

**PHOTO INSPECTION PLAYS KEY ROLE
IN AVERTING VEHICLE INSURANCE FRAUD**

**Inspection systems and advanced computer technology
provide dynamic tools to deter vehicle insurance fraud.**

By:

**Philip J. Crepeau
Senior Anti fraud Systems Advisor
CARCO Group Inc.**

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In the 26 years since the first vehicle pre-insurance inspection law was enacted, in New York, incremental improvements have yielded dramatic advances in the core technologies and management systems that are the foundation of pre-insurance vehicle inspection. Breakthroughs in “imaging” technology and computer-based processing have led to fast, reliable, and productive management tools: the controls now available have broad scope, speed, processing power and versatility, allowing the insurance industry and law enforcement to keep up with the relentless efforts of criminals who view insurance fraud as a profit-driven challenge.

But despite the progress that we’ve seen, vehicle insurance fraud still thrives in many of the nation’s large, highly populated urban areas, representing a multi billion-dollar enterprise in which a vehicle is now reported stolen every 26 seconds. It should come as no surprise that the type of criminals who created the need for deterrent measures such as pre-insurance inspection, have also benefitted from technology in their quest to beat the system. Technology has therefore proven to be a double-edged sword, giving equal access to clever criminals intent on committing fraud to the same high-tech tools.

Notwithstanding the measures in place in a number of states to minimize vehicle insurance fraud, the latest FBI “Uniform Crime Reports” shows those property crimes involving vehicles represent more than half of all property crimes, nationwide – more than \$7 billion each year. Of these “reported” crimes, law enforcement professionals feel that between 25–30 percent involve fraud. In the long run – as most law enforcement and insurance investigators agree – effective deterrents are the only dependable means to fight fraud. Without impenetrable barriers and constant vigilance criminals, whose focus is on making fast money, will continue to exact tribute from insurance carriers with the cost being passed along to honest policy owners

Although technology has played a key role in multiplying the benefits of inspection programs by tapping the capabilities of computer technology, its efficacy is in the simplicity of the concept. As technology breakthroughs have been made in digital imaging and computer systems, they have been quickly applied to advancing the capabilities and functionality of the inspection process, propelling pre-insurance vehicle inspection from an inspired idea to a successful anti fraud system.

A LOOK BACK

Perhaps the best way to appreciate the importance of vehicle inspection today is to contrast the methods used in the early days with the reliable high-speed technology-based systems now in operation in five states: NY, NJ, MA, RI, and a limited program in Florida. The concept brought to fruition in New York in the late 1970's because of skyrocketing insurance rates and a tidal wave of public protests, marked the introduction of watershed legislation: Regulation ‘79, also known as the “Photo Inspection Law.” From an anti fraud perspective, a new era had begun in which a meaningful deterrent was introduced to mitigate the seemingly unstoppable efforts of clever criminals and crime rings. It was thought at the time that if a high percentage of fraudulent claims could be reduced insurance rates could also be stabilized.

Since the most blatant and costly frauds prior to the introduction of the Photo Inspection Law involved claims for nonexistent or “phantom” vehicles whose only purposes were to initiate a fraudulent theft claim, and claims for damage that existed before a policy was issued, the first steps were clear-cut. The owner of a recently purchased used vehicle who applied for physical damage coverage had to prove that a vehicle actually existed by having it seen, and a representative of the insurer or an authorized inspector had to document the physical presence, condition and identity of the vehicle. In this way two major problems were avoided.

Enabling the new law to produce the desired result required an organization that could develop, implement and maintain a result-oriented system, establish a network of inspection sites throughout the state, and create a computer-centric database of the information obtained by inspection to serve the insurance industry and law enforcement. Enter the CARCO Group, a pioneer in physical inspection systems and arguably the leader in the field today. Formed in late 1977 to provide services in New York, the company quickly established a network of more than 1,000 inspection sites throughout the state; more than six thousand sites are now operational in five states. An integral part of the services to be provided was the computer processing and communication functions required to make the process work.

In the early days of the program, documentation was limited to a single black-and-white photo of the inspected vehicle, a system with two serious flaws: only two sides of the vehicle could be seen and, equally limiting, the vehicle appeared in black-and-white. With the absence of color photos only black or white vehicles were seen. A few years later, while the number of photos was increased to two black-and-white images, the identification value of color was still lacking.

In 1986, the vehicle inspection program finally had the muscle it needed with the advance to color photographs and the addition of a much needed third photo – a close-up of the Federal Motor Vehicle Safety Standards Certification Label, most often called the “EPA Label.” The combination of the inspector’s information and color photos of the vehicle and the EPA label now constituted an inspection file of enormous value.

Result-Oriented, Pro-Active Process

The photo inspection process has evolved over the years into a dynamic, result-oriented process; the longevity and measurable achievements of the in-place inspection programs are testimony to their productivity. The fundamental value of the system is its ability to verify and record the existence, identity and condition of vehicles, thereby eliminating opportunities to commit fraud that criminals can profit from. And while its focus is to enable insurance carriers to take steps necessary to dissuade criminals from committing fraud and to construct barriers that deter them from doing so, inspection also provides useful investigative tools.

Among the major changes between inspection systems of the 1970's and the present is the level of technology, namely powerful high-speed computers, electronic communications systems, improved database management techniques, and the shift from conventional photographic documentation to digital imaging. Notwithstanding the fact that a small percentage inspection sites still use instant photos, more than 90 percent have shifted to digital

cameras which capture images on floppy discs instead of film. However, even in cases where color prints are submitted rather than digital files, the photos are digitized [scanned] as part of the data entry process and become part of the electronic file.

Similar Requirements Between States

Although procedural or mechanical requirements differ somewhat from state-to-state, required, the process is basically the same: three digital or photographic records are taken: two 3/4 oblique angle views showing the front and driver's side of the vehicle in one picture, and the rear and passenger side in the other. The "third photo," which is of the utmost value, is a closeup of the EPA label located on the inside edge of the driver's door or door post, which includes the Vehicle Identification Number [VIN].

EPA Label: Important Investigative Tool

With the information on the label, or even evidence of data eliminated from it by tampering, investigators can find clues in cases where fraud is indicated and provide a tracking mechanism to detect salvaged and stolen vehicles. Because it includes the VIN, the label also simplifies validating the vehicle's authenticity and identifying imported "gray market" vehicles that are out of compliance with U.S. safety standards. If an attempt is made to remove or alter the label, it undergoes a detectable physical change suggesting tampering of some type. Altered or missing labels will generally trigger an investigation before a policy is issued, which could show that the vehicle was in a prior accident, was salvaged, stolen, or was a gray market car.

Examination of the electronic photo image files that are an integral part of every inspection file can reveal counterfeit or altered labels: a label that's been tampered with may display physical damage or the wrong type of sticker for the model year, or a background color shown through the data windows that is different from the vehicle, or a VIN that does not agree with the specifications for the vehicle.

WHERE IT ALL BEGINS: THE INSPECTION PROCESS

When an insurance carrier receives a request for coverage of a newly acquired used vehicle, or there is a change from one company to another, the applicant is notified in writing that inspection is required within a specified period of time, and is given a list of inspection facilities. If the vehicle is not presented for inspection within the time period stated, coverage will be denied.

Inspection begins by an authorized inspector or representative of an insurance carrier copying the Vehicle Identification Number from the VIN plate located on the dashboard. The VIN's 17-character encoded sequence is, in effect, the vehicle's birth certificate. The inspector also records the vehicle's make, model, year of manufacturer and odometer reading, and includes a description of expensive options and accessories. Where applicable, pertinent notes are made about the vehicles condition and damage observed by the inspector.

Reports Sent to Computer Processing Center

After inspection, the report and photos are sent to a central processing facility such as CARCO Group's New York-based computer center, where the information is entered into the database of a "super computer," an IBM I-Series e-Saver AS/400 system, connected by a Local Area Network [LAN] to an IBM mainframe. Equipped to access data from a "jukebox" optical storage device, the system's storage capacity – which can be expanded – is 1.4 terabytes [TB] or 1.4 trillion bytes. With its electronic "bridging" system, it is one of the most advanced integrated systems of its type, now containing more than 15 million reports.

When the report is received, it is reviewed to verify that the required information and required number of photos have been provided and that no entry errors have been made. At this stage and throughout the process, quality control measures are continuous and thorough. If entries exceed programmed parameters a variety of "Alert" codes may be entered by the data entry operator to indicate a possible problem. The system is also programmed to automatically issue alerts based on programmed search parameters. These warnings include underwriting premium-generation and risk-evaluation alerts, and warnings relating to the vehicle's identity – all signs that an established search parameter has been exceeded and should be reviewed. Alerts include: additional operators, garaging location, excessive mileage, counterfeit VINs, altered EPA labels, and even warnings that a vehicle was inspected more than once during a specified period, which might suggest a multiple policy fraud in the making.

Information Entry

The first phase in the data entry process includes logging in information such as: date of inspection, insurance company's code number, the reviewer's initials, report number, insurance identification number, presence of an anti-theft device and number of digital or instant photographs taken. Information about the anti-theft system is important in determining possible insurance discounts and to help build statistical profiles when vehicles are reported stolen.

Alert messages and information about observed damage can be added by a data entry specialist who can indicate up to three damage codes to prevent claims for damage indicated in the inspector's report. To avoid potential tampering such as backdating, reports are issued by the inspection site in sequential order, in which the date and time shown must fit the sequence in which the reports are issued. This establishes the time lapsed between the inspection date and arrival of the report at the computer center.

When the VIN is entered into the system, it is automatically checked for authenticity: the VIN and vehicle must match. The computer will identify irregularities in seconds, with a "Bad VIN" alert displayed in the event of a disparity. In such cases the carrier is advised that further investigation may be needed. The all-important VIN provides critical information about the vehicle and represents a valuable investigative tool.

The inspection report and, where applicable, hard-copy photos are then scanned and entered into the inspection database in a computer readable format. In the case of digital images, on floppy disks, they are entered as part of the inspection file and stored safely in a permanent electronic archive using WORM [Write Once Read Many] technology. Once the report data and photos become part of the VIN-indexed database information can be easily retrieved for routine claim-checking or investigative purposes regardless of where and when reports were completed. To maintain file privacy, insurance companies only have access to files of their customers.

Processing, tracking and communications features provide the ability to send data the carrier by means of sophisticated, high-speed Internet-based data transmission methods such as File Transfer Protocol. Using conventional telecommunications methods, the carrier can receive the data in a PC-compatible format, making it available to generate reports or for manipulation.

Sophisticated image processing capabilities facilitates the enhancement, and onscreen magnification, of subtle details in an original photograph, such as making barely legible license plate numbers easy to read.

EFFECTIVE DEFENSE FOR VARIETY OF SCHEMES

Included in the mix of fraudulent schemes and claims that can be deterred by physical inspection are the following:

- Phantom vehicle theft claims
- Pre-existing damage claims
- Paper Car and counterfeit title frauds
- Title frauds
- Multiple policy frauds
- Duplicate car frauds using the same VIN
- Duplicate title frauds
- Theft of nonexistent equipment/accessories
- Import-export frauds involving documentation for vehicles in other countries
- Staged accidents and accidents that never occurred
- And more.....

The extensive benefits provided by pre-insurance vehicle inspection, owing in large part to the sophisticated computer processing and database system that is now in place, represent significant savings for the insurance industry, and the motoring public. With its dynamic, continuously expanding repositories of digital information related to the millions of inspection reports in its database, CARCO Group represents a unique resource for insurance carriers, their investigative organizations, and law enforcement. The company's powerful integrated database allows insurance industry clients and, where applicably, law enforcement agencies to access information in seconds with the ability to apply its unique resources to winning the battle against vehicle insurance fraud.