NATIONAL INSURANCE CRIME BUREAU

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STRATEGIC ANALYSIS REPORT

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# DOING A DOUBLE-TAKE:
# VEHICLE CLONES ARE A STREET-LEVEL PROBLEM FOR INSURERS

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## EXECUTIVE SUMMARY

Vehicle cloning is a troublesome criminal trend affecting more National Insurance Crime Bureau (NICB) members with increasing frequency. Vehicle cloning is a crime in which stolen vehicles receive the identity of non-stolen, legally owned vehicles, of similar make and model. Through the use of counterfeit labels, plates, stickers and titles, criminals disguise the true identity of the stolen vehicle to make it appear as if it is a legitimate, legally owned vehicle. The non-stolen vehicles can be actively registered or titled in another state, or another country, which creates a situation in which multiple vehicles bearing the same vehicle identification number (VIN) are simultaneously registered and/or titled.

NICB special agents and analysts, special investigation unit professionals, claims representatives and law enforcement officials battle real-life vehicle cloning crimes on the streets today. This illicit vehicle theft scheme is a highly lucrative crime, in which U.S. vehicle cloning profits are estimated to exceed well over $12 million annually, with an average net of $30,000 per cloned vehicle. Recent NICB investigations have led to the recovery of over 400 stolen vehicles identified as part of cloning schemes. NICB investigations have uncovered a significant number of vehicle cloning operations in the Boston, Chicago, Atlanta, Philadelphia, and Miami areas targeting high-value SUVs and luxury cars, which offer criminals high profit margins when sold to unsuspecting buyers. The most popularly identified cloned vehicles resulting from NICB investigations include: BMW X5, Cadillac Escalade, Chevrolet Tahoe, Toyota Camry, Toyota 4Runner, GMC Yukon, GM Hummer, Jeep Grand Cherokee, Mercedes Benz, Lexus GX/LX/RX, Mitsubishi Montero and Chevrolet Avalanche.

The crime's growth can generally be attributed to one simple fact: Vehicle cloning is a relatively easy crime to commit, especially by organized rings of professional vehicle thieves and fraud artists enticed by its allure of huge profits. The crime requires very little money and equipment investment, and rarely involves dangerous situations. Car thieves frequently travel across state and international borders to sell stolen cloned vehicles, oftentimes to unsuspecting buyers. These operations are sophisticated and capable of producing clones that are virtually undetectable by the untrained auto theft investigator.

This White Paper, researched and organized by the NICB Strategic and Tactical Information Department with contribution by NICB investigative and information experts, was created exclusively for NICB members to introduce them to the scope of vehicle cloning crimes. It discusses actual cases involving NICB investigations as examples of vehicle cloning and its economical impact, analyzes key criminal motives for vehicle cloning, describes common cloning schemes affecting NICB members, and offers suggestions on how member companies can identify and prevent potential vehicle cloning crimes.

## Buyer Beware: Your Vehicle May Have a Twin

As a brief introduction to a simple cloning scheme, an individual will copy a VIN from a legally owned and documented vehicle sitting in a parking lot or car dealership. The legitimate VIN is then used to create a counterfeit VIN tag, frequently multiple times. From there, thieves steal a similar vehicle as the legally owned one from the parking lot, and replace the stolen vehicle's VIN tag and other labels with the counterfeit ones containing the non-stolen vehicle's identification numbers and other known identifiers. Bearing a counterfeit tag, the stolen vehicle is now a "clone" of the legitimate one and can be titled, then sold, without detection by government agencies. To government agencies, the stolen vehicle looks just like the one from the parking lot…on paper that is. Fred and Lorraine Pierson of Prestonwood, North Carolina, were exactly the kind of victims that vehicle cloning criminals prey upon.

The Pierson's case began with an investigative lead gathered in February 2004 by the NICB's Area 9 office in Hartford, Connecticut, and shared with the Area 6 office in Washington, D.C. The lead involved a stolen vehicle insured by an NICB member: a Lexus LX 470, a luxury sport utility vehicle (SUV) reported stolen from New York City. Through an investigative database search, the NICB believed it had located this vehicle in the Raleigh, North Carolina area, which is covered by the Area 6 office.

The Piersons were the stolen vehicle's unsuspecting owners. They had bought the Lexus as a used vehicle for $40,000 from a private individual. With $10,000 to use as a down payment, Fred asked a car dealership in a nearby community to finance the balance. The Lexus was fully inspected for previous damage, with its VIN checked by Carfax for a vehicle history. The Piersons assumed they had done everything correctly to ensure they purchased a legal vehicle. They drove the Lexus for nearly two years and diligently made loan payments for 20 months.

That's when investigators from the North Carolina Division of Motor Vehicles, working in conjunction with the NICB, paid a visit to the Piersons. Investigators discovered the car's VIN markings had been professionally altered almost everywhere on the vehicle and replaced with a VIN of a similar non-stolen Lexus. Further examination of the vehicle proved Pierson's car was the one stolen from New York City in late 1999. Its title had been washed in Virginia. Within hours, officials towed the Lexus and later returned it to the NICB member insurer that paid the claim on the stolen vehicle years before. The total elapsed time from when the lead was shared among NICB area offices to the time the vehicle was returned to the insurer: three weeks.

Tallying up the costs on this case: The Piersons made $17,700 in payments on the Lexus, and could potentially be liable for the loan's balance of more than $25,000, pending legal action. They have also lost the Lexus and must come up with the money to replace it with another vehicle. The thieves made off with an easy $40,000.

Even consumers like the Piersons, who did everything right when purchasing their used Lexus, can be victimized in vehicle cloning crimes. It's clearly a buyer-beware market.

## Organized Rings Dominate Large-Scale Cloning Trade

In structuring their schemes, organized vehicle cloning rings typically orchestrate these crimes with several players:

- Individuals who steal the vehicles
- Those who craft counterfeit VIN plates, labels, and stickers for the stolen vehicles
- Individuals who obtain counterfeit or altered titles bearing the non-stolen vehicle's VIN, and
- Title clerks who knowingly process fraudulent titles for sellers of stolen cloned vehicles

For less than $2,000, cloning rings can use a computer, color printer, typewriter, barcode label printer, rotary tool and engraving pen to counterfeit a vehicle's identification numbers, stickers, labels and titles. Sophisticated cloning operations are capable of producing vehicle clones that are virtually undetectable by untrained auto theft investigators and consumers. As in the Pierson's case, cloned vehicles are oftentimes only detected through physical inspections by experienced auto theft investigators.

Vehicle cloning is not limited to the United States. Numerous occurrences have been reported and investigated in the United Kingdom, Mexico and Canada, where the crime is also known as "twin-VINning." Continued high demand in foreign countries for stolen U.S. luxury cars fosters a lucrative illegal export market for cloned vehicles. Recovery efforts are complicated by vehicle registration loopholes, manipulated export shipping procedures utilizing false declarations, and the use of multiple shippers. The illegal exportation problem is further exacerbated by limited parts marking and auto theft devices for most North American cars.

An NICB special agent in Area 9 has been investigating a case since September 2003 to the present date which originated from a lead a member insurance company had furnished. Legitimate vehicles are being exported to various Caribbean countries, especially the Dominican Republic, in which the VINs are being counterfeited on stolen cloned vehicles which are being "reborn" in the United States. Following their exportation through various U.S. ports, including Miami, Newark, Charleston, and Baltimore, many of these vehicles' VINs have subsequently appeared registered in Florida, New York, Pennsylvania, Virginia, California, Maryland, D.C., and Massachusetts. The thieves are using counterfeit, altered, or duplicate titles as supporting documents in the United States to register the stolen vehicles. As of this date, 52 vehicles have been recovered worth approximately one million dollars with numerous arrests being made. More popular vehicles being used in this scheme include the Mitsubishi Montero, BMW X5, Toyota 4 Runner, Toyota RAV 4, Toyota Land Cruiser, Toyota Camry, Mercedes ML320, Nissan Pathfinder, Lexus GX/LX/RX, Cadillac Escalade, Infiniti Q45, and Honda CRV.

## Examining the Criminal Motives

NICB investigative research suggests two basic motives for vehicle cloning: unauthorized use and profit.

### Unauthorized Use

Stolen cloned vehicles are frequently used to facilitate the commission of drug trafficking and for transportation to and from a crime scene. In these instances, criminals typically abandon the cloned vehicle or pass it to another individual after the crime is committed.

### Profit

NICB research indicates the vast majority of vehicle cloning is committed for the crime's potential large monetary payoffs. There are two major categories of operations in vehicle cloning for profit: a) stolen for resale, and b) stolen for export.

In many cases investigated by the NICB, vehicle cloning scams are just the tip of the iceberg in which organized crime syndicates utilize money generated from vehicle cloning for drug and money laundering operations. An NICB case from Massachusetts illustrates how rings integrate cloning into other criminal operations.

The case started as an NICB Top 25 investigation known as "Patriot Games," in which counterfeit and altered New Jersey titles were being submitted to the Massachusetts Registry of Motor Vehicles for vehicle registration and titling in Massachusetts. The case initially resulted in the seizure of three cloned BMW X5 vehicles stolen from New York City. To date, twenty -one vehicles have been identified as being cloned, nine arrests have been made, and thirteen leads are still pending. Four of the vehicles were recovered in a garage in New York City believed to have been a drop spot for stolen vehicles prior to being cloned. The value of vehicles recovered not including the outstanding leads, $762,911.00.

As a result of “Patriot Games” two spin off cases were developed in Massachusetts and New Hampshire. As a result of these spin-off cases an additional seventeen (17) cloned vehicles were recovered with a conservative value of $416,432.00. Three arrests have been made in these two cases, two at the state level and one individual charged and convicted at the federal level.

Coincidentally, Massachusetts State Police Governor’s Auto Theft Strike Force officers who participated in the case with NICB special agents were speaking with colleagues in their Drug Control Unit about the BMW X5 seizures. A drug unit officer commented that his group had recently seized a BMW X5 and suggested auto theft investigators examine the vehicle. An NICB special agent examined the VINs on the BMW seized by the drug unit and determined this vehicle had been cloned three times. NICB analysis showed the original vehicle was exported to the Dominican Republic shortly after it was purchased new. However, this same VIN was also actively registered in New Jersey, Massachusetts and Florida. The Massachusetts vehicle was determined to be a clone and its true identify revealed a theft from New York City. The vehicles in New Jersey and Florida were also determined to be clones and all three vehicles were returned to NICB member companies. Strong communication among agencies was the key to this additional finding.

In total, the “Patriot Games” case and the two spin off cases resulted in twelve arrests and the recovery of thirty-eight late model cloned vehicles with a conservative value of $1,179,343.00.

Stolen for Resale

Cloning operations that steal vehicles for resale rely upon several components to commit their crimes.

- **Fraudulent/Counterfeit Documents** -- An integral component of a vehicle cloning operation is the alteration, production, sale and possession of illegal documents, such as Federal Certification Labels, vehicle identification stickers, bar codes, Manufacturer’s Certificates of Origin (MCOs), titles, registrations, licenses and insurance cards. Fraudulent licenses, insurance cards and other documents are oftentimes obtained through bribery or other corruption at the issuing agency or insurance broker. As mentioned earlier in this report, technological advances in computer systems and printers have led to greater production of counterfeit labels, stickers, bar codes, MCOs, titles and registrations.

- **Altered Vehicle Identification Numbers** -- Cloning rings that steal vehicles for resale will intentionally alter or duplicate a legitimately registered VIN and use that VIN on counterfeit ownership and registration documents, as well as the cloned vehicle. They then sell the vehicle to an unsuspecting buyer for fair- or below-market value.

- **Title Washing** -- Another component of vehicle cloning and insurance fraud is title washing, which involves transferring a vehicle title among states to remove title brands and change an odometer reading. Relying upon loose and inconsistent U.S. vehicle title laws, criminals will transfer the title to several states in order to disguise the vehicle's history and confuse the ownership trail. They use the final clean title to sell the vehicle to an unsuspecting customer, like the Piersons, for profit.

- **Identity Theft** -- Cloning rings frequently steal personal identification documents and/or numbers (such as driver's licenses, social security numbers and credit card numbers) to obtain apparent legal ownership of a motor vehicle that is subsequently cloned, resold, stripped for parts or illegally exported. Another common identity theft tactic used by cloning rings is to lease a vehicle on a Friday or Saturday when a credit check cannot be acquired until the following Monday. The perpetrator pays four to six months in upfront lease payments and then disappears with the vehicle. The ring then clones and resells the vehicle to unsuspecting buyers.

- **Internet Sale** -- In the past few years, NICB special agents have documented criminals increasingly using the Internet to scam buyers, counterfeit VINs and steal identities. Organized criminal rings use Internet auction sites to illegally sell stolen cloned vehicles, VIN tags, license plates and other parts.

Stolen for Export

Cloned vehicles and their parts are highly coveted overseas. Organized rings and smaller groups commonly export stolen U.S. and Canadian high-end luxury vehicles, SUVs. To transport the stolen vehicles, criminals often hide whole or dismantled vehicles in shipping containers, while other vehicles are simply cloned and rolled on to freight ships for overseas destinations. Popular landing points for these vehicles include Eastern Europe, Russia, the Caribbean, Dominican Republic, Central and South America, and the Far East. Sadly, there are few, if any, laws in most foreign countries forbidding the sale of stolen U.S. and Canadian vehicles to their residents.

A common illegal export scheme used by criminals is to lease or purchase a vehicle, make the minimum down payment allowable and finance the balance. They present the fraudulent title to customs agents who unsuspectingly approve the vehicle for export. When the lien holder begins repossession proceedings after not receiving payment for 90 days, they learn the vehicle was exported to a country where repatriation is highly unlikely.

## Vehicle Cloning Schemes Come in All Shapes and Sizes

NICB special agents and analysts have uncovered a tremendous array of vehicle cloning schemes limited only by the audacity, imagination and complicity of individuals involved in these crimes. The NICB has categorized the four most common schemes affecting its members.

Duplicate Title Scheme

In this scheme, individuals will first steal a vehicle and then write down the license plate or VIN of a vehicle matching the make and model of the stolen vehicle. These individuals target license plates of legitimate vehicles with many months remaining before their expiration.

Next, the license plate number is provided to a corrupt licensing agency clerk who queries the tag's ownership information. The tag query yields the true vehicle's ownership information (and VIN if not previously copied down by the offender). The stolen vehicle is renumbered with a counterfeit VIN plate matching the non-stolen vehicle.

An individual, who may or may not pose as the non-stolen vehicle's owner, then offers the stolen vehicle for sale. When the offender secures a buyer and the buyer provides his or her personal information (name, address, driver's license number), the seller forges an Application for Duplicate Title with Title Reassignment bearing the vehicle and ownership information obtained from the earlier query of the non-stolen vehicle's license plate. The Application for Duplicate Title with Title Reassignment is a transfer of title request by an owner of a vehicle who has lost the vehicle's title and desires to sell the vehicle, but does not have the title to provide to the purchaser. The Application for Duplicate Title with Title Reassignment serves to inform the state titling agency that the owner of the vehicle has lost the title and wishes to sell the vehicle to the second party named on the application. To facilitate the sale of a vehicle without its title, the state titling agency records the request for the duplicate by the vehicle's owner, but issues the title in the name of the purchaser.

The corrupt licensing clerk then processes the application, which results in the issuance of a license plate, a companion registration card and a title. The seller takes the buyer's money, delivers the stolen/cloned vehicle to the buyer, along with the license plate and its companion registration bearing the buyer's personal information and the non-stolen vehicle's VIN. The seller advises the unsuspecting buyer that the state titling agency will forward the title directly to the buyer's registration address. Unaware of the fraud committed, the titling agency issues the title in the buyer's name and forwards it the buyer.

Paper Clone Scheme

A Paper Clone starts off with the procurement of a Vehicle Identification Number (VIN) from an existing/true vehicle from another state, country, or a vehicle that is offered for sale on the Internet, where the VIN can be captured. The VIN is then used on a counterfeit title to be registered and insured. After a short period of time this cloned vehicle is then reported stolen and a claim is filed with the insurance company that was targeted. The existing/true vehicle with the VIN that was used for the paper clone is now listed as stolen and is shown as a wanted vehicle. This type of cloned vehicle fraud has caused much confusion for insurance companies, law enforcement and the owners of the existing/ true vehicles.

The Can't-Beat-This-Price Scheme

Another common vehicle cloning scheme involves thieves who sell stolen cars with either switched or cloned VINs for prices considerably under fair-market value. In this scheme, the buyer has full knowledge and is a willing participant in the crime. The buyer agrees to insure the vehicle and drive it for an abbreviated time period, typically a few months. The auto thief subsequently “steals” the vehicle from the new owner, who then reports the theft and initiates an insurance claim. The carrier pays the vehicle's replacement value.

The auto thief then repeats the process with another buyer/insured. This repetitive process allows the suspect to be paid each time he sells the vehicle and the buyer/insured realizes a significant investment return through his insurance claim. Many times, this allows the purchaser to obtain a legitimate vehicle at a fraction of what the vehicle is actually worth. The NICB has identified Eastern European and Southeast Asian organized crime groups as being particularly active in this type of scheme.

The Staged Accident Combo Scheme

The final most common scheme involves criminals who copy VINs from vehicles on used car dealership lots, and make counterfeit VIN plates and Federal Certification Labels from the copied information. They then steal a vehicle of similar make and model, and attach the counterfeit VIN plates and Federal Certification Labels to the stolen vehicle. Next, they inflict heavy damage to the cloned vehicle (usually the passenger side doors).

The second part of this scam involves finding an unwitting individual who appears to have insurance coverage on their vehicle. Typical targets include late model, well maintained vehicles in good shape. The criminals create a staged accident where the insured vehicle smashes into the cloned vehicle, which is parked unattended. Three common targeting methods include:

1. Selecting an elderly person with a newer vehicle in a parking lot and claiming that the elderly person struck their vehicle. When information is exchanged, the group uses the information for several accidents.

2. One of the males in the group (identified as the ring leader) meets young females and dates them. After a couple of dates, he will ask his new girlfriend if he can borrow her car to go to the store. Upon returning, he states he was in a minor accident and gave the other person her insurance information. When the insurance company calls, the girlfriend only knows there was an accident and confirms that to the carrier. She has no idea that the accident caused heavy damage.

3. Offenders will rent vehicles, take all insurance coverage offered, and then create a staged accident with the cloned vehicle.

## RECOMMENDATIONS

### Fighting Back:

Vehicle cloning is a significant and growing problem for the insurance industry. Awareness, education, and training are key components of an overall fraud prevention plan which, if implemented, would yield immediate economic benefits to member companies. NICB urges member companies to consider the following steps:

- Prior to insuring, pre-inspect and photograph the vehicle(s) and scrutinize their VIN, Federal Certification Labels, stickers and title for any discrepancies.
- Document the circumstances surrounding the insured's purchase of the vehicle.
- If possible, check the vehicle's VIN with appropriate governmental agencies, state bureaus of motor vehicles, or public databases.
- Search the ISO database to verify the VIN, to determine if the vehicle has a prior salvage or was exported.
- Have the NICB conduct training on VIN identification and examination regarding cloned vehicles.
- Upon request, NICB will provide cloning awareness brochures to member companies for distribution to policy holders.

Vehicle cloning is among the fastest growing fraud trends investigated by the NICB, and law enforcement agencies. As organized rings improve their cloning techniques and increase their criminal sophistication levels, detection and investigation will become even more challenging.

Awareness, education and training about vehicle cloning crimes are important components to uncovering and stopping these crimes. As seen in the Pierson case, cloned vehicles frequently require well-trained investigators to detect falsified VINs. NICB's cloning awareness brochure provides the policy holder with proactive measures to use in the identification and prevention of purchasing a possible cloned vehicle, an economical benefit to both the consumer and member companies. NICB member companies can receive detailed vehicle cloning training through the NICB Training Department or their local NICB area office.

Finally, greater communication among NICB special agents, member companies, and law enforcement agencies can play a key role in reducing the proliferation of vehicle cloning crimes. There are many communication resources available to member companies, including the ISO database, various public databases, and the *ForeWARN Alerts* issued by the NICB. Member companies must capitalize on these resources when querying suspected VINs or analyzing questionable claims. The Patriot Games case illustrates that strong communication among law enforcement agencies, combined with the investigative expertise of member companies and the NICB, can lead to recoveries of member companies' high-value vehicles. Open communication among NICB area offices and strong relationships with law enforcement agencies and a member company also spurred the investigation and recovery of the Lexus in the Pierson case. The attached map identifies where the current vehicle cloning investigations are being conducted by NICB. The Metropolitan Statistical Areas (MSA) with significant vehicle cloning activities include Boston, Chicago, Atlanta, Philadelphia, and Miami.