



### Department of Information Systems

#### The LSE identity project. House of Lords : All party briefing : identity fraud

**Briefing on the new identity fraud figures from the Home Office. Building on our previous analysis of Cabinet Office studies, we analyse new data from the Home Office on identity theft. February 6, 2006 © 2006 Department of Information Systems, London School of Economics and Political Science.**

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## All Party Briefing

### Identity Fraud

February 6, 2006

**Last week, the Home Office published new figures, suggesting that the annual cost to the UK economy of identity fraud was £1.7 billion.<sup>1</sup> The Home Office argued that “One way we can reduce the potential for identity fraud is to introduce a national identity card, backed by a National Identity Register, using biometric technology to crack down on multiple identities and secure personal data on behalf of the individual”.**

**In chapter 8 of our June 2005 main report,<sup>2</sup> we wrote at length about identity fraud and noted our concerns with the methodology used by the Government to measure identity fraud. We warned that focussing on ID cards as the key solution to identity fraud could actually make the problem worse. Our research status report published in January 2006, gave further evidence in support of our position.**

#### Background and analysis

The Identity Cards Bill has been offered by the Government as a solution to identity fraud. When the bill was first presented to Parliament in 2004, the discussion of identity fraud was marginal. A few mentions were made on both sides of the debate, but it was never a large component of the discussion. When identity fraud was discussed, it was always in tandem with the Cabinet Office estimate that identity fraud cost the UK £1.3 billion per year.

Identity fraud is now taking a much more central role in the Bill's passage through Parliament and is often claimed to be one of the key arguments for the scheme.<sup>3</sup>

#### Solving the problem?

The greatest challenge in solving the identity fraud problem is to ensure that responses do not make matters worse. In some cases the use of unique



identifiers for citizens has become the key enabler of identity fraud. In others, the use of identification documents has presented a key opportunity for forgery, especially if the documents are not routinely checked against the biometrics of the card holder. A regular checking of biometrics could lead to unacceptable costs, inconvenience and technological challenges.

Despite all the legislative activity in the US on combating identity theft, no government agency has proposed identity cards as the solution. In fact, the dominant argument is that a national ID card in the US would make identity fraud more of a problem because of the centralisation of personal information it would entail.

In the US, the Social Security Number has become an identity hub and a central reference point to index and link identity. A person's SSN provides a single interface with that person's dealings with a

<sup>1</sup> <http://www.gnn.gov.uk/Content/Detail.asp?ReleaseID=186342&NewsAreaID=2>

<sup>2</sup> Available at <http://is2.lse.ac.uk/IDcard/>

<sup>3</sup> e.g. Andy Burnham speaking to the Cityforum Identity Cards Round Table November 15th, 2005 said "ID cards will help in tackling identity fraud and will save tens of millions of pounds of taxpayers' money".

vast number of private and public bodies. It is arguable that the existence and ease of obtaining the SSN and its importance across private and public databases is the reason why the level of identity fraud in the US is extremely high. This situation applies equally in Australia where the introduction of an extensive Tax File Number has also increased the incidence of identity fraud beyond the levels experienced in the UK.

Other recent developments include warnings of organised crime infiltrating leading banks in order to commit fraud. The tactic, confirmed by police, involves gangs bribing staff to pass over confidential information. In another case, there was recent alarm about criminal gangs making fraudulent claims using the identities of Department of Work and Pensions staff. The most recent case of lax security leading to potential identity fraud involves thousands of credit card numbers, addresses, phone numbers, passport numbers of hotel guests found in a skip outside the Grand Hotel in Brighton.

The Government has not indicated how it intends to address problems like these and the concern must be that we are walking blindfold into a scheme which will give rise to new opportunities for ID fraud and forgery.

### **Some recommended measures**

The Government has not made the case for a costly ID card scheme being the best method of reducing ID fraud. There are many alternative measures for avoiding and reducing ID fraud which would be both quick and cheap to execute. Research from one firm, the Perpetuity Group, states that identity fraud could be reduced if UK consumers were given a free copy of their credit rating every year, as is being proposed in the US. Giving individuals access to the means of discovering whether or not they are being impersonated is

one of the most powerful means of combating this form of fraud.

Other possible measures that could help address identity fraud include:

- working with the credit reporting industry to ensure that, on an opt-in basis, access to files involves security measures (prompt questions and so on);
- helping industry to develop a secure means of automated notification whenever files are accessed or amended;
- making paper shredders VAT exempt and tax deductible;
- promoting secure online account activity to reduce the amount of paper documentation in circulation.

### **Concerns with the Home Office's methodology for 'measuring' identity fraud**

1. The Home Office continues to ignore the useful definition of identity fraud set out in the 2002 Cabinet Office report.<sup>4</sup> With no clear definition of identity fraud, rigour in the figures, and the resulting debate, is sacrificed.

2. There is no evidence that the responding organisations used the same definition of identity fraud as each other and we are not told what criteria they did use. This is true of both the 2002 figures and the 2006 figures. Without such information, the figures do not bear serious scrutiny. Comparison is further hampered when approximately £400 million is added to the total from sources "not included in the 2002 study".<sup>5</sup>

3. On the face of the information which is given, it is far from clear that all the losses detailed can be attributed to identity fraud, properly defined.

4. Even where losses are due to identity fraud, there is no indication of exactly how identity cards would help the situation.

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<sup>4</sup> Cabinet office, Identity Fraud: a study, July 2002, [http://www.identitycards.gov.uk/library/id\\_fraud-report.pdf](http://www.identitycards.gov.uk/library/id_fraud-report.pdf).

<sup>5</sup> Audit Commission, £15million per annum, Finance and Leasing Association (£14million), Telecommunications (£372 million).