KBA – Responsible Use and Scoring

February 10, 2004

www.pec.com
Introduction

- Time Complexity of Algorithms
- Tootsie Roll Pop Internet Identity riddle
- And Public Perception Leads to ...
- Responsible Use
- Implementation Best Practices
Traditional Criticisms of KBA

- Internet commoditization of Data
- Accuracy of data furnished to CRA or KB provider
- Reconciling furnisher’s and CRA’s profit motives with stewardship responsibilities
- Perception that inquiries can impact credit score
Traditional Criticisms of KBA (Continued)

- **Human Factors**
  - Dependence on candidate’s memory
  - Alienation factors (Question selection)
  - Discrimination

- **Solutions must acknowledge**
  - Public Opinion
  - Perception
  - Real fears about fraud/identity theft and its consequences
Overcoming these Criticisms Depends on...

- Lessons from the Legal World
- Responsible Use
- Implementation Best Practices
- Consistent and defined Scoring Model
1. Identify Verification (valid, existing ID)

2. Identity Authentication - Out of Wallet questions
   - With whom does the user have his car loan?
   - What amount does he pay each month for his mortgage?
   - Who is his ISP?
   - Who is his car insured with?

   ▶ KBA vendor provides a probability (score) that the identity binding is bona fide.

   ▶ Score returned from KBA vendor should not to be confused with an “Identity Score” – which no vendor will yet provide.

   ▶ Vendors require customers to set score thresholds (assuming liability for incorrectly authenticated individuals)
Factors Influencing Implementation & Score

- Data Checks
  - Accuracy –
  - Consistency
  - Legitimacy

- Data Source Diversity
  - Number of data sources (Credit, IRS, Dept. of Veterans Affairs, etc.)

- Candidate Profile
  - Age
  - Credit history
  - Other Business & Government relationships & “transactions”
Other Factors to Consider

- Other Security Controls
  - Methods of presenting KB out of wallet questions (playing permutations and need for randomness)
  - Number of Out of Wallet Questions, and...
  - Number of multiple choice answers provided
  - Windowing History of questions/answers
  - Lockout
  - Event recorded on credit report

- Legal Framework
  - CRA and furnisher’s due care re. information safeguards
  - Level of effort by individual to police their identity
Comparative Analysis of KBA Vendors

- Data Quality and Options
  - Data Breadth
  - Data Latency
  - Question Randomness
  - Identity Authentication

- Support Services
- Administration
- Provider Viability
- Security
- Privacy Awareness
- Technology
- 508 compliance
- Cost
Next Steps Following Comparative Analysis

- Design Model
- Interoperability with E-authentication
- Pilot Evaluation of vendors and scoring models
- Analyze acceptable thresholds for applications
Applies to any information collected/used to evaluate consumer eligibility

Establishes permissible purposes to assess eligibility in connection with a “business transaction initiated by consumer.”

Protections to privacy and accuracy

Accuracy (Self help provisions)

- CRA must follow “reasonable procedures to ensure maximum possible accuracy”
- Adverse action notices to consumers—consumer sees source of information, and gives consumer access to report
- Gives consumers right to know information and dispute errors
Fair Credit Reporting Act

- Amendments under Privacy Protections
  - Employers must obtain applicant’s written permission before obtaining a credit report
  - Consumers have ability to opt out of pre-screened credit offers (1-888-opt-out)

- Accuracy and Fairness
  - Creditors must investigate and report accurate information to ALL national credit bureaus
    - Codification of timeframes for completion of consumer dispute
    - Consumers may obtain a copy of their report
Other Lessons

- FACTA — Fair and Accurate Credit Transaction Act 2003
  - Fraud Alerts (Initial, Extended, Active Duty)
  - Free Annual Credit Report
  - Truncation of Credit Card Numbers on Receipts
  - Truncation of SSN on Credit Report
  - Account Takeover Provisions — Change of address
  - FTC Regulations Providing Guidance for Reconciling Address

- Colorado § 12-14.3-104 (Jan 2001)
  - Required to notify consumer if 8 inquiries received within 12 months
  - Advise consumer of the number and type of events

- Identity Theft “Lojack”
Creditors must make a reasonable effort to verify identity.

Retail sellers must match at least 3 categories of identifying information within the file maintained by the CRA. Categories include:

- first and last name,
- month and date of birth,
- driver's license number,
- place of employment,
- current residence address,
- previous residence address,
- social security number.

Information shall not include MOTHER'S MAIDEN NAME.

- Genealogists are now up in arms.
KBA Implementation Outlook

- E-government solutions demand a solution that meets low risk application needs
  - Proper security controls for change of address
  - Report excessive inquiries to address of record
  - Facilitate “self policing”
  - Leverage internal data sources

Further Study
- Evaluate whether credit report can serve as audit/reporting tool for e-gov transactions
- Evaluate use of windowing and lockouts for KBA
- Evaluate electronic equivalent to Breeder documents
- Continue to monitor FTC for “red flag” regulations and FACTA’s impact on identity theft
Email & Web

Steve.Bruck@pec.com
www.pec.com

Corporate Headquarters Office

12750 Fair Lakes Circle
Fairfax, Virginia 22033
Tel: 703-679-4900
Fax: 703-679-4901