

With the manufacturing sector's downturn in the USA and Canada, the industry is paying attention to abuse in warranty claims processing. Such claims abuse has a direct impact on the corporate bottom line profit. With this in mind, Varun Madhok, Head of Client Services talked with Roger H. Schmedlen, Executive Consultant to Infernotions' fraud audit services arm to understand the nature and the scope of the issue.

"[Aggressive monitoring and investigation led to a reduction in claims equal to the] profits generated by approximately 5,000 full time employees each year"

Varun Madhok: How bad is the problem with warranty claims abuse? Do you think it has got worse over the past few years?

Roger Schmedlen: I don't know if the problem is worsening overall. This has been a historic problem with some businesses. In one case it had been going on for at least 30+ years. The problem does grow with time as the fraudsters become more confident and come to believe that they will never be caught--that they are bulletproof". One example is the one where a dealer adjusted 137% of sales, as opposed to the national average of about 2%. He started out in a small way and it kept growing. I would certainly agree it has been consistently underestimated and has a direct impact on the corporate bottom-line.

VM: What is the average number of warranty claims across the industry for a specific product?

RS: I don't believe this could be calculated or even estimated by any industry or by any company. It is too individual. Occasionally, claims will escalate due to an actual product problem and once that is resolved, it will decline. In one case a dealer explained that his claims were higher because he was handling experimental truck tires, which had more than the usual defects. In retrospect, we found that the experimental tires were, in fact, significantly superior to the standard ones and we found absolutely no legitimate claims involving these experimental units. Norms for different models can vary significantly as well.

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