

August 1, 2006

ENTERPRISE

Start-Ups Offer Protection From Identity Theft

Small Companies Market 'Credit Freezing' Services And 'Alerts' to Fight Fraud

 By RIVA RICHMOND
 August 1, 2006; Page B6

(See Corrections & Amplifications item [below](#).)

Scott Mitic thinks it is far too easy to be ripped off by identity thieves, and he is making it his business to do something about it.

As a former executive at Fair Isaac Corp., a Minneapolis data-management company, Mr. Mitic watched millions of people wake up to the importance of credit ratings, like the company's FICO score that can make or break a person's ability to buy a home or finance a new car. A 2003 federal law gave consumers free access to their credit reports once a year, increasing awareness of what could go wrong. Errors often could be a problem, but more recently Mr. Mitic noticed that fraud from identity theft was spawning a growing market for consumer protection.


In January, Mr. Mitic, 36 years old, co-founded TrustedID, of Redwood, Calif., to help consumers better protect their financial information and credit by preventing fraud before it happens or stopping it from continuing. His company isn't alone. A slew of small, technologically adept companies have been popping up to help both consumers and the companies they do business with keep fraud at bay.

"There's a cottage industry sprouting up around identity theft," says Dave Nielsen, a Web consultant and former executive at an online credit-report provider who runs a consumer-education Web site, www.fightidentitytheft.com¹. "Small companies are really trying to innovate," with new methods of protection, Mr. Nielsen says, while larger credit companies continue to rely more on traditional credit monitoring to identify fraud when it occurs.

The ability to see fraud only when it happens isn't enough, says Mr. Mitic. "Every consumer should be able to stop ID theft before it starts" through control of their financial information and credit given out in their name. TrustedID helps consumers use new "credit freeze" laws -- now in force in 22 states and in the works in three more -- that let consumers lock their credit files so new lines of credit can't be opened unless they unfreeze their files first.

The company charges subscribers \$7.95 a month for credit freezing and a set of other services, including credit monitoring and ID-theft insurance. It declines to say how many customers have signed up for its services.

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Increased consumer awareness, changes in the law, and the ability of start-ups to innovate quickly, says Mr. Mitic, all make the time right for smaller companies in the field.

Consumer concerns about identity fraud have increased amid a growing number of reports of data-security breaches at large corporations, universities and government agencies, following the passage of state laws requiring public disclosure of such problems.

Since February 2005, some 90 million consumer records have been improperly exposed by 243 breaches according to the advocacy group, Privacy Rights Clearinghouse. Fears have also been fanned by reports of worsening online scams and hacker attacks to filch account information from home computers.

The identity-fraud problem, which can involve anything from new credit cards unwittingly opened in a person's name to emptied bank accounts, is evolving. Although the number of Americans falling victim has been declining -- there were 8.9 million in the U.S. last year, down from 9.3 million in 2004 and 10.1 million in 2002, according to estimates by Javelin Strategy & Research -- the cost of fraud incidents is on the rise. Javelin, of Pleasanton, Calif., estimates the average fraud cost per victim rose to \$6,383 last year from \$5,885 in 2004 and \$5,246 in 2002. As such, the total cost of identity fraud, pegged at \$56.6 billion last year, has been holding fairly steady. Much of the cost is absorbed by corporations as a cost of doing business.

Security breaches at businesses accounted for 30% of last year's identity-fraud cases, while 30% were the result of consumers' lost and stolen wallets and checkbooks; nefarious friends and family, 15%; stolen mail, 9%; and attacks and scams targeting home computers, 9%.

LifeLock Inc., of Chandler, Ariz., offers another approach to consumers attempting to protect themselves against fraud. While TrustedID focuses on credit freezes -- an option that isn't available in every state and that could be undone by federal privacy legislation now under consideration -- LifeLock focuses on placing fraud alerts on credit files.

The alerts, which warn financial institutions to call to verify new credit applications, are easier to apply than freezes. But they aren't foolproof; 10% to 20% of the time, lenders don't pick up the phone, usually because they feel they know the applicant. To compensate, LifeLock provides \$1 million in insurance and promises to fix any fraud that occurs on the company's watch. None of its 15,000 customers have experienced fraud since they signed up for the \$10-a-month service, which has been available since April 2005, Chief Executive Todd Davis says.

Privacy groups argue that consumers can take many of these steps themselves, often free of charge. As well as obtaining free yearly copies of their three major credit reports, consumers can, with a phone call, add fraud alerts to their files without charge. Obtaining credit freezes is more complicated and can involve paying fees, depending on the state, but is also something consumers can do on their own.

"And you can change your own oil and wash your own car for free yourself," LifeLock's Mr. Davis responds. TrustedID and LifeLock say consumers get value from the convenience of having a sometimes complex, time-consuming process done for them, and for the peace of mind their services provide.

And other small companies have emerged to offer innovative services in the field. CardCops Inc., Malibu, Calif., gathers stolen personal information that's already circulating on the Internet and provides it to merchants, banks and credit-card companies. It gets information from Web sites and chat channels favored by cyberthieves as well as through an "amnesty program" under which it accepts without questions hacked databases from whistleblowers. Consumers, for \$24.95 a month, can be alerted if CardCops finds their data in cyberspace.

Last month, Cyveillance Inc., Arlington, Va., which monitors data found on the open Internet, said it would also inform consumers if it discovered stolen-identity information. Cyveillance's service is available to consumers through the Identity Guard service sold by the credit-monitoring company **Intersections Inc.**, of Chantilly, Va.

ID Analytics Inc., of San Diego, collects and analyzes transaction data from a network of large companies, looking for patterns of activity that could suggest fraud. The approach can uncover transactions related to fictitious identities as well as identity theft, according to the company's chief executive, Bruce Hansen.

" 'Is this person who they say they are' is an extremely important question in this day and age," Mr. Hansen says. "It just seems to go on and on the opportunity to bring this technology to industries."

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CARDCOPS INC. charges consumers \$24.95 a year to alert them if the company finds stolen personal information on the Internet. [An Enterprise article](#)³ Tuesday incorrectly reported that it is a monthly charge.

Corrections & Amplifications:

Cardcops Inc. charges consumers \$24.95 a year to alert them if the company finds stolen personal information on the Internet. This article incorrectly reports that it is a monthly charge.

URL for this article:

<http://online.wsj.com/article/SB115439563684522986.html>

Hyperlinks in this Article:

(1) <http://www.fightidentitytheft.com>

(2) <mailto:riva.richmond@dowjones.com>

(3) <http://online.wsj.com/article/SB115439563684522986.html>

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