

Electronic authentication: Breaking the paper chain

An Experian white paper



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1. Introduction

1.1 Foreword

Who are you? Most of us are just who we say we are, but there are many other people who want to be us too. Armed with a few easily obtained pieces of paper, anyone determined enough can steal our identities and cause enormous disruption to our lives in the process.

Organised crime has turned to identity fraud in recent years, but so too have opportunistic individuals lured by the prospect of easy access to someone else's bank accounts or credit cards. Money is inevitably the underlying reason for identity fraud, which has alarming consequences for its victims.

1.2 Fact file

Identity fraud is one of the fastest-growing forms of fraud around the world, and one of the easiest to perpetrate.

- 80,000 cases of identity fraud were reported in the UK in 2006 – up from just 9,000 in 1999
- Victims of identity fraud have claimed to spend up to 200 hours and £8,000 clearing their names
- In 'total hijack' cases, many organisations may be involved; and victims suffer damage to their credit status, which can put victims' ability to obtain insurance, a mortgage, credit cards, even a tenancy, at risk
- Identity fraud costs the UK economy £1.7 billion

It is relatively easy to acquire paper documents that claim to identify an individual uniquely by making or purchasing forgeries, stealing originals or, merely by applying for copies of them.

It is also easy to find organisations willing to accept these documents as proof of identity. Many banks, telecommunications companies, retailers and other commercial operations still accept paper documents for identity purposes, despite the flaws in their security.

Electronic authentication presents a safer alternative to identity checking than paper but is still not in universal use, suggesting that consumers and businesses are still at risk of identity fraud.

1.3 Research summary

Experian commissioned research in 2007 to establish how seriously consumers and businesses view authentication, and to determine how electronic authentication is perceived against paper-based approaches.

A representative sample of 1500 UK consumers (18+) and anti-fraud, compliance and risk decision-makers across 70 businesses were polled. These businesses fell within three sectors, financial services, retail and telecommunications, where those consumers and services providers are deemed to be at risk from identity fraud.

The report also draws on research from government bodies such as the DVLA and the Identity and Passport Service (IPS) to assess the problems surrounding paper-based authentication.

The results show that consumers are concerned about the impact of identity fraud and are uncomfortable with paper-based processes. They displayed serious concerns over the security of identity documents, with 36% of respondents believing that it is easy to forge even a passport.

68% of consumers also found paper-based processes inconvenient or very inconvenient. 30% of 18 to 24 year olds claim to have delayed or given up on applying for a new account due to difficulty in providing the necessary paper-based document as proof of identification.

71% of businesses on the other hand seemed to recognise the significant challenge that identity fraud poses to their organisation, yet 49% still rely heavily on paper when it comes to authentication. They understand the benefits of electronic over paper but when considering its adoption, they cite various familiar barriers – time, budget and concerns over ROI.

This not only leaves businesses exposed to fraudsters but means they could lose their customers' trust and do significant damage to their brand value.

“49% of businesses still rely heavily on paper when it comes to authentication”

2. Results

2.1 What the papers say

Many of the problems with identity fraud stem from this historical reliance on paper-based documents.

Passports date back to the 15th century and are still regarded as the gold standard for authentication of identity but they were never originally designed for that purpose.

Despite nearly 600 years of history, it is only in the 21st century that serious efforts are now being made to establish the passport as a credible record of indisputable identity. Yet loopholes still exist. The Identity and Passport Service (IPS) had 16,500 fraudulent applications during the 12 month period to September 2006, 10,000 of which went undetected. There were also numerous arrests of professionals falsely countersigning passport applications.

Other paper documents such as birth certificates are widely available from forgers and even from authorised sources.

A government-issued copy of a UK birth certificate can be ordered by anyone on the internet or through the post, armed with only the most basic information about that individual's life. Driving licences, too, are regular targets for fraudsters.

- The IPS had 16,500 fraudulent applications during the 12 month period to September 2006, 10,000 of which went undetected
- Around 2,500 fraudulent applications for driving licences were detected by DVLA in the 12 month period to March 2007
- Nearly 5,000 driving tests were stopped due to doubts over the identity of the person sitting the test in 2005

Staff in banks, high-street shops and other commercial organisations are rarely trained to identify forged or invalid documentation. Therefore, they are easy prey for fraudsters.

Agencies, such as the DVLA and the IPS, also do not share their data with the private sector. This means that businesses, for example, have no way of matching a driving licence number to an individual's name and address, other than by relying on a paper document.

This makes it extremely difficult to build consistent data about emerging patterns of fraud and the individuals behind them.

2.2 Making paper history

Electronic authentication is one of the most important weapons in the fight against identity fraud. It tracks the key financial events in people's lives and cross-references them all electronically. Just as someone's financial record typically begins when they acquire their first bank account, so too does their electronic identity footprint. All subsequent events in their timeline are reported and captured by the banks, credit companies, mortgage lenders and other third parties as they occur.

So consumers all have a unique financial history, which can be researched and confirmed electronically in ways that paper processes cannot match. Only the people with that specific history will be able to answer questions about it and equally fraudsters are unlikely to be able to assume someone else's identity if they are unable to answer those questions correctly.

The speed and reliability of electronic authentication mean that fraudsters can be identified quickly, long before they can cause financial or reputational damage.

To be really effective, consumers need to understand its benefits over paper; and businesses need to start taking identity fraud as seriously as a £1.7bn problem deserves. So how well educated are today's consumers, and how effectively are businesses addressing the authentication problem?

2.3 Key Findings

Identity fraud: a problem for consumers

Overall, 79% of consumers think that identity fraud is common in the UK. More than 70% believe that it is easy to forge utility bills and bank statements, while nearly half of the people surveyed think the same about driving licences. And 36% of respondents believe that it is easy to forge even the most valuable identity document, the passport. In the eyes of the UK's consumers, identity fraud is clearly a problem.

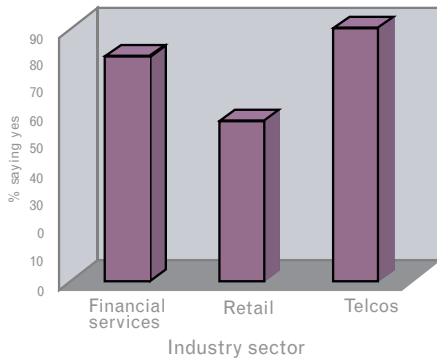
A challenge to business

How well do the consumer statistics match the views of businesses? Perhaps unsurprisingly, respondents across all three of the surveyed sectors recognise a problem, with over 71% in total stating that identity fraud represents a significant or very significant challenge.

The telecommunications industry sees it as a major problem, almost certainly as a result of high levels of fraud related to pay-as-you-go phones, false contracts and abuse of stolen mobiles. 90% of respondents in this sector considered identity fraud a significant challenge.

By contrast, 43% of retailers think that identity fraud is not a significant challenge to their business. This is a likely reflection of the fact that their financial and credit facilities are undertaken by third parties who bear the risk and cost of fraud.

"Is ID fraud a significant challenge?"



Authentication – a moving feast

Despite these variations, companies generally seem to think authentication is a good idea. 90% of financial services organisations and 80% of telcos say that they always authenticate customers. Retailers, with their substantial cash-based businesses, are not as consistent in their actions, with only 23% claiming to always authenticate their customers. However, 33% of retailers authenticate when there is a legal requirement to do so and 17% when large transactions are involved.

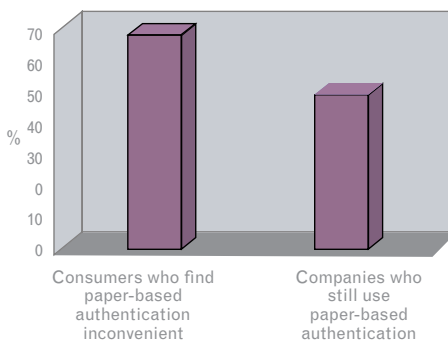
The way in which companies go about authenticating customers does not offer as much encouragement. Nearly half of financial services companies (43%) and nearly a third of telcos (30%) still authenticate customers via post, requiring customers to send paper-based documents that might easily be intercepted. This is clearly a substantial risk factor in its own right, but it also creates barriers for customers.

While 38% of consumers have sent paper-based documents in the post as proof of ID, 60% of them felt uncomfortable doing so. This number rises to 70% amongst 25-34 year olds – evidence that younger people are more alert to the dangers associated with paper documents if they fall into the wrong hands.

Breaking the paper chain

Consumers generally dislike paper-based authentication, either for reasons of risk or inconvenience. 68% of them find it inconvenient or very inconvenient to provide paper-based documents; and nearly a third of consumers aged between 18 and 34 have given up trying to open accounts with companies because of the difficulties in providing the necessary paper-based documents. But despite this clear discomfort level, most organisations retain paper-based authentication at some level – 70% of financial organisations, 36% of retailers and 40% of telecommunications companies.

Breaking the paper chain



A reluctant industry

Experian's research showed that paper processes are still deeply entrenched in some surprising places. Of the financial services companies that use a combination of paper and electronic systems, a quarter concede that over 75% of their authentications are actually paper-based. So even where the need for good authentication is greatest and the technology is available to do it, paper often still predominates.

Planning to move?

So what growth potential is there for electronic authentication? There is nearly universal agreement on the benefits of electronic authentication over paper and 40% of financial services organisations currently

using paper plan to adopt electronic authentication in the next year.

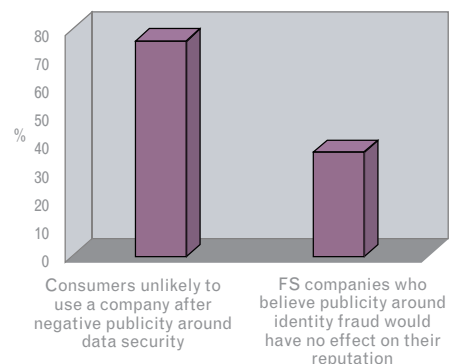
This is a big contrast with the retailers, with fewer than 10% planning to move to electronic authentication in the next year and over 70% definitively planning not to. Companies cite various familiar barriers to the adoption of electronic authentication – time, budget and concerns over ROI. The perceived benefits of adoption are also interesting, with 58% of respondents citing a reduction in risk of fraud as a main benefit of electronic authentication over paper compared to 63% of respondents rating cost-effectiveness.

Reputations at risk

Perhaps the biggest surprise, and the biggest contrast, comes from responses to a question about the impact of identity fraud on a company's reputation. Consumers clearly think issues like these matter – 76% are unlikely to use a company in the future if it received negative publicity regarding a breach of sensitive customer information. Yet the companies themselves are ambivalent about this, at best.

37% of financial services organisations and 27% of retailers think that ID fraud publicity would have no effect on their reputation. Only the telecommunications industry, with its greater understanding of new technology and its stronger customer research culture, is truly worried. 80% of telecommunications companies believe that ID fraud would have a detrimental impact on their reputation.

Reputations at risk



3. Conclusion

3.1 Fighting the trend

Companies are still relying on processes that authenticate people at a single moment in time, based on the documents and credentials that have been a part of our identity for decades. But paper-based authentication is no longer safe. So pronounced are its risks that identity fraud is now nearly ten times more common than it was less than a decade ago – a multi-billion pound problem that is placing a strain on consumer livelihoods and business reputations.

Fighting this trend is a critical matter for all companies and their customers. Their success will depend on a fundamental change in the way that they think about identity, and a widespread recognition that paper is no longer good enough to prove that anyone is who they say they are.

In the modern world, identity is dependent not on the documents someone presents today but on their entire financial, social and behavioural history, from their first bank accounts and credit cards to their most recent mobile phone contracts.

There are strong signs that younger consumers are considerably more aware of the risks – and ease – of identity fraud than previous generations, and are actively avoiding companies that put their data at risk. Whilst the perils of paper are still far from clear in the minds of older consumers, and businesses are doing little to enlighten them.

Meanwhile, companies that fail to listen to their customers' views on the importance of their data security may already be suffering reputational damage. That damage can only grow as identity fraud escalates. Electronic authentication provides a way to prevent it altogether.



4. Avoiding Identity fraud

Anne Green, a fraud consultant at Experian, with 20 years experience investigating ID fraud, offers top tips to help consumers and businesses protect themselves from fraudsters:

Top tips for consumers:

- **Regularly monitor your personal credit report using a service such as Experian's Credit Expert.** Check your report for unauthorised or suspicious activity, such as new accounts in your name that you didn't open or credit searches by companies you haven't dealt with.
- **Watch out for your mail.** Fraudsters often obtain documents by stealing or redirecting mail – so keep an eye out for post that you're expecting, and report missing items quickly if they don't arrive.
- **Destroy documents showing your personal details before throwing them away.** Be careful about discarding anything with your name, address or other details on it, as they can be used by fraudsters to open accounts in your name. If possible, use a shredder to destroy documents such as bank statements, utility bills, application forms, chequebook stubs, and card receipts.
- **Keep your information up to date.** Make sure the Royal Mail, your bank, and organisations such as your mobile phone provider are informed of any changes of address. This prevents any document that includes your vital details falling in to the wrong hands by being mis-addressed. When anyone fraudulently applies for an account under your name and previous address, this will be automatically flagged if that organisation is using electronic authentication.

Top tips for businesses:

- **Conduct a data audit.** Be confident that you know what information you hold on your customers and that it is accurate and up to date.
- **Be secure.** Review who has access to different types of customer information, and for what purposes.
- **Use electronic authentication.** It is faster, safer and more cost effective than paper-based authentication. It also removes the need for storage and disposal of sensitive paper documents that could fall into the hands of fraudsters.
- **Don't leave a litter trail.** If you still rely on paper-based processes to authenticate your customers, ensure that you securely dispose of documents that ensure that you securely dispose of documents that you no longer need using a shredder. Never throw documents in the bin.

Sources of help:

Experian
www.experian.co.uk
T: 0800 197 7950

CIFAS
T: 0870 010 _091

For more information on Experian's Authentication Solutions, please visit:

www.experian.co.uk/authentication

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