

BACKGROUND

Over the past two years, the McMaster eBusiness Research Centre (MeRC) has conducted two consecutive and comprehensive studies of identity theft and fraud in Canada. This research was funded by the Ontario Research Network for Electronic Commerce (ORNEC) with support from Royal Bank of Canada, Canadian Imperial Bank of Commerce, TD Canada Trust, Bank of Montreal and Bell Security Solutions.

Researchers Susan Sproule and Norm Archer have conducted two surveys of Canadian consumers. The first survey gathered historical data on more than 1,700 cases of identity theft and fraud. The second survey, conducted in February of this year, focused on cases from the most recent year only. Both surveys were done through Internet panels with more than 3,000 participants each. The following is a brief summary of their findings.

Definitions: What is identity theft and what is identity fraud?

Many surveys do not carefully define what they are studying. As a result, there is a host of conflicting evidence available on “identity theft” and “identity fraud”.

- *Identity theft* occurs when your personal information is accessed or taken by someone with the intent to commit fraud or other crimes involving the use of a false identity.
- *Identity fraud* occurs when someone uses your personal information to commit fraud. Identity fraud includes a wide range of frauds including:
 - Making unauthorized purchases on a credit card
 - Accessing the victim’s existing accounts, such as bank, utility, or telephone accounts, or online vendor accounts.
 - Applying for new accounts or loans in the victim’s name
 - Impersonating someone to gain employment, housing, government or other benefits, or to avoid criminal prosecution or other obligations.

How does identity theft and fraud affect Canadians?

One third of Canadian consumers report that their level of concern about identity fraud is higher than it was a year ago.

According to the most recent survey, conducted this past February, 6.5% of Canadian consumers, or almost 1.7 million people, were victims of some kind of identity fraud in the past year¹.

- These victims spent over 20 million hours and more than \$150 million dollars of their own money to resolve problems associated with these frauds.

¹ At a 95% confidence interval (i.e. nineteen times out of twenty) the actual incidence rate will lie between 5.6% and 7.4%.

In most cases, credit card fraud is quickly and easily resolved, from the consumer's point of view. In fact, the study found that people who had experienced credit card fraud were less concerned about being a victim of identity theft in the future than those who had never been a victim of any kind of fraud. This is probably due to the fact that fraudulent credit card losses are usually not shouldered by consumers but are assumed by credit card companies or businesses. This suggests that credit card fraud is different from other kinds of identity fraud, and should perhaps be excluded from general statistics on identity fraud.

More than half of the reported cases involve nothing more than unauthorized purchases made with credit cards. If we exclude these cases from the results, the number of Canadian victims of other identity frauds in the past year was 700,000.

- These victims spent 12 million hours and more than \$110 million dollars to resolve resulting problems

Another 2.7% of Canadian consumers are aware that their personal data had been accessed by unauthorized people as part of a data breach or fraud operation². This represents another 700,000 Canadians who are at risk for identity fraud. Note that Canada does not currently have laws that require organizations to notify people when data breaches occur, but many companies do so voluntarily

Most victims of identity fraud (57%) do not know how their personal information was accessed, but when they do know, the identity theft was most often associated with a business transaction conducted either in person (25% of these cases) or online (15% of these cases).

- The proportion of online transaction fraud (at 15% of cases where the method of access was known) has increased from 5% of cases historically.
- Debit card skimming operations made up another 13% of the cases where the method of access was known.
- Recent US studies have found a significant increase in telephone scams and frauds, but our Canadian data does not reflect this.

Historically 25% of all cases of identity fraud were committed by someone known to the victim. The recent survey found that to be the case in only 7% of the cases.

Very few cases of identity fraud were reported to the police (13%), credit reporting agencies (6%) or PhoneBusters - the RCMP/OPP fraud reporting agency (0.5%).

What are Canadians doing to prevent identity theft or to detect identity fraud?

Canadian consumers are adopting defensive behaviours with regard to identity theft. They protect their personal information from physical theft in the following ways:

² At a 95% confidence interval (i.e. nineteen times out of twenty) the actual incidence rate will lie between 2.1% and 3.3%.

- 79% shred financial documents or other important documents all of the time or most of the time
- 57% keep sensitive information in a secure location, such as a locked box or drawer, all of the time or most of the time
- 50% have stopped or reduced the number of identity documents that they carry with them
- 30% have either stopped receiving mailed account statements or reduced the number of mailed statements that they receive

Canadian consumers take the following measures to keep their personal information from prying eyes or unauthorized access:

- 92% never or rarely give information over the phone to people claiming to do surveys or offer promotional goods or services
- 35% have reduced or stopped giving their credit card to waiters or gas station attendants

Safe online practices are also important to protect personal information, and Canadian consumers report the following practices:

- 75% use hard-to-break passwords all of the time or most of the time
- 59% use different passwords for different applications all of the time or most of the time
- While most consumers change their important passwords at least every 2-5 years, 30% report that they never change these passwords

Frequent and careful monitoring of accounts is the best way to detect and minimize the effects of identity fraud. Eighty-five percent of participants have online access to at least one of their bank accounts and 96% of these consumers check their account balances online. The majority of people do this every few days or better.

- 49% had never requested a copy of their credit report
- 77% had never checked land registry records

Phishing

Forty-one percent of participants reported that they had received an email from a bank or other company asking them to verify or update their account information. This describes an identity theft practice known as phishing. Of those that had received such an email, 2.7% responded and another 1.0% did not know or were not sure if they had responded.

- This potential response rate of 3.7% is an improvement over a rate of 4.9% found in the first survey.

How is identity theft and identity fraud affecting e-business?

Fully 20% of participants report that they have stopped or reduced the amount of shopping that they do online because of a concern about identity theft or fraud. Nine percent report that they have stopped or reduced online banking activities because of similar concerns. The lost time and financial losses due to identity theft and fraud have a

negative impact on Canada's productivity and economic growth. In addition, if consumers are afraid to do business online, Canadian companies will not be able to reap the full productivity benefits of e-business. These results show that identity theft and fraud is having a significant and detrimental effect on the economy and e-business in particular.