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EXECUTIVE SUMMARY: RED FLAGS

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Red Flags:

Gaining Perspective on New Identity Theft Prevention Regulations

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According to a Gartner study released in February 2007, identity theft has increased 50% from 2003 through 2006, and more than 15 million Americans were victims of identity-theft related fraud in 2006.[1] In addition, financial services continue to be the primary target of phishing and pharming attacks.[2] In July 2006, the national financial institution regulatory agencies and the Federal Trade Commission responded to these alarming trends by proposing new guidelines referred to as Red Flag Regulations.

The final Red Flag Regulations were released on October 16, 2007 and are outlined in a 256-page report. While the regulations are broad in scope, TransUnion offers a full suite of fraud and identity management solutions that can help financial institutions and creditors address certain regulatory obligations, including:

- Establishing written policies and procedures for preventing, detecting and responding to identity theft.
- Developing and applying reasonable policies and procedures to verify change of address requests and notifications.
- Maintaining and updating policies and procedures to respond to evolving identity theft trends within the organization.[3]

Now more than ever, financial institutions and creditors must take reasonable steps to verify each consumer and validate that the request is authentic. These steps must be comprehensive, documented and clearly identify monitoring and response approaches. There is a critical need in the financial industry for stronger identity verification during the issuance of authority or credentials, establishing a relationship and managing the relationship.

The effective identity management process must be dynamic and must include a structured framework consisting of a flexible approach, quality data, verification and authentication to combat account-usage based identity theft and unauthorized changes to the account, which may provide the best indicator of fraud. Account takeover was the most common fraud method reported in a recent survey.[4] While many financial institutions and creditors have risk-based account monitoring tools to identify anomalous account behavior, Red Flag Regulations outline a more structured and comprehensive approach to preventing and managing fraud.

Red Flag Regulations will help provide more assurance and trust for financial providers and consumers in preventing fraud and managing identity theft. This can help mitigate fraud losses and improve the relationship between financial institutions and consumers.

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1 *Gartner Says Number of Identity Theft Victims Has Increased More Than 50 Percent Since 2003.* Gartner, Inc. February 28, 2007. http://www.gartner.com/it/page.jsp?id=501912 (accessed August 20, 2007).

2 *Phishing Activity Trends Report for the month of May 2007.* Anti-Phishing Working Group. Released July 8, 2007. http://www.antiphishing.org/reports/apwg_report_may_2007.pdf (accessed August 20, 2007).

3 Office of the Comptroller of the Currency, Treasury (OCC); Board of Governors of the Federal Reserve System (Board); Federal Deposit Insurance Corporation (FDIC); Office of Thrift Supervision, Treasury (OTS); National Credit Union Administration (NCUAA); and Federal Trade Commission (FTC or Commission). Identity Theft Red Flags and Address Discrepancies under the Fair and Accurate Credit Transactions Act of 2003. http://www.ftc.gov/os/2007/10/r611019redflagsfrn.pdf (accessed November 26, 2007).

4 Monahan, Mary T. 2007 *Identity Fraud Survey Report: Identity Fraud is Dropping, Continued Vigilance Necessary.* Javelin Strategy and Research. Page 9. February 2007.