

Growing Identity Protection Market Creates Income Opportunity for Financial Institutions

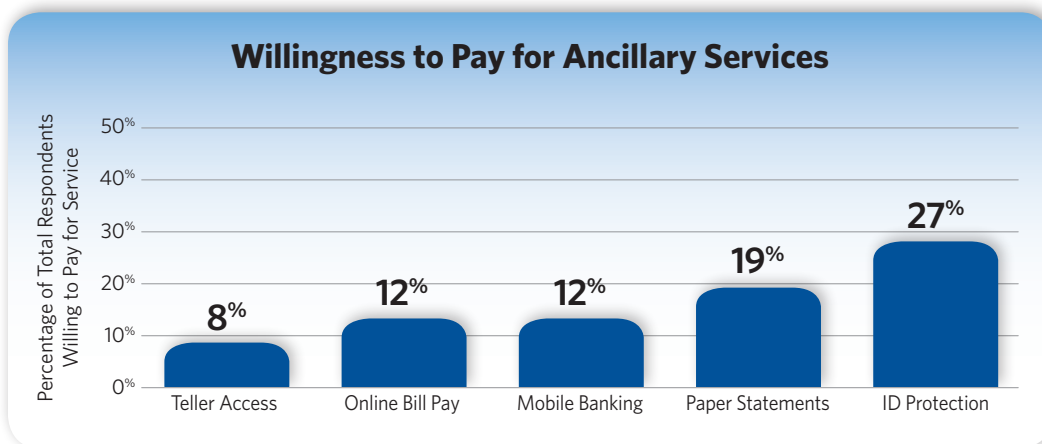
As income from overdraft fees and certain credit card fees decreases due to recent regulatory changes, financial institutions continue to seek ways to offset the decline and generate incremental revenue. Increasing consumer demand for security services, particularly those related to identity fraud, is opening the door to a new marketplace that can benefit both financial institutions and their account holders.

Identity fraud — the misuse of personal information resulting in fraud or stolen or misused funds — remains one of the fastest-growing crimes in the United States. According to the 2009 Identity Fraud Survey Report issued by Javelin Strategy & Research, in 2009 the number of identity fraud victims in the United States increased 12 percent to 11.1 million adults, while the total annual fraud amount increased by 12.5 percent to \$54 billion.¹

Opportunity

Financial institutions, already trusted holders of secure information, have a significant opportunity to increase account holder satisfaction and generate additional revenue by offering identity protection services. Research indicates that consumer awareness of identity fraud — and their concern about it — is high. The Unisys Security Index has found that unauthorized access to or misuse of personal information, along with national security, is Americans' No. 1 area of concern. Almost two-thirds of those surveyed (64 percent) say they are seriously concerned about identity theft.²

That concern translates into a willingness to take action with their wallets. Novantas research shows that the top item consumers are willing to pay discretely for is an identity protection service (see chart). Additional research from financial institutions that already offer security-related products and services to their account holders indicates that such products provide the opportunity for their institution to be seen as a “solution” to the problem of identity theft and security issues — and that consumers would be more likely to go to a financial institution as their “trusted adviser” for such products.³



Source: Informa/Novantas Study, August 2009

¹ 2009 Identity Fraud Survey Report, Javelin Strategy & Research, February 2010

² Unisys Security Index: United States, Lieberman Research Group, 31 March 2010 (Wave 1H'10)

³ Scantron Corp. survey of 1,000 financial institutions

Recommendations

When it comes to making identity protection services available to your account holders, taking care to partner with the right service provider is critical. To support your financial institution's interests while maximizing the identity protection services opportunity, we recommend ensuring that any potential partner can provide the following:

- **Deep financial industry expertise:** Look for a solid identity protection solution from a partner that has extensive experience working directly with banks and credit unions — and a strong track record — doing the following:
 - » Meeting regulatory requirements, including those involving the protection of confidential consumer data
 - » Implementing solutions successfully
 - » Integrating information technology, payment and data security systems
- **Solid security protocol:** Seek a business partner that makes a significant investment in its security controls, adheres to industry best practices and is willing to submit to periodic audits of its procedures.
- **Financial stability:** Check the prospective supplier's financials carefully to ensure the company will be able to remain a viable partner that you and your account holders can rely on for the long term. There are new entrants in this field every day that have no experience and little capital, and many of the incumbent providers have accumulated significant financial losses.
- **Multiple product options:** Be able to present multiple product choices at different consumer-targeted price points to help strengthen relationships with your account holders, enhance their service experience and increase your up-sell potential. For example:
 - » **Basic** — Low cost of entry, or provided as a complimentary benefit
 - » **Plus** — Enhanced service, for an additional fee
 - » **Premium** — Includes an additional benefit, such as credit monitoring

Two recent events illustrate the importance of performing extensive due diligence before choosing an identity protection solution partner. In one instance, a financial institution selling an identity protection service was named as a co-defendant in a class action lawsuit along with a service provider accused of alleged misconduct. In another circumstance, a well-known identity protection service provider agreed to pay \$11 million to the Federal Trade Commission and \$1 million to a group of 35 state attorneys general to settle charges that the company used false claims to promote its identity theft protection services. In addition, the FTC charged that the company's data system was vulnerable and could have been exploited by those seeking access to customer information. Both situations demonstrate the kind of scrutiny and possible recourse that could significantly impact a financial institution's reputation and financial stability.

To learn more about how your financial institution can generate revenue and increase account holder satisfaction with a secure identity protection service, contact your Harland Clarke account executive or visit www.harlandclarke.com/security.