

Summer 8-31-2016

# CAR RENTAL INDUSTRY FRAUD

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## Recommended Citation

Veasley, Dennise, "CAR RENTAL INDUSTRY FRAUD" (2016). *Economic Crime Forensics Capstones*. 14.  
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# CAR RENTAL INDUSTRY FRAUD

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AUGUST 11, 2016  
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## **Abstract**

Fraud occurs in all industries and businesses large and small. The car rental industry is not immune to fraud. Fraud is committed by the owners and employees against the customers for personal or corporate gain. The car rental industry is considered a large business based on revenue of a minimum of \$38.5 million dollars annually. (Electronic Code of Federal Regulations from <http://www.ecfr.gov/>)

The car rental industry in the United States in 2015 grossed over \$27.11 billion as defined by the market data for the U.S. Car Rental Market published by Auto Rental News (<http://autorentalnews.com>). The revenue places them outside the range of being a small business. For purposes of this report, the car industry will be viewed as a large company.

Detection and prevention of fraud in small businesses are often difficult because of the lack of financial resources to implement costly programs or software to aid in the detection, however, large businesses such as Hertz, Avis and Enterprise should have methods to detect the frauds that are increasing in the industry.

Fraud occurs through various means ranging from misuse of employee discounts and reward programs to improperly charging the customer for repairs and damages to the vehicle. The focus of this paper will highlight the frauds used by the employees and owners to generate financial gain for their personal or corporate use.

## TABLE OF CONTENTS

Abstract	2
The History of Fraud and the Fraud Triangle	4
Fraud Categories	7
Fraud Loss	8
History of Car Rental Industry	9
Annual Revenue and Statistics	12
Fraud in the Industry	12
Case Studies	
Car Repair Fraud	12
Discounts/Reward Programs	12
Toll Fees	13
Detection and Prevention	16
Summary of Best Practices	20
Lessons Learned	21
Next Area of Research	21
Bibliography	22
Appendix A	24
Appendix B	25

## The History of the Fraud and the Fraud Triangle

Fraud can be defined using various definitions and adjectives that often reflect how people feel as a victim i.e. tricked, fooled or swindled. Fraudsters are not described as a certain type of person. Madoff was well dressed, refined, educated and well liked and he committed one of the largest frauds in the United States. Anyone can be a fraudster when certain factors are present. Webster's Dictionary has two definitions of fraud. One a legal definition and the other is called a full definition but both are similar. The full definition states "intentional perversion of truth in order to induce another to part with something of value or to surrender a legal right and/or an act of deceiving or misrepresenting" and the legal definition states "any act, expression, omission, or concealment calculated to deceive another to his or her disadvantage; *specifically* : a misrepresentation or concealment with reference to some fact material to a transaction that is made with knowledge of its falsity or in reckless disregard of its truth or falsity and with the intent to deceive another and that is reasonably relied on by the other who is injured thereby *b* : the affirmative defense of having acted in response to a fraud (Webster's Dictionary). Webster further defines different frauds to include: identity fraud, mail fraud and wire fraud. This paper will focus on the legal definition.

It is believed that fraud has been around since the beginning of time. The first recorded fraud took place in 300 B.C. by two men named Hegestratos and Xenothemis. They committed a fraud that would be classified as an insurance fraud. These men took out an insurance policy on a boat and the grain that didn't really exist to set sail to the grain purchaser. Their plan was to sink the boat and report the loss filing a claim against the policy. They would have received the cost of the boat and the grain. However, the crew found out about the plan to kill them when the boat was sunk. Instead of being captured by the crew Hegestratos jumped overboard and drowned and Xenothemis was turned over to the authorities and sued by the buyer of the grain. ([https://www.safaribooksonline.com/library/view/bank-fraud-using/9780470494394/08\\_chapter-01.html](https://www.safaribooksonline.com/library/view/bank-fraud-using/9780470494394/08_chapter-01.html))

The fraud committed in 300 B.C. is still being committed in 2016 only to greater financial levels and with more industries being involved. Bernie Madoff and others have been found guilty of committing fraud known as the Ponzi scheme. One of the most famous frauds in US history is

the Ponzi scheme, named after Charles Ponzi (<http://www.worldfinance.com/strategy/legal-management/10-of-the-most-controversial-financial-fraudsters>) In brief, Charles Ponzi convinced people to invest in purchasing postal coupons at discount, he shipped them abroad and sold them for full price with the promise of a great monetary return in a short amount of time. He would take money from the second group of investors to pay the first group of investors giving the appearance that they had made a wise investment and were making money. He used the money to obtain personal luxuries. Finally, he ran out of investors and no longer could “rob Peter to pay Paul”. In the end it is estimated that investors lost nearly \$10 million dollars. Just recently in June 2016 a Traverse City man was sentenced to 10 years in federal prison for running a \$1.8 million Ponzi scheme. Jerry Stauffer, 68, was recently convicted by a jury of wire fraud and money laundering. Stauffer, an expert in foreign currency, promised investors 5-percent return but actually used their money for personal expenses, a Crowline boat and "interest" to other investors (<http://www.mlive.com/news>). As with most Ponzi schemes, he ran out of money and was no longer able pay the investors.

Why do people commit fraud? While studying the reason people embezzle, an American sociologist, Donald Cressey developed a theory. He was concerned with what makes people give into temptation and embezzle. Over the course of years and many interviews a theory materialized that became known as the “Fraud Triangle”. This theory centers on the fact that key factors must be present in order for a person to commit fraud. Different sources may label the legs of the triangle differently but the basis is the same. The three factors are Opportunity, Pressure, and Rationalization.

Most often the pressure is related to a financial need/problem. Pressure can include:

- .Medical Problems – Especially for a loved one,
- Loss of a job,
- Divorce,
- Purchase of a new home, a second home, or a home remodel,
- Need to Maintain a Certain Lifestyle (Keep Up With the Jones),
- Excessive Gambling,
- Drug or Alcohol Addiction.

The financial need may be something the fraudster can share with someone that he/she thinks can assist with solving the problem. However, Cressey believed that if the fraudster feels that he/she can not share the problem it becomes a non-shareable problem. When this happens the fraudster believes the problem must be solved in secret. These problems are very personal and to reveal the problem would cause shame and embarrassment. Madoff was an example of how financial pressure can lead to fraud. In an interview he stated that he needed to maintain a lifestyle and keep the returns of his investing climbing, although the market had dropped.

The second leg of the triangle is opportunity. The fraudster must have the ability to commit the fraud so that it can go undetected. The fraudster's position and status in a company (usually a trusted position) affords him/her the opportunity to commit the fraud. The CPA or CFO of a company has access to the books, records, journals, checks, cash, and statements in order to commit the fraud. He/she must also have the technical skill to hide the criminal act. An accountant can easily create journal entries hiding the loss of revenue or even void transactions. If the company does not have strong or current internal controls the fraud can go on for years before it is detected. In the case of Ernie Phillips, a CPA whose private practice was failing he was hired by a friend to help unravel an accounting mess at a company that had been the victim of fraud due to the lack of internal controls. As the CPA Phillips had access to the books, journals, checks and the bank statements of the company. He was able to get possession of the electronic signature stamp, which was all he needed to forge checks. This allowed him to make checks payable to himself with the correct signatures. With access to the bank statements Phillips was able to intercept the mail and remove the fraudulent checks before the statements were reconciled. Because of previous fraudulent activity in the company and the boldness of other employees the fraud was uncovered due to the red flags that were present. Flags such as Phillips' need to intercept the statements in the mail room and his aggressive behavior with fellow employees who alerted the owner allowed the owner to investigate a potential problem. Cressey's triangle was focused on the ordinary person, so Phillips fit the profile. Phillips had the financial pressure and the opportunity.

The three leg of the triangle is Rationalization. Rationalization is when the fraudster begins to think that his/her activities are not criminal. Creeseey's study shows that the fraudster began to consider the behavior and it was justified. In the minds of the fraudster, if the fraud was necessary to save the home or there is no one to help he/she will feel justified. The fraudster also feels that he/she is not in control of the fraud; he/she is responsible for the lack of internal control that allowed the fraud.

## **Fraud Categories**

There are several different categories of fraud and they are committed in different ways. The number of frauds committed have grown since the 1700's and there are a variety of labels given to them. There is: corporate fraud, wire fraud, investment fraud, cyber fraud, mortgage fraud and in each fraud the method on how they are committed varies. One of the most common methods of committing corporate fraud is with fraudulent financial statements and misappropriation of assets. In the case of HealthSouth, Inc. income was inflated by \$1.4 billion to meet stockholders expectations. (<http://accounting-degree.org/scandals>).

Another common fraud includes billing schemes and especially in the car rental industry. Billing schemes can exist in any business where billing occurs. In the health care industry Medicare billing schemes are very common. Often consumers have been billed for medical equipment that they have never received or ordered. Common equipment includes walkers, canes and motorized chairs. The Medicare fraud often starts out as a telemarketing scam to retrieve insurance information for billing purposes. Billing schemes also can occur in law firms. In the case of David Tresch, CIO of a law firm, he allegedly approved payments to a vendor for work that had not been performed, and, in turn, pocketed hundreds of thousands of dollars from that vendor (<http://www.fbi.gov/chicago/press-releases/2012/former-chief-information-officer-for-chicago-based-international-law-firm-arrested-for-allegedly-engaging-in-at-least-850-000-fraudulent-billing-scheme>).

In addition a fraud may fall into more than one category. The fraud committed by Tresch is an example of a billing scheme but it is also considered as mail fraud, because the postal services were used to deliver and receive the fraudulent checks.

## **Fraud Loss**

The Association of Certified Fraud Examiners (ACFE) gathers statistical data and provides an annual report regarding the global cost, revenue and losses related to fraudulent activities. Their annual report entitled “Report to the Nations on Occupational Fraud and Abuse” ([www.acfe.com/rtnn2016.aspx](http://www.acfe.com/rtnn2016.aspx) ) provides insight and data to industries on how to prevent and detect fraud along with the areas of abuse. The FBI also maintains information on crime statistics related to fraud. The FBI’s website statistics appear to be on a broader level. The ACFE’s 2016 annual report highlights the major statistics related to fraud and the annualized cost of fraud.

The staggering statistics are below:

- The typical organization loses 5% of annual revenues to fraud.
- 2410 occupational fraud cases cause a total loss of more than \$6.3 billion
- The median loss from a single case of occupational fraud is \$150,000.
- Financial Statement Fraud causes the greatest median loss per scheme in the amount of \$975,000
- When the owners or executives commit fraud the median damage is more than 10 times worse than when committed by employees.

# The History of the Car Rental Industry

One of the great things about the United States of America is the freedom of enterprise. There is the freedom to start a business of any nature within the legal limits of the constitution and state laws that regulate free enterprise. How many businesses have been started with a simple idea or opportunity and grow into a multimillion dollar industry? Think about Microsoft which started in a garage or Motown records that started with an initial investment of \$500.00. The car rental industry is no different. It had very humble beginning based on an opportunity and an idea. The industry is believed to have begun back in 1916 by a Nebraska man by the name of Joe Saunders. Joe had a friend that was visiting on business and his car broke down and because he needed to keep his appointment, he asked Joe to borrow his car. Joe thought about how this event could be beneficial to other businessman traveling in need of transportation. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

Saunders decided to offer his car for rent to local and visiting businessmen. He affixed a mileage meter to the left front wheel of his vehicle and he charged 10 cents a mile in order to cover any wear and tear on his vehicle. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

By 1925 he had an independent car rental company operating in 21 states. He also began to add different vehicles for rent in order to offer a variety which included Chrysler vehicles. At one point it is estimated that he had nearly \$1 million dollars worth of Chrysler vehicles in his fleet. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

Other individuals began to capitalize on the idea and independent car rental companies started to appear across the nation. One of his competitors was Walter L. Jacobs who sold his business to John Hertz in 1923. John Hertz was the owner of the Yellow Cab Manufacturing Company in Chicago, IL. By 1932, due to the competition of the airlines, Hertz opened the first airport car rental franchise. This attracted customers because they would not have to go to the rental agency to rent a car but could rent it onsite. Hertz sold a controlling interest in the Yellow Truck and Coach Manufacturing Company to General Motors in 1925 and later purchased it back from General Motors under “The Omnibus Corporation”, another company that he owned in 1953 and after several business transactions Hertz was traded on the New York Stock Exchange. Hertz is

currently one of the largest chains of car rental companies in the nation. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

Warren Avis started Avis Airline Rent-A-Car system in 1946 at Detroit's Willow Run Airport. He also started with humble beginnings. He launched his business with \$85,000 and three vehicles. He was known as the King of the airport because he didn't have various locations. He directed all of his efforts on building airport franchises. He also used the airlines to promote his company. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

As in any industry every company can not have a nationwide presence, yet the need for the product is evident. Smaller independent companies were formed in different locations but they could not compete with the larger rental agencies. In 1947 these independent companies met in St. Louis, Missouri and formed the National Car Rental System which is still in operation. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

Enterprise was started in 1957, by a WWII Hellcat pilot named Jack Taylor, with a fleet of seven cars. In 1957, he started a car leasing business at the dealership in partnership with his employer which required that he take a 50 percent pay cut and put up \$25,000 for a 25% interest in the business. In 1969, Taylor expanded outside St. Louis and changed the name of the company to Enterprise (named after the USS Enterprise aircraft carrier upon which he had served in World War II). Unlike his competitors, who focused on business rentals at airports, Taylor concentrated on the hometown market offering home pickup services which led to Enterprise's "We'll Pick You Up" slogan. By 1980, the rental fleet had grown to 6,000 cars. In 1989, the fleet had grown to 50,000 and he changed the name of the company to Enterprise Rent-A-Car. By 1992, Enterprise surpassed one billion in revenues and by 1995 it reached two billion. In 2007, Enterprise purchased National Car Rental and Alamo Rent-A-Car. The current executive chairman is Taylor's son, Andrew C. Taylor. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

The car rental industry has survived years of increased competition and in some cases the companies have failed. Because of this competition the industry has created discount programs and pricing wars in an effort to gain share in the market. Discounts include lower pricing for

weekly rental, upgrades to larger vehicles, and reward programs with other businesses such as points toward hotel accommodations.

After the 2001 terrorist attack in New York City (Twin Towers) people were reluctant to fly. However the car industry saw a boom in their business as people rented cars to travel as an alternative. Secondly, making reservations to rent a car can be done on-line and with price comparison tools you can search for the best deal. It is estimated that there are over 1.7 million vehicles available to rent. (<http://www.carrentalexpress.com/blog/history-car-rental-industry>)

This industry started because of an idea of Joe Saunders who in the early 1930's filed for bankruptcy but fortunately he was one of the original founders of the National Car Rental System.

The car rental industry is very profitable. In addition to the major companies there are many agencies local to their area. The internet identifies over 25 agencies local to Pennsylvania and nationwide such as Hertz. Auto Rental News reports annual statistics for the industry. The figures below were reported for 2015. ([www.autorentalnews.com/content/research-statistics.aspx](http://www.autorentalnews.com/content/research-statistics.aspx)).

Table 1 – Car Rental Market Data by Company (Auto Rental News)

2015 U.S. CAR RENTAL MARKET FLEET, LOCATIONS AND REVENUE				
COMPANY	U.S. CARS IN SERVICE (AVG.) 2015	# U.S. LOCATIONS	2015 U.S. REVENUE EST. (in millions)	2014 U.S. REVENUE (in millions)
Enterprise Holdings (Includes Alamo Rent A Car, Enterprise Rent-A-Car, National Car Rental)	1,166,828	6,250	\$13,880	\$12,850
Hertz (includes Dollar Thrifty, Firefly)	499,100	5,410 <sup>5</sup>	\$6,350 <sup>3</sup>	\$6,471
Avis Budget Group (includes Payless, not Zipcar)	365,000 <sup>3</sup>	3,250 <sup>3</sup>	\$5,445 <sup>3</sup>	\$5,407 <sup>3</sup>
Fox Rent A Car <sup>1</sup>	19,000	19	\$225	\$215
Advantage Rent-A-Car <sup>2</sup>	30,000	50	\$325	\$200
ACE Rent A Car	11,000	65	\$100	\$100
U-Save Auto Rental System (owned by FSNA)	12,000	140	\$123 <sup>3</sup>	\$123 <sup>3</sup>

As the statistics show in Table 1 for the three major rental companies the revenue is in the millions. It should also be noted that if the company is not traded publicly, the figures are only estimates. The figures also include any subsidiaries or other companies that fall under the ownership of a company as demonstrated by the figures for Hertz which includes Dollar Thrifty and Firefly.

## Fraud in the Industry

The car rental agency is not immune to fraud. Fraud can be committed by the owners, employees and the consumers. Some of above mentioned frauds relate directly to the car rental industry. Consumers normally commit the crime of theft from the agency. Often after the vehicle is rented, the consumer does not return the vehicle and the agency has to file a stolen vehicle report. The car rental agency started with a humble and simple idea that grew into a very competitive business. In order to attract more customers, the agencies developed programs such as weekend

rates to draw customers from one agency to another. Another competitive program was to open agencies on site of the airports making it convenient for a customer to rent a vehicle. Several frauds that are most often committed in the industry and can fall into a variety of categories including:

- Car repairs- insurance fraud committed with a billing scheme.
- Discount/Reward Programs and;
- Toll Fees

### **Insurance Fraud**

Insurance fraud occurs when a fraudulent claim is submitted to an insurance company for payment of repairs, benefits, reimbursement of benefits or theft. Insurance fraud is carried out by organized crime or professional criminals and some fraud occurs in the course of legitimate businesses. A failing business that torches the building in order to file a claim for damages and collect payment has committed insurance fraud (David O. Friedrichs, *Trusted Criminals*, fourth edition page 124). Any insurance company can be the victim of fraud.

Insurance fraud occurs in the car rental industry by owners or the employees at the instruction of the owners. On July 23, 1994 three former executives with Value Rent-A-Car in Deerfield Beach, Florida were sentenced for insurance fraud. The agency submitted inflated bills to insurance carriers for car repairs to vehicles. The business contracted with repair shops that would prepare two different invoices, one for the insurance company that was inflated and an invoice for the repairs to the agency. The business had locations in Florida, Arizona, Colorado Georgia, Louisiana and Nevada. The sentences ranged from three years probation to five years in prison and a two million dollar fine the amount gained from the scheme. ([http://articles.sun-sentinel.com/1994-07-23/business/9407220650\\_1\\_repair-bills-rental-car-repair-shops](http://articles.sun-sentinel.com/1994-07-23/business/9407220650_1_repair-bills-rental-car-repair-shops))

### **Discount/Reward Programs**

Identity theft and identity fraud are terms used to refer to all types of crime in which someone wrongfully obtains and uses another person's personal data in some way that involves fraud or deception, typically for economic gain (<https://www.justice.gov/criminal-fraud/identity-theft/identity-theft-and-identity-fraud>). The increase in technology has also made the commission

of identity theft and fraud harder to detect. Once a person's identity is stolen, the fraudster does not have to physically go to a merchant to make purchases. Items can be purchased on-line with the personal information stolen and delivered to another address.

Fraud can occur with the use of discount/reward programs. Discount/Reward Programs emerged in 1816 with the S&H Green Stamps ([www.ypsilantihistoricalsociety.org](http://www.ypsilantihistoricalsociety.org)). For every purchase made at a participating grocery store customers would receive S&H green stamps. The stamps would be glued onto a booklet and when enough has been collected the stamps would be redeemed for merchandise. The merchandise included various household appliances and tools ([www.securitymagazine.com](http://www.securitymagazine.com)). The different car rental agencies may use various names for their programs but in essence they are considered loyalty or VIP programs. The programs work in the same method as the S&H stamps. After customers accumulate points they can redeem them toward the rental of a vehicle or special services. Customers use this program to commit fraud and theft against the rental agency.

In 2012 in Orange County, California a woman was charged with fraud after stealing 42 vehicles from a rental agency. The fraud was done using the loyalty or VIP members program. The customer went online and signed up for the loyalty program using fake credit cards and stolen drivers' licenses. Once she signed up for the program she could register to rent a car bypassing the rental counter where she would have to fill out paper work and present her identification. Instead the program allowed her to go directly to the reserved rental cars where the keys were already in the car. There was no face to face encounter with the rental agent. She continued to make various rental reservations online using the multiple ids that were fraudulent. The security guard would only verify that the name on the contract matched her license and she was allowed to drive off the rental lot. She would sell the vehicles to gang members for criminal activity or rent them out. When the investigation was completed 27 accomplices were arrested and all 42 vehicles were recovered. ([www.autoentalnews.com](http://www.autoentalnews.com))

## **Toll Fees**

E-ZPass is a convenient way to zip through the toll booth without having to stop and pay the toll. E-ZPass is linked to a credit card and is automatically deducted from account when used. E-ZPass fraud can be committed by an individual or a business. Fraud occurs when you fail to pay the toll required by tailgating the car in front of you before the gate comes down for the next vehicle (<http://www.nytimes.com/2014/04/18/nyregion/taxi-driver-charged-in-28000-toll-fraud.html>). It can occur through a scam where email are sent stating that your account has uncollected tolls that must be paid and sent to a fraudulent address. The E-ZPass account is linked to a credit card so that the account can be replenished automatically when the account gets to a minimum balance.

Rental vehicles are also equipped with E-ZPass devices which can be requested when a vehicle is rented. However, the way the tolls are paid is not the same as on a personal vehicle. On a personal vehicle charges occur each time the car enters or exits a tollbooth. Budget Rent-A-Car is currently being sued for “EToll Fraud”. Unknown to the customer when a car is rented with an E-ZPass device the customer is being charged \$2.50 per day or \$10.00 per week for the convenience of E-ZPass. This fee is in addition to the actual cost of the toll. The fraud occurs when the customers drives the car through the first toll booth, the credit card is charged \$2.50 per day for the rental period even if the customer only drives through one (1) tollbooth. Customers are unaware of the charge and must wait at least four days from the rental period to check online. (<http://www.aconsumerfraudlawyer.com/fraud-alerts/budget-e-toll-fraud>). Secondly, the actual toll charges may appear later on the customer’s credit card because the actual toll is charged to the agency’s account and they must reconcile which customer was renting the vehicle at the time of the toll.

Avis is also being investigated for the same fraud except their rates/fees are slightly higher. The customers that they were charged the “cash” rate and not the discounted E-ZPass rate by the Highway Administration. (<http://www.avisetollcomplaints.com.php53-25.ord1-1.websitetestlink.com>). This is considered credit card fraud committed by the company against the customer because they provide the customer’s credit card information to the Highway Administration for billing without the customer’s consent. This fraud could also fall into the

category of computer fraud since a computer was used in the commission of the fraud. The cases involving Budget and Avis rental agencies are still pending adjudication.

## **Detection and Prevention**

There are various products and services available to car rental agencies to aid them in the detection and prevention of fraud. There are also some best practices that should be followed that will prevent fraud. Many of the products and services are designed to work during the rental transaction.

### **Car Repairs/Insurance Fraud**

Best practice for the consumer to avoid being the victim of a car repair/insurance fraud is to take pictures of the vehicles when it is returned to the agency. Another practice is to make sure that a non-renter does not return the vehicle. Before renting a vehicle the customer should compare the rates from different agencies and also call the agency to clarify any concerns. The rental agreements for the major agencies can be found online and should be reviewed prior to the rental. Lastly, the customer should not leave the rental agency without reviewing a copy of the final receipt.

When the car rental agency owner is the fraudster the insurance companies are the primary source for the detection and prevention of fraud against the company. Insurance companies have a number of ways to detect insurance fraud. Companies have departments that are dedicated to reviewing claims for possible fraud. The most common methods used are:

- Whistleblowers – companies have whistleblower lines to accept anonymous calls. Whistleblowers can call the hotlines to report the company's fraudulent insurance claims.
- Analysis – insurance companies compare claims based on an average for the type of claim. If a claim seems particular high for the average repair the company may require additional information before paying the claim.
- Claim history – an examination of the client's history of making claims against the policy. Most companies allow a certain number of claims and if the maximum is exceeded without just cause the insurance company can terminate the policy. In the case of claims that appear to have inflated claims, the company may contact the police to investigate the

matter. (<http://www.investopedia.com/financial-edge/0212/how-insurance-companies-detect-insurance-scams.aspx>)

Insurance companies may use the methods above to also detect fraud from an individual policyholder.

### **Discount/Reward Programs**

Car rental agencies have a number of software programs available to them to help in the detection of identity theft. Three of the programs are:

- True ID – physical scanner created by LexisNexus. This scanner will scan the actual driver’s license and compare it to stored information for the 50 states and international documents.
- AuthenticID – cloud based database as well as a physical scanner that supports all government issued identification. It allows organizations to authenticate customers with 100% accuracy, while simultaneously reducing the time and inconvenience that customer’s face proving their identity (<http://authenticid.co/>). The scanner instantly checks the identification against a variety of list and generates a photo of the true owner of the identification ([www.autorentalnews.com](http://www.autorentalnews.com)). This tool would have been effective in detecting the auto theft and fraud using fraudulent identification.
- Fraud Fighter – leading car rental fraud prevention solution. It can detect and deter counterfeit documents at the point of transaction (<http://www.fraudfighter.com/rental/car-rental-fraud-protection>)
- Methods of detection that are best practices are:
  - a. Require face-to-face registration, this will allow the rental agent to observe the behavior of the customer. The customer may make a mistake in providing information. The photo identification may not match the physical appearance of the customer.
  - b. Do not accept credit cards that will not swipe.
  - c. Corporate training for the employees should be held to make the employees aware of the recent scams and frauds.

d. For repeat customers verify the reservation using the customer's driver's license number instead of the name and phone number. Software is available to assist with this process called Bluebird. ([www.autorentalnews.com](http://www.autorentalnews.com))

### **Toll Fees**

This fraudster is often an individual tailgating the car in front of them to rush through the toll booth before the gate lowers. The highway administration uses cameras to capture the license plates to issue violations to the registered owner. The problem encountered is that the vehicle may be stolen or the plates are not on the vehicle that they are registered.

When the fraudster is the car rental agency the customer does not have software programs to detect that they are being overcharged or charged for fees that were misrepresented when the vehicle was rented. The customer must rely on using the best practices to avoid the excessive toll charges. The practices that the customer can use are:

- Education – plan your trip. Using google maps or any comparable mapping sites will indicate where the toll booths are located. If possible, plan an alternate route.
- Avoid Toll Roads – Google maps and GPS devices have an option to provide instructions that will allow you to map a route to your destination without driving on the roads that have tolls.
- Choose the right rental company – call the car rental agencies and ask what is the policy for using vehicles with an E-ZPass device. All of the rental agencies have fees for the E-ZPass devices, but the fees vary from \$3.95 a day to a maximum of \$16.75 a month.
- Check out the toll road's website – review the website to found out exactly what the toll fees should be for your route. The cash rate from Fort Washington, Pennsylvania to Norristown, Pennsylvania is \$1.70 when traveling the same distance using E-ZPass the fee is \$1.09. The Pennsylvania turnpike website provides maps detailing each toll amount for every toll booth ([https://www.paturnpike.com/pdfs/tolls/tolls\\_2015/2015\\_Cash\\_and\\_EZ.pdf](https://www.paturnpike.com/pdfs/tolls/tolls_2015/2015_Cash_and_EZ.pdf)).
- Pay the toll – avoid using the E-ZPass lane and use cash when paying the toll. The E-ZPass device in the rental vehicle is activated when you go through the first E-ZPass lane

(<http://thepointsguy.com/2015/03/how-to-avoid-excess-toll-road-charges-for-rental-cars/>).

- Keep all toll receipts from your trip and check your credit card statement as soon as possible to check what has been billed to your account. ([www.creditcards.com](http://www.creditcards.com))

# Summary of Best Practices

The car rental agency industry is a multi-million dollar business and is not immune to fraud. Fraud has been committed against the consumer, the agency and the insurance company. The history of fraud has shown that fraud has existed for centuries and continues. It can be difficult to detect and may be committed for years before it is discovered. The increase in technology has seen several software programs developed to aid in the detection and prevention of fraud. Victims of fraud may not have sophisticated software programs for detection, however, there are some best practices that can be performed by the rental agency, insurance agencies and the consumer to detect and prevent fraud.

## Best Practices

### Insurance Agencies:

- Whistleblowers hotlines,
- Analysis of claims,
- Claim history.

### Car Rental Agency:

- Software to detect fraudulent identifications and documents,
- Require face-to-face registration,
- Only accept credit cards that will swipe,
- Implement regularly scheduled corporate training.

### Consumer:

- Education – plan your trip,
- Choice the right rental company,
- Review the rental agreement,
- Pay the toll,
- Keep all receipts,
- Take photos of the car when returned.
- Check out the toll road's website.

## Lessons Learned

While researching fraud in the car rental industry several lessons were learned. The rental agreement is the key to all the alleged charges that are billed/invoiced to the customer. The rental agreement is lengthy so the customer should arrive early to pick up the vehicle so the agreement can be reviewed in detail. The consumer should compare agency policies to verify the fees and if there are any mandatory additional services i.e. car insurance or E-ZPass devices. Insurance fraud is easily committed because the consumer relies on the agent to inspect the vehicle. Pictures should be taken before and after renting the vehicle. Lastly, the customer must review the invoice before leaving the rental agency and after returning the vehicle to identify any problems.

The car rental agency is not regulated by any governing body; however the consumer can contact law enforcement to report any suspected fraudulent behavior.

## Next Area of Research

An extension of this research would include identifying the monetary value associated with the recovery of any fines or penalties assessed against the fraudster, comparison of rental agency agreements and policies and identifying employee fraud on a local level. In addition, the next area of research would include identifying different types of fraud committed by the employee against the agency.

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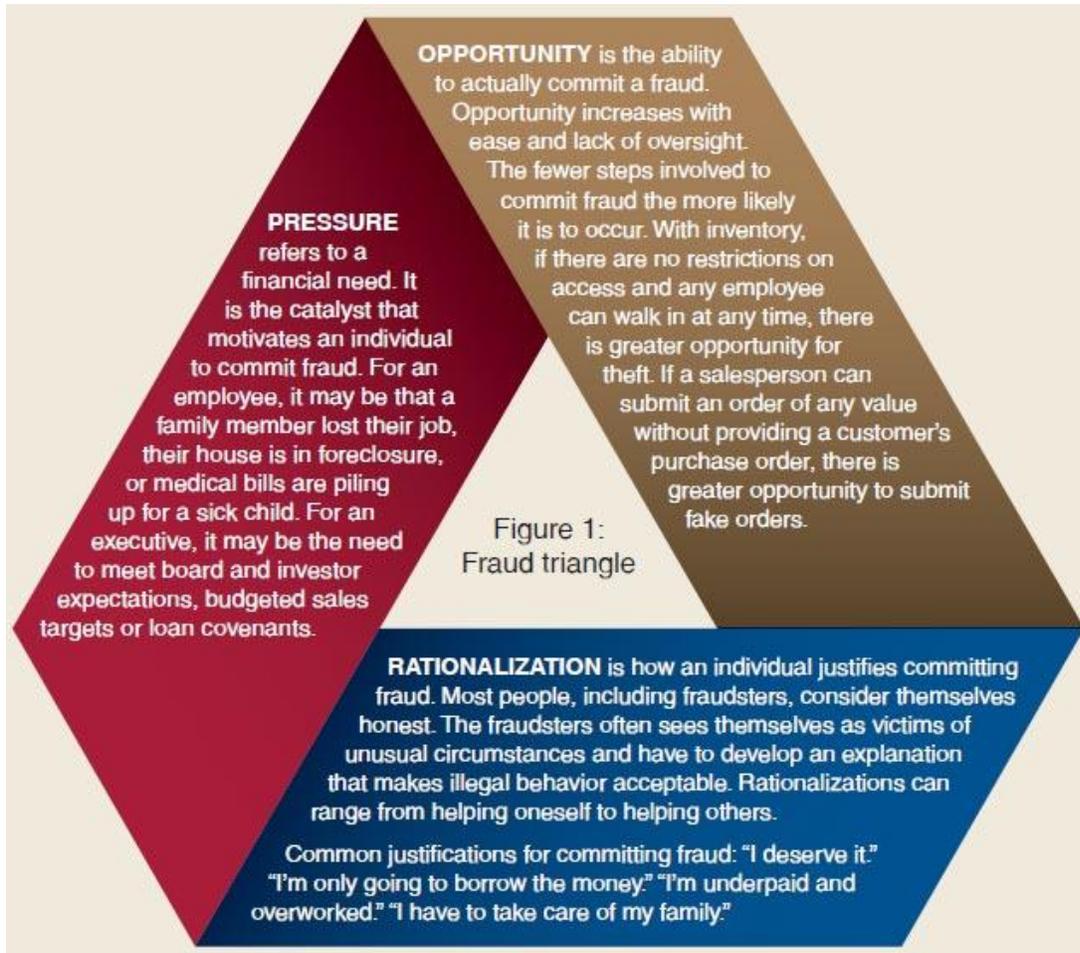
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APPENDIX A



Source: Minnesota Society of Certified Public Accountants - [www.mncpa.org](http://www.mncpa.org)

## APPENDIX C

### MARKET DATA [U.S. CAR RENTAL MARKET]

2015 U.S. CAR RENTAL MARKET FLEET, LOCATIONS AND REVENUE				
COMPANY	U.S. CARS IN SERVICE (AVG.) 2015	# U.S. LOCATIONS	2015 U.S. REVENUE EST. (in millions)	2014 U.S. REVENUE (in millions)
Enterprise Holdings (Includes Alamo Rent A Car, Enterprise Rent-A-Car, National Car Rental)	1,166,828	6,250	\$13,880	\$12,850
Hertz (includes Dollar Thrifty, Firefly)	499,100	5,410 <sup>5</sup>	\$6,350 <sup>3</sup>	\$6,471
Avis Budget Group (includes Payless, not Zipcar)	365,000 <sup>3</sup>	3,250 <sup>3</sup>	\$5,445 <sup>3</sup>	\$5,407 <sup>3</sup>
Fox Rent A Car <sup>1</sup>	19,000	19	\$225	\$215
Advantage Rent-A-Car <sup>2</sup>	30,000	50	\$325	\$200
ACE Rent A Car	11,000	65	\$100	\$100
U-Save Auto Rental System (owned by FSNA)	12,000	140	\$123 <sup>3</sup>	\$123 <sup>3</sup>
International Franchise Systems (Rent-A-Wreck of America, Priceless & Nextcar)	5,000	143	\$41	\$40
Affordable/Sensible	3,620	190	\$32 <sup>2</sup>	\$33 <sup>3</sup>
Independents <sup>4</sup>	70,000 <sup>3</sup>	5,500 <sup>3</sup>	\$585 <sup>3</sup>	\$570 <sup>3</sup>
<b>TOTAL</b>	<b>2,181,548</b>	<b>21,067</b>	<b>\$27,106</b>	<b>\$26,009</b>

Statistics based on company-provided data, public documents, industry research and ARN estimates.

Revenue comes from U.S. car rental operations only. Fleet, location and revenue numbers represent entire U.S. operations, including franchises.

<sup>1</sup> Does not include affiliate operations. Fleet and U.S. locations are solely corporate owned. No franchise operations.

<sup>2</sup> Fleet and U.S. locations are solely corporate owned. No franchise operations. Advantage acquired E-Z in 2015.

<sup>3</sup> ARN estimates.

<sup>4</sup> Independents estimates based on available U.S. Census Bureau figures and adjustments for recent openings, closures and consolidation. Independents include Sixt and Silvercar.

<sup>5</sup> Locations as reported by Hertz include kiosks.

Enterprise Holdings ended its fiscal year July 31, 2015.

Source: Car Rental Market Data by Company (Auto Rental News)