



Identity Theft

and the Renewed Focus on Authentication

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THE debate about the need for stronger authentication has raged for years. However, most financial organizations continue to be satisfied with a simple username-password or username-PIN combination for remote customer access. Bold initiatives like Liberty, Identrus, and Passport have not garnered significant support among the financial community.

Yet, the tectonic plates of customer expectations and the financial industry's tolerance for visible security mechanisms are moving. In late 2004, when AOL announced that it would begin offering stronger authorization as a value-added service, the world changed and the financial services industry in particular took notice. The executives asked themselves, "If people are willing to pay extra to protect their e-mail chatter, why aren't we offering our customers a stronger way of protecting their financial information?"

Another factor driving both the industry and consumers is concern over identity theft. While the January, 2005 Identity Fraud Survey Report released by the Better Business Bureau as an update to the Federal Trade Commission's 2003 Identity Theft Survey Report concluded that "... despite growing fears about identity theft and online fraud, of the victims that know the identity and method used by the criminal, these crimes are more frequently committed offline than online. Internet-related fraud problems are actually less severe, less costly and not as widespread as previously thought." Nevertheless, there is a very real perception that identity theft is growing rapidly.

It was in this context that the Federal Deposit Insurance Corporation (FDIC) decided to provide some guidance. On December 14, 2004, it released a report that presents the FDIC's findings on unauthorized access to financial institution accounts and how the financial industry and its regulators can mitigate these risks. The report is entitled, Putting an End to Account-Hijacking Identity Theft and can be found at: http://www.fdic.gov/consumers/consumer/idtheftstudy/identity_theft.pdf

This report comes at a time when virtually every financial institution is rethinking its requirements for remote customer authentication. The industry is starved for guidance in this area. In addition, the report explains the types of attacks, gives background from various sources citing statistics on the likelihood of attacks, and provides a summary of technologies that can help prevent account-hijacking attacks.

The study's key findings are:

- ▼ "...single-factor, password-based authentication methods may no longer be sufficiently secure for customer remote access to online banking systems"
- ▼ "The FDIC anticipates that as customers become more aware of actual instances of, or the potential for, account-hijacking, they will expect financial institutions to implement solutions that protect their funds and their identities, while maintaining or increasing the level of convenience for them in accessing financial services"

Its primary recommendation is:

- ▼ "two-factor authentication should be considered as a new security baseline for remote access to computer systems"

The FDIC report does not address the business or practical issues of implementing two-factor authentication solutions. Compared to today's username/password authentication approach, two-factor authentication mechanisms are expensive to deploy, expensive to maintain, and inconvenient to use. Financial institutions will need to fully understand the costs and user-experience issues associated with these authentication mechanisms before implementing the FDIC's recommendation.

THE FDIC STUDY IN DETAIL

The FTC has estimated that almost 10 million Americans were victims of identity theft in 2003, with a total cost to businesses and consumers approaching \$50 billion. Identity theft is one of the fastest-growing types of consumer fraud.

The FDIC study focuses on a subset of identity theft—unauthorized access to and misuse of existing asset accounts primarily through phishing and hacking. The study uses the term account-hijacking to describe this particular form of identity theft.

The study makes the point that precise statistics on account-hijacking are not available. However, it asserts that unauthorized access to checking accounts is the fastest-growing form of identity theft and the FTC estimates that approximately two million U.S. adult Internet users experienced this fraud during the twelve months ending April 2004. Not surprisingly, more than half believed responding to a phishing e-mail to be the cause.

The study notes that a 2002 survey conducted by the American Bankers Association reveals that identity theft fraud is the top concern among financial institutions of all sizes.

HOW ACCOUNTS ARE HIJACKED

There are several ways to hijack deposit accounts; each relies on the misuse of information:

- ▼ Phishing—collecting identity information by directing users to fraudulent web sites via e-mail requests.
- ▼ Hacking—direct cyber attacks on web sites, transactions with web sites, or systems housing personal information.
- ▼ Retrieving hard copy documents (dumpster diving) or looking over someone's shoulder.
- ▼ Insider data gathering—attacks from inside an organization entrusted with personal information.

- ▼ Keystroke logging—a particular form of hacking that attacks the client system and records user names, passwords, and other personal identifying information for use by the attacker.

The study notes that 70 percent of identity theft is committed with confidential information stolen by insiders. It also notes that phishing is easy to implement and produces higher-volume results than the other techniques.

RELATED INDUSTRY ACTIVITIES

The Anti-Phishing Working Group is an industry association with 630 members composed of financial institutions, e-commerce providers, Internet service providers, and vendors of e-mail services and software. As its name implies, its purpose is to eliminate identity theft and fraud resulting from phishing and e-mail spoofing. It is seeking to provide resources, technology, vision, and expertise to facilitate the rapid deployment of a solution to e-mail phishing scams.

On December 12, 2003, the APWG published a white paper entitled, "Proposed Solutions to Address the Threat of E-mail Spoofing Scams." The white paper offers four solutions:

- ▼ Strong web site authentication
- ▼ Mail server authentication
- ▼ Digitally signed e-mail with desktop verification
- ▼ Digitally signed e-mail with gateway verification

While these are good solutions, they require industry cooperation and user adoption to be effective. Realistically, these solutions are a long way off.

Another industry initiative has been the establishment of the Identity Theft Assistance Corporation (ITAC). Formed under the auspices of the Financial Services Roundtable and the Banking Information Technology Secretariat (BITS), ITAC's purpose is to help victims of identity theft to recover their financial identities and restore their credit ratings.

FINDINGS

The FDIC finds that there are two major reasons why the frequency of phishing and other types of attacks have been increasing and have become more effective at perpetrating account-hijacking.

- ▼ User authentication by the financial services industry for remote customer access is insufficiently strong.
- ▼ The Internet lacks e-mail and web site authentication.

It recommends that financial institutions and government should take the following steps to reduce on-line fraud:

- ▼ Upgrading existing password-based single-factor customer authentication systems to two-factor authentication.
- ▼ Using scanning software to proactively identify and defend against phishing attacks. The further development and use of fraud detection software to identify account-hijacking, similar to existing software that detects credit card fraud, could also help to reduce account-hijacking.
- ▼ Strengthening educational programs to help consumers avoid online scams, such as phishing, that can lead to account-

hijacking and other forms of identity theft and take appropriate action to limit their liability.

- ▼ Placing a continuing emphasis on information sharing among the financial services industry, government, and technology providers.

The FDIC is to be commended for taking a stand on this important issue. The information provided by the report will help financial institutions and consumers to better understand the problem, potential mitigation approaches, and the limitations of those solutions.

WHY IS AUTHENTICATION DIFFICULT?

Authenticating investors and business partners is easy, at least from a technology perspective. Authentication solutions are among the most mature of all security products. The difficulty arises because while technology plays a role, authentication for remote access to financial services is fundamentally an ease of use and cost of operations problem. Weak passwords or PINs undermine security. Yet people forget complex passwords and long PINS and this drives up help desk costs.

Key questions financial institutions are wrestling with include:

- ▼ Is the predominant solution today, username combined with a password or PIN, adequate?
- ▼ Is the information collected during the account creation/registration process—historically, Social Security number and some personal information like mother's maiden name—sufficiently secret to serve as authentication data?
- ▼ Should a financial institution enforce a consistent authentication policy and mechanisms for remote access for customers and business partners across multiple lines of business and across all access channels (live phone associate, Web, paper, automated voice system), or should it let each business unit decide what is best for its own customers?
- ▼ The flip side of this question is whether customers will tolerate having to manage multiple authentication credentials for interacting with different parts of the same firm or communicating via different channels.

- ▼ Should a financial institution enforce a minimum password or PIN quality level?
- ▼ Should authentication be layered, with stronger authentication checks being triggered by higher-value transactions?
- ▼ Should a financial institution that has certain customers and business partners that care about security and a higher tolerance for dealing with security mechanisms allow those users to employ stronger authentication on an opt-in basis?
- ▼ Will customers and business partners tolerate in-line challenges, such as needing to enter a special code that is sent to them via e-mail or Blackberry to complete a transaction like a stock trade or wire transfer?
- ▼ If the FDIC's recommendation for two-factor authentication becomes a regulatory requirement for banks to maintain their deposit insurance, would challenge questions rather than tokens or a biometric solution be an acceptable alternative?

FINAL WORD

With AOL offering additional security, the FDIC report, and the growing perception of identity theft, authentication is once again a hot topic. Major financial institutions recognize that there is no easy answer and that the technologist's reflex to simply deploy strong authentication technology isn't practical at their scale of millions of users. At the same time, these financial institutions recognize that customer expectations about security are rising.

Movement will be slow, but it will be inexorable. Looking back from 2010, 2005 may be seen as a watershed year, the year mass-market financial institutions put stronger remote user authentication on their strategic roadmaps and began moving down that path.

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¹ <http://www.bbbonline.org/idtheft/index.asp>