

Identity Crisis

Does the fastest-growing crime in America warrant a new form of insurance?

by Ed Simonsen

When Susan Petersen (not her real name) realized her handbag had been stolen from her car outside the Crocker Art Museum in August, she kicked herself for not taking it in with her, filled out a police report and called her bank and credit card companies.

“It was a nightmare,” she says. “As I thought about what was in that purse, I realized that someone had most of my personal information. They had all of my keys. They knew where I lived and what my family looked like from the photos in my wallet. We had some sleepless nights.” She changed the locks on her house and her cars and hoped for the best. The best didn’t happen.

A few weeks later, Nordstrom declined Petersen’s personal check. She was told there was a negative hold on her driver’s license. After some checking with a company that investigates fraud, she discovered that someone had opened three new credit accounts using her information.

Furniture — to the tune of \$3,600 — had been purchased at Sears in her name. Someone had started a Sprint cell phone account using her husband’s Social Security number (which was the identification number on her health insurance card) and her driver’s license. Someone had become Susan Petersen.

Theft of identity is now the fastest-growing crime in America. In 2005, Consumer Sentinel, a national fraud-victim database maintained by the Federal Trade Commission, received over 255,000 identity-theft complaints, 37 percent of all fraud complaints for that year. This was up from 246,000 complaints in 2004 and 215,000 in 2003.

As high as these numbers seem, studies indicate that identity theft actually

touched more than 9 million people in the U.S. last year, with an estimated loss to consumers and businesses of more than \$50 billion. During the minute that it took you to use your credit card at a local merchant today, 15 more Americans became victims of identity theft.

Law enforcement agencies are aggressively investigating complaints of identity theft, but the odds against them are overwhelming. Detectives Jason Collins and Durwin Westgate work for the Sacramento Police Department’s financial crime division.

“We see 15 to 20 new cases added to the complaints queue for the city of Sacramento each day,” says Detective Collins. “Cases are investigated when there is solid evidence, a suspect’s name and a good chance of arrest. Those involving larger losses are generally worked first, but if the leads aren’t credible, a case will be suspended until new information becomes available. Cases can take a long time to investigate.”

Detective Westgate handled Susan Petersen’s case. “Identity thieves can work from anywhere, disguise their actions and fly under the radar for months or years,” he says.

“At one point in the investigation it actually seemed like Ms. Petersen was a possible suspect,” Westgate continues. “Then we got lucky. She received a note from a mini-storage company in town thanking her for her business. She hadn’t done business with that company, so she brought the note to us. We were able to get videotape of a woman coming and going several times. We arrested her at the storage company and found Ms. Petersen’s driver’s license, health insurance card and credit card on her.”

It’s not new, but identity theft seems

to be getting more prevalent. With just a few bits of information, criminals can make purchases, divert billing statements to false addresses, open new accounts and pose as other people when committing crimes.

Unsuspecting and informed individuals alike are falling prey in increasing numbers. Private information in the databases of large corporations is vulnerable to creative hackers anywhere in the world. By trading their guns and getaway cars for computers and cell phones, these identity thieves are increasing their gain while minimizing their risk.

California leads the way in passing aggressive laws to protect its citizens from becoming identity-theft victims. Half of the states in the U.S. now require companies to notify consumers in the event of a database security breach and offer them credit-monitoring services free of charge.

The Better Business Bureau has joined with a group of corporations, including ChoicePoint and Microsoft, to explore more-effective means of protecting consumer information. In addition to information collected and services offered by the FTC, organizations like the Identity Theft Resource Center in San Diego and the California Public Interest Research Group are helping create awareness about theft of identity.

The major credit-reporting agencies — Equifax, Experian and TransUnion — will furnish consumers with credit reports once a year at no charge. Anyone suspecting they have been victimized can place a fraud alert with these agencies requiring lenders to contact them before opening new accounts.

Still, it is up to individuals to keep their financial identity secure, which

isn't an easy task. According to surveys conducted by the Identity Theft Resource Center, 38 percent of those polled did not even learn they had become fraud victims until a year or more after the crime had been committed. Forty-five percent said they did not know how to protect themselves from identity theft in the future.

A recent ITRC survey indicated that, on average, victims spent 330 hours and \$1,200 over a three-year period to recover from theft of identity. FTC statistics, gathered over a larger population sample, are less alarming but nonetheless significant, averaging 30 hours and \$500.

As a result, in the last five years, prevention assistance in the form of credit monitoring and restoration services (which may or may not include insurance coverage) are being made available for those who want peace of mind and are willing to pay for it.

Although the cost of products and services purchased with stolen credit information is generally covered by credit companies and merchants and is not the responsibility of consumers, there are a number of expenses in the restoration process that fall on the victim.

Travelers was the first insurance company to offer identity-fraud expense reimbursement. For an additional \$25 to \$100 per year, a number of insurance companies will provide up to \$25,000 worth of expanded coverage to reimburse customers for expenses incurred while restoring their financial reputation. These can include lost wages resulting from time off work to meet with police or credit companies, some attorney fees, account reapplication and mailing fees and telephone charges.

"I still have my 6-inch-thick file folder," says Irene Sabourin, a vice president at the John O. Bronson Co., a Sacramento insurance broker, and a victim of identity theft herself. "It probably took about 40 hours to correct my records, and even then the problem followed me for years. I have identity-theft coverage today and I recommend it, especially to those who

make a lot of purchases online.

"Companies like Travelers and Fireman's Fund now include identity-restoration services along with insurance coverage, and Safeco is about to offer coverage as well," Sabourin continues. "You turn in a regular claim and an expert does all the work of restoring your credit. This service is selling. No one has time to waste on this sort of thing anymore."

Petersen did not have identity-theft insurance. Some of her losses, like the \$2,000 she spent changing her locks, were covered by her homeowners' insurance. Still, she figures that when this is all behind her she will have lost \$10,000.

Peterson's losses are high compared to most victims, but not as high as they could have been. "And that says nothing of the psychological effect," she says. "I was afraid, frustrated, angry and then shocked when I learned that after all this — even though I had initiated the police report — I had been considered a suspect."

Jeff Wood, a sales manager for the Placer Insurance Agency in Roseville, understands Petersen's feelings. "I would say that 98 percent of my clients include the endorsement for identity theft in their policies," he says. "I feel comfortable recommending it because I've had people call me in a panic and I have been able to connect them with an identity-theft specialist who can guide them through the recovery process. It's not expensive and you never know when something will happen."

Not knowing when something will happen is as disconcerting to business owners as it is to individual consumers. As more and more sensitive information is captured and maintained in company databases, the stakes continue to rise.

"The insurance industry is developing products to protect our business customers from liability resulting from failure to protect private information," says Bob Ditmore, a senior vice president at Travelers. "Five years ago the industry

was thinking about this type of coverage, but companies were not asking for it routinely. Today they are investigating it routinely, and they are just starting to buy it.

"Coverage has not been standardized yet, so it is confusing for businesses," he continues. "But in five more years, because technology won't go backwards, demand will increase, coverage will become more standardized and carriers will provide it."

Does the average Sacramento-area resident need theft-of-identity assistance services and insurance? It probably depends on the individual's habits and preferences. Of the 50 largest U.S. metropolitan areas ranked by the FTC for identity-theft-related complaints in 2005, the Sacramento region was No. 14. Though this is not a particularly comforting number, the odds of becoming a high-loss victim are relatively low.

A substantial amount of money and effort is being applied to the security problem by the technology community. Interestingly, the Identity Theft Resource Center found that 43 percent of victims surveyed were related to or believed they knew the identity thief that stole their information, so there may be a certain amount of personal security that is under the individual's control.

How do you determine the value of your peace of mind, or of the 30 to 300 hours it could take to re-establish your good reputation while dealing with the emotional trauma victims report? Are you willing to take the necessary steps to safeguard your personal information to the fullest extent possible?

Susan Petersen, for one, is investigating identity-theft insurance. The woman who stole a lot more than money from her is now out on bail. ©

Protecting your identity

1. Give personal information only when sure of an organization's need for it.
2. Never give personal information online or by phone unless you initiated contact.
3. Crosscut-shred all discarded documents containing personal information.
4. Review credit statements monthly.
5. Call your billing company if a regular statement is more than a few days late.
6. Check your credit report every six to 12 months at annualcreditreport.com.
7. Opt out of pre-approved credit offers by calling (888) 5-OPTOUT.
8. Put mailed payments in U.S. Postal boxes, not your mailbox.
9. Don't create obvious passwords such as your mother's maiden name.
10. Consider identity-theft insurance.

SOURCE: IDENTITY THEFT RESOURCE CENTER

IDENTITY-THEFT FRAUD: A BREAKDOWN

TYPE	PERCENTAGE OF ALL COMPLAINTS
Credit card fraud	26
Phone/utilities fraud	18
Bank fraud	17
Employment fraud	12
Government document/ benefit fraud	9
Loan fraud	5
Other	13

SOURCE: FEDERAL TRADE COMMISSION

IDENTITY THEFT IN MAJOR METROPOLITAN AREAS

RANK	METROPOLITAN AREA	COMPLAINTS PER 100,000 PEOPLE
1	Phoenix-Scottsdale	178
2	Las Vegas-Paradise	159
3	Riverside-San Bernardino-Ontario	146
4	Dallas-Fort Worth-Arlington	141
5	Los Angeles-Long Beach-Santa Ana	135
7	San Francisco-Oakland-Fremont	131
14	Sacramento-Arden-Arcade-Roseville	114
19	Chicago-Naperville-Joliet	102
21	New York City-North NJ-Long Island	99
44	Boston-Cambridge-Quincy	63
50	Pittsburgh	49

SOURCE: FEDERAL TRADE COMMISSION