

THE PITFALLS OF FREIGHT BROKERING AND SUB-CONTRACTING

DO YOU KNOW WHERE YOUR CARGO IS?

| PRESENTER, TITLE | CONTACT INFORMATION |
|---|--|
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BACKGROUND

- Historically, freight brokers are non-asset based logistics providers.
 - Fictitious motor freight pickups began to emerge over 40 years ago.
 - The California Highway Patrol's Cargo Theft Interdiction Program (CTIP) reported "significant increases in reported fraud and company identity theft loads with fifty-one (51) loads in 2011 compared to five loads (5) in 2010." The crime has grown since then, and 2011 saw a marked increase in what we refer to today as fictitious pickups.
 - Web-based brokering has influenced the ability to set up fictitious companies and websites, as well as the availability of high-quality fraudulent driver's licenses.
 - The Just In Time (JIT) supply chain management practices have exacerbated the problem by putting a premium on transaction speed at the expense of performing time-consuming due diligence in vetting carriers and drivers.
 - It's an easy and non-threatening manner to steal products.
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FICTITIOUS/DECEPTIVE THEFT DEFINED

Fictitious pickups are criminal schemes that result in the theft of cargo by deception that includes truck drivers using fake IDs and/or fictitious businesses.

Crimes of this type are also known as “fraudulent” or “deceptive” pickups, and the terms are used interchangeably.

Our available data comes from incidents of fictitious pickup in which cargo has been lost and reported after the fact.

Victims are often reluctant to report fictitious pickups because they failed to vet carriers and drivers properly - this crime is underreported.

Currently accounts for approx. 8 percent of the reported types of cargo theft.

FICTITIOUS PICKUP – THE MODUS OPERANDI (MO)

- A form of cargo theft that involves criminals posing as legitimate truck drivers/companies to steal cargo directly from shippers.
- Criminals fool companies into willingly turning over loads to them.
- Use online load-posting sites to win transportation bids or show up as drivers with false credentials.
- Again, the Internet has increased the ease with which criminals can operate.

HOW DOES A SCAM WORK?

- Set up a phony company
- Use prepaid credit cards and a P.O. Box
- Obtaining a Federal Tax Identification Number or EIN (Employer Identification Number).
- Register a name with the Department of Transportation, Interstate Operating Authority Number, and Better Business Bureau
- A rented (with cash) or stolen equipment (tractors) can be cloaked with temporary company placards, and the driver can obtain a fake “company” uniform. (internet stores and on-line auction houses)
- Criminals search online load boards for commodities that are easy to fence. (Food, Clothing, etc. “Flea Market” Commodities).
- Particularly, late Friday afternoon pickups.

Trucker Selection and Screening:

- There is no single solution to prevent these types of activities.
- Your most effective resource in the fight against cargo theft is your employees.
- Management should also develop strict shipment protocols so they can effectively deal with them.
- The vetting process is critical - especially when transporting a high value, theft-attractive commodity like apparel, cigarettes, consumer electronics, computers, food products, liquor, metals, perfume and pharmaceuticals.

The process of qualifying your trucking partners should include:

- Verifying and contacting at least three commercial references. These should consist of those who have used the company to transport goods for them within the past 90 days.
- Obtaining a Certificate (or Evidence) of Insurance for cargo legal liability **directly from** their insurance agent/broker.
- Visit the insurance agent/broker's website to check contact details. Also, you should verify that the insurance agent/broker is a legitimate one and not part of the fraud. Ask them for their license number.
- You can then confirm this through the National Insurance Producer Registry (NIPR)
- Checking the candidate-trucker's Safety Rating from the FMCSA and use only those with a "Satisfactory" rating.
- Obtain a copy of the prospective trucker's most recent Motor Carrier Identification form. MCS-150.
- Verify thru Dunn & Bradstreet / Better Business Bureau

Beware of Sub-brokering vs Double brokering activities

The transportation industry has interpreted "double brokering" and "co-brokering" to mean the same.

Consequently, both have acquired a negative aura.

Sub-brokering aka "Co-brokering" occurs when a licensed transportation property broker accepts a load from its customer/shipper and gives that load to another broker for assistance arranging transportation. Sub-brokering proves to be advantageous at times to transport a load, as long as the contract that the original broker has with its customer/shipper does not specifically prohibit co-brokering. The key is that it is done in accordance with the permission of the original broker and shipper.

Be Alert to Potential Double Brokering

There are no benefits to double brokering - only risks.

The inherent nature of the transaction, double brokering is not the same as Sub-brokering (aka co-brokering) - when a motor carrier agrees to transport freight for a broker (under the guise it will haul the freight), and the carrier subsequently re-brokers it to another carrier, the freight has now been double brokered.

The End Result:

The Broker:

- Does not know who is actually handling the freight.
- Does not know whether the actual carrier has the required permits.
- Does not know if the carrier's insurance is adequate to protect the parties.
- Does not know what due diligence was performed to qualify the carrier.

Tracing the freight also becomes dubious at best, usually leaving the original broker with incorrect information to transmit to its customer/shipper.

Additional Measures:

- Once a trucking company has been properly vetted, there are additional steps you can take to minimize your exposure to theft;
- Do not assign multiple loads to a trucking company with a fewer number of power units. This information is contained in the FMCSA Company Snapshot.
- Entrust high value and theft-attractive loads **only** to trucking companies that have earned your long term trust.
- Require the trucking company name you as an Additional Insured or Loss Payee and be added to the Certificate of Insurance.
- Require the trucking company to send you the name of their driver, a copy of their driver's license, as well as the license number of the tractor and trailer (if applicable) prior to shipment pick-up.
- Protect information about a load, such as its contents, value, timing and destination. Shipping information should be shared only on a need-to-know basis. The trucking company and driver should be given only information that is relevant for them to accept the shipment and transport it from origin to destination.
- Maintain a list of trucking companies that did not pass your vetting process.

FICTITIOUS PICKUP DATA

Of 1,192 cargo theft incidents reported to CargoNet in 2012, 74 were described as fictitious pickups, a 25 percent increase over 2011. Fictitious pickups are already up more than 8 percent through August 31, 2013.⁴

The commodities most frequently targeted for fictitious pickups are foods and beverages, electronics products, and metals.

More than half of fictitious pickups occur at the end of the week, on Thursdays and Fridays, when the main concern of shippers and brokers is to meet delivery dates and satisfy customers. This urgency to deliver causes some shippers, brokers, and warehouse operators to slack off on driver and carrier screening and the due diligence processes to verify IDs.

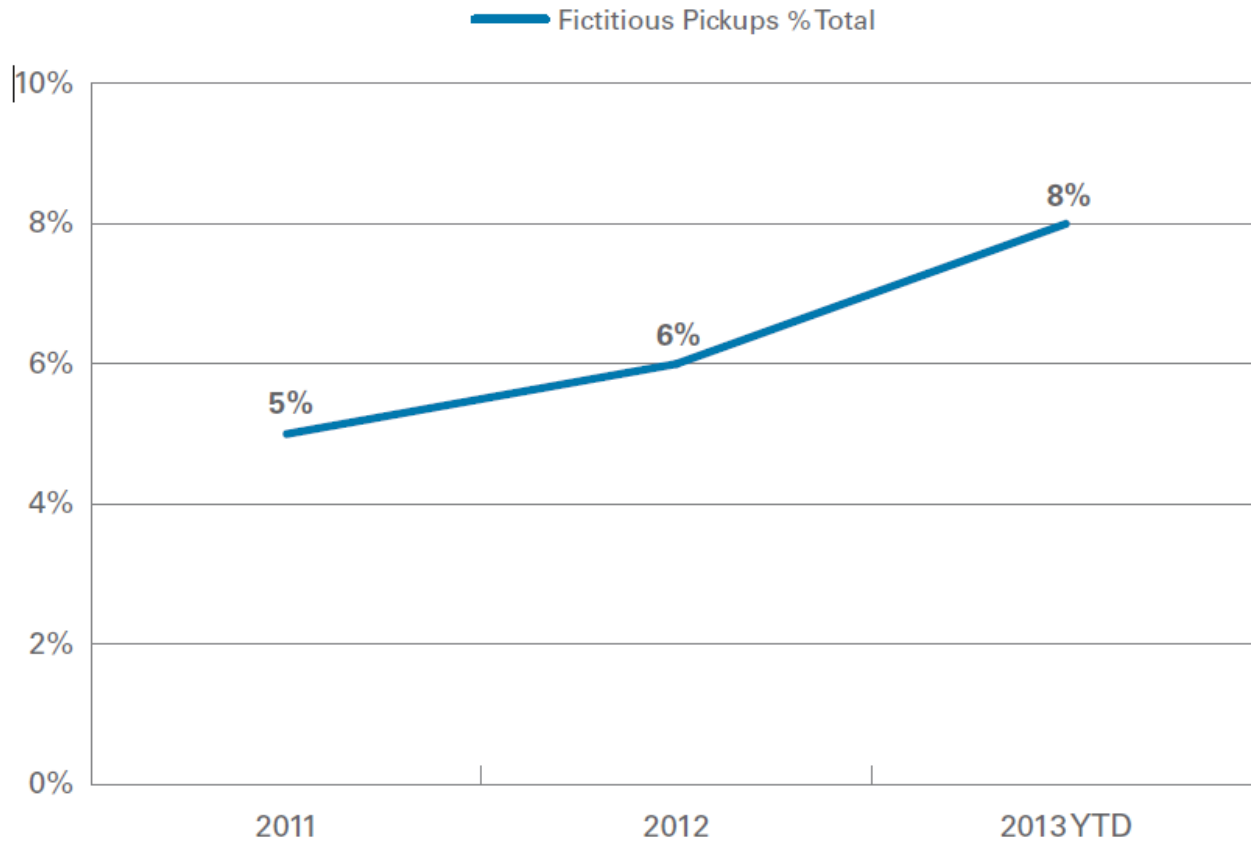
Fifty-five percent of all reported fictitious pickups from 2011 through 2013 occurred in California. Significant fictitious pickup activity has also been reported in Florida, Texas, and New Jersey. Interestingly, in some areas of the Midwest — including Indiana, Nebraska, and Wisconsin — conventional cargo theft is relatively rare, but fictitious pickup is occurring.

The average value of cargo stolen by fictitious pickup was \$203,744 versus \$174,380 per incident for cargo thefts overall during the study period, a 17 percent differential. This may reflect the fact that fictitious pickups are typically more premeditated, targeted, and carefully planned than opportunistic trailer and container snatches, which constitute the majority of cargo thefts.

INCREASING TRENDS IN FICTITIOUS/DECEPTIVE CARGO THEFT - STATISTICS

| Day of Week | 2011 | 2012 | 2013 YTD | Total |
|--------------------|-------------|-------------|-----------------|--------------|
| Friday | 13 | 23 | 15 | 51 |
| Thursday | 14 | 23 | 9 | 46 |
| Tuesday | 8 | 9 | 14 | 31 |
| Wednesday | 16 | 6 | 4 | 26 |
| Monday | 4 | 7 | 3 | 14 |
| Saturday | 2 | 6 | 5 | 13 |
| Sunday | 2 | 0 | 1 | 3 |
| Total FPU's | 59 | 74 | 51 | 184 |
| Total Thefts | 1201 | 1195 | 605 | 3001 |
| FPU % | 5% | 6% | 8% | 6% |

Table 1: Fictitious Pickups 2011–2013 YTD (Incidents reported to CargoNet)



**Chart 1: Fictitious Pickups as a Percentage of Total Reported Cargo Theft
(Incidents reported to CargoNet)**

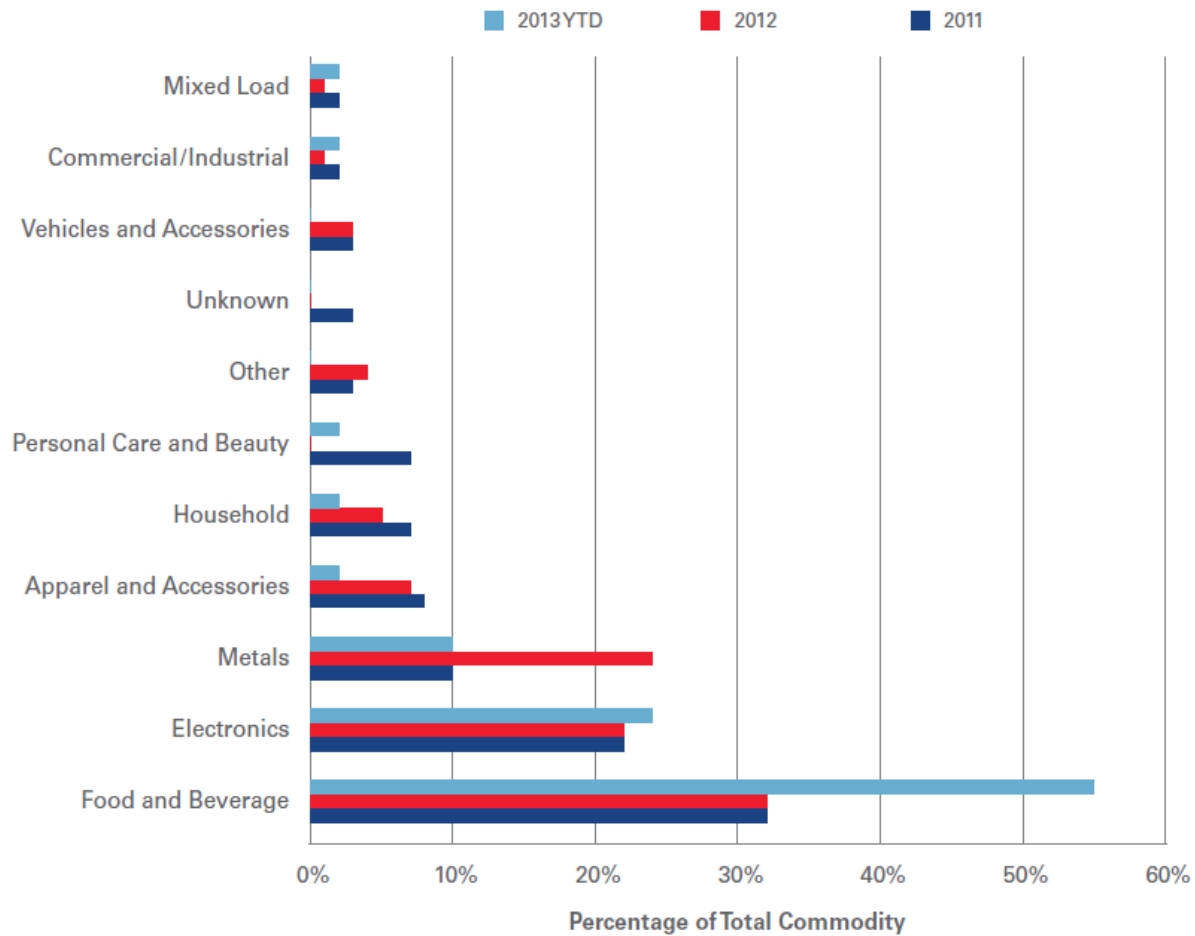


Chart 2: Fictitious Pickups by Commodity Type (Incidents reported to CargoNet)

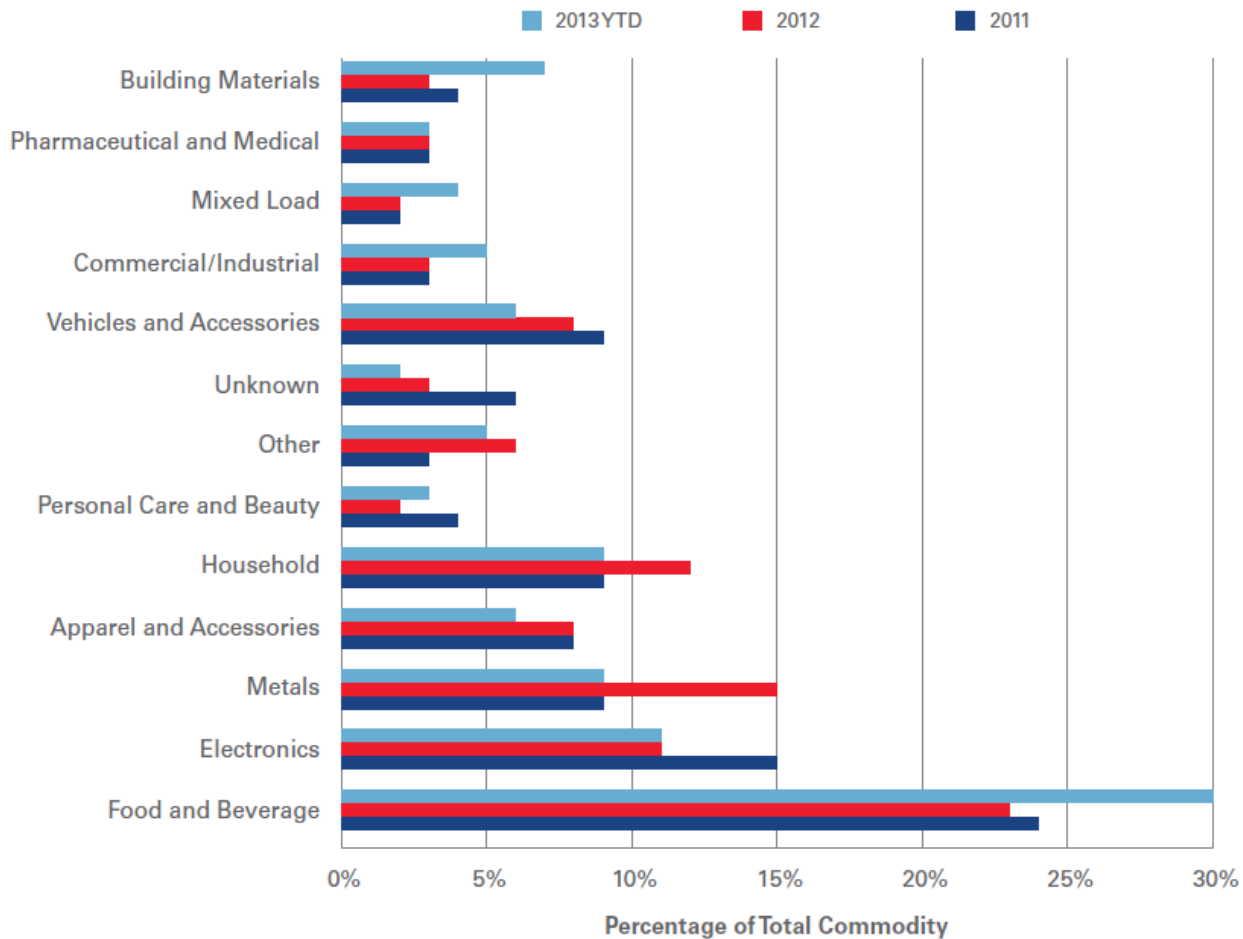


Chart 3: Overall Cargo Theft by Commodity Type (Incidents reported to CargoNet)

There appears to be a strong correlation between commodities targeted for fictitious pickups and overall cargo theft. Foods and beverages, electronics, and metals are most attractive, though fictitious pickups of metals have declined in 2013, possibly because of new security regulations

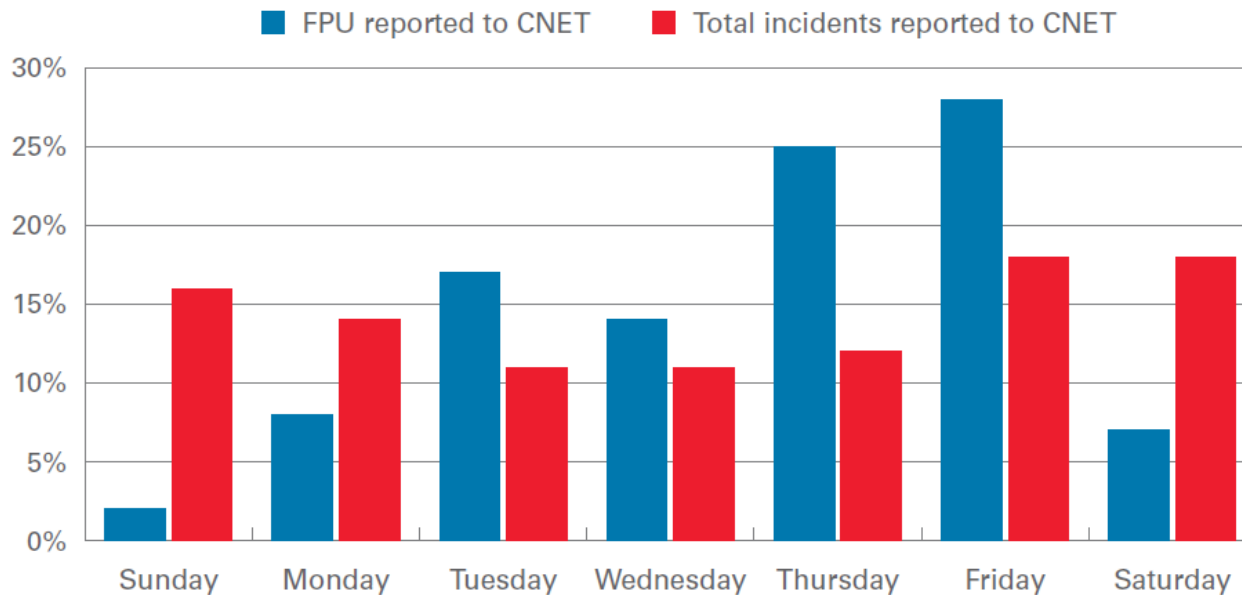
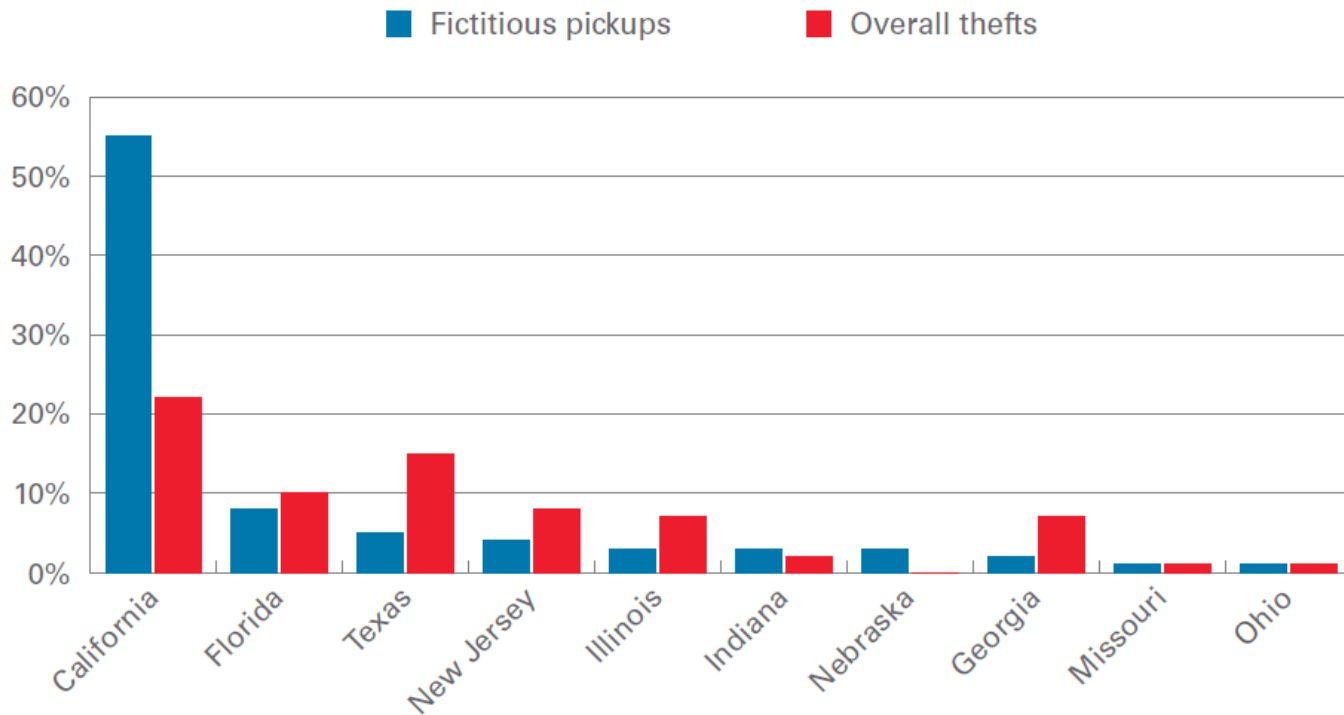


Chart 4: Fictitious Pickups by Day of Week vs. Conventional Reported Cargo Theft (CargoNet)

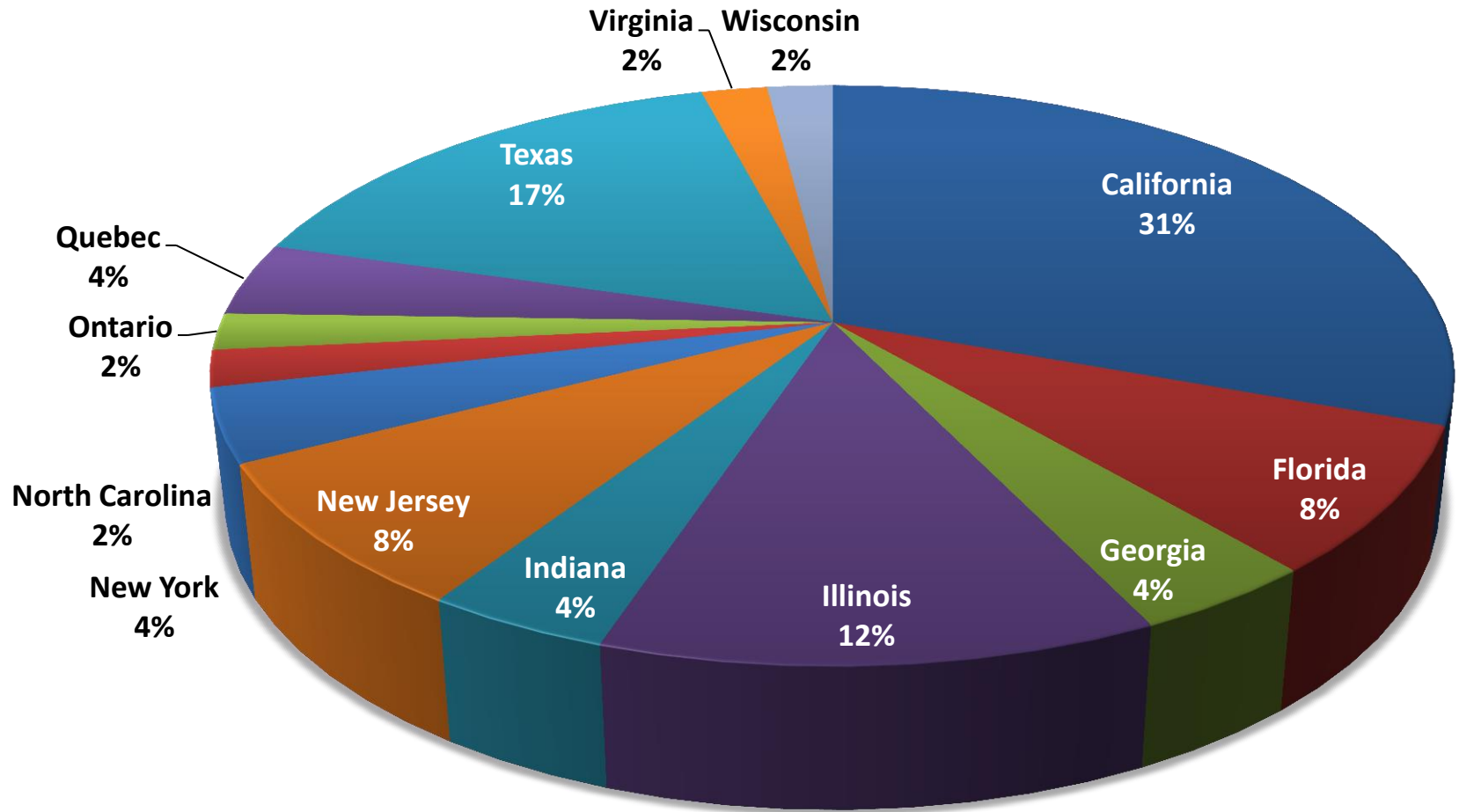
*Approximately 35 percent of all cargo thefts occur on Saturdays and Sundays versus only 8 percent of fictitious pickups. More than 50 percent of fictitious pickups occur on Thursdays and Fridays, when shippers and warehouses are busiest.



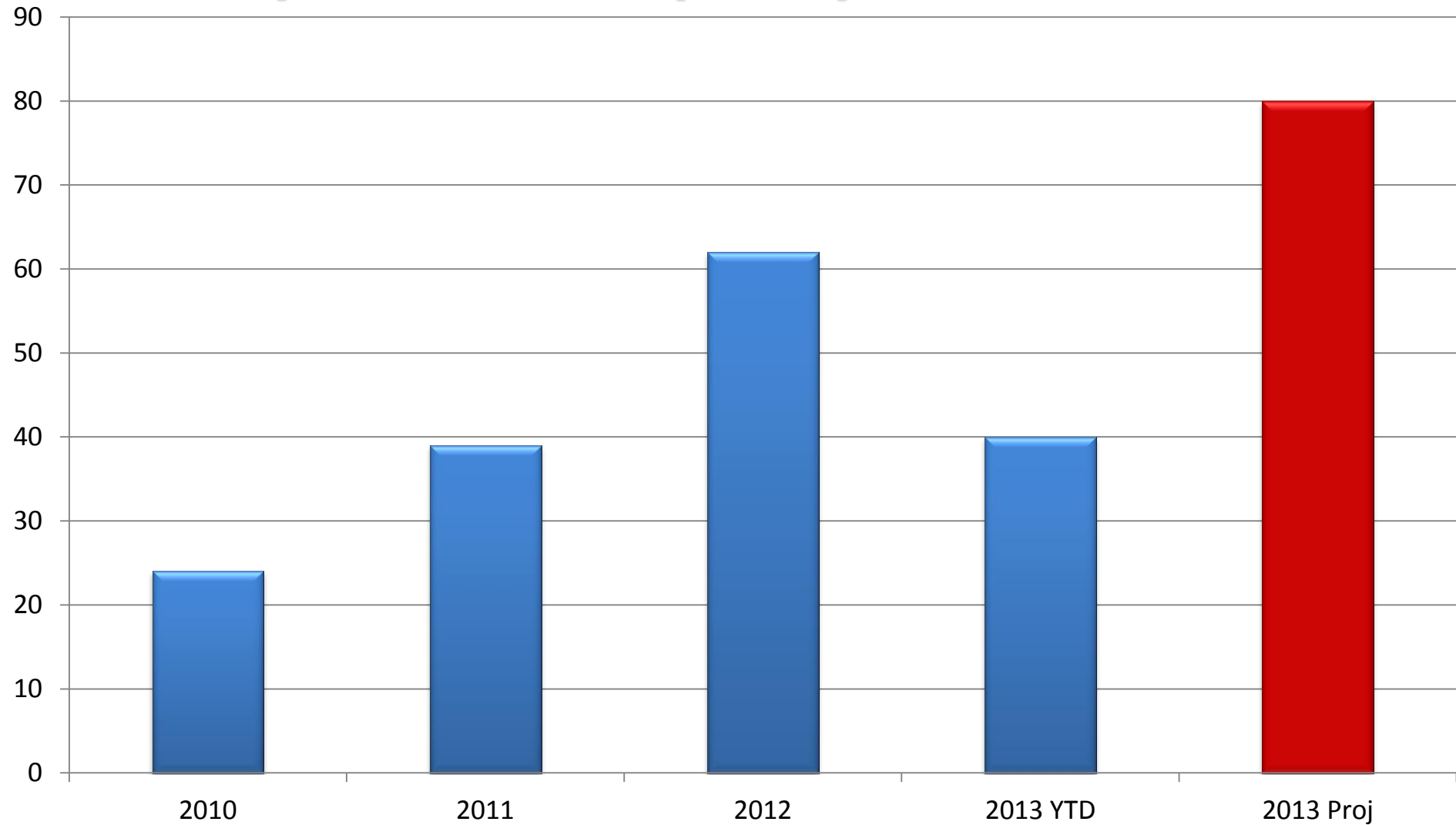
**Chart 5: States with High Incidence of Fictitious Pickups 2011–2013
(Incidents reported to CargoNet)**

*California has become the top U.S. fictitious pickup state.

Deceptive Pickups by State



Deceptive Pickups by Year



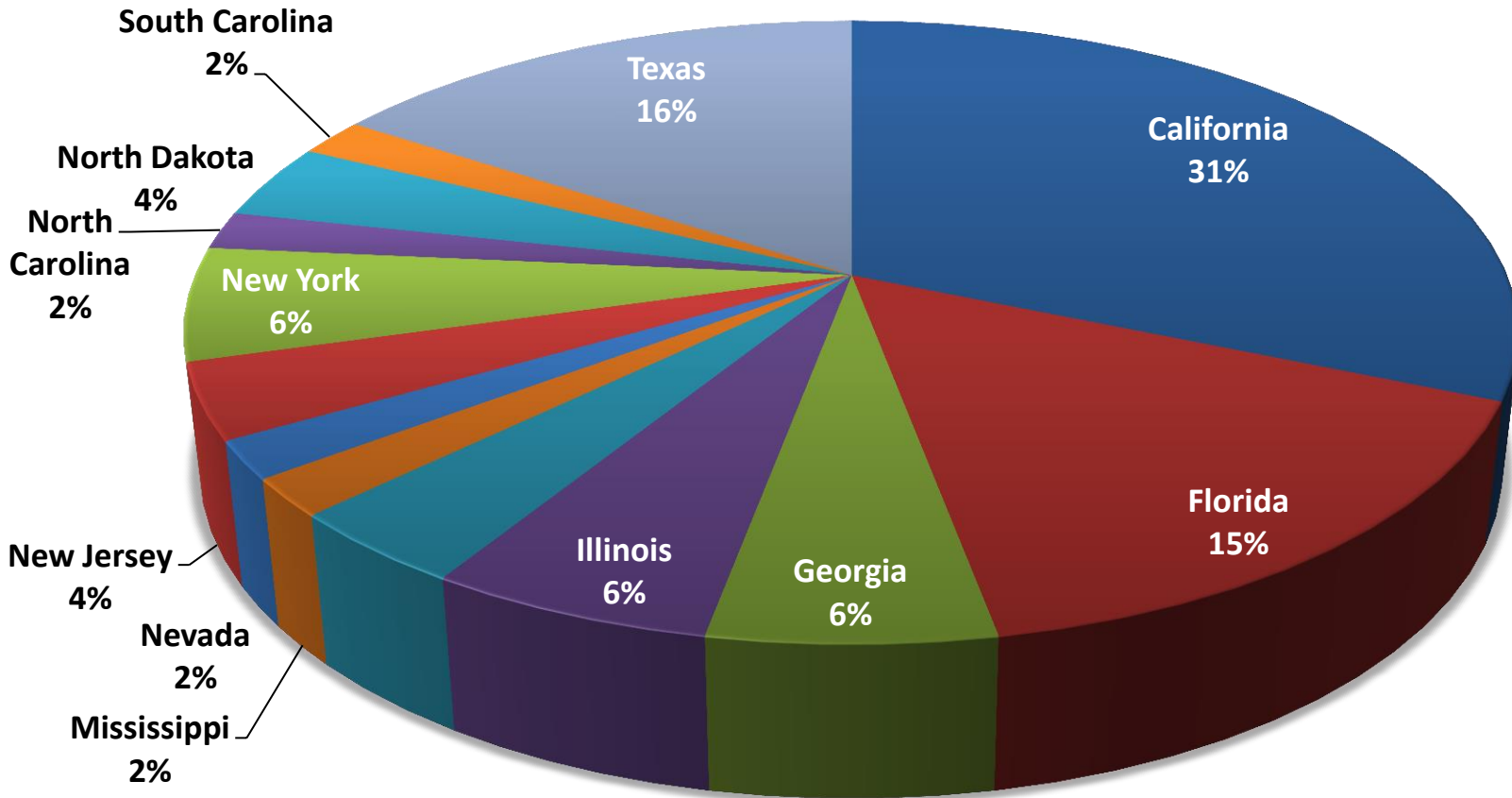
Noted Links and Websites

- <https://pdb.nipr.com/html/PacNpnSearch.html>
- <http://ai.fmcsa.dot.gov/>
- http://lipublic.fmcsa.dot.gov/LIVIEW/pkg_carrquery.prc_carrlist
- <http://www.fmcsa.dot.gov/documents/forms/r-l/mcs-150-instructions-and-form.pdf>

Warehouse Thefts

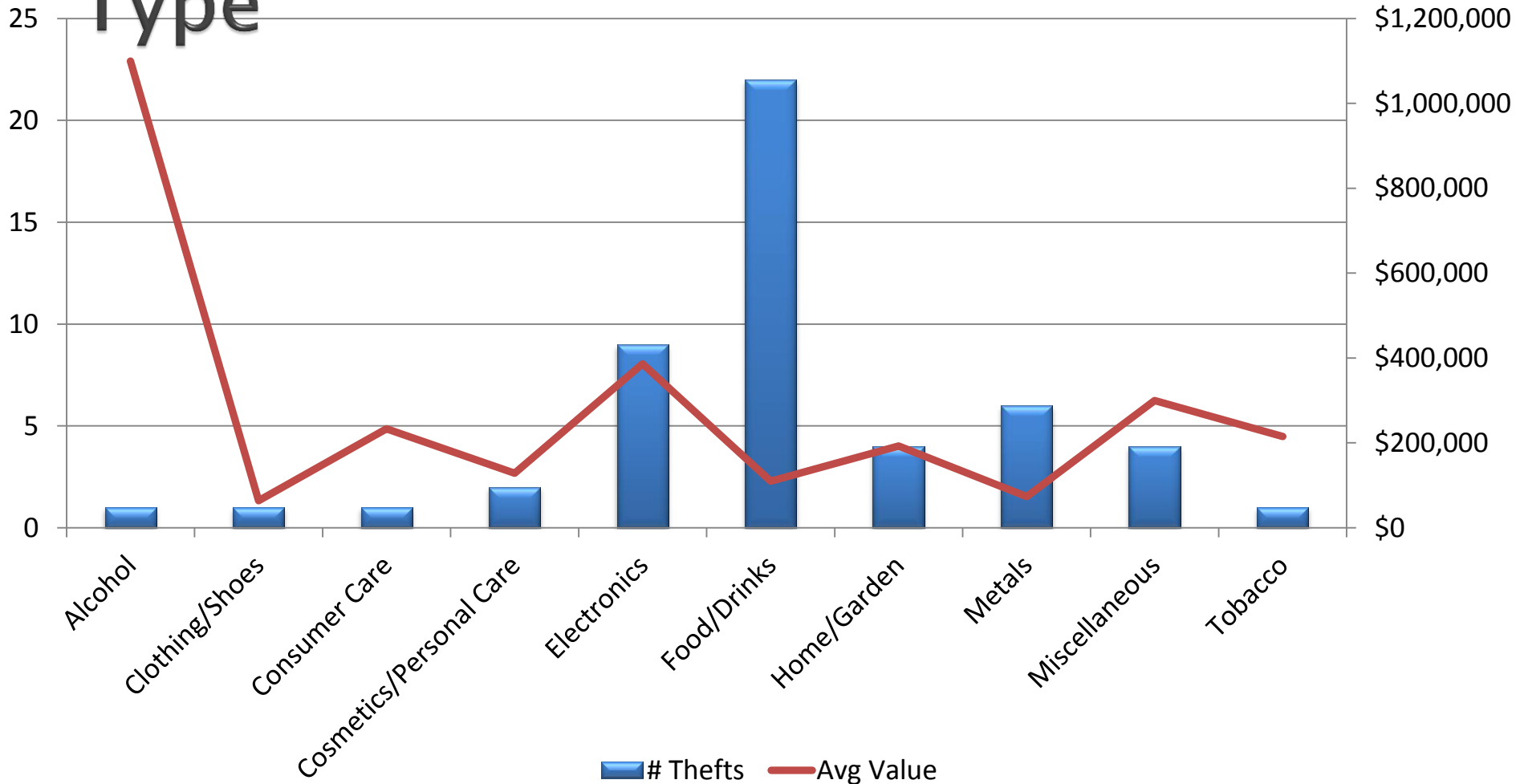
Q1 & Q2 2013

Facility Thefts by State

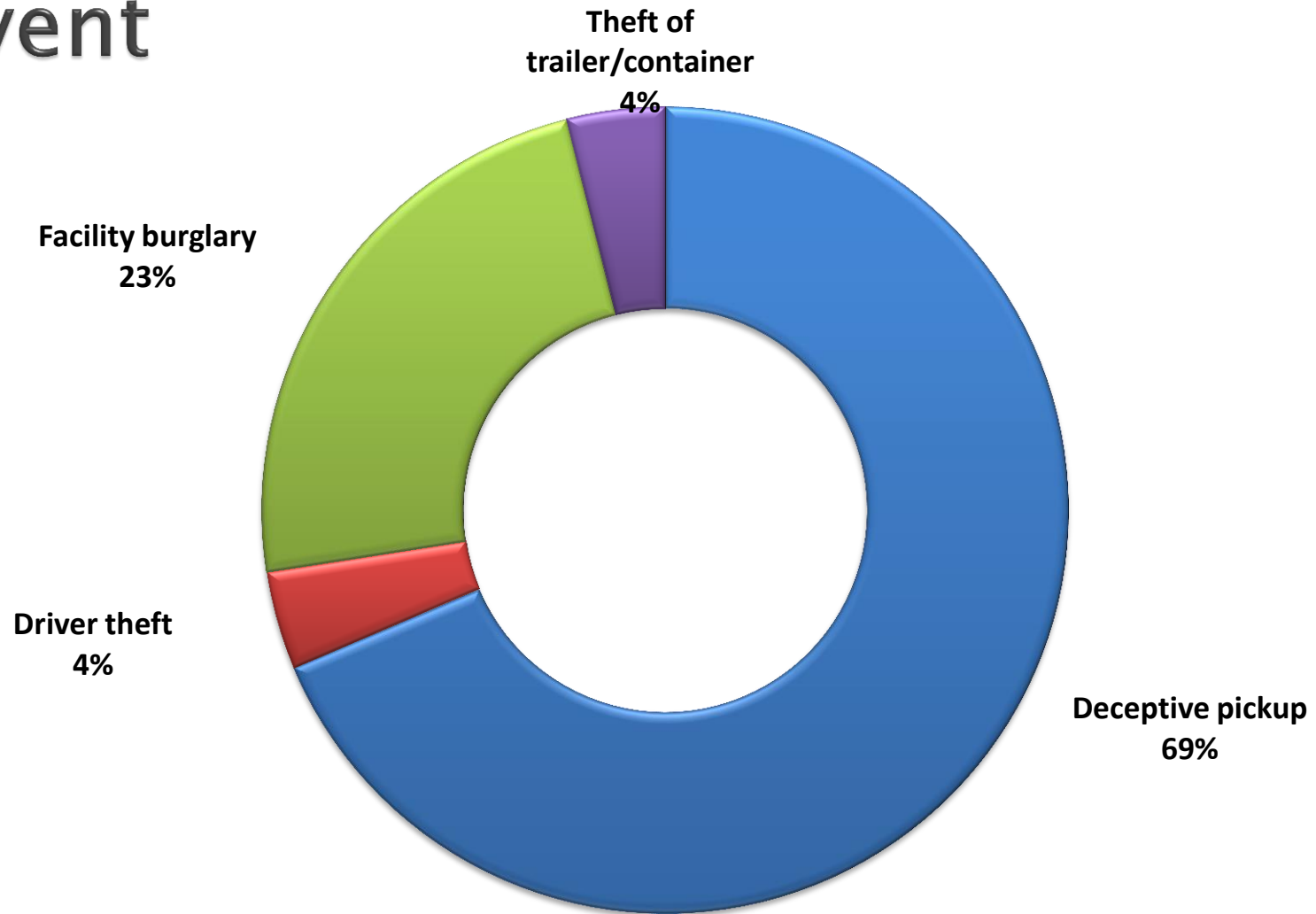


Facility Thefts by Product

Type



Facility Thefts by Type of Event



Shipping Wars – Bidding

<https://m.youtube.com/watch?v=bnx0s0kiTvg>

(video link)



Thank you!