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NEW YORK



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Protecting Against the Hidden Costs of Identity Theft

By Guillaume Deybach

Identity theft is widely and correctly viewed as an insidious crime, where—in a person's good name and financial standing are tarnished, often through the criminal misuse of credit and debit cards. But many of the programs and insurance policies designed to protect a person against the ravages of identity theft are extremely limited in scope. These protection schemes limit out-of-pocket liability and offer little or nothing more to the victim.

Now, ensuring that a person's monetary losses in the event of identity theft are limited is a very good thing. Accord-

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ing to a recent insurance industry study, typical identity theft losses can be in the thousands of dollars. Any protection mechanism that caps these losses at \$100, for example, is laudable. This is the reason so many banks offer this kind of protection to their credit and debit card customers. But once the bleeding has stopped, damage to the victim's good name and financial standing remain and must be corrected. Financial losses are the proverbial tip of the iceberg; restoring creditworthiness is the lumbering behemoth just beneath the surface.

In a May 2005 report, the U.S. Federal Bureau of Investigation (FBI) said that in addition to the financial losses associated with identity theft, "The individual victim of the identity theft may experience a severe loss in their ability to utilize their credit and their financial identity. This loss can be short in duration or may extend for years. It may result in the inability to cash checks, obtain credit, purchase a home or, in the most insidious cases, the arrest of the individual for crimes committed by the identity thief."

To further paint an unattractive picture, identity theft is one of the fastest growing crimes today. The FBI said that identity theft is "a significant and grow-

ing crime problem," that victimizes 10 million or more persons a year in the United States and costs American business more than \$50 billion a year. These are fairly current figures, and this is a very fast-growing crime.

Banks Should Be Concerned

U.S. banks, leading issuers of credit and debit cards, have at least five reasons to address the identity theft issue. First, the competitive financial services market requires it as a cost of entry. If a competing issuer of credit cards limits its customer's identity theft losses to \$100, the

progressive bank will either offer equal protection or differentiate itself by limiting customer losses to something less than \$100.

Second, banks are often the last line of defense between identity thieves and their victims. As such, they can be viewed as carrying a moral responsibility to protect consumers from ID theft. While there may be no legal or financial liability involved with this perception, there is a potential market liability. Again, to remain competitive, banks must show themselves to be more suitable financial partners than their competitors. Offering a greater relative degree of security can go a long way toward cementing customer relationships.

Third, bank personnel will ultimately be involved in helping their credit and debit card customers recover from the ravages of identity theft. Employee time spent on these matters cannot be spent on other matters. It may be hard to measure, but overall bank efficiency (and thereby profitability) are degraded somewhat in this way by the identity theft issue.

Fourth, another efficiency issue is tied to bank employees who themselves become victims of identity theft. Among

working Americans, it is likely that as many as one in 10 people have had their identities stolen. A typical identity theft victim will spend as many as 600 hours over the better part of a year working to resolve issues related to a single case of identity theft. Those 600 hours should be a huge concern for any employer. Identity theft-related customer service at the credit card companies and credit reporting bureaus is often only offered "during regular business hours." So individuals often must take time during their workdays to resolve these issues, diminishing their productivity. Not to mention the personal anxiety that accompanies identity theft, the impacts of which can sometimes take up to a year or more to resolve.

Fifth, as institutions that hold confidential customer data in their file cabinets and databases, banks have a very real legal responsibility to protect these data. Should a bank employee be implicated in an identity theft case for having mishandled customer information, the bank may well be held liable.

What a Bank Should Do

In light of the competitive, operational and legal concerns associated with identity theft, banks do well to stand against this crime in whatever ways are feasible.

Legally, banks are well equipped to protect themselves, their customers and their owners from becoming legally entangled in identity theft. These actions include taking the operational steps to ensure the ongoing confidentiality of customer data. So taking steps against identity theft on the competitive front is perhaps the area where banks can make the greatest amount of progress.

Banks and other issuers of credit and debit cards have begun offering enhanced forms of identity theft protection to their customers. One available product protects customers against many of the hidden costs of identity theft, those being

continued on page 34

Patriot

continued from page 6

strown in Fulton County. Today the bank is worth \$28.3 million, double the asset size since its opening 18 months ago, according to Coleman.

Upon the doors opening in 2005, the bank had zero loans. Today, Patriot Federal Bank has over \$19 million in residential, commercial and consumer loans, and \$6.3 million of capital. "It's been a tremendous experience to go through," said Coleman. The bank opened a second branch office in Johnstown in April.

The bank is proud to say that 95 percent of shareholders live, work and raise their families in the communities it serves, according to Evan Horne, customer service representative for the bank.

"We are a true community bank in that we live, and invest our resources, locally," Horne said. "The sense of community was tested in June of last year when our main office, then our only office, was all but destroyed in a flood."

The big storm of 2006 dropped approximately nine inches of rain in the area and caused the Mohawk River to burst

its banks. As a result, the bank found itself sitting in two feet of muddy water. "It happened on Thursday and by Monday, we had the teller system back up and running," said Coleman.

The bank had to throw out all the furniture and carpeting because of water damage, and there were water marks four feet up the walls. The 10 employees at the time and local residents pulled together to aid in the recovery process, said Coleman.

"The destruction was extensive. For the next few months, the staff struggled to operate the bank through the reconstruction," said Horne. "We operated off of cardboard boxes, swept piles of sheet rock and debris off our equipment and tried to help our customers who were suffering the same blights in their homes and businesses."

The bank sustained \$150,000 worth of damages, but through insurance and emergency funds provided by the state, they were compensated for everything.

"We got an unplanned makeover that took about five to six weeks," said Coleman.

Amazingly enough, the month following the flood, Patriot Federal Bank experienced a surge in loans and deposits, according to Coleman.

The month of June saw a \$1 million surge despite all the havoc caused by the flooding.

The bank employs 15 full-time employees between the two branches. Chief Financial Officer Vincent J. Fazio has 25 years experience and Chief Operations Officer Kathleen J. Wolfe has 10. To complement the experienced staff, the bank is very technologically savvy, Coleman said.

"We opened our doors knowing that we couldn't have technology that's only good for right now. We were able to look down the road, incorporating Internet banking and real-time teller operations into the bank," he said.

Coleman is optimistic for the future of the bank. He envisions continued growth, while being aware that the threat of acquisition is always there. "Our intent is to grow the bank, and I see tremendous opportunity for us to do so down the road," he said.

Kay Metcalfe is a staff writer for Banker & Tradesman, a Boston-based newspaper serving the financial industry in New England for 135 years.

Identity Theft

continued from page 8

the time, effort and money spent repairing one's credit history after the identity theft has been successfully foiled.

For example, ID Theft Resolution Services from Worldwide Assistance helps victims recover from identity theft by assigning a specially trained coordinator to work with them toward a complete resolution. The coordinator personally assists the victim by doing the necessary paperwork, making appropriate phone calls and completing other restoration activities, such as credit report reviews, account cancellations, disputed items removal and more. This frees the identity theft victim to worry less and focus on existing responsibilities, instead of the task of restoring his or her good name. This package of services can be offered by the card issuer to differentiate its credit or debit products from those of the competition.

Other competitive solutions are continuing to emerge and banks should consider all such differentiators to not only address the social and moral issues surrounding the battle against identity thieves, but also to solidify their customer relationships.

As former Federal Reserve Chairman Alan Greenspan said, "Even in the face of consolidation, competition is fought on the battlefield of the local market, where most households obtain the majority of their banking services."

The identity theft problem is real. Competitive pressures for banks increase regularly. By utilizing existing and emerging products that help minimize the impacts of identity theft, banks can not only compete better for valuable customer relationships, but also demonstrate continuing leadership in the community. ▲



Guillaume Deybach is president and CEO of Worldwide Assistance (worldwideassistance.com), the United States office of Europ Assistance. Worldwide Assistance's ID Theft Resolution Services help financial institutions by allowing current and existing customers to gain added protection and assistance around ID theft.



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