



A NEW NUMBER FOR YOU TO SWEAT: YOUR ID SCORE

CONSUMER ACTION by Aleksandra Todorova
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YOU PROBABLY ALREADY know how an inaccurate credit score can cause you problems — but what about your “identity score”?

Though most consumers aren't familiar with this type of rating, it's increasingly being used by everyone from car dealers and banks to utilities and wireless service providers. Much as a credit score attempts to put a number on how good someone is at paying their bills, an identity score measures the risk that a consumer isn't who they say they are.

Companies that sell ID scores say their products serve as a weapon to combat that fraud by helping to predict the likelihood of identity theft, which by some estimates cost consumers and businesses \$48 billion last year. Already, such scores are used before most credit-card transactions or loan applications are approved -- and their use is expected to spread. Thanks to new regulations, most businesses will soon be required to use ID scores or some other type of methodology to confirm a customer's identity.

But the growing use of identity scoring is raising some questions, too. Some privacy advocates say the expansion of efforts to compile incredibly detailed consumer dossiers is troubling. Others say the scope of identity theft has been exaggerated -- in terms of losses to both businesses and consumers. And then there's the issue of accuracy: If some of the data used to calculate a score are wrong — due to **errors** in one's credit report, for example — the score will be wrong as well.

A bad identity score — justly or not — is likely to create a number of issues for consumers, ranging from the inconvenience of having to answer some annoying questions when applying for credit to having important purchases or bank transfers slowed or put on hold for a matter of days while thorough ID verification takes place.

Companies that calculate and sell these scores say they're beneficial to businesses and consumers alike. As for privacy concerns, they say that consumers' personal information is never sold or shared with third parties. Some also say identity scores measure identity risk much more accurately than credit scores measure credit risk.

“Credit scores and identity scores should not be viewed with the same lens,” says Thomas Oscherwitz, chief privacy officer at San Diego-based ID Analytics, one of the companies that provide identity scores.

“They have different purposes and are calculated differently.” Heather Grover, senior director of product management at Experian's fraud and identity solutions group, says that consumers can make sure their identity score is accurate by disputing any erroneous information in their credit reports.

While nowhere near as big as the market for credit scores, ID scoring is becoming a fast-growing field.

Players include FICO, which offers its Falcon product for scoring credit-card transactions; Experian's Precise ID, which is used to determine the fraud risk of new account applications; and ID Analytics's ID score, which is sold to companies directly and through partnerships with credit bureaus Equifax and TransUnion. It's an industry estimated at \$1 billion a year -- just from the credit-card issuers alone, according to Brian Riley, research director at financial services research firm TowerGroup.

Thanks to federal regulations scheduled to take effect Aug. 1, that market is only expected to grow. This so-called Red Flags rule will require any business that conducts transactions or extends payment terms to consumers (such as lawyers, retailers or telecom outfits) to have a system in place to identify and resolve red flags that a transaction or application is fraudulent, says Oscherwitz of ID Analytics who helped draft the rules five years ago as a staffer at the Senate Judiciary Subcommittee on Terrorism, Technology and Homeland Security.

Identity scores are calculated based on how certain personal information, such as your name, Social Security number, address, birth date or phone number, is used in transactions or for credit applications.

For instance, your score might be higher -- signifying a higher risk -- if you move around a lot. Other factors that can raise your score, according to companies that calculate them: changing your name (say, after getting married) or living in an apartment building, where many people share the same street address. Even using an out-of-state cellphone number when applying for a car loan can boost your score. If a score is deemed too high, an account application or transaction gets flagged. As a result, the consumer may be asked seemingly random "challenge" questions. They're meant to be questions that fraudsters are unlikely to be able to answer -- but in some cases, they can tax the memory of the authentic consumer. You might be asked the house number where you lived seven years ago, for instance, or the color of the car you owned in college or the issuer of the mortgage on your first home. Further up the inconvenience scale, you might even be asked to visit a bank branch to show your personal identification or to fax information to prove your identity.

And then, of course, there's the faulty information to contend with. David Szwak, a consumer credit attorney and partner at Bodenheimer Jones Szwak & Winchell in Shreveport, La., calls it the "garbage in -- garbage out" problem. Some of the data used to calculate your identity score come from the "above the line" part of your credit report -- which often contains errors.

"Almost every single report that I have seen has personal identification information that does not belong to that consumer," says Szwak. "There are typographical errors, just plain old inaccurate addresses, multiple Social Security numbers on file."

The result: Between 5% and 20% of applications for credit are flagged and less than 1% end up being fraudulent, says Andy Smith, a former vice president of business analytics at the fraud department of Capital One, the big credit-card issuer.

Smith says he often runs into such problems himself. "My last name is Smith, my father and brother's names are David," he explains. While trying to transfer a large amount of funds between trading accounts, he was unable to answer the questions correctly and was kicked out of the system for manual review. The transfer was delayed by three days.

While many consumers are likely to be unaware of the world of identity scores, some companies want to change that. ID Analytics, which says its ID Score is used by some of the biggest banks in the country, as well as major wireless service providers, is now making the score available to consumers at no charge through **MyIDScore.com**.

ID Analytics says consumers can use the score to assess their personal risk that their identity may have been stolen. But the company gets something out of it too: More information for its own database. In order to get the score, consumers must enter their name, address, phone number, date of birth. (Social Security numbers are by request, but providing it is optional.) The result is a three-digit number between 1 and 999 -- lower is better -- that assesses the level of risk that you've been a victim.

Mari Frank, a Laguna Niguel, Calif.-based attorney who specializes in privacy rights and identity theft, says consumers should be aware they're sharing sensitive personal information in order to get their score, which the company can then use to improve its products, according to its **privacy policy**.

CEO Bruce Hansen says ID Analytics may use the information to improve its web site, but does not plan to use it in product development. The company also says consumers can opt out, though the instructions – which require sending an email – are buried in the privacy policy's fine print. ID Analytics says it is working on adding an opt-out option next to the fill-in form within the next month.

And much like the use of credit scores and reports has expanded dramatically over the years, from lenders to insurers and even employers, the potential for identity authentication and scoring is unlimited. Smith, the former Capital One exec, is now building a similar model that predicts instances of insurance fraud. "Stopping fraud is not that hard," he says. "Stopping it without dropping a whole bunch of inconvenience on your customers is the trick."