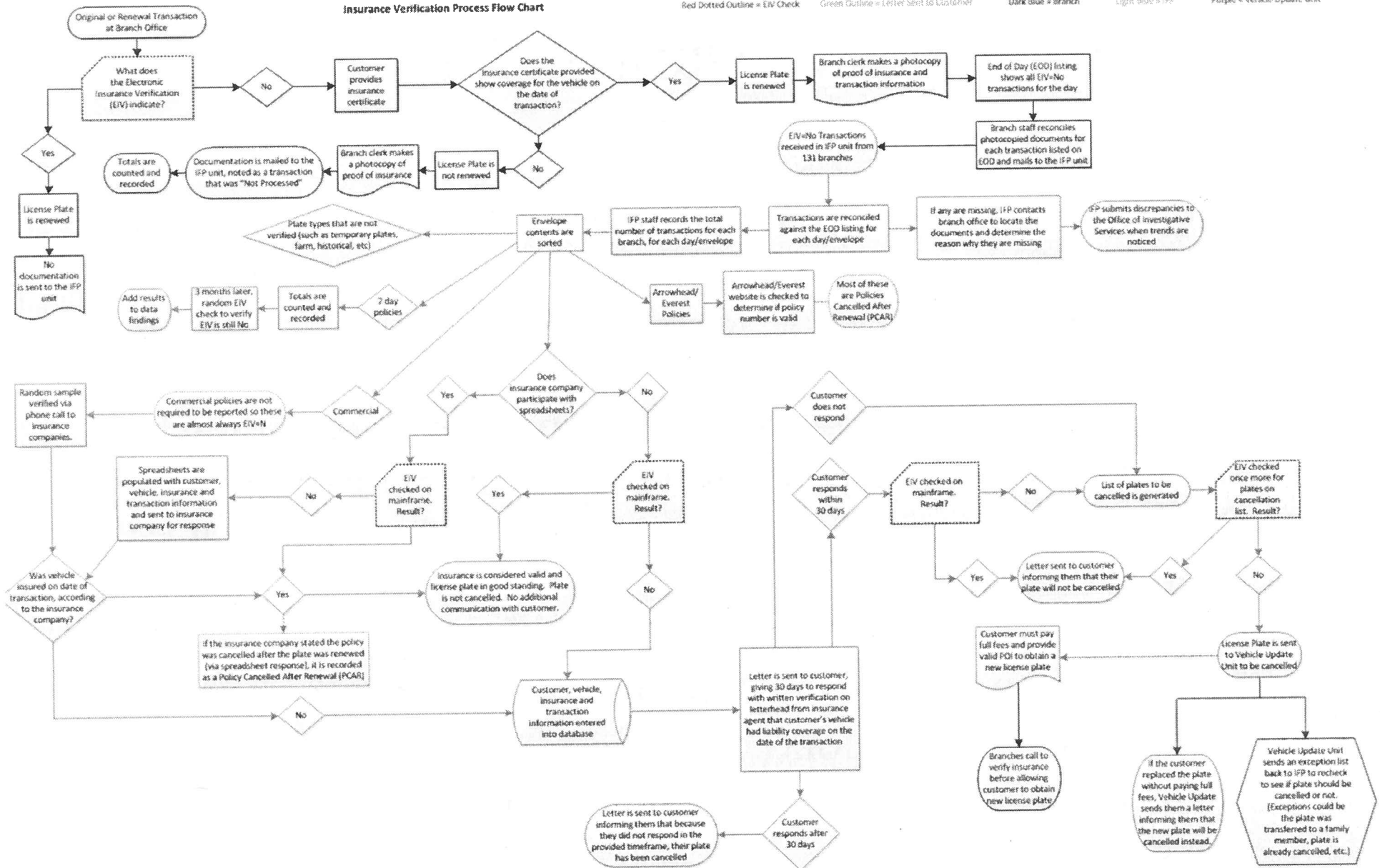
Red Dotted Outline = EIV Check

Green Outline = Letter Sent to Customer

Dark Blue = Branch

Light Blue = IFP

Purple = Vehicle Update Unit



IFP – Manual Insurance Verification

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- When IFP receives EIV=No transactions from the branch, they perform a second EIV check. EIV=No results are handled two ways:
- There are 17 insurance companies that verify coverage by populating spreadsheets that IFP prepares for them.
 - If the insurance company cannot verify the coverage, a cancellation letter is generated and sent to the customer.
- There are 240 companies that do not participate with spreadsheet verification.
 - If the second EIV check is No, a cancellation letter is generated and sent to the customer.

IFP – Manual Insurance Verification

- 137,043 cancellation letters were sent from July 2015 to June 2016.
 - Approximately 550 cancellation letters are sent per day.
- Customers must respond within 20 days; only 20% of the customers respond to the cancellation letter.
- IFP responses to letters consist of several steps for each letter:
 - Customer or agent calls, faxes or emails – sometimes all three.
 - IFP staff then verifies coverage with insurance company.
 - IFP staff then calls or emails the customer back to advise whether plate will be cancelled or not, and what their next steps are.
- Cancellation means – license plate is cancelled, customer forfeits all registration fees, and a “cancellation and confiscate” flash is placed on their registration record for law enforcement. Customer must present valid insurance that will be verified before another plate will be issued for that vehicle and is required to pay full fees.

Findings from Current Insurance Verification Program

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- Ability to identify uninsured customers, invalid policies and additional types of fraud.
 - 7-day policies
 - Policies cancelled after renewal (PCAR)
 - Blatantly fraudulent insurance certificates/citizens/agents/agencies
- EIV status is now available on the Law Enforcement Information Network (LEIN) for law enforcement's use during roadside stops.
 - Since the current reporting system is not real time, EIV=N doesn't always mean 'no insurance' until it can be verified with the insurance company.
- Ability to provide recommendations for a better solution.

Inefficiencies of a Manual Verification Process

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- The IFP unit employs up to 29 non-career, part-time employees at a time, along with one lead worker, two general office assistants and a supervisor.
- The intake of EIV=No transactions exceeds the ability to manually verify each insurance policy, creating a constant backlog.
 - EIV=No intake averages 3,000 per day
 - Letters generated average about 550 per day
 - Approximately 200 reverifications per day (the second time an individual insurance certificate is handled)
- Backlog in paperwork causes delays in contacting customers (up to 6 months).
- Verifying insurance presented on a customer's smart device would be easier if an online verification system were available. There is no accompanying documentation to send to IFP for these policies, causing incomplete information for these transactions.

Recommendations

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- Establish the State of Michigan Insurance Fraud Prevention Authority (SOMIFPA).
- Create and maintain a Real-Time Online Insurance Verification System, to be managed by SOMIFPA.
 - Real-Time updates eliminate the need for manual verification.
 - This would severely diminish fraudulent paper certificates as the need for paper certificates would be almost non-existent.
 - There are vendors that provide real-time online systems and many states are currently using them, including: Alabama, Arizona, California, Colorado, Connecticut, Georgia, Louisiana, Missouri, Montana, Nevada, Oklahoma, Rhode Island, South Carolina, Tennessee, Texas, Utah, West Virginia, Wyoming.
 - ✦ Idaho and Mississippi are in the process of implementing online verification systems.

Recommendations

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- Modify MCL.257.227 and MCL.500.3101a to require Michigan No-Fault Liability coverage to be maintained for as long as the plate is valid.
 - No longer accept 7-day policies as valid insurance coverage.
 - Require an initial minimum of 90 day coverage.
 - If coverage is not maintained, SOMIFPA would be authorized to suspend the vehicle registration and/or require a monetary penalty.

Benefits of a Real-Time System

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- A real-time Online Insurance Verification System (OIVS) will send automated notifications to SOMIFPA when a lapse in insurance coverage of a Michigan registered vehicle occurs.
- Law Enforcement will have access to real-time EIV information.
- Other states that use real-time OIVS have significantly reduced insurance fraud and would have the same impact on Michigan.
- A real-time OIVS could significantly reduce the amount of uninsured drivers in Michigan.

Changes Being Implemented in 2017

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- Cancellation letters will include specific instructions for providing written verification directly from the insurance agent/company.
- Customers will be given 30 days to respond to the cancellation letter instead of 20 days.
- Continue to strengthen MDOS partnership with DIFS, Law Enforcement Agencies and Insurance Companies.

Questions?

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