

STATEMENT OF  
ROBERT M. BRYANT  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
NATIONAL INSURANCE CRIME BUREAU  
BEFORE THE  
U.S. SENATE COMMITTEE ON COMMERCE,  
SCIENCE AND TRANSPORTATION  
SUBCOMMITTEE ON CONSUMER AFFAIRS,  
PRODUCT SAFETY, AND INSURANCE

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Good afternoon Chairman Allen, Ranking Member Pryor and distinguished members of the Subcommittee. My name is Bob Bryant, and for the last six years, I have been President and Chief Executive Officer of the National Insurance Crime Bureau. Prior to this position, I was a Special Agent of the Federal Bureau of Investigation, retiring as Deputy Director in 1999.

The National Insurance Crime Bureau (NICB) was created in 1912, and is the nation's premiere non-profit organization dedicated exclusively to fighting insurance fraud and vehicle theft; crimes that impose more than thirty billion dollars annually in losses to insurance companies and their policyholders. Our more than three hundred employees strive every day to prevent, detect and deter such crimes as car theft and the fraudulent sale of damaged vehicles to American consumers. With support from more than one thousand member insurers and self-insured companies, NICB offers the most complete array of expert fraud solutions from any single source in the world, including investigating all kinds of property and casualty insurance fraud.

It is within this context that salvage and flood vehicles present an economic and safety concern for the nation's consumers. The entire problem with salvage and flood vehicle fraud can be condensed into one word – "disclosure." Disclosing the condition of a vehicle as salvage or flood-damaged is all that is necessary to defeat this problem. However, there is a vast amount of money to be made by selling these vehicles to unsuspecting consumers.

For example, let's say a 2004 Chevy Tahoe has a resale value today of \$28,000. If that same vehicle was under water in New Orleans, it might now be worth only \$5,000 as salvage. If you take that same Tahoe and spend \$3,000 to detail it and remove any

obvious signs of water damage, you may be able to sell it close to its \$28,000 value. In one transaction, you have a net gain of \$20,000. If you multiply that activity by the potential given the thousands of vehicles affected by Katrina, Rita, and Wilma, including the recent floods in the northeast, you can quickly appreciate what makes this kind of fraud so pervasive and enticing. However, beyond the pure gain to the perpetrator of this kind of fraud is the economic cost to innocent people.

A person engaging in this kind of activity is not going to obtain replacement parts from a legitimate supplier. More than likely, the source of parts required to make salvage or flood vehicles appear pristine is a stolen identical vehicle.

While stealing a vehicle requires a certain amount of stealth, daring, and knowledge, passing it off as a clean resale is an art form. People who traffic in stolen vehicles know what it takes to obtain a clean title and how to produce a counterfeit vehicle identification number or VIN. Those two items are at the core of the problem with salvaged, flood-damaged, and stolen vehicle trafficking.

### **TITLE WASHING**

A title is a vehicle's birth certificate, while a VIN is its fingerprint. When a new vehicle is first sold by a dealer, the state issues a title. That title follows the vehicle from owner to owner, state to state. The VIN remains with a vehicle forever. Each VIN is unique to the vehicle to which it was issued by the manufacturer, but both of these items are fraudulently duplicated, altered, or otherwise manipulated to enable the fraudulent resale of defective or stolen vehicles.

In a perfect scenario, once a vehicle is declared salvage or flood-damaged and is title "branded" as such, that description should never be removed. However, there are

states where the titling process is lax that having a new, clean title issued for such vehicles is a simple procedure. That is the process known as “title washing,” and it occurs by simply taking a branded title through a state with lax titling requirements, and having a clean title issued in return. A clean title is the Holy Grail for those who make a living selling defective or damaged vehicles to innocent consumers because once you have that clean title, there is nothing to prevent selling that vehicle for market value as a perfectly fine used vehicle.

### **CLONING**

In addition to salvage and flood vehicle fraud, cloning is a trend that NICB finds with increasing regularity. Cloning is auto theft for the new millennium. Unlike VIN switching, where a person applies a VIN plate from one vehicle (usually a salvaged vehicle) to another (usually a stolen one), cloning occurs when a person applies a counterfeit VIN from another vehicle to an identical stolen vehicle. Thus, there are two vehicles carrying the same VIN. NICB has investigated situations involving five vehicles - all with the same VIN - meaning that four of them were stolen.

### **CONSUMER/PUBLIC SAFETY**

Certainly more important than preventing economic losses resulting from these kinds of fraud is preventing potential serious injuries or even death, due to mechanical failure of a flood-damaged vehicle.

Every flood-damaged or salvaged vehicle that is fraudulently sold to an unsuspecting buyer is a potential coffin on wheels for that person and their family. A vehicle that has been under water for any period of time is bound to experience severe

electrical and mechanical failures. It is only a matter of time, and should that failure occur while on the interstate, well you can imagine the terrible consequences.

Similarly, a salvaged vehicle made whole for fraudulent resale is not likely to sport original equipment manufacturer replacement parts, or even new after-market parts, as the motive for these people is profit (not safety) and there is less profit in using good parts. Thus, that salvage resale has a high potential for mechanical or electrical failure, and should that occur at high speed on an interstate, the consequences are grim.

### **NICB KATRINA DATABASE**

NICB, our member insurance companies, and law enforcement recognized the unprecedented magnitude of flood-damaged vehicles that Hurricanes Katrina, Rita and, more recently, Wilma left in their paths. Along with the flooding that resulted from the levee failures around New Orleans, the number of flood-damaged vehicles was estimated to be between 300,000 to 500,000.

NICB acted quickly to try and get in front of the fraud that these numbers would surely bring. With the total support of our member companies and working side-by-side with law enforcement professionals in Alabama, Louisiana, Mississippi and Texas, NICB sent teams of Special Agents into the region to begin collecting VINs for the creation of a database storing all of the vehicles damaged by the hurricanes or floods.

It was not long after this process began that I decided to offer a way for consumers to query this database—at no cost—to prevent them from buying a lemon. On October 17, this feature was activated on our Web site ([www.nicb.org](http://www.nicb.org)). Presently, a consumer can simply place a VIN into the search feature and see if that specific vehicle was affected by these storms.

The Katrina Database has proved to be a very popular feature with our colleagues in the industry, law enforcement, consumer groups, the media and the states. As of today, several states have linked their Web sites with ours to allow their residents direct access.

## **RECOMMENDATIONS**

The loopholes in state titling procedures have been apparent for decades. As we confront the challenges imposed by this season's hurricanes, the need for federal action is beyond urgent. Our efforts and the efforts of those engaged in the fight against fraud would be far more effective if Congress would assure the following improvements.

*First*, if insurers or other owners terminate a vehicle's title, it should not be reissued. As long as a single state is willing to re-title a non-repairable vehicle, VIN plates will get bought or reproduced, and slapped onto stolen or salvaged vehicles, and rebuilt wrecks will endanger the lives of everyone on the highway.

*Second*, where vehicles can be restored to safe operating condition, any brand indicating that a vehicle was a salvage or flood vehicle should carry forward to any new title record. Consumers then can make intelligent choices about the value of that vehicle, and thieves cannot use the titling records for those vehicles in their illegal operations.

*Finally*, all of the crucial vehicle titling information should be electronically available not only to law enforcement, but to every insurer and consumer.

We look forward to working with the Committee in our joint efforts to keep Hurricane Katrina and other disasters from haunting American car buyers for years to come. Thank you.