

What is the CIC?

This brochure was produced by the Anti-Fraud Committee of the Collision Industry Conference (CIC). CIC is not an association, but is a gathering of representatives of the various industries involved in the auto physical damage claims process—insurers, repairers, appraisers, automobile and parts manufacturers, estimating technology providers and other suppliers. They meet four times a year to discuss concerns over issues affecting their mutual industries, and to work together to develop understanding and possible solutions. For more information about the CIC, call (509) 547 - 3810.

Why this brochure?

When an accident occurs, the insurance company for the responsible party pays for the restoration of a claimant's vehicle to pre-accident condition. For the actual policyholder, the insurance company is required to conform to the terms of the policy and pay for repairs minus the deductible. The deductible is the responsibility of the policyholder.

Most people employed in the collision repair, insurance and appraisal industries are honest and ethical in their negotiations and business practices. Their mutual goal is to make sure that the damaged vehicles are properly and safely repaired in a timely manner. However, as with any business, there are always a few individuals who will break the laws and regulations in order to increase their own profits. Sometimes vehicle owners ask the repair shop to break the rules so that they can walk away from the accident with cash in their pockets. Some do so not realizing that what they're doing is initiating a fraudulent or illegal action.

This brochure was designed to provide you with information that will help you to understand what practices could be considered fraudulent or illegal. If you have any questions about the content of this brochure, ask your repair facility or insurance company.



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Guide To **Fraud Awareness**

This brochure is not meant to provide legal guidelines. Its only purpose is to bring an awareness to the problem of fraud and fraudulent behavior in the auto physical damage process.



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Definitions

Fraud—an intentional misrepresentation of a past or present fact made to cause someone to rely on it to give up some legal right or thing of value. The misrepresentation of a fact can be made by words, including innuendo, by conduct, or by concealing a fact that the person has a duty to disclose. The conduct can occur through looks or gestures. It can occur as a single act or statement, or as a combination of circumstances. It includes surprise, trickery, cunning, design, deception, or any unfair way by which another is cheated.

Collusion—occurs when two or more people agree to defraud someone or agree to accomplish an illegal purpose. It is accomplished through fraud, either by using fraudulent methods, such as trickery or deception, or by using lawful methods to accomplish an unlawful goal.

Commercial Bribery—a corrupt and unfair trade practice in which a competitor pays or induces another's employee to betray the employer, to act against the employer's interests, or to compete unfairly with the employer's competitor.

Breach of Contract—occurs when a party to a contract fails or absolutely refuses to perform the promise made in the agreement. It also occurs when a party to a contract prevents or hinders the other party from performing the agreement.

Ostensible Authority—the implied authority of power for a person (the agent) to act on behalf of another (the principal). It arises when the principal intentionally or carelessly causes or lets someone believe the agent may act for the principal, even though the principal never actually gave the agent that power and there is no real agency. Some courts also call it "apparent authority".

The above definitions can be found in Black's Law Dictionary (6th edition, 1990).

Blueprint for Repair

Just as a construction project starts with a blueprint, the restoration of a collision-damaged car starts with a damage report or estimate—the blueprint for the repair process. Just as the blueprint of a construction project details the materials to be used, the techniques to be used, and the appearance of the completed project, today's damage report should likewise detail the work to be performed. Many states require that once an estimate is agreed to, any deviation must be approved by the consumer and the insurance company must be notified. Likewise, the final bill must reflect all the work done to the car and whether or not parts were repaired or replaced.

Cost Shifting

This can occur during the process of writing an auto physical damage appraisal/estimate or a final bill for repairs when all or some of the cost of one line item is transferred to another. *Cost shifting* may involve adding unnecessary procedures or exaggerating labor times/costs in one area of repair to offset other costs for which the insurance company may not wish to pay. It may also involve using a less expensive part than one listed on the appraisal or final bill or repairing a part that is listed as replaced in order to cover labor times/costs or parts not included elsewhere in the appraisal or final bill.

Burying The Deductible

This occurs when an estimator or repairer takes the amount of the policyholder's deductible and "hides" this cost elsewhere in the estimate through the method described above as "cost shifting".

In many states, "burying the deductible" is considered an illegal practice.

This might be done at the policyholder's request in order to avoid paying the deductible, or might be offered by a repairer as an inducement to keep the repair work at that particular shop. In some states, regulations might allow a repairer to accept less of a profit on a job, or to offer a discount coupon or re-

bate after the repair is completed. However, the shop still must perform the repair and use the parts precisely as agreed to in the repair estimate and final invoice.

Vehicle owners should consider the following points before asking a shop to *bury the deductible*:

- ◆ Conspiring to *bury the deductible* could be considered as fraud against an insurance company and is prohibited by law in most areas.
- ◆ Insurance company and body shop appraisers know the cost of repairs and cannot be fooled by inflated or inaccurate estimates.
- ◆ If a shop agrees to *bury the deductible*, it might take short cuts in making the repairs and the owner could get a second-rate job, which could depreciate the value of the car at trade-in time.
- ◆ An unethical body shop or appraiser willing to cheat an insurance company will be equally willing to cheat the car owner. A body shop rarely absorbs the deductible. The value is taken right out of the job, and it is the car owner who still takes the loss.
- ◆ If a body shop decides to cut corners on the job and it ends up second rate, the owner has no one to complain to if they conspired to *bury the deductible*.

If the vehicle is financed or leased, the insurer and the consumer have an additional obligation to return the vehicle back to its pre-accident condition. The correct thing for owners to do is to protect their investment by getting a quality repair from a quality shop, and to be glad that all they have to pay is the deductible.

The bottom line is this: the actions of those who commit insurance fraud impact the cost of insurance for each and everyone of us. Everyone who buys insurance pays the tab.

To report fraud, call your local law enforcement agency, the Department of Insurance, Department of Consumer Affairs or the agency that has authority over the licensing and registration of autobody repair shops.