

Winning
the Battle
Against
**Vehicle
Insurance
Fraud**

**Photo Inspection:
First line, of defense against vehicle insurance fraud**

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“Vehicle-related crime continues to be the most costly type of property crime, representing more than half of the \$15 billion in crimes reported for the most recent reporting period. “

Due in large measure to the relative simplicity of committing vehicle-related insurance fraud in states without effective deterrents, the creativity of clever criminals to reap dishonest profits and the difficulty in detecting and preventing these crimes, criminals have had relatively risk-free opportunities for financial gain. For many years, and in many parts of the country, vehicle-related insurance fraud has been viewed as a relatively risk-free endeavor, which has had unfortunate financial penalties for premium payers.

In financial terms, vehicle-related crime continues to be the most costly category of property crime, which for many years has represented more than half of the yearly value of property crimes reported on a national basis. The battle against insurance fraud has been fought with varying degrees of success because of the difficulty in detecting and preventing vehicle related insurance fraud; it has been a virtually risk-free crime with serious financial consequences for premium payers.

In the past, law enforcement, the insurance industry and others responsible for dealing with vehicle-related crimes lacked meaningful legal deterrents and effective investigative tools, allowing many schemes of criminals intent on reaping illicit gains to go unchallenged. Until the late 1970s, with the enactment of New York's pioneering mandatory vehicle inspection law, clever criminals had clear sailing and virtually unchallenged profits of billions of dollars each year. Before compulsory pre-insurance inspection there was little chance to routinely detect or effectively discourage most insurance-related frauds. However, since the enactment of the New York inspection law, routinely referred to as the "Photo Inspection Law," physical inspection has become one of the most effective deterrents to this insidious type of property crime.

Because of New York's innovative legislation, a handful of progressive states with high vehicle crime problems have enacted similar inspection laws, providing law enforcement personnel and insurance claim investigators with better tools than were available in the past. Arguably, mandatory inspection with photographic documentation has provided tangible results in thwarting previously unchallenged crimes.

In the early 1990's, as an example of the significance of vehicle-related crimes, of which a high percentage were insurance frauds, the amount of losses for vehicle property crimes exceeded the total payout for all property crimes combined. In 2000, nearly a decade later, the statistics are remarkably similar. In 1992, for example, the total property crime losses were reported in the FBI's Uniform Crime Reports as \$15.2 Billion, of which \$7.6 Billion was attributable to reported vehicle theft. In 2000, the total property crime losses were reported at \$15.9 Billion, with vehicle theft at \$7.8 Billion.

Major Property Crime Losses			
<u>1992</u>		<u>2000</u>	
Larceny-Theft & Burglary	\$7.6 Billion	Larceny-Theft & Burglary	\$8.1 Billion
Vehicle Theft	\$7.6 Billion	Vehicle Theft	\$7.8 Billion
\$15.2 Billion		\$15.9 Billion	

Aside from minor year-to-year swings in property crime losses, vehicle crime continues to be big business. Without the inspection programs now in effect in New York, New Jersey, Massachusetts, Rhode Island, and to a limited degree, Florida, it's likely that the total value of losses attributable to fraud would be higher.

Despite the significant results produced by increased investigative efforts and the accomplishments of mandatory inspection, real auto theft continues to expand in scope in many areas of the country. The dramatic increase in theft and "car jacking" distorts the successful efforts of anti-fraud programs: in realistic terms, insurance fraud has decreased, while real auto theft has increased. Although estimated percentages of fraudulent claims vary, depending on the source of information, it is substantial. Insurance industry estimates, which attempt to minimize the problem, place vehicle-related fraud in the 10 to 15 percent range, which is often contested by experienced claims investigators, law enforcement personnel involved in motor vehicle crimes, fraud bureaus, insurance industry claims personnel and Special Investigative Units [SIUs] feel that fraudulent claims f o r represent between 20 to 30 percent of all claims submitted.

RESULT ORIENTED PROCESS

One point on which there is general agreement: there will never be a perfect solution to property crimes involving motor vehicles or guaranteed deterrents to real theft, vandalism, staged accidents and other criminal activities. However, as it relates to many types of insurance fraud that are now well known to investigative professionals, mandatory inspection with photographic documentation has proven its ability to deter a variety of otherwise costly schemes. In fact, it is one of the most effective deterrents to this type of crime, which results in the containment of insurance premium costs. As a requisite for obtaining an insurance policy, photo inspection programs have produced dramatic results.

Requiring a vehicle owner to prove that the vehicle being insured actually exists, and to have its condition verified before a policy is issued, prevents a host of schemes from being attempted, much less carried out.

Mandatory inspection programs allow designated inspectors to examine a vehicle's documentation, including the all-important vehicle identification number [VIN], its physical condition, accessories and optional equipment. The findings are recorded on an inspection report for review and processing. In photo inspection programs the inspector's report is supplemented by color "images" [digital or photographic] of the vehicle and the Federal Motor Vehicle Safety Standard Label, also referred to as the EPA Label or EPA Sticker, the report provides a permanent record of the vehicle's documentation, manufacturing information, appearance, and condition. As now performed in states with photo inspection laws, the process involves hands-on inspection and visual records of designated "high crime target" vehicles. These include newly purchased used vehicles and in some cases, new "high end" or even expensive leased vehicles.

Unfortunately, each state has different laws covering vehicle ownership, registration and insurance, which makes it difficult to track fraudulent claims on a national scope. Compounding the problem is the lack of comprehensive federal standards. There are, however, important exceptions. They include VIN standardization requirements, which went into effect in 1981, and the Theft Law Enforcement Act of 1984, which went into effect with the 1987 model year. The Enforcement Act requires the use of standardized National Highway Traffic Safety Administration [NHTSA] labels on specified new vehicles and replacement parts, which provide valuable information for investigative use. Located on different parts of the vehicle, NHTSA labels identify major component parts and replacement parts of designated "high theft rate vehicles." Salvage and replacement parts are also included under the labeling requirement.

PHOTO INSPECTION: POWERFUL DETERRENT

Photo Inspection programs serve as an effective preventative measure in states with high vehicle crime problems. The experience gained through these pro-active programs helps insurance investigators and law enforcement personnel throughout the country, and in different parts of the world, where vehicle crime is a major problem.

Included in the mix of simple and complex frauds that can be avoided by physical inspection are many carefully orchestrated schemes including nonexistent or phantom vehicle claims, fraudulent claims for vehicles abandoned by their owners and reported stolen including those "dumped" into a lake, river or swamp and then claimed stolen, vehicles with prior damage, and an intriguing assortment of other frauds.

Photo-inspection deters a variety of costly schemes including:

- Claims for nonexistent or "phantom" vehicles using phony VINs.
- Claims for damage that existed when the vehicle was purchased.
- "Paper Car" and counterfeit title frauds using falsified documents.
- Salvage schemes involving titles and VIN plates from salvaged vehicles.
- Multiple policy schemes: insuring a vehicle with a number of carriers.
- Duplicate car frauds using the same VIN plate and documentation.
- Duplicate title frauds to collect claims from the sale of a vehicle and false theft claims.
- Claims for equipment and accessories not in the vehicle.
- Import-export frauds using documentation for vehicles residing in other countries.
- Staging accidents or claiming accidents that never occurred.
- ... and many others.

THE INSPECTION PROCESS

The inspection process requires that the policy owner have the vehicle physically examined as a requisite for obtaining insurance coverage. The inspector must “see” the vehicle’s condition and contents, a seemingly simple process which virtually eliminates future claims for theft or repair of nonexistent vehicles or phantoms, or repair of prior damage. It also helps policy holders obtain fair claim settlements.

- The vehicle identification number [VIN] is copied from the VIN plate, which is visible through the windshield. The 17-digit alphanumeric sequence identifies the vehicle and establishes its origin.
- The make, model, year and odometer reading are recorded on the inspection report. Also noted are expensive accessories, optional equipment and an evaluation of the vehicle’s physical condition.
- A minimum of three color “images” are taken [digital images or Polaroid photographs]: two oblique views showing the rear and side of the vehicle, and the front and opposite side, plus a close-up of the EPA Label. The label image provides a nearly full-size record of the Federal Motor Vehicle Safety Certification Standard Label, also known as the EPA Label, which is located on the driver’s side door post or door jamb.
- The physical appearance of certification labels may vary from one manufacturer to another. Regardless of manufacturer, however, embodied in the specially fabricated, tamper-resistant labels are distinct verification clues including size, shape, color and composition of the material on which it’s printed. A counterfeited label can be easily detected by a knowledgeable inspector or investigator. If the label is defaced or damaged in any way, the resulting changes are telltale signs of tampering.
- [Note: the majority of visual record are now obtained with digital cameras, while only a small percentage are produced photographically.]

- If required, additional photos of physical damage [interior or exterior] are taken.
- The completed report and digital images, or Polaroid photos, are promptly sent to a central data processing facility such as the CARCO computer center located in New York where the information is downloaded into a central computer database. The computer checks the VINs authenticity to ensure that the vehicle and VIN match. The inspection form is scanned and entered into the system along with the digital “photos”. In the case of Polaroid images, they are also scanned and entered into the database as digital files. If there is any disparity the insurance company is alerted that further investigation may be needed.

The primary benefits of the inspection process are realized after the information is integrated into a central computer database. Once the data from the inspection report and the certification label are entered, information can be retrieved quickly for routine claim checking or investigative purposes. After entry, a special computer software program, decides the validity of the VIN in seconds. If the calculations do not conform to the software's validation parameters, a "Bad VIN" warning, or “Alert” appears on the computer monitor, signaling an attempted fraud.

Computer “Alerts”

The alerts are indicators that action needs to be taken based on the results of specific search parameters. On the lookout for multiple policy schemes, for example, an important warning is for vehicles that have been inspected more than once during a three-month period, which might signify that a particular policy or group of policies were purchased for other than legitimate reasons.

Alerts that the inspection database is programmed to generate fall into two major categories: Underwriting, or Premium Generation/Risk Evaluation Alerts and Vehicle Identity/Integrity Alerts. These important indicators signal that something outside of established “normal” parameters should be looked at. Included in the various computer alerts that can be automatically generated are indicators such as: additional operators, garaging location, inordinate mileage, counterfeit VINS, and altered labels.

Other sophisticated computerized database tracking systems, such as VINassist™ software developed by the National Insurance Crime Bureau [NICB], provide investigative agencies with rapid access to vital information such as vehicle crime statistics, patterns and trends. Because the

computer can monitor, sort, match and locate specific VINs, the system provides a valuable resource for investigating claims. As an example, let's assume that a claim is made for a car or van that is subsequently scrapped for salvage, or a VIN that appears on claims for different vehicles. If these discrepancies occur later, the computer can determine if a salvage history exists or if the same VIN is being used for more than one vehicle.

VINassist software narrows the area of search for label tampering, revealing the only possible number sequences for a valid VIN. It provides a six-digit target area on the label, which simplified the investigator's task. This allows the investigator to carefully examine the label photo for signs of alterations within the 17-digit alphanumeric sequence. When the correct digit was inserted for the Nissan, the VIN passed the test.

BENEFITS OF THE SAFETY CERTIFICATION LABEL

The photo-inspection process provides accurate graphic records of the vehicle's physical condition and appearance and a detailed close-up view of the all-important certification label. With the information contained on the label, or even evidence of data eliminated from the label by tampering, skilled investigators can acquire important clues in suspected cases of fraud. Label photos provide a dynamic tracking mechanism to detect salvaged and stolen vehicles, while also shedding light on the method of operation of crime rings or individuals regularly involved in insurance fraud.

Besides permanently recording the all-important VIN, the label photo provides the means to check the vehicle's authenticity and identify imported vehicles that do not comply with U.S. safety standards. Because the label is virtually tamper-proof and cannot be removed without being defaced, or visually altered in appearance it provides a useful aid for determining whether a vehicle has been in an accident or has been repainted.

If any attempt is made to remove or alter the label, it undergoes a detectable physical change. Even a tiny irregularity in any of the numbers or characters in the VIN suggests that a label may have been altered to disguise the vehicle's identity. Any labels that have been altered or are missing from the vehicle, will trigger an investigation before a policy is issued. In such cases there is a good chance that the vehicle was in a prior accident, was salvaged, stolen, or was a "gray market" car.

Counterfeit labels are frequently discovered after close examination of the photographs attached to the inspection report. The fraudulent label photo may display obvious physical or informational flaws such as the wrong type of sticker for the model year, or a background color shown through the data windows that does not match the vehicle's color. To the investigator's trained eye, the label can reveal a host of sins, the most flagrant being a VIN that does not match the specifications of the car. Other errors include label designs that do not match the model year or incorrect alignment of data in the upper window.

PRE-INSURANCE PHOTO INSPECTION WORKS

Physical inspection can produce dramatic results in preventing large financial losses from being incurred and in helping recover losses paid on fraudulent claims. In this regard the importance of the information contained on the certification label is invaluable. For example, in three typical cases of fraudulent claims detected by CARCO involving a Nissan automobile, Lexus and Mercedes, in which each policy owner had made claims against more than one insurance carrier, the total savings was almost \$270,000.

Insurance rates remain high because of increased vehicle crimes such as theft, vandalism and accidents, and the dramatic escalation of fraudulent PIP bodily injury claims. Results of the past few years show that the increase in the percentage of vehicle crime related to insurance fraud is lower in states with strong inspection laws. The net result is a containment of costs by insurance companies, stabilization of rates for the consumer and improved productivity for law enforcement agencies.

Pre-insurance photo inspection is a result-oriented pro-active process, which allows insurance carriers to take action to prevent frauds from occurring, rather than allowing criminal activities to go unchallenged. Inspection also provides a dynamic investigative tool. Physical inspection reduces the possibility of future claims for theft of nonexistent or phantom cars or the repair of vehicles with prior damage.

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