

Reading Behind The Lines: How Identity Fraud Really Happens

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Digital ID World



A Brief Word...

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Who is Javelin?

- Javelin Strategy & Research provides research and consulting for financial services, payments, fraud, e-commerce and billing
- Clients: Leading financial institutions, payments firms, merchants, billers and industry technology providers
- Research operations based in Pleasanton, California
- Strategic Consulting located in Arlington, Virginia
- In major media over the last 3 Months, our 2005 Identity Fraud Survey Report has been cited an average of 20 times each day

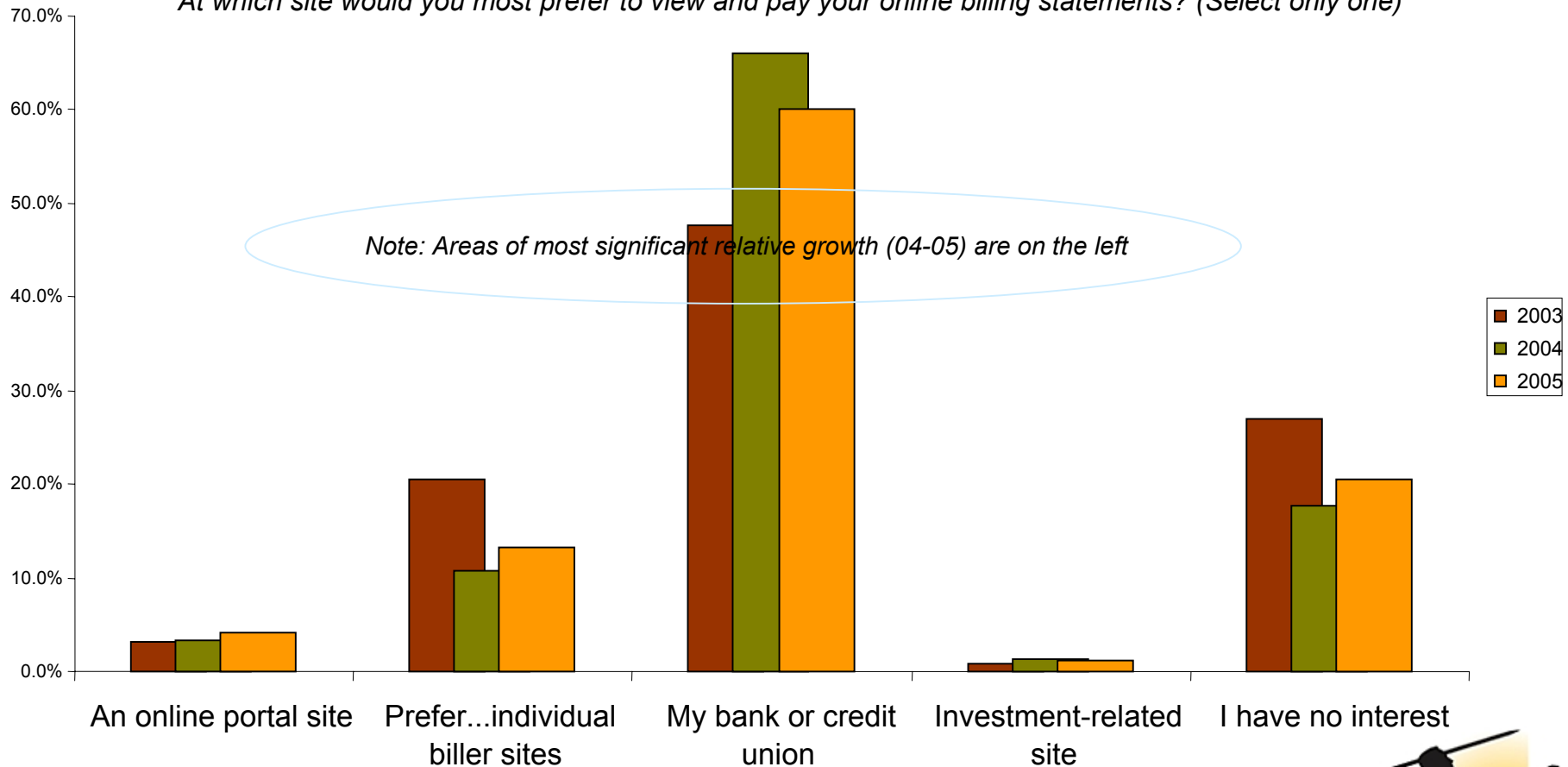
Identity Case Study Addition: Among E-Billing Models, a Contradiction

Consumers largely prefer one e-billing model, but adopt another. What can we learn about product requirements and business opportunities for identity services?

For e-Bills, Consumers Prefer Their FI

Where Do Consumers Prefer to View and Pay Their Online Bills?

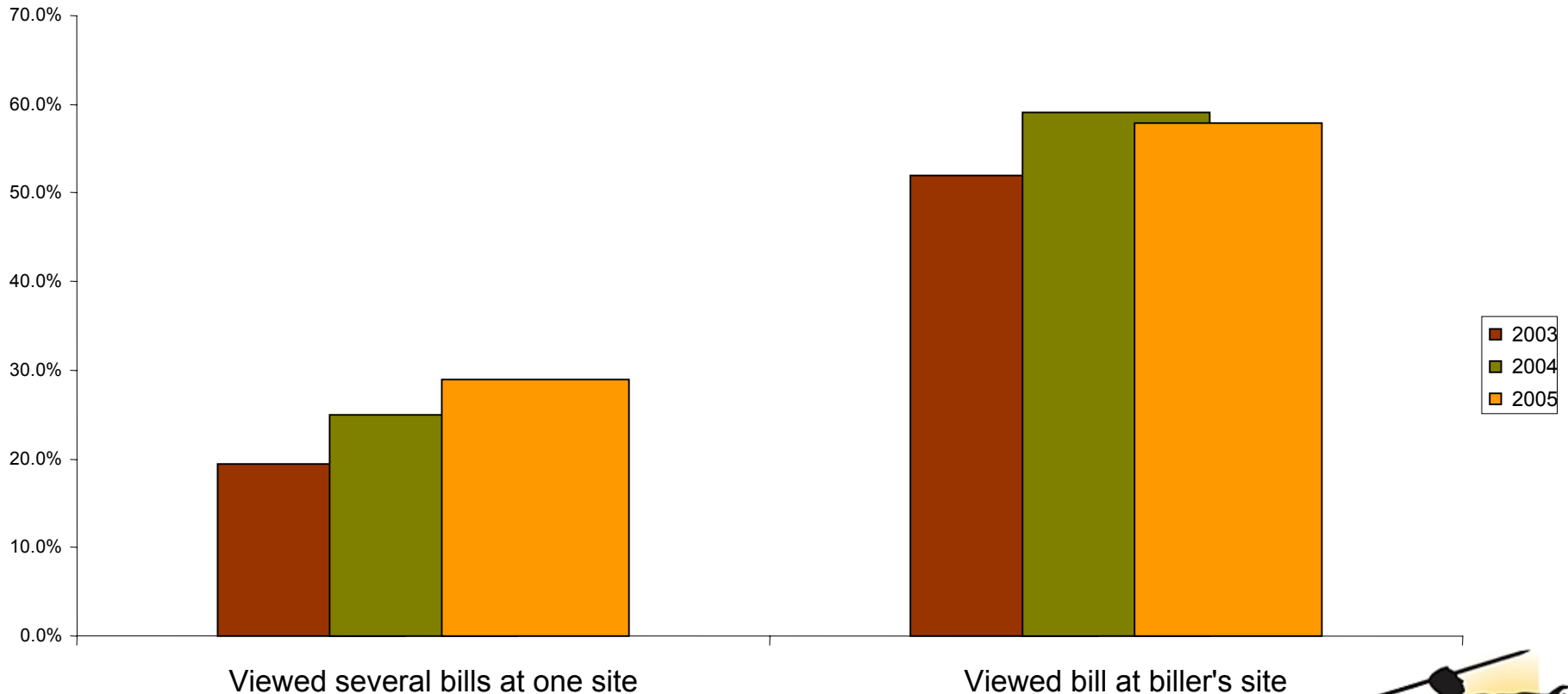
"At which site would you most prefer to view and pay your online billing statements? (Select only one)"



Biller-Direct has More Adoption, While Consolidated Model has More Growth

What Mainstream Online Finance Applications are Growing Most Rapidly?

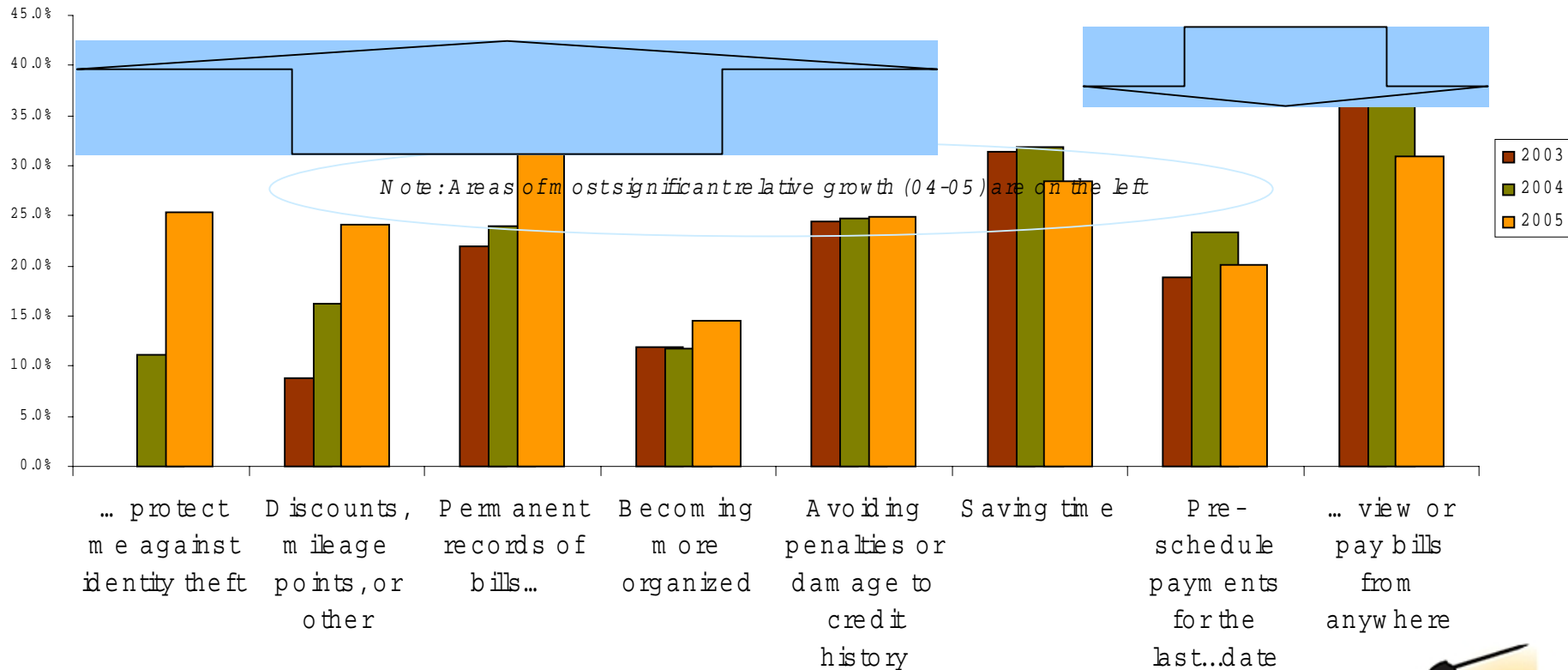
"Please indicate the last time you conducted each of the following online financial activities." (Conducted in the last 30 days)



Fear of Identity Fraud is the Fastest-Growing e-Billing Barrier

What Capabilities Would Motivate Consumers Most to View Their Billing Statements Online?

"In regards to online bills and statements, which of the following capabilities would motivate you most to view your billing statements online rather than on paper? (select up to three)"



Why Does Identity Fraud Matter?

- Identity fraud is large, violating over 9mm consumers and many business organizations' identities
- The annual cost is \$52.6 billion per year, for consumer crimes alone
- Merchants and financial sector providers pay the bulk of the cost, both directly and through productivity, systems and procedures, and reputation
- Consumer victims will spend an average of 28 hours restoring their affairs
- Merchants, financial sector firms, and end-users also lose as individuals shy away from particular purchases or services
- The good news—while identity fraud is widely misunderstood, it is also:
 - Often preventable through better education
 - Very detectable (often as consumers use what they are most afraid of)
 - Providers can also gain by partnering with customers in innovative ways

Our 2005 Identity Fraud Survey Report is:

- Co-released with the Council of Better Business Bureaus
- A follow-up to the Federal Trade Commission's 2003 Identity Theft Survey Report (who provided valuable expertise)
- Made possible by our sponsors: Visa USA, Wells Fargo Bank and CheckFree Services Corporation. (Note: Sponsors contributed to questionnaire content, but were not involved in the tabulation, analysis or reporting of final results.)
- A large-scale, multi-channel, random-sample independent report that should not be confused with:
 - The FTC Consumer Sentinel data
 - Internet-only surveys and attempt-based estimates
- Counterintuitive and actionable!



Annual Rates & Cost of Identity Fraud

Cost of Identity Fraud in the Last 12 months

	Mean cost per fraud victim	Fraud victims as percent of U.S. adult population	U.S. adult victims of identity fraud	Total one year cost of fraud
2004 Survey	\$5,686	4.25%	9.3 Million	\$52.6 Billion
2003 Survey	\$5,072 ¹	4.70%	10.1 Million	\$51.4 Billion ¹

Rates of Identity Fraud in the Last 12 months

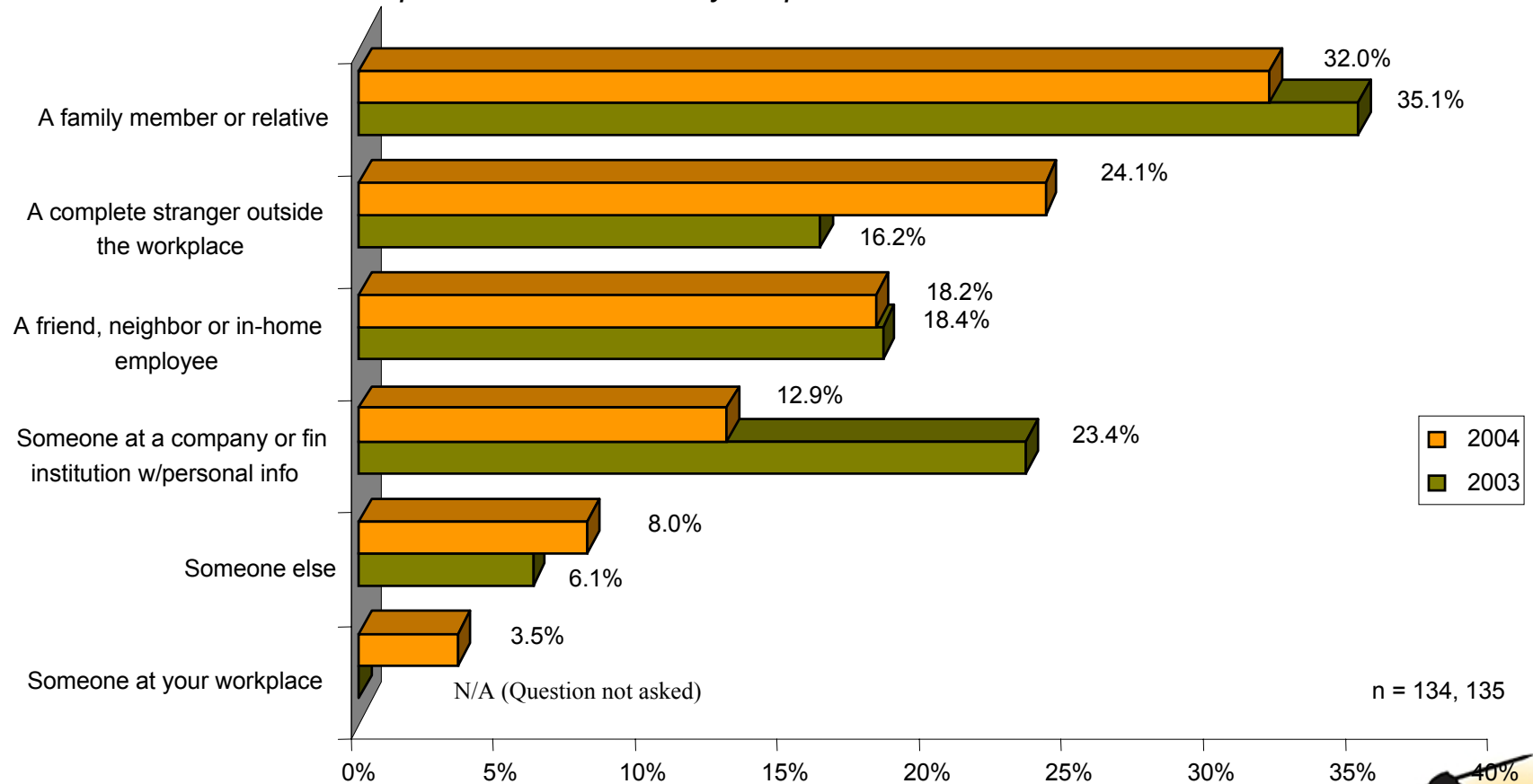
	Existing Credit Card Accounts fraud	Existing Non-Credit Card Accounts fraud	New Accounts and Other Frauds
2004 Survey	2.28%	1.15%	0.83%
2003 Survey	2.6%	1.1%	1.0%

Existing Card vs. New Account Fraud

Type of Identity Fraud:	Existing Credit Card	New-Account
\$ Amount of Crime	Lower	Higher
Out of Pocket Cost	Lower	Higher
Detection Time	Shorter	Longer
Portion Detected by Companies	Higher	Lower
Leading Cause of Theft	Lost or stolen wallet, checkbook or credit card	Friends, acquaintances, relatives
How Victims First Learned of the Crime	Company notification <i>and</i> account monitoring (via paper)	When contacted by a debt collector

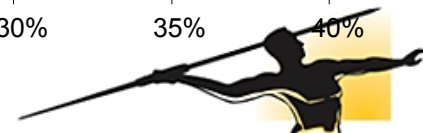
Perpetrator is Someone Close in Half of Known-Criminal Cases

Q15 (Asked only of those who knew the identity of the person) "Who was the person that misused your personal information?"



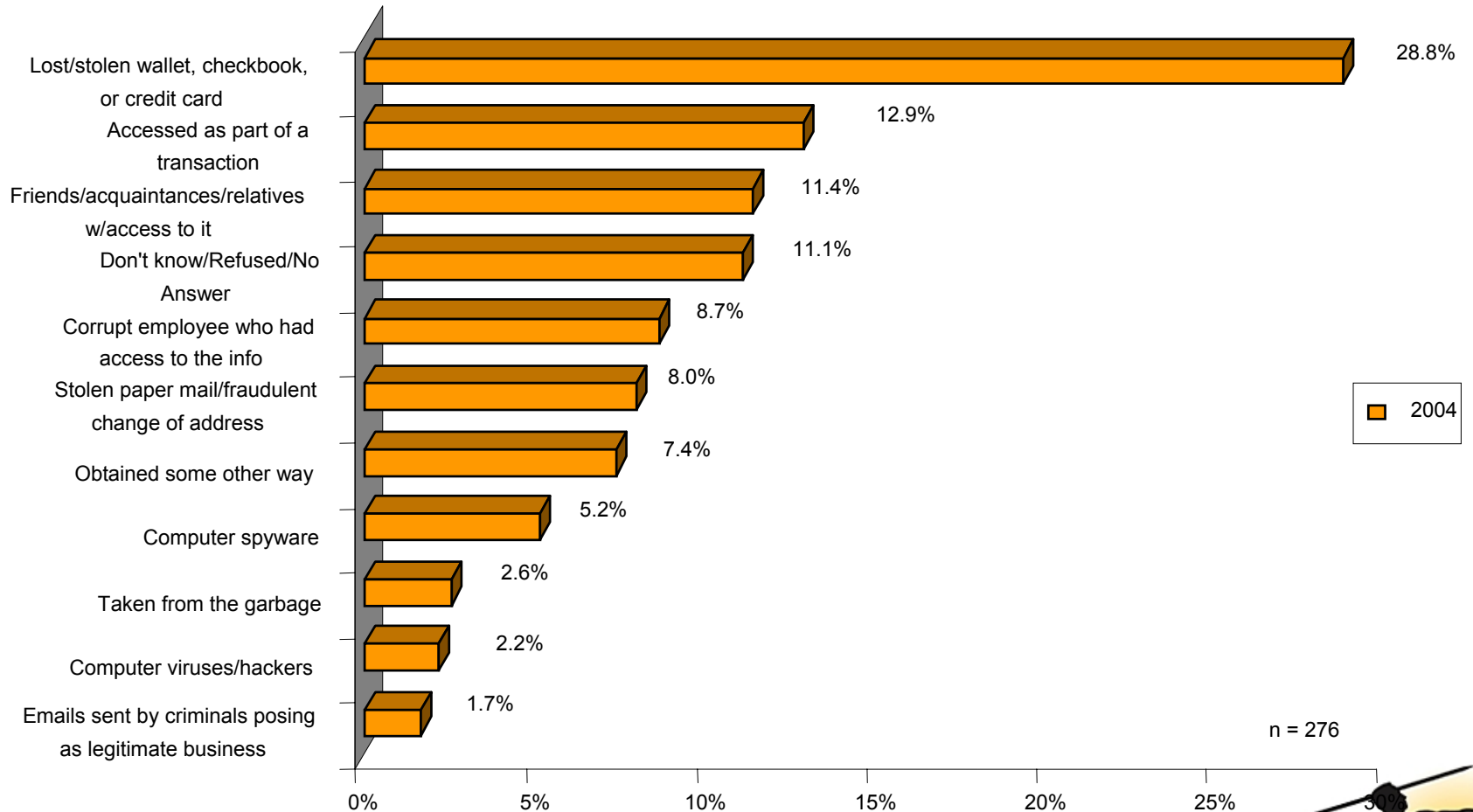
n = 134, 135

Identity Fraud Survey, September – October 2004 and FTC Identity Theft Survey March-April 2003



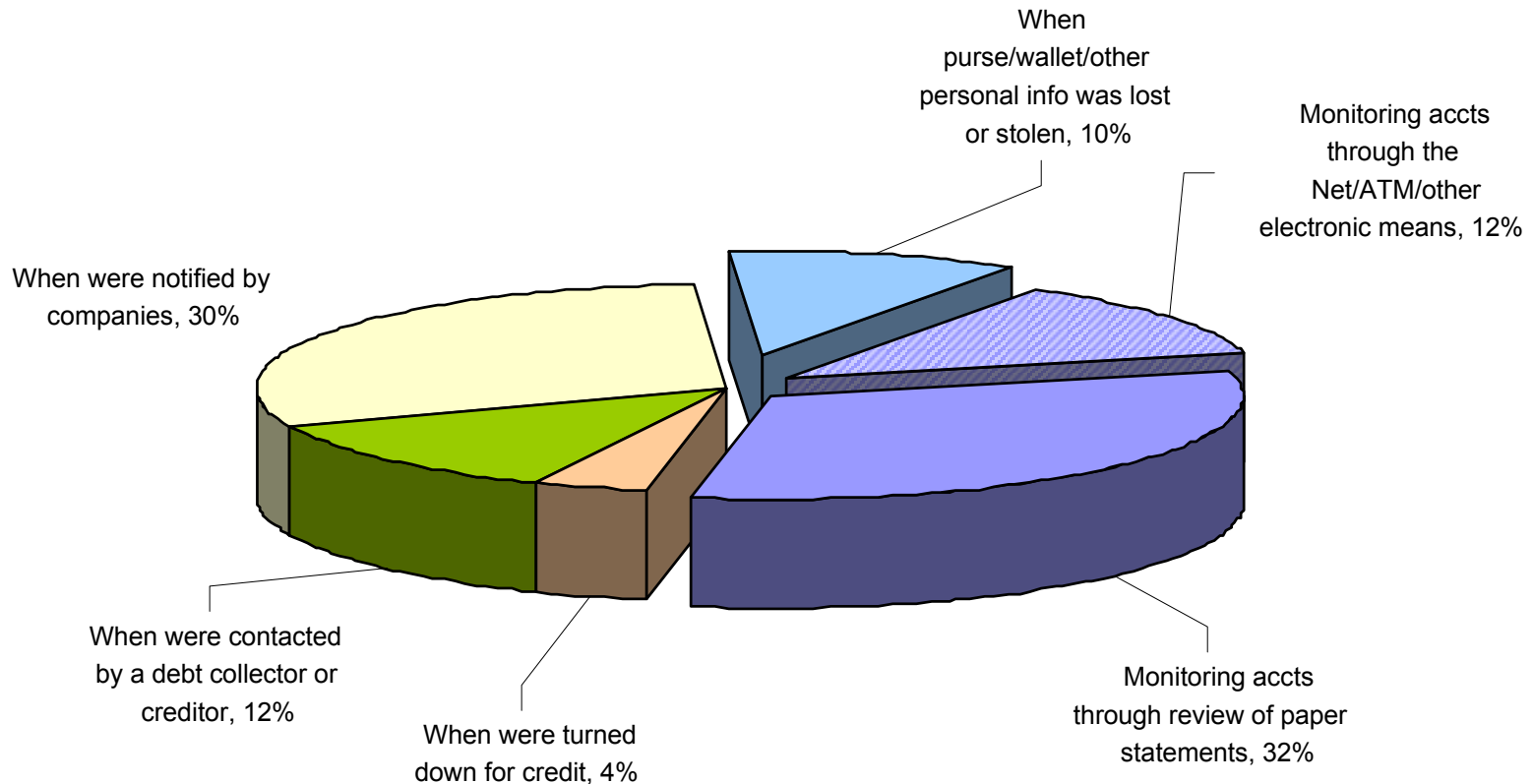
Identity Theft Often Happens Traditionally in Known-Cause Cases

Q17 (Asked only of those who knew how personal information was obtained) "How was your personal information obtained?"



Most Identity Fraud is First Discovered by the Victim

Q13 "How did you first find out you were a victim of identity theft?"



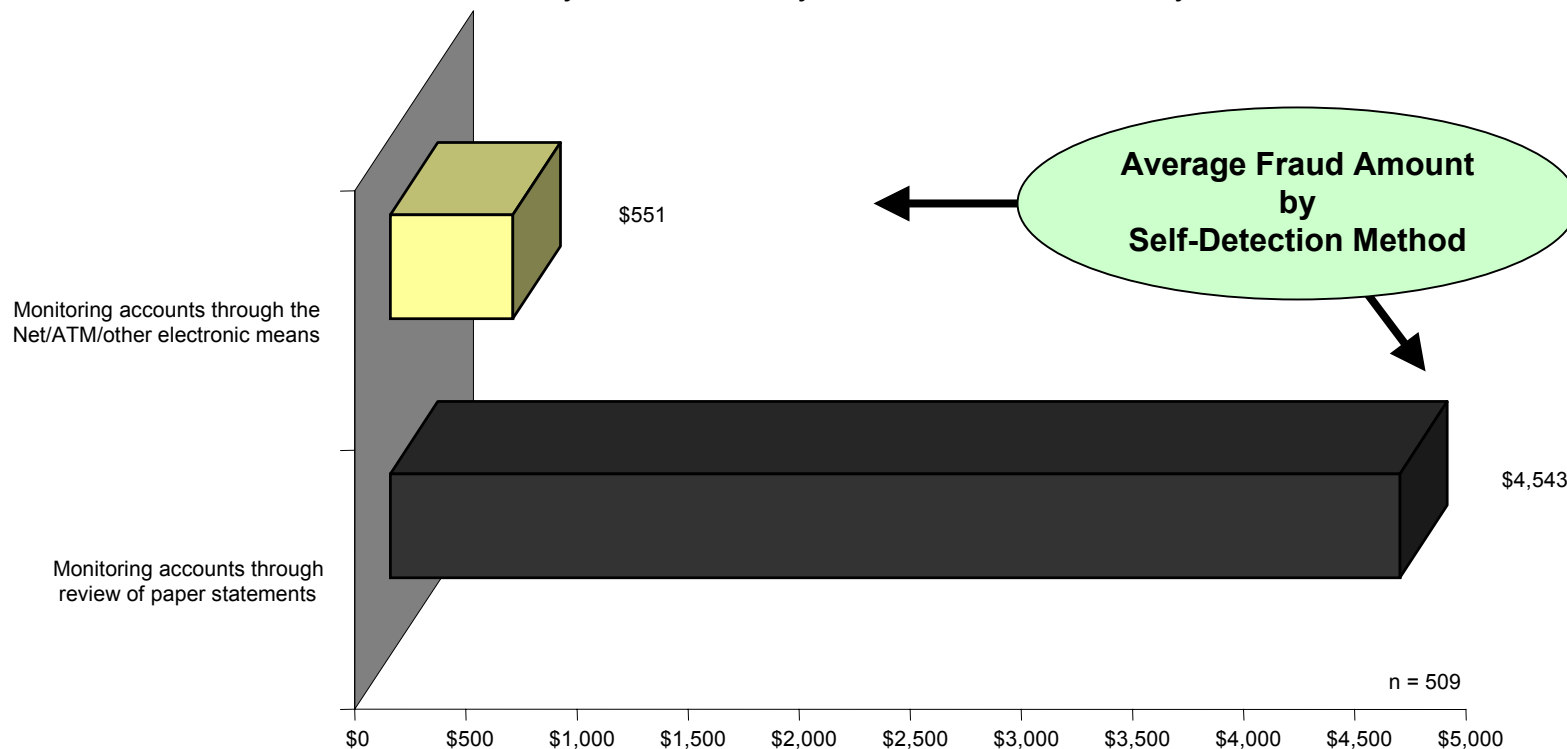
n = 509

Identity Fraud Survey, September – October 2004



E-Detection Finds Losses 1/8th of Paper, Among Those Detecting Loss Thru Account Monitoring

Q13 "How did you first find out you were a victim of identity theft?"



Identity Fraud Survey, September – October 2004

Additional Resources

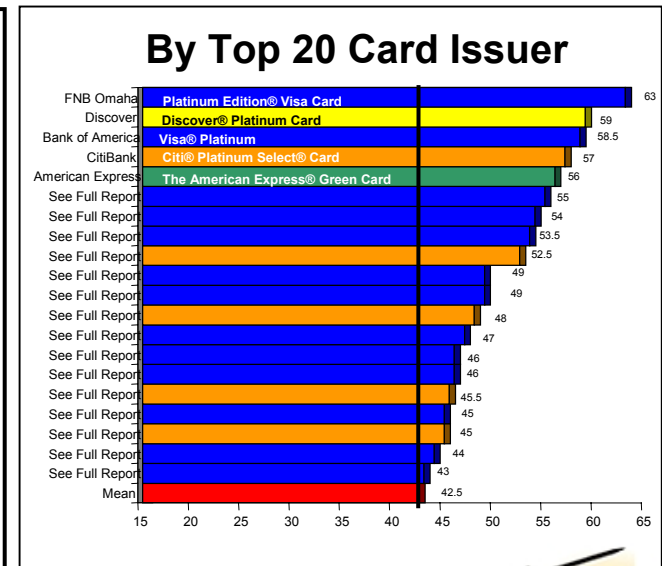
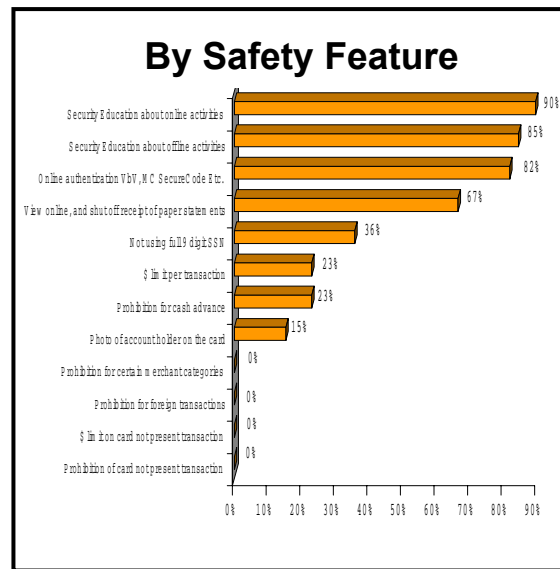
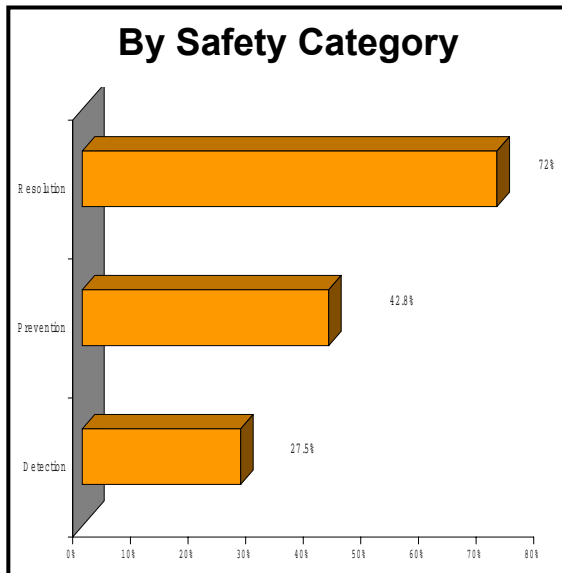
Take the Identity Safety Quiz at www.IDSafety.net

- **Personal:** Individuals may be advised to...
 - Reduce access to sensitive paper bills, statements, checks, or other records from mail boxes, trashcans, desktops, and vehicles
 - Never give out private information without confirming the other party's identity. This applies to all types of communication: Internet, phone, in-person, and more.
 - Monitor your financial accounts at least twice per week
 - Protect your computer with anti-spyware, anti-virus and a firewall
 - Check your credit rating as often as possible
- **Professional:** consider the full identity fraud report as a way of understanding market opportunities and product requirements



Online Payments Providers Sites Have Significant Differences in Safety Features

- **Uses the Prevention, Detection and Resolution™ model to rate customer-facing identity safety factors of card issuers**
 - Detailed analysis of largest 39 US Credit Card sites shows significant differences from one site to the other
 - Recent study of top DDA sites showed similar pattern of variance



Summary

- Our goal: Provide **accurate, balanced** and **complete** research to harness industry opportunities and fight the \$52.6B identity fraud problem
- **We must improve** in several areas:
 - Clearer use of definitions (*fraud* vs. *theft*, for example)
 - Use of rigorous, cross-channel research
 - ABC of fraud education: Accurate, Balanced, and Complete
 - Tear down walls between risk experts and account-holders (how can identity services play a role?)
 - Provide services to promote Prevention, Detection and Resolution TM
- *Questions or Comments?*

Thank You!

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Appendix Follows

Methodology Overview

- The 2004 Javelin survey included most questions that were deployed in the 2003 FTC *Identity Theft Survey Report*, while making minor changes in a discrete number of areas

Examples:

- Converting selected open-ended questions into structured-response form
- Removing a small number of previous questions such as those that probed in detail on issues regarding telecommunications services
- As with the FTC study, Synovate was responsible for all phases of data collection, including Computer Assisted Telephone Interviewing (CATI) programming, testing, and telephone interviewing
- 4000 consumers were polled (September 17 to October 10, 2004) yielding interviews with 507 fraud victims. For comparison, the FTC's 2003 *Identity Theft Survey Report* reached approximately 433 fraud victims.
- After weighting the responses to standardize to national demographics, the 2004 survey's number of victims interviewed was 509 compared to the 2003 survey's 514 victims.

