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Fixin' for Fraud

(Body Shop Fraud)

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Executive Summary

Most body shops operate lawful businesses, however, there are a large number of facilities that defraud consumers and insurance companies. Insurance fraud is rampant within the body shop and vehicle collision repair industry. Since nearly every automobile accident claim involves vehicle repair, but not necessarily bodily injury, property and casualty insurers spend most money paying vehicle repair claims to body shops.¹ Additionally, auto repair costs are rising as a result of more computer controls, airbags, and electronic equipment. The National Insurance Crime Bureau (NICB) estimates that a large percentage of repair bills contain an element of fraud.

Body shop fraud refers to schemes perpetrated by a body shop against consumers and insurance companies. It should not be confused with vendor fraud, which does not necessarily involve insurance fraud and does not involve the vehicle's owner. Body shop fraud falls under the category of "hard" fraud, meaning that the schemes are planned out in advance. The fraud is deliberate and the body shops work alone, or with other individuals in an organized ring to get money illegally from insurance companies.

The insurance industry is largely affected by this type of fraud because few states have regulatory agencies that monitor body shop facilities, even though body shop fraud is recognized as a significant problem. These agencies need to be established to ensure that fraudulent repair activities are combated.

Some insurers do not have formal programs in place to address body shop schemes. Comprehensive training programs for claims employees and adjusters are essential for combating body shop fraud. Additionally, insurers need to be directly involved in the processing of claims associated with body shops to determine if fraud is occurring. For example, when utilizing Third Party Administrators (TPAs) to process glass claims (a somewhat specialized area within body shop schemes) including coordinating the entire claim process, computing glass claim amounts, billing the insurer, or paying a bulk payment to the shop, the insurer does not have direct contact with the body shop.

All consumers are affected by body shop fraud. A percentage of vehicle premium costs results from fraudulent automotive repair claims. For example, in California, it is between five and ten percent². Consumers who are direct victims of fraudulent body shop activity are even more affected. The victim's life is disrupted because of the loss of

¹ Sean Zavala, (sr. special investigator of major operations, Farmers Insurance), "RE: Body Shop AWARE Paper," e-mail message, June 13, 2005.

² "Farmers Warns Consumers about Auto Body Fraud," *Collision Repair Industry Insight*, April 2003, <<http://www.collision-insight.com/news/20030401-farmers.htm>,> accessed on May 24, 2005.

using their vehicle, unperformed or low quality repairs that could result in further damage to the vehicle, or bodily injury to the insured.

Body shop fraud can have deadly results. For example, a 50 year old woman from Seattle, Washington was driving when her vehicle was bumped from behind, causing it to spin and hit another vehicle head on. Her vehicle's airbag did not deploy, causing her body to hit the steering column so hard that the column buckled, resulting in her death. She was the victim of airbag fraud. An unscrupulous body shop removed her airbag during a previous vehicle repair and inserted a plastic cover over the empty cavity. The body shop was paid by her insurance company for the replacement of an airbag, even though one was not installed.

Another example of body shop fraud is a major NICB case investigation in Palm Springs, California, called "False Premise." The case began after an NICB member company noted a pattern of vehicle claims for wind/sand damage from a Cathedral City, California, body shop. The member contacted the NICB in April 2002 and an investigation was initiated.

In this case, an insurance adjuster prepared a material damage estimate for wind/sand damage at the body shop and submitted it to the insurer. The majority of the vehicles were high in value, which resulted in higher repair estimates. The estimates for total vehicle damage varied from \$4,000 to \$12,000, and the vehicles were rarely repaired. The insurance settlement checks that were issued to the insured and the body shop were sent to the body shop. The body shop owner signed off on the two-party checks, and received a cash payment of 20 to 30 percent of the appraisal amount as a kickback from the insured. A number of the vehicles were often sold after the claims, and the new owners submitted new wind/sand damage claims.

The scheme was based on referrals in which an insured, who had already submitted a claim and was trusted by the body shop owner, referred other individuals and received a five percent referral fee from the individual filing the new claim. The referral fee was based on the appraised value of the new claim. Additionally, it has been alleged that the body shop owner set aside a percentage of its payment for the insurance adjuster as an incentive to process the fraudulent claims. It is estimated that hundreds of allegedly fraudulent claims totaling over \$2.5 million were submitted in this case. This kind of activity has been identified in other body shops in the desert area, but not on the scale of the body shop in "False Premise."

This strategic analysis report, researched and organized by the NICB's Strategic and Tactical Information (STI) Department, was created for NICB member companies and law enforcement agencies. It examines the extent of body shop fraud, common body shop fraud schemes, and the players involved. It also provides suggestions for NICB member companies on how to take action to prevent these types of activities. A map of the locations of body shops involved in questionable claims is also included.

Body Shop Schemes

Body shop fraud schemes are varied and are only limited by the imaginations of the individuals involved in the activities. The NICB has identified a number of body shop schemes affecting the property and casualty insurance industry:

Adjuster Assistance

A body shop may work with an insurance adjuster to defraud insurance companies. The adjuster knowingly processes the falsified receipts and inflated bills for the vehicle damage. After the insurer pays the body shop, the adjuster receives a kickback from the body shop. Additionally, the insurance adjuster may receive a kickback for referring claimants to the body shop, typically about \$100 per fraudulent estimate. Recently, the trend is for a body shop to compensate the adjuster through more indirect methods, thus making the transaction difficult to trace. The body shop will give the adjuster benefits such as the use of condos and shop-owned vehicles, time shares, paint jobs, and other services. NICB investigation has revealed instances in which an adjuster approaches the body shop to be involved in the fraudulent activity.

Airbag Fraud

Airbag fraud occurs when a body shop fails to replace an airbag properly in the vehicle, but still charges the insurance company for the part and labor. Body shops utilize stolen, previously deployed, or salvaged airbags to replace the customer's deployed airbag. This type of fraud is highly profitable because a body shop is typically paid between \$2,500 and \$3,000 by the insurance company to replace an airbag, although the fraudulent body shop only spends around \$100 to \$200 per airbag.

A body shop may even tamper with the airbag dashboard light so that it looks as if the airbags are functioning correctly. In newer vehicles, a dashboard light appears for a few seconds when the vehicle is first started. However, a body shop may tape the light, remove the indicator light bulb, or install inexpensive devices that make the airbag light flash even when the airbag is nonexistent.

This type of fraud is a public safety issue because drivers' and passengers' lives are at risk if there is a crash and the faulty airbags do not deploy correctly, as was the unfortunate case in Seattle, WA with the 50 year old woman. According to CARFAX, one in every 25 previously damaged vehicles is affected by faulty airbags. The Automotive Occupant Restraints Council reports that unscrupulous body shops "stuff thousands of fake and unsafe 'remanufactured' airbags into cars throughout North America."

There are two primary methods used by body shops to commit airbag fraud:

The Pullout

In this type of airbag fraud, a vehicle is taken to a body shop for repairs after a minor accident. The body shop manually removes and cuts open the airbag with a sharp blade, creating the illusion that the airbag deployed during the accident. After the insurance company completes the estimate for replacing the original airbag, the body shop inserts a cheap knockoff or salvaged airbag. The body

shop may even stuff rags, packing peanuts, or other garbage into the empty airbag space. The insurance company is then billed by the body shop for “replacing” the airbag.

The Switch

This occurs when a body shop uses an identical airbag from another vehicle. The original undeployed airbag is replaced with an identical, but previously deployed airbag. Therefore, it appears that the original airbag deployed during the accident. The insurance company inspects the vehicle after the previously deployed airbag has been inserted. After receiving the estimate, the body shop reinstalls the original airbag. In some instances, the body shop inserts rags or other garbage into the empty airbag space and then sells the customer’s original airbag on the black market.

Body shops also mount airbag system covers that make a vehicle appear cosmetically the same even though an airbag may not be beneath it. These covers rarely have the vehicle’s logo imprinted on them or are slightly different colors than the originals indicating their fake status.

Falsified Document/Receipt

This situation occurs when a body shop submits a falsified document that inaccurately reflects the parts used or the labor performed. This includes lowballing on sales tax calculations for parts or labor. The invoices show that the installation of expensive parts was sublet to other body shops. Since sublet repairs are not taxable, the body shop realizes a profit. The body shop may also include receipts for items “stolen” from the vehicle, such as tires, stereo equipment, etc., when in actuality the body shop has stored them elsewhere for the insured until after the vehicle inspection.

Glass Repair

In the glass repair fraud scheme, a body shop initiates contact with an insured through telemarketers who randomly solicit homeowners to target those individuals whose vehicles have a cracked or chipped windshield. Although glass fraud is prevalent in body shops, the majority of it is seen with glass repair shops. The glass shop owner sets up at carwashes or in parking lots near body shops. Most of the time, the body shop is independent of the glass repair shop and is not directly involved in the scheme.

In one case, an NICB investigation found a body shop that represented itself as an insurance company in order to convince the owner to allow the repair. The vehicle owner was told that the windshield would be repaired at no charge, and that the insurance company reimburses the body shop directly. The owner was promised a gift certificate for doing business with the body shop.

Due to the high volume of glass claims, the insurance industry adopted a “Glass Part Discount” process to determine payment to body shops, based on the federal Office of Management and Budget’s (OMB) Metropolitan Statistical Areas. Areas are broken down into County Types A through E, according to population size. Glass billing rates from County Types D-E (rural areas) are 30 to 40 percent higher than for County Types A-C (metropolitan areas) because of higher shipping costs to those areas.

Unfortunately, body shops have found ways to manipulate geographical locations in order to maximize reimbursement payments.

A body shop defrauds the insurance company when the glass repair is performed in a metropolitan area, but is billed from a rural area. The glass repair may be subcontracted to a local body shop, or in some cases, the repair is not performed at all. The location where the body shop has claimed to have performed the glass repair is often a sham, and there is no physical shop at that location or it is a storage space. The storage space is equipped with telephones that have call forwarding and are used as “dead drops.”

Inflated Billing

Inflated billing is when a body shop overstates the parts used or the work performed to the insurance company. Unscrupulous body shops frequently bill insurers for unnecessary replacement parts or repairs, repairs that were never performed, previous damage on the vehicle, additional damage intentionally inflicted by the body shop, or a “steering fee,” which is a charge for directing a vehicle to another body shop.

Body shops also charge for replacement or Original Equipment Manufacturer (OEM) parts even though the original parts were repaired or placed into the vehicle, or aftermarket parts were utilized in the repair. Undamaged parts are removed from the vehicle prior to the adjuster’s inspection and the adjuster is shown a pile of broken parts. The adjuster is told that the broken parts are from the insured’s vehicle. The old parts are placed back into the vehicle, but the body shop bills for new parts. The new parts are ordered as requested; therefore the body shop has the invoices to provide to the insurance company. The body shop then returns the new parts to the suppliers for refunds.

The body shop may also pay the insured back their deductible and adjust the invoice accordingly. This is known as “burying the deductible,” thus hiding the cost in the estimate so that the insurance company pays the deductible. A common way for a body shop to do this is to bill insurance companies for OEM parts, but instead install poorly repaired, damaged, junked, or aftermarket parts.

Inflated Damage

Body shops enhance or increase the extent of a vehicle’s damage in order to receive additional money from the insurance company. Parts are deliberately damaged prior to inspection so that the insurance company has to pay for new parts. The body shop may even have an inventory of pre-damaged parts on hand to utilize. Additional damage typically inflicted on vehicles includes cutting tires, breaking attachment points to headlight and radiator brackets, and unnecessarily replacing good fuel pumps. It is not uncommon to see damage that appears as though a hammer has been taken to it. NICB investigations have revealed instances in which body shops encourage and even show the insured how to make the vehicle damage worse with the promise that the insured will profit from their actions.

False vandalism claims also fall under the inflated damage category. The insured reports damage to their vehicle in order to receive a free paint job from a body shop. The body shop may be involved and substantiates the vehicle damage alleged by the insured.

Stripping Vehicles

While masquerading as a legitimate repair facility, a chop shop is actually a front for the housing of stolen vehicles and parts. Stolen vehicles are brought to a chop shop, disassembled (stripped of parts), and sold piece by piece to other body shops. Once disassembled, many parts cannot be identified because they lack any type of identification number that can be traced back to the vehicle. Parts often grow more valuable as vehicles age, and a chop shop operator can earn two to four times a vehicle's actual worth by selling the parts separately.

A body shop may also replace a stolen vehicle's VIN with a salvage VIN and then sell the vehicle to the public. The stolen vehicle then matches the body shop's salvage purchase, and is "retagged" with the public VIN and title of the legitimate salvage vehicle purchase.

Insurance fraud occurs when an insured's vehicle is taken to a chop shop, reported stolen by the insured to the insurance company, and is then "recovered" with damage or missing parts. The insured and the body shop conspire to defraud the insurance company. The body shop damages the vehicle to make it look as though it was stolen and the insurance company pays to have the damage repaired. The body shop also makes money by selling the parts that were reported "missing" by the insured, and the parties share the profits.

Sometimes, the insured does not "recover" the vehicle. The body shop strips the vehicle and it is never seen again. The parts are sold and the body shops share the profits with the insured. The insurance company also pays the insured for the vehicle loss.

Unperformed/Low Quality Repair

A body shop intentionally submits an estimate for work that will never be completed or for parts that will never be installed. This is especially common for parts that are hard to view, such as the frame rail. Instead of replacing parts, a body shop only repairs the parts or even places the broken parts back into the vehicle. The parts are painted or cleaned to look new. Additionally, while the repair might be performed, it is a low-quality job. Aftermarket parts are used, some of which are defective and of inferior quality. There is a danger to the insured when the vehicle is improperly repaired because their vehicle is unsafe and can become a hazard to other drivers.

Examples of this type of activity include painting and then installing used parts to match the vehicle's existing color, gluing and puttying glass, and patching or painting over a bumper to hide damages, rather than fixing the damages properly or replacing the entire bumper.

Other Common Schemes

A common practice is to "perform" the repair work before a written estimate is provided, or before the insurance adjuster inspects the vehicle. Often, a body shop has the vehicle "broken down" (disassembled) before the insurance adjuster has a chance to view it. The repair job is "captured" by the body shop because it is difficult to transport the vehicle to another body shop once it has been disassembled.

An NICB investigation has identified instances in which body shops work together with tow truck drivers to lure customers into the shop. This scheme, known as “Bandit Tow Truck,” occurs when the tow truck driver arrives at the accident scene and persuades the vehicle owner to allow the transfer of the vehicle to a referred body shop.

Another scheme is one in which the body shop conspires with a car rental company employee to defraud the insurer. The NICB has identified instances in which car rental company employees file a claim unbeknownst to the customer with their personal automobile insurance company and have the vehicle repaired at the fraudulent body shop.

Intentionally delaying or sending poor quality photographs of the damaged vehicle to the insurance company is another common fraud scheme. This makes it difficult to determine which vehicle parts were damaged and to what extent. Additionally, a body shop may loan a rental vehicle to a customer who has brought in their vehicle for repair. After it is returned, the body shop owner files damage claims on the rental vehicle without the customer’s knowledge.

The Players

Body shop schemes vary in complexity. The simplest form of body shop fraud could involve one body shop inflating damages to an insured’s vehicle. On the other hand, more complex body shop fraud includes hundreds of players involved in an organized ring. The organized ring is more significant because its perpetrators target multiple insurance carriers, and submit multiple false claims that amount to thousands of dollars. The following are common players in an organized body shop fraud ring:

Body Shop

An unscrupulous body shop defrauds an insurance company through various profit-oriented schemes. This body shop could even be a “preferred” shop that has entered into a partnership with the insurer. Additionally, a body shop can play a role in an organized staged accident ring³, sometimes by orchestrating it. NICB investigation has revealed instances in which body shop owners buy policies and vehicles for other individuals to use in accidents. A body shop supplies previously damaged vehicles to inflate the property damage or injury claims. The vehicles provide “evidence” to the insurance company that a legitimate accident has occurred. After the accident, the participants in the organized staged accident ring take the vehicles to the body shop for “repair.”

Car Rental Company Employee

A car rental company can be involved in body shop fraud through the actions of a dishonest employee. The car rental company employee knowingly rents the vehicle to staged accident participants who then take the vehicle to a specified body shop after the “accident” occurs.

³ Refer to the NICB’s Automobile Accident Fraud AWARE report on the NICB website.

Insurance Adjuster

An unscrupulous insurance adjuster can be involved in body shop schemes; they intentionally approve payment based on falsified receipts or inflated damages.

Third Party Administrator

The Third Party Administrator may coordinate the entire claim process where the insurance company is unaware of the actual details of the claim. For example, the NICB has identified a number of Third Party Administrators involved in glass repair fraud.

Tow Truck Driver

A tow truck driver arrives at the accident scene and persuades the vehicle owner to allow for the transport of the vehicle to a referred body shop. The tow truck driver may be an employee of the body shop or an independent player receiving kickbacks from the body shop.

Vehicle Owner

There are many times when the vehicle owner and body shop conspire to defraud the insurance company and share the profits. The vehicle owner commits opportunistic fraud and takes advantage of the situation to receive more money from their insurer.

Fighting Back: Prevention Tips and Action Steps

NICB members can take action to fight body shop fraud crimes. The NICB suggests that its member companies:

- Provide comprehensive training programs for claims employees, including how to effectively work with body shops, evaluate vehicle damage, and fairly negotiate vehicle repair.
- Advise policyholders to be involved in and aware of the vehicle repair process.
- Advise policyholders to check with the local Better Business Bureau to see if a body shop has a history of complaints.
- Advise policyholders to work with body shops who employ Automotive Service Excellence (ASE) - certified body technicians.
- Provide policyholders with a list of authorized direct repair or “approved” facilities that have entered into a partnership with the insurance company.
- Periodically spot check preferred body shops to monitor the quality of work.
- Run the body shop through ISO ClaimSearch to determine if it has been involved in questionable claims.
- Inquire as to the distance between the insured’s home and the location of the body shop to determine if a relationship may exist between the insured and body shop.
- Require a written estimate before any work is done on the vehicle.
- Inquire as to whether the airbags deployed during the accident when the insured initially files the claim.
- Require the adjuster to check and document on the estimate the status of the airbag warning light during the vehicle inspection and after repair. In newer vehicles, a dashboard light appears for a few seconds when the vehicle is first started. If the light stays on, starts flashing, or does not flash at all, the airbag system is probably not working.
- Mark deployed airbags with the claim number and insurance company name.
- Check the body shop’s invoice to ensure the shop bought the airbag from an auto dealer, car manufacturer, or recycler.
- Ask for clear original photographs of the vehicle damage from the body shop.
- Perform a vehicle history on the vehicle(s) involved in the accident, including prior and current owners, claims activity, salvage records, theft records, etc.

- Verify and examine all receipts and compare them to the invoices.
- Conduct a re-inspection of the repaired vehicle in order to determine whether it was repaired properly and as stated in the invoice.
- Periodically rotate adjusters performing vehicle inspections at specified body shops.
- Refer questionable accident repair claims to the NICB, including referral text with specific information about the identity of involved parties and the details that generated the referral.
- Contact your local NICB office if questionable body shop activities are suspected.
- Conduct joint body shop forensic investigations with the NICB.

Finally, greater communication among NICB Special Agents, member companies, and law enforcement agencies can play a key role in reducing the impact of body shop fraud. There are many communication resources available to NICB member companies, including the ISO ClaimSearch database, various public databases, and NICB *ForeWARN*SM Alerts. Member companies must capitalize on these resources when analyzing questionable claims.

The attached map identifies locations of body shops involved in questionable claims. The areas with the most locations are:

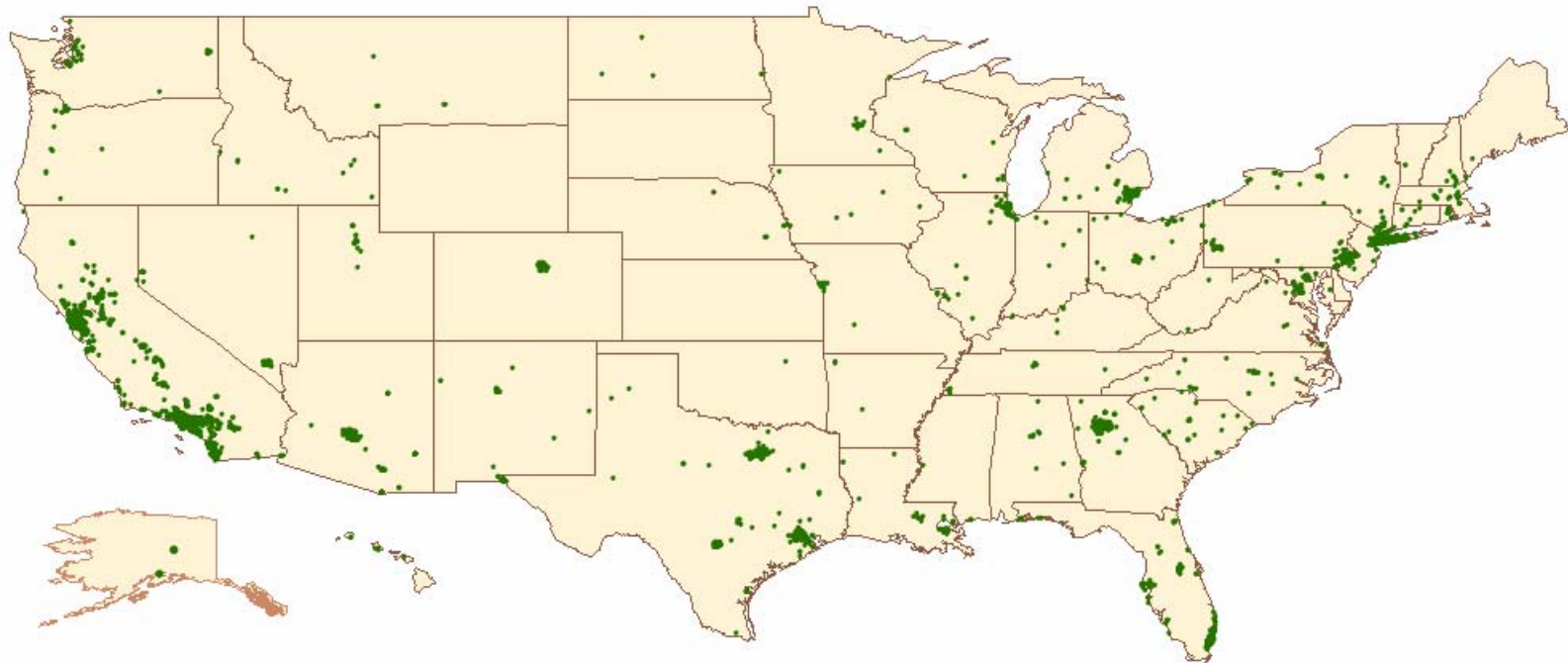
- California
- Southeast New York
- Southeast Texas
- Northeast Illinois
- Southeast Michigan

* For further information on body shop fraud, member companies can contact:

- Chrissy Novak, Strategic Analyst
Phone: 708-237-4447
E-mail: cnovak@nicb.org
- Their local Area NICB office



Locations of Body Shops involved in Questionable Claims



This bulletin, report, map, or chart, is intended as an aid in alerting NICB member companies and law enforcement to possible questionable activity which the NICB has either direct knowledge of or has been otherwise informed of its existence. This information is provided as a lead and any further use by member companies or law enforcement should be undertaken at the discretion of those entities or agencies. While this information may be used to supplement and/or initiate independent investigations the NICB recommends that further independent investigation be conducted as followup to this information before any claims decisions are made. The NICB's intent is to share pertinent information for the proactive detection, prevention, and deterrence of insurance related crime. Any dissemination of this information outside of your organization without the prior written approval of the NICB law department is not authorized by NICB.

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