



JAVELIN STRATEGY & RESEARCH

The Identity Fraud Economic Divide: Reduce Consumer Losses by Customizing Protection Efforts to Income Levels

October 2007

Telephone:
925.225.9100

Fax:
925.225.9101

Address:
4309 Hacienda Dr., Suite 380
Pleasanton, CA 94588

Email:
inquiry@javelinstrategy.com

Web site:
www.javelinstrategy.com

The Identity Fraud Economic Divide:
Reduce Consumer Losses by Customizing
Protection Efforts to Income Levels



Overview

Income levels significantly predict the pattern of consumers' individual fraud cases. This report shows how companies can improve the effectiveness of fraud-fighting efforts by customizing them to the individual's income levels, protecting their bottom lines and that of their customers. This report analyzes nationally-representative *income*-related fraud data, using identity fraud incidence rates, consumer costs, fraud amounts, and consumer behaviors for different income groups—namely the lower, middle, and higher income segments to give specific recommendations. Javelin has uncovered what is, in effect, an *identity fraud economic divide*, based on quantitative data from the most nationally representative, up-to-date study of identity fraud in the US of over 5,000 US adults, including 458 fraud victims.

Primary Questions

- How do identity fraud incidence rates, consumer costs, and fraud amounts differ for lower, middle, and higher income segments, and why?
- How do victims among distinct income groups respond to identity fraud differently?
- What behaviors changes do consumers affect after becoming identity fraud victims?
- How can certain income segments be targeted in order to enhance identity fraud prevention and detection?

Audience: Financial institutions, consumer advocacy groups, government agencies

Author: Rachel Kim, Research Associate

Contributors: Bruce Cundiff, Senior Analyst
James Van Dyke, President and Founder

Editor: Mary Monahan, Partner and Analyst

Publication date: September 2007

Price: \$1500

Length: ► 27 pages
► 17 charts/graphs

The Identity Fraud Economic Divide:
 Reduce Consumer Losses by Customizing
 Protection Efforts to Income Levels



Table of Contents

Overview 4

Primary Questions 4

Findings and Analysis 4

Methodology and Definitions 5

Recommendations 6

Lower Income Segment..... 6

Higher Income Segment 7

Higher Income Has Highest Fraud Rates at 5.37%, But Lowest Consumer Costs 9

Lower Income Has Lowest Fraud Rates, but Highest Consumer Costs at \$603..... 9

Lower Income Hindered by Disinclination to Transact Online, Not Necessarily Lack of Access..... 10

Some 57% of Lower Income Access Web Versus 69% of all Consumers 10

Victims Who Switch FIs and Forms of Payment May Have Greatest Impact..... 11

After Identity Fraud: Lower-Income Victims Avoid Online Banking while Upper-Income Victims Increase Online Monitoring..... 11

Debit Card Fraud More Prevalent for Lower Income 12

Credit Card Fraud More Common Among Middle and Upper Income Segments 12

For Lower Income Individuals, Fraud Takes Longer to Detect 13

Time from Compromise to Misuse Significantly Shorter for Middle to Upper Income..... 13

Higher- and Middle-Income Groups Victimized More Often with New Store-branded Credit Cards 14

Lower Income More Often Defrauded with New Telephone Accounts..... 14

Highest Income Level Suffers Highest Rates of Existing Card Fraud at 4.54% 16

Existing Card Fraud Higher for All Levels of Income..... 16

Appendix 17

Higher Income Consumers \$100K-\$149K Pay Higher Average Consumer Costs (\$709) 17

Income Breakdown Shows Resolution Time Grows as Income Shrinks 17

After Fraud, Different Income Groups React in Opposite Ways 18

Higher Income Turns to Online Monitoring; Lower Income Turns Away from Online Channel 18

Consumer Education Needed 19

Some 68% Access Internet but only 60% Use Anti-Malware..... 19

The Identity Fraud Economic Divide:
Reduce Consumer Losses by Customizing
Protection Efforts to Income Levels



Table of Contents (Continued)

Highest Average Fraud Amounts and Consumer Costs Experienced by Upper Income Asians despite Fast Resolution Times	20
African Americans Suffer Highest Rates but Lowest Fraud Amounts of any Ethnicity	20
Middle Income Victims More Likely to Experience Fraud from a Purchase or Transaction	21
Family Members Are Frequent Fraud Sources for Upper and Lower Income Victims	21
Regardless of Income Level, Half of All Fraud Victims Monitor their Accounts Online More Frequently	22
Two-thirds of Victims Avoid Online Registration of Personal Information	22
Nearly Half of Existing Non-Card Fraud Victims are Lower Income Individuals	23
Middle Income Consumers Comprise 30% of Existing Non-Card Victims	23
Misuse Duration Is Significantly Shorter for Most Middle- and Higher-Income Consumers	24
Almost 16% of Lower Income Consumers Report Misuse that Lasts One Year or More	24
Lower-Income Victims Engaging In More Traditional Fraud Protection Activities Prior to Information Compromise (By Income Group)	25
Online Bill Pay Is Low among Fraud Victims from All Income Groups	25
The Lower the Income Level, the Longer the Fraud Detection Times	26
Over Half of Middle- and Upper-Income Victims' Frauds Are Detected Within One Week ..	26

The Identity Fraud Economic Divide:
Reduce Consumer Losses by Customizing
Protection Efforts to Income Levels



Table of Charts

Chart 1: Incidence Rates, Fraud Costs, and Resolution Times (by Income Level).....	9
Chart 2: Consumer Behaviors among Individuals with Internet Access (By Income Level)	10
Chart 3: Impact of Identity Fraud on Consumer Behaviors (by Income Level)	11
Chart 4: Existing Credit Card versus Existing Debit Card Fraud (by Income Level)	12
Chart 5: Fraud Lifecycle and Resolution Time (by Income Level).....	13
Chart 6: Prevalence of New Account Fraud (By Income Level)	14
Chart 7: Table of One-year Fraud Incidence Rates (by Income Level).....	16
Chart 8: Incidence Rates and Average Fraud Costs (by All Income Levels)	17
Chart 9: Changed Behaviors of Highest Income and Lowest Income Adults Due to ID Fraud	18
Chart 10: Consumer Financial Behaviors (All Consumers).....	19
Chart 11: Table of Incidence Rates and Average Fraud Costs (by Ethnicity)	20
Chart 12: Source of Theft of Personal Information (by Income Level).....	21
Chart 13: Consumer Behavior Changes after Fraud Victimization (All Fraud Victims).....	22
Chart 14: Breakdown of Existing Non-Card Fraud Victims (by Income Level).....	23
Chart 15: Duration of Misuse (By Income Level)	24
Chart 16: Consumer Financial Behaviors (By Income Level).....	25
Chart 17: Fraud Detection Times from Misuse to Discovery (By Income Level).....	26

The Identity Fraud Economic Divide:
Reduce Consumer Losses by Customizing
Protection Efforts to Income Levels



Sample Pages

Higher Income Has Highest Fraud Rates, but Lowest Consumer Costs
Lower Income Has Lower Fraud Rates, but Higher Consumer Costs at Risk

Chart 1: Consumer Fraud Rates and Average Consumer Costs by Income Level

Income Level	Fraud Rate	Average Fraud Amount	Consumer Costs	Retention Rate (Percent)
Consumer Average (All of Adults)	3.74%	\$8,700	\$500	25
Lower Income (\$20k to \$30k)	3.43%	\$1,000	\$600	35
Mid Income (\$30k to \$50k)	4.89%	\$2,840	\$500	25
Upper Income (\$50k and above)	8.37%	\$4,711	\$400	21

Lower Income Suffered by Disincentive to Transact Online, Not Necessarily Lack of Access
Some 87% of Lower Income Adults Used Various Sites of Online Consumers

Chart 1: Consumer Satisfaction among Individuals with Internet Access by Income Level

Debit Card Fraud More Prevalent for Lower Income
Credit Card Fraud More Common among Middle and Upper Income Segments

Chart 1: Identity Fraud Rates among Existing Debit Card Users by Income Level

Higher Income Segment
The higher income segment incurs the greatest losses for ID, representing the highest incident rate of all income segments at 17%, compared to 4% for the lower income segment. As well as the highest fraud amount (\$4,711 vs. \$1,000 for lower income individuals). Because the segment is relatively small, it is not the largest driver of total consumer and business losses. However, the higher income segment is more likely to be affected by the largest single fraud tactic: identity theft.

- Card managers receive higher income fraud claims with the speed of having their card blocked and replaced, ensuring there is never a chance for anyone to receive a new card number. Higher income consumers tend to have more assets, including other credit cards, which may be used to fund a fraudster's activities. Higher income consumers are also more likely to be targeted by identity thieves, as they are more likely to have higher credit scores and are more likely to be targeted by identity thieves.
- Card managers of fraud threat sites segmenting by income level adjust to reduce the number of fraud claims. Higher income fraud claims represent a much smaller portion of total fraud claims, but they are more costly to process. Higher income fraud claims are more likely to be processed through the courts, which is more costly for card managers.
- Merchants receive more frequent fraud claims from higher income consumers, but they are more likely to be processed through the courts, which is more costly for merchants.
- Higher income fraud education and resolution assistance for victims is more likely to be requested, which adds to the cost of fraud for card managers.

Nearly Half of Existing Non-Card Fraud Victims are Lower Income Individuals
Middle Income Consumers Comprise 31% of Existing Non-Card Victims

Chart 1: Incidence of Existing Non-Card Fraud Victims by Income Level

Consumer Education Needed
Some 89% of Adults Under 65 Only 60% Use ID Awareness

Chart 1: Consumer Education Rates by Income Level

Appendix
Higher Income Consumers \$100K-\$149K Pay Higher Average Consumer Costs (\$700)

Chart 1: Income Rates and Average Fraud Costs by All Income Levels

Income Level	Fraud Rate	Fraud Amount	Consumer Costs	Retention Rate (Percent)
Consumer \$100,000 - \$149,999	3.05%	\$1,070	\$554	14
Consumer \$150,000 - \$199,999	3.04%	\$1,100	\$424	31
Consumer \$200,000 - \$249,999	4.45%	\$3,121	\$510	30
Consumer \$250,000 - \$299,999	4.13%	\$2,418	\$610	30
Consumer \$300,000 - \$349,999	4.10%	\$3,647	\$500	12
Consumer \$350,000 - \$399,999	4.23%	\$3,454	\$664	13
Consumer \$400,000 - \$449,999	4.44%	\$3,210	\$730	24
Consumer \$450,000 and above	7.13%	\$2,842	\$211	23

For Lower Income Individuals, Fraud Takes Longer to Detect
Fraud Takes Longest to Detect for Middle and Upper Income

Chart 1: Fraud Response and Resolution Time by Income Level

Place Your Order as Follows:

- 1) Call us at 925 225 9100, x26
- 2) Email us at inquiry@javelinstrategy.com
- 3) Fax or Mail using the form below:

Please send me the following report(s):

Report Title	Publication Date	Price

Name _____ Title _____

Organization _____ Division or group _____

Email _____ Phone _____ Fax _____

Address _____

Signature to confirm your order: _____

Payment Method: Payment card Check Enclosed Invoice me

Visa, MC, AE or Disc. card #: _____ Exp date: ___/___

Name on Card: _____ Signature _____

For invoicing, provide PO number: _____
(Invoicing is available to financial institutions or publicly owned firms)

Note: Reports are provided in electronic PDF form only. Javelin reports are subject to standard terms and conditions, as described on our web site. Javelin will contact you in the future to provide our free research newsletter or other mailings. If you do not wish to receive our newsletter or other mailings, you may advise us of this. Your contact information will not be sold to other organizations.