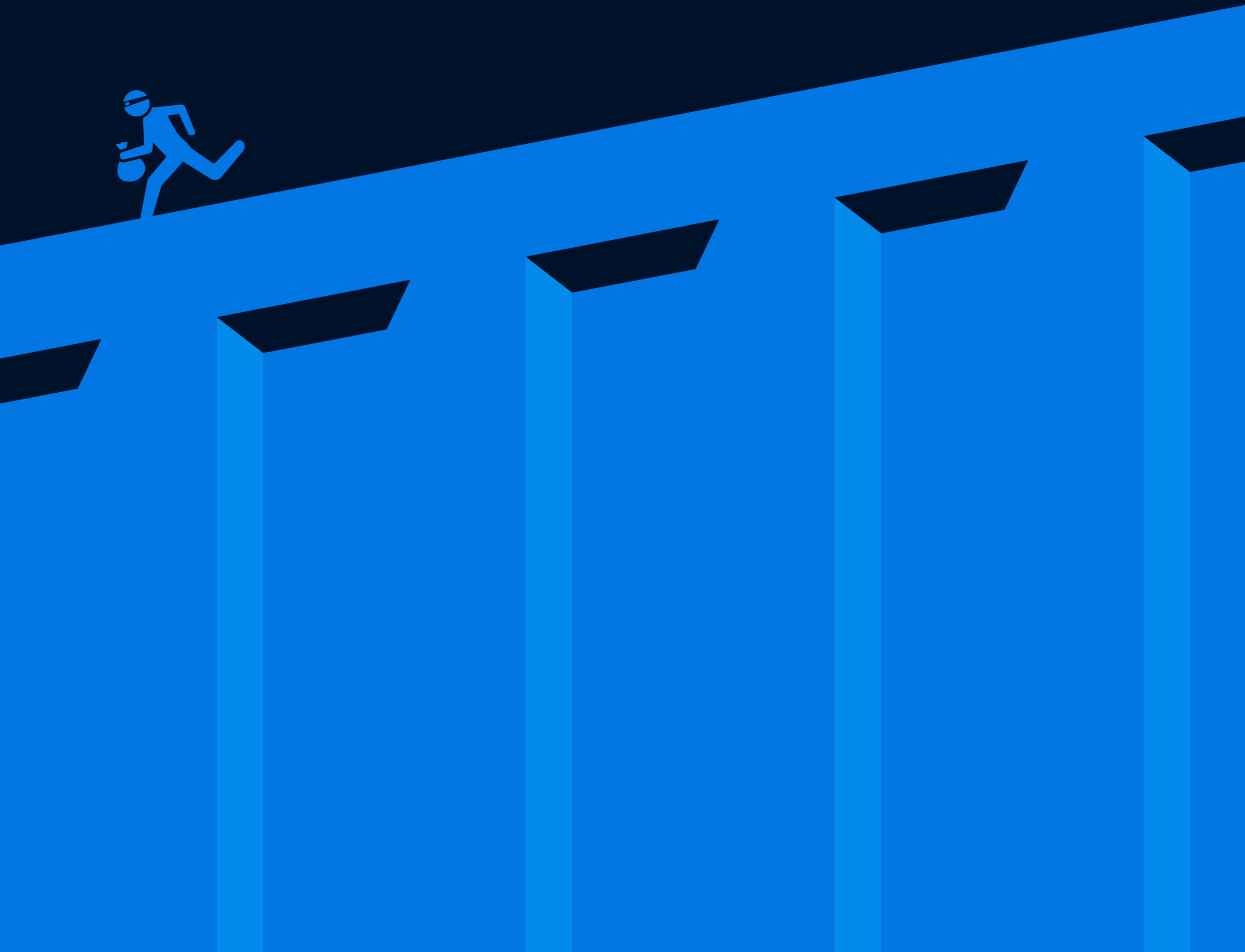
FREIGHT'S BREAKING POINT:

THE DOUBLE BROKERING DILEMMA

TriumphPay × FREIGHTWAVES



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EXECUTIVE SUMMARY

Fraudulent double brokering has emerged as one of freight transportation's most pervasive problems in this freight cycle. By one estimate, it affects $500 million to $700 million in freight annually. The practice, which involves a carrier re-brokering a load to another carrier without the knowledge or consent of the other parties, not only creates operational chaos, but also exposes the industry to significant financial and liability risks.

The Transportation Intermediaries Association (TIA) has homed in on the issue, highlighting the need for stricter controls and improved detection mechanisms. Despite regulations under the MAP-21 legislation, the lack of enforcement (possibly due in part to administrative limitations of the Federal Motor Carrier Safety Administration or FMCSA) has allowed fraudulent double brokering to flourish.

This white paper, based on a survey conducted by FreightWaves and TriumphPay, delves into the practice, exploring its impacts and potential solutions. It underscores the industry's need to adopt a "verify-then-trust" approach, by which rigorous verification of carriers and payment practices is prioritized to establish trust and mitigate risk.

A key component to understanding the breadth of the double brokering issue lies in its economic repercussions. As our survey shows, 85% of respondents have reported direct financial impact due to double brokering within the last quarter alone. This figure underlines the tremendous strain the practice imposes on individual enterprises and the overall operational efficiency of the freight transportation industry.

The economic implications extend beyond simple cost increases; they also create a barrier to the financial stability and growth of businesses within the sector. On the broker side, one of the biggest problems is the potential loss of a key shipper customer. There is an urgent need for effective solutions that can not only detect and prevent fraudulent double brokering, but also contribute to the financial resilience of the industry.

One promising development: strategic partnerships between major players like TriumphPay and Highway. By integrating comprehensive freight spending data with detailed carrier and equipment information, this partnership aims to provide a robust tool for detecting potential double brokering and combating fraudulent practices.

While fraudulent double brokering presents a significant challenge to the freight transportation industry, there are emergent ways to mitigate its impacts and foster a more secure, efficient and transparent industry ecosystem. The path forward will require vigilant verification practices, improved regulations, strategic collaborations and effective use of technology. The insights and recommendations provided in this white paper aim to contribute to the endeavor.

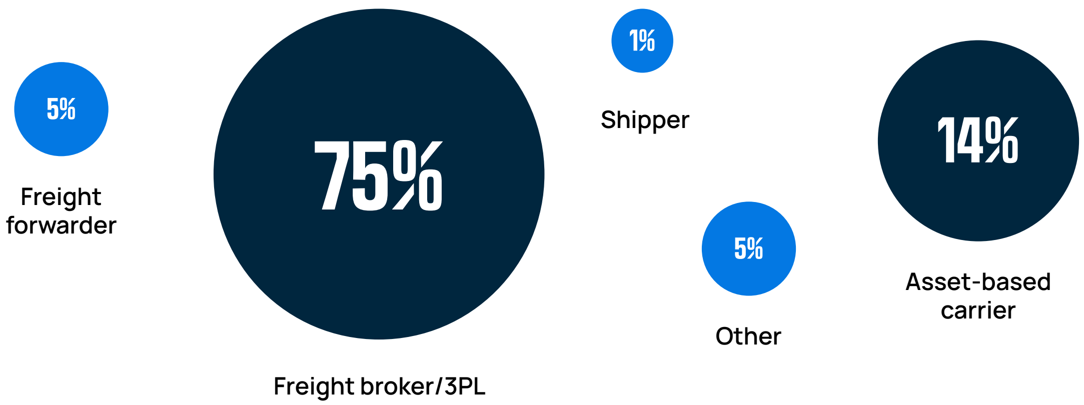
INTRODUCTION & SURVEY OVERVIEW

In the freight transportation industry, double brokering refers to a practice that goes something like this: A broker assigns a load to what appears to be a legitimate carrier, sometimes one with a name possibly similar to that of a large, reputable carrier. This impostor carrier then reposts the load on a load board at an inflated price that attracts unsuspecting carriers. Once the load is delivered, the impostor carrier bills the broker, receives the payment and absconds without paying the carrier to which it had reassigned the load and which actually completed the delivery. The original broker often chooses to cover the double payment in order to preserve its relationship with the shipper.

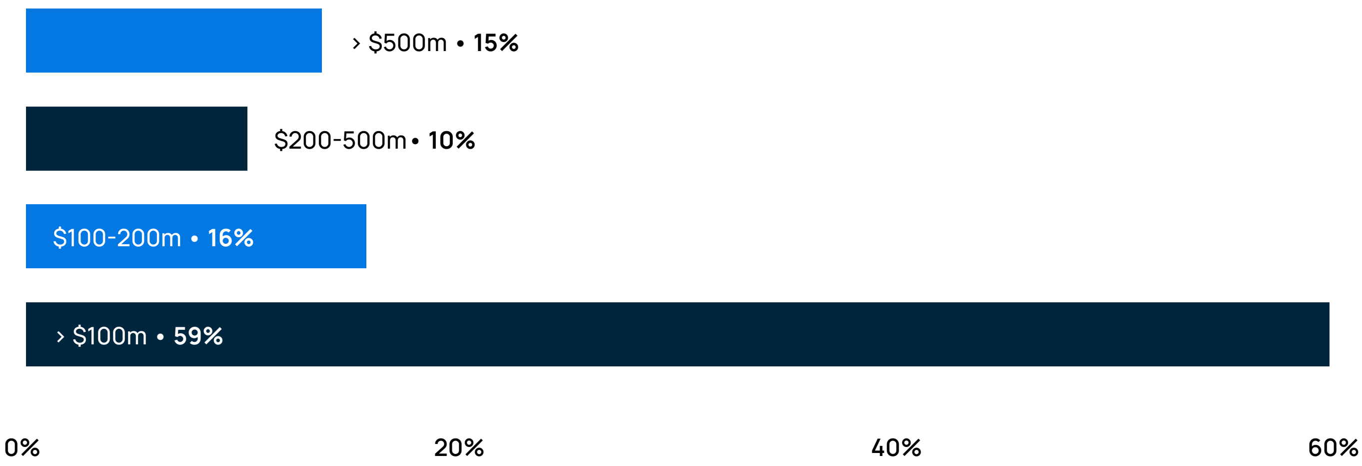
As noted above, FreightWaves and TriumphPay conducted a survey targeting a range of industry participants, aiming to gauge their perceptions, experiences and responses to the double brokering phenomenon. The results offer a nuanced snapshot of the challenges and implications of this practice.

Our survey garnered responses from 236 industry professionals, the majority of whom (75%) represented freight brokers or 3PLs. The remaining respondents included asset-based carriers (13.56%), freight forwarders (5.08%), shippers (0.85%) and others (5.51%) that represent various niches within the freight transportation ecosystem.

Which of the following best characterizes your company?



Which of the following best characterizes your company's annual invoice dollar volume?

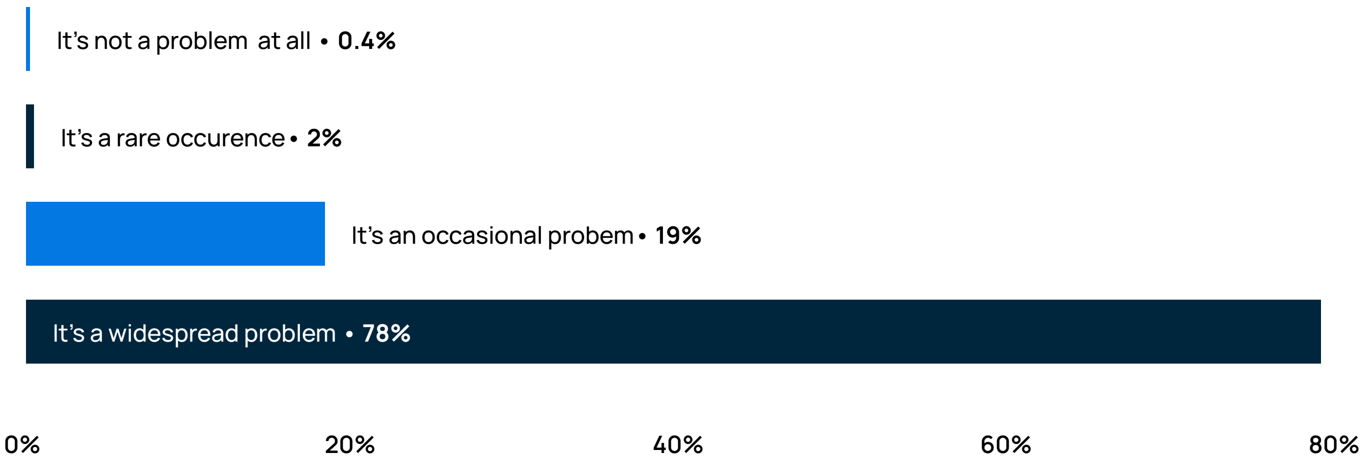


We conducted the survey over a period of two weeks in mid-June. In the following sections, we'll dive deeper into the findings, examining the prevalence and impact of double brokering, detection and mitigation strategies, industry responses, and the role of trust factors in these dynamics.

PREVALENCE & IMPACT OF DOUBLE BROKERING

Fraudulent double brokering has become a ubiquitous issue in freight transportation, ensnaring a wide swath of players. In our survey, an alarming 78% of respondents echoed the sentiment that double brokering is a widespread issue. This not only emphasizes the scale of the problem but also illustrates an industry in which double brokering has seemingly become part of the fabric of daily operations.

What is your current perception of double brokering in the freight transportation industry?

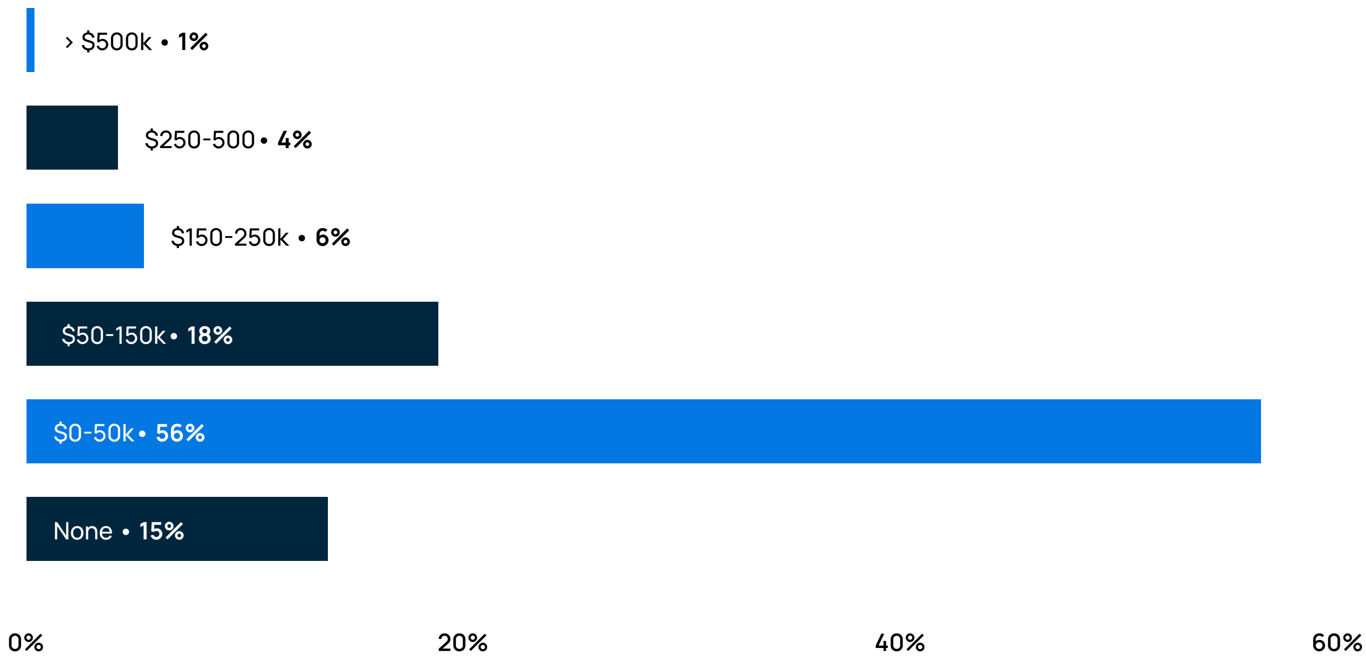


These figures should serve as a wake-up call. It's clear that double brokering isn't just a fringe practice carried out by a handful of bad actors. Rather, it's a systemic issue that most industry professionals now come across routinely. This is worrisome, given the layers of opacity it adds to a business transaction. It opens the door to fraud. At the very least, it leads to inefficiencies and mistrust. The industry is grappling with a pervasive challenge.

The ramifications of double brokering extend beyond operational complexities and trust issues, carving deep into the financial health of the industry. A staggering 85% of our survey's respondents reported that double brokering had directly impacted their spending in the last quarter. This illustrates the wide-reaching economic burden the practice places not only on individual businesses but on the freight transportation industry as a whole.

In fact, it adds a chain of hidden costs that can significantly inflate operational expenses. When loads are reassigned fraudulently, businesses can face unexpected outlays like additional shipping charges, increased insurance premiums and even potential legal fees, should disputes arise.

How much of your spend was affected by double brokering in the last quarter?



Additionally, when the broker and shipper are left in the dark about who is actually hauling the load, it leads to a lack of control over quality and timeliness, which can result in financial losses due to damaged goods, delays or breaches of contract. This causes a misalignment of expectations, which can ultimately further strain the already tight margins in freight. The economic implications of double brokering are complex, with direct costs being just the tip of the iceberg.

A majority of respondents (55.93%) reported losses between $0 and $50,000 from double brokering last quarter (Q2 2023). This was followed by losses between $50,000 and $150,000 (18.22% of respondents). Fewer than 15% reported no losses. The fact that such a large proportion of industry professionals are feeling the financial pinch of double brokering underscores the urgency to tackle this issue.

The freight transportation industry operates on a delicate economic balance, characterized by thin margins and high operational costs. In an environment like this, any persistent financial drain can be a significant destabilizing factor. It's not just about the immediate monetary loss; the cascading effects can disrupt the equilibrium of businesses, potentially leading to service disruptions, reputational damage and in some cases, even business failure.

In light of these potential repercussions, the financial implications of double brokering represent a threat that cannot be overstated. It's a pressing concern that demands attention, action and innovative solutions that can help businesses navigate this complex issue while maintaining their financial health.

It's worthwhile to note that while our survey targeted brokers, they're not the only victims of fraud in the freight transportation industry. Carriers, too, can fall prey to savvy, tech-driven scams. Take, for example, the case of Murphy's Trucking. The small carrier's identity was stolen and its DOT number was manipulated.

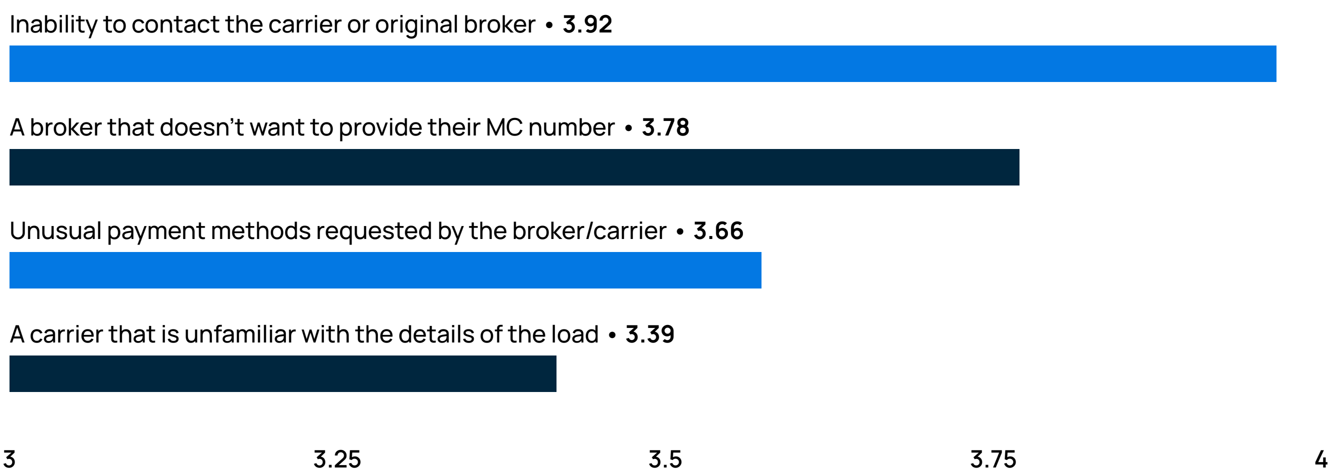
This incident highlights the growing sophistication of fraudulent practices in the industry, which can cause significant disruption and financial loss for carriers and brokers alike. These activities do not only result in immediate financial losses but also undermine the principles of trust and credibility, which are fundamental to the efficient operation of supply chains.

In response to the escalating issue of fraud, industry stakeholders, including the FMCSA and major load board operators like DAT Freight & Analytics and Truckstop, have taken measures to prevent fraudulent practices. These measures include stricter verification processes and initiatives to increase awareness about potential fraud. While these steps are a move in the right direction, the increasing prevalence and sophistication of fraudulent activities call for more proactive, comprehensive and robust protective measures.

DETECTION & MITIGATION OF DOUBLE BROKERING

Detecting double brokering requires a keen understanding of industry operations and a sharp eye for irregularities. One of the most telling signs of double brokering, as reported by our survey respondents, is the inability to contact the carrier or original broker. This absence of direct communication can be a reliable tell that an additional, unsanctioned party has inserted itself into the transaction chain.

Please rate the following potential indicators of double brokering (where 1 is "not at all reliable" and 5 is "very reliable").

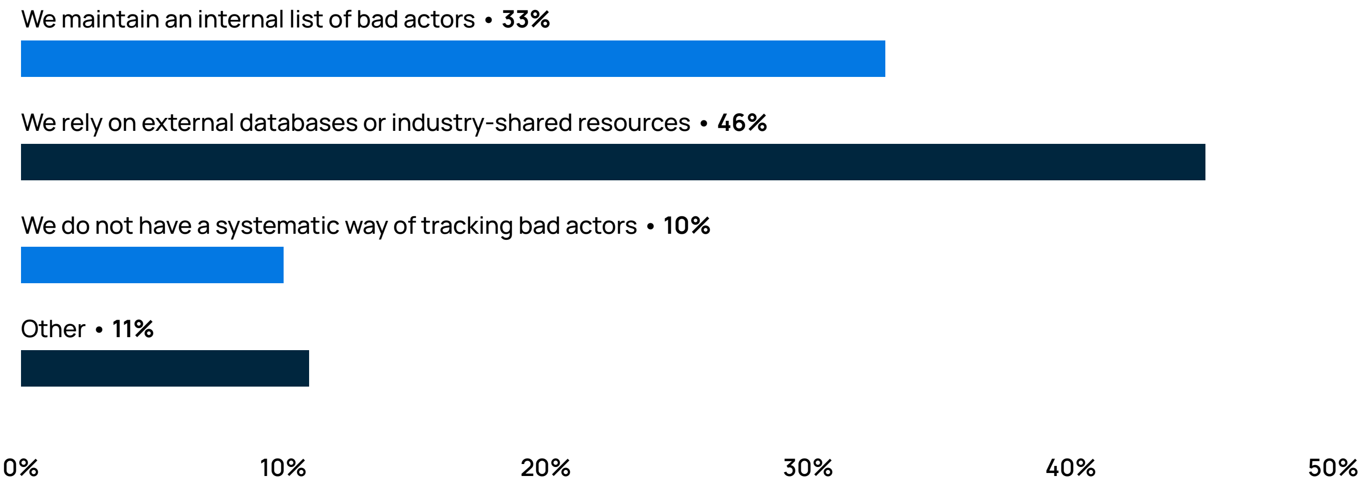


Since each of these indicators scored higher than a 3, which is neutral, respondents found each to slant toward reliability. The other signs include a broker that doesn't want to provide its motor carrier (MC) number; an unusual payment method requested;and a carrier that is unfamiliar with details of the load.

But detecting double brokering is not a straightforward task — if it were, there wouldn't be a need for a white paper like this. In fact, stakeholders around the industry are currently developing various strategies to track bad actors. Their most common primary method is to rely on external databases or shared industry resources. Still, fewer than half of our respondents selected that option. Some choosing the "other" option said they relied equally on external and internal databases. Meanwhile, nearly 10% do not have a systematic way to track bad actors.

About a third of respondents said their primary method was to maintain an internal list of fraudsters. One person wrote that their process was to "double and triple check paperwork." That sort of siloed knowledge, while useful in the short term, leaves companies vulnerable down the road. These aren't permanent, future-ready solutions, and they point to an underutilization of shared knowledge.

What is your primary method of tracking bad actors within the freight transportation process?



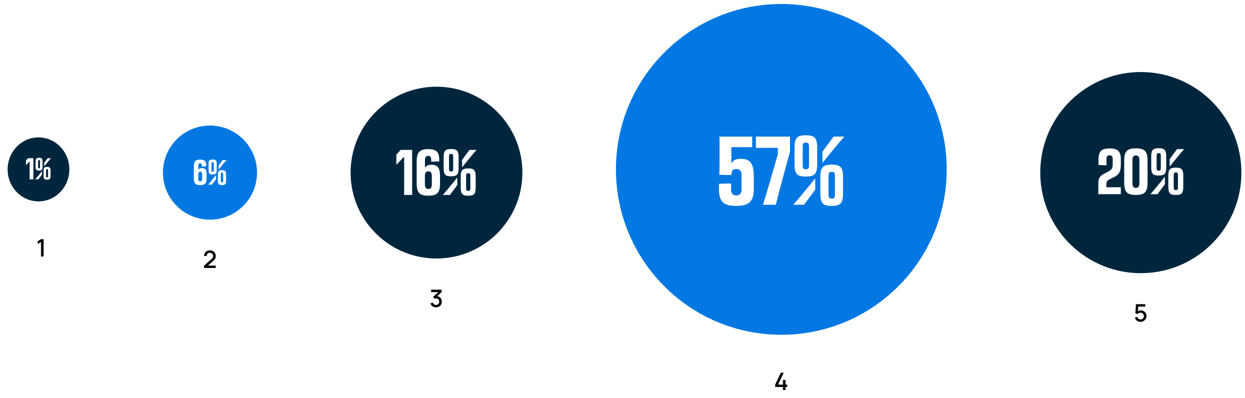
The lack of widespread use of external resources might stem from several factors. It could be due to unawareness of available resources, concerns about the reliability of external data, or the potential costs and complexities involved in integrating external resources into existing systems and workflows.

But there is a strong case for leveraging external resources in the fight against double brokering. Industry databases, reporting systems and other resources can provide additional layers of information and verification that can be invaluable in detecting fraudulent activity. They offer a broader perspective, one that individual businesses, limited by their specific networks and interactions, might not be able to access.

Moreover, these resources often benefit from the collective input and scrutiny of a wider community of users. This means that their data is continuously updated and refined, offering a dynamic tool for tracking bad actors. External resources can provide benchmarks and best practices that help businesses improve internal processes.

Given these advantages, the underutilization of external resources highlights a potential area of improvement for the industry. As the battle against double brokering intensifies, these resources could prove crucial allies, offering insight, support and an expanded field of view in detecting and mitigating the issue. As such, industry players may need to consider how they can better integrate and leverage these resources in their operational and risk management strategies.

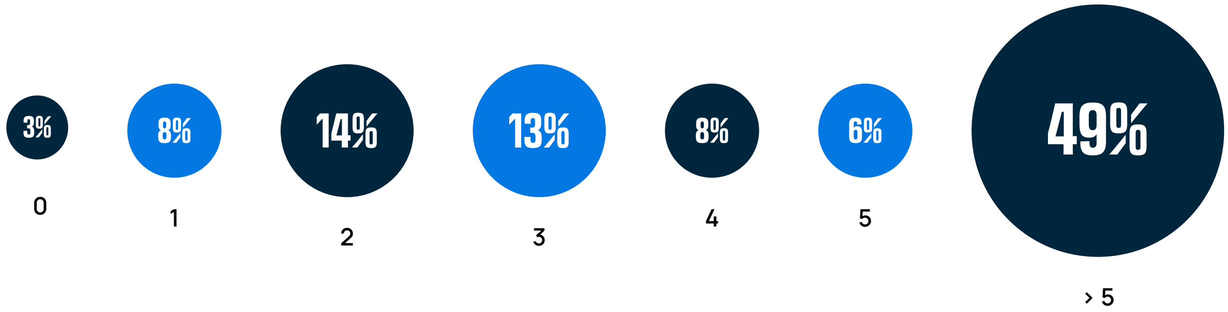
How confident are you in your ability to detect a double brokering situation (where 1 is "not at all confident" and 5 is "extremely confident")?



Despite the fact that 85% said they had lost money to fraudulent double brokering in the prior quarter, respondents nevertheless feel confident in their ability to detect it. Nearly 20% said they were extremely confident, and the total weighted average was 3.89, which levels out to moderately confident.

Evidently, brokers are still struggling with double brokering. Otherwise, they wouldn't be losing money. In any case, brokers have plenty of room to grow on the automation front. Effectively tracking fraudsters requires a lot of employee hours at present. What if carrier identity could be ensured automatically, beyond a shadow of a doubt?

How many members of your organization are responsible for identifying fraud or double brokering activitiy?



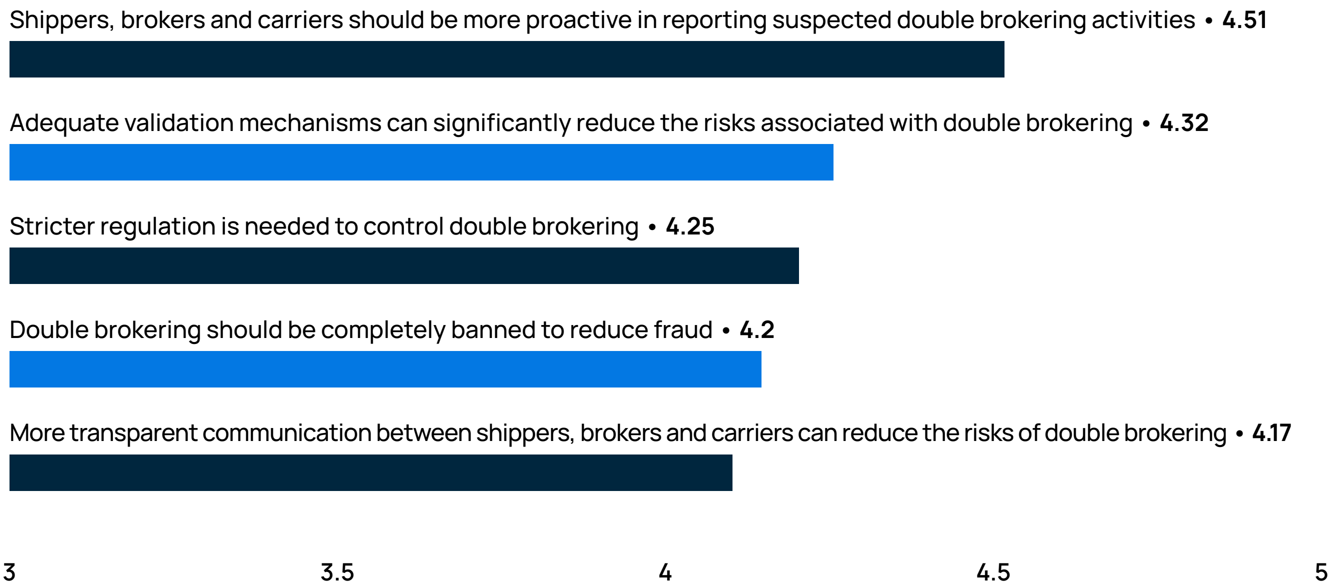
INDUSTRY RESPONSE & TRUST FACTORS

In the freight transportation industry, where business transactions often occur between geographically distant parties who may never meet face to face, trust is fundamental. It is not merely a desirable quality but a prerequisite for the smooth operation of a complex supply chain network. This trust encompasses both the broker's integrity in fulfilling its commitments and the carrier's ability to meet its transport obligations.

However, fraudulent double brokering introduces a significant trust issue. It is a wolf in sheep's clothing, posing as a legitimate carrier only to further broker the load to another carrier. This has the potential to fracture relationships among brokers, carriers and shippers, leading to a ripple effect of mistrust that can destabilize the entire ecosystem.

The industry's response, as our survey suggests, is a call to arms for stricter regulatory control, proactive reporting and the total prohibition even of double brokering that does not cross the line into fraud. These measures reflect the industry's recognition of the severity of the issue and its determination to tackle it head-on.

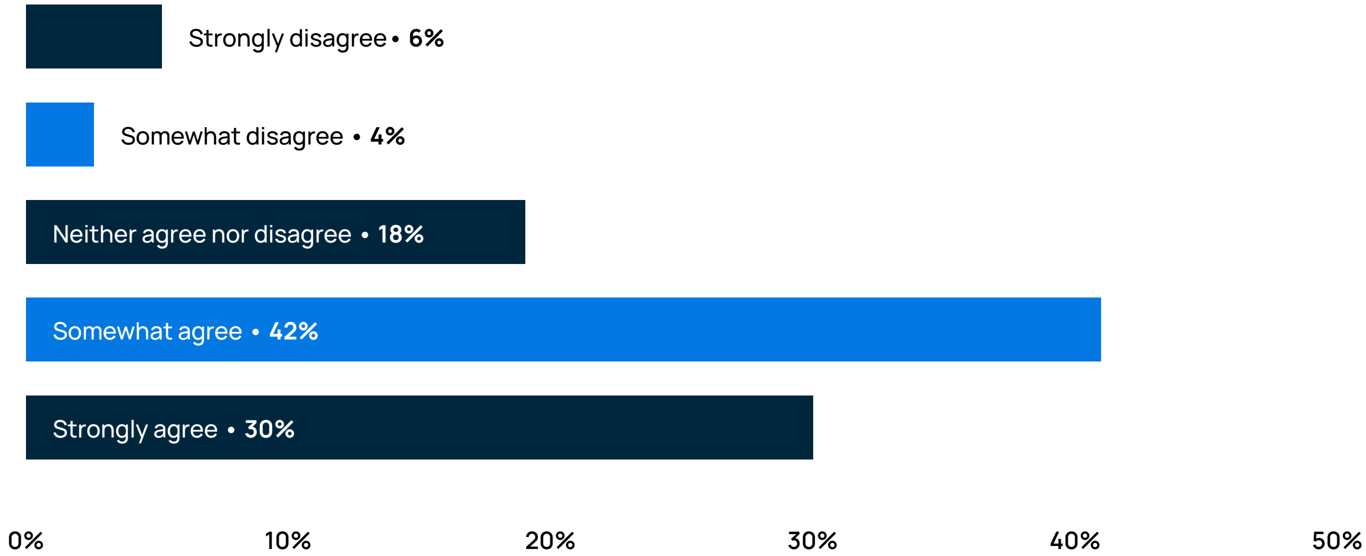
Please rate your level of agreement with the following statements about measures to mitigate the risks associated with double brokering (where 1 is "strongly disagree" and 5 is "strongly agree").



The TIA has taken a lead role in amplifying awareness, making the fight against fraudulent double brokering one of its primary concerns in recent years. This comes in response to the growing understanding of the scale of the issue, with estimates suggesting that more than half a billion dollars in freight is affected by double brokering each year.

Trust, an essential component of business relationships in the freight transportation industry, is significantly influenced by a broker's payment processes. Approximately 72% of respondents agreed with this statement, signaling the strong correlation between payment practices and trust levels. This suggests a need for the industry to reevaluate its approach to payment processes.

"A carrier's trust in a broker is significantly influenced by broker's payment processes."



Traditionally, the industry has operated on a "trust-but-verify" basis. However, given the prevalence and impact of fraudulent double brokering, it may be time to transition toward a "verify-then-trust" approach. This means that brokers' payment practices would need to stand up to rigorous verification before establishing trust. Verified data can serve as the foundation for making business decisions, helping to safeguard against the risks posed by fraudulent double brokering.

CONCLUSION & RECOMMENDATIONS

The findings of our survey underscore the pervasive and complex nature of double brokering in the freight transportation industry, particularly when it involves fraudulent activity. With 78% of respondents acknowledging the widespread prevalence of double brokering and 85% having felt its financial impact, it is clear that the issue belongs at the forefront of industry discussions and actions.

Our analysis also highlighted the importance of trust factors in the industry, with 72% of respondents agreeing that a broker's payment processes significantly influence their trust level. The industry's current reliance on internal processes and tools, rather than external resources (or a combination of the two), suggests an area for improvement in the battle against double brokering.

Based on these findings, we recommend the following considerations to address the issue of double brokering:

1. **Verification**: Brokers, regardless of size, need to prioritize verification. This includes both load verification and carrier identity verification. Knowing the specifics of the load and who exactly is hauling it can significantly reduce the chances of fraudulent double brokering.
2. **Equipment**: Understanding how much freight a carrier is physically capable of hauling is also crucial. Once the checks and balances are in place, it becomes a simple math equation: the amount of freight, the number of trucks and the number of miles run. With these details verified, the likelihood of an entity successfully engaging in fraudulent double brokering is significantly reduced. For instance, it's a red flag if a carrier has two trucks and has run 150,000 miles this month.
3. **Economy**: The market is cyclical. Following a period of historically high margins in 2021, margins are now slim, making every dollar important. Money lost to fraudulent double brokering has a significant impact, underscoring the importance of preparing for this issue before it occurs.
4. **Liability**: Both big carriers and small carriers/brokers have different liability concerns. For big carriers, maintaining shipper relationships is crucial, while small carriers/brokers may need to address insurance issues more immediately.

To tackle double brokering, TriumphPay, a carrier payment platform that connects brokers, shippers, factors and carriers, has entered into a strategic partnership with Highway, a technology provider specializing in carrier identity management. This partnership comes as a response to the growing issue of fraud schemes.

The tools traditionally used to combat double brokering have relied on broker reports, publicly available information and basic scoring models. These methods, while helpful, have had limited success in stanching fraudulent activity. The collaboration between TriumphPay and Highway aims to enhance these detection capabilities.

TriumphPay brings to the partnership a wealth of data on freight spending, while Highway contributes detailed information on carriers and their equipment. By combining these data sets, the partnership aims to identify carriers that are handling more freight than their actual equipment would allow — a common indicator of double brokering.

The partnership will provide customers with valuable information to prevent fraudulent actors from being loaded and paid and continued ability to monitor those carriers and their activity moving forward. This enables customers to focus on what matters most: Growth.