

Pandemic: The Identity Theft Hot Zone



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Pandemic: The Identity Theft Hot Zone

The spread of identity fraud emanating from Florida throughout the southeastern states: Georgia, Alabama, Mississippi, and South Carolina

WHITE PAPER

PREPARED BY

Global Institutional Solutions

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Executive Summary

- Georgia and Florida ranked highest for per capita incidence of identity theft in 2011. Other southeastern state rankings include: Alabama (12), Mississippi (17), and South Carolina (20). Seven of the ten worst cities for identity theft are situated in the region including the Miami MSA, the epicenter for the region's fraud issues.
- Incidence levels and growth of identity theft in the southeast significantly exceed national averages. Identity theft trends in Florida influence those experienced in Georgia. In turn, Georgia drives 94% of identity theft trends in Alabama, Mississippi, and South Carolina.
- Identity theft in Florida is growing exponentially (21.4% annually). The annual likelihood of a Miami household being victimized has risen to 33.1%. About one-in-seven Tampa or Orlando households can expect an identity theft event during the coming year.
- Identity theft in Georgia is expanding at 10.4% per year. Several Georgia cities are highly vulnerable, including Atlanta MSA which could experience 325,000 identity theft victims this year. Alabama, Mississippi, and South Carolina lack the mega-population MSAs but several cities in those states are highly susceptible, including Montgomery, Alabama, ranked second worst in the country. Identity theft in Florida is pandemic and spreading rapidly to neighboring states.
- Traditional identity theft abuse is not driving the Florida Outbreak. Credit card, bank, utilities, loan, and employment-related frauds are trending downward. **Government Documents-Benefits Fraud** has skyrocketed and now accounts for 51% of Florida's identity theft.
- The most virulent form of identity theft ever unleashed is **Tax or Wage-related Government Documents-Benefits Fraud**. It is siphoning billions each year from the U.S. economy.
- The Treasury Inspector General for Tax Administration identified 1.5 million fraudulent returns filed for TY2010 for which **\$5.2 billion in bogus refunds were paid**. By mid-2012 the IRS had already identified \$12 billion in fraudulent refunds for TY2011. However, the TIGTA estimates that the IRS will refund over \$21 billion in fraudulent refunds from 2011-2015.
- These are crimes of immense magnitude which have, no doubt, attracted the most sophisticated criminal networks including international drug cartels and possibly foreign governments.



Methodology

The primary sources of data utilized in this paper include the **Federal Trade Commission's** annual publications pertaining to identity theft and population statistics provided by the **U.S. Census Bureau**. Recent reports released by the **Treasury Inspector General for Tax Administration** were particularly elucidating.

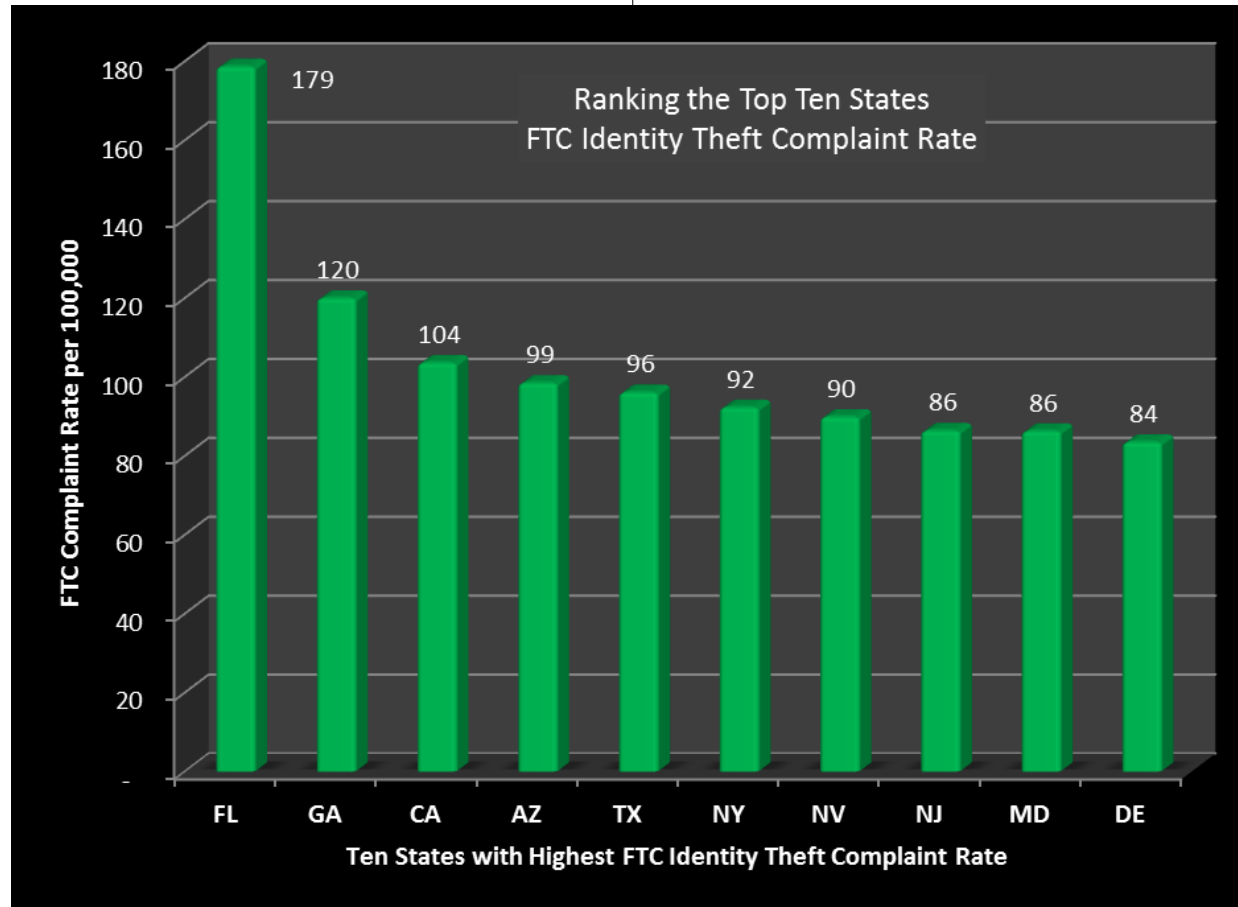
Readers should recognize that the preponderance of FTC demographic data is based on less than 300,00 customer complaints filed by victims with the FTC. The size of this data universe is statistically significant. The metrics are particularly useful for relative comparisons but the complaints only aggregate 3% of annual identity theft victims. For example, in 2003 the FTC released a comprehensive study which included a national survey indicating 9.91 million identity theft victims but only 215,400 complaints were filed during the year; 2.2% of total victims.¹ In 2006, a second survey was released which estimated total victims for CY 2005 at 8.3 million, but reported claims only totaled 255,687 or 3.1%.²

Experience has demonstrated that the impact of identity theft often extends to all immediate family members, whether by stress, financial loss, or spillover fraud. When judging the toxicity of this crime, it is useful to express incidence rates in terms of family or household exposure. This information is not provided by any agency but can be **extrapolated** from published data. For example, the FTC reported 11,625 complaints filed by Georgia residents in 2011. This constituted 4.16% of total national complaints (279,156) filed during 2011. Other survey results reported that 10.8 million Americans were victimized by identity theft in 2011. If the complaint proportion is applied to aggregate victims, we are able to project actual Georgia victims at 441,420 during 2011. Based on 3,468,704 Georgia households, the likely exposure to a Georgia family is approximately 12.7%. This contrasts to the national household victimization rate of 9.5%. The same methodology can be applied to metropolitan statistical areas or large cities. While we recognize that this approach is not perfect, it does offer a more realistic depiction of this crime and provides more meaningful comparisons.

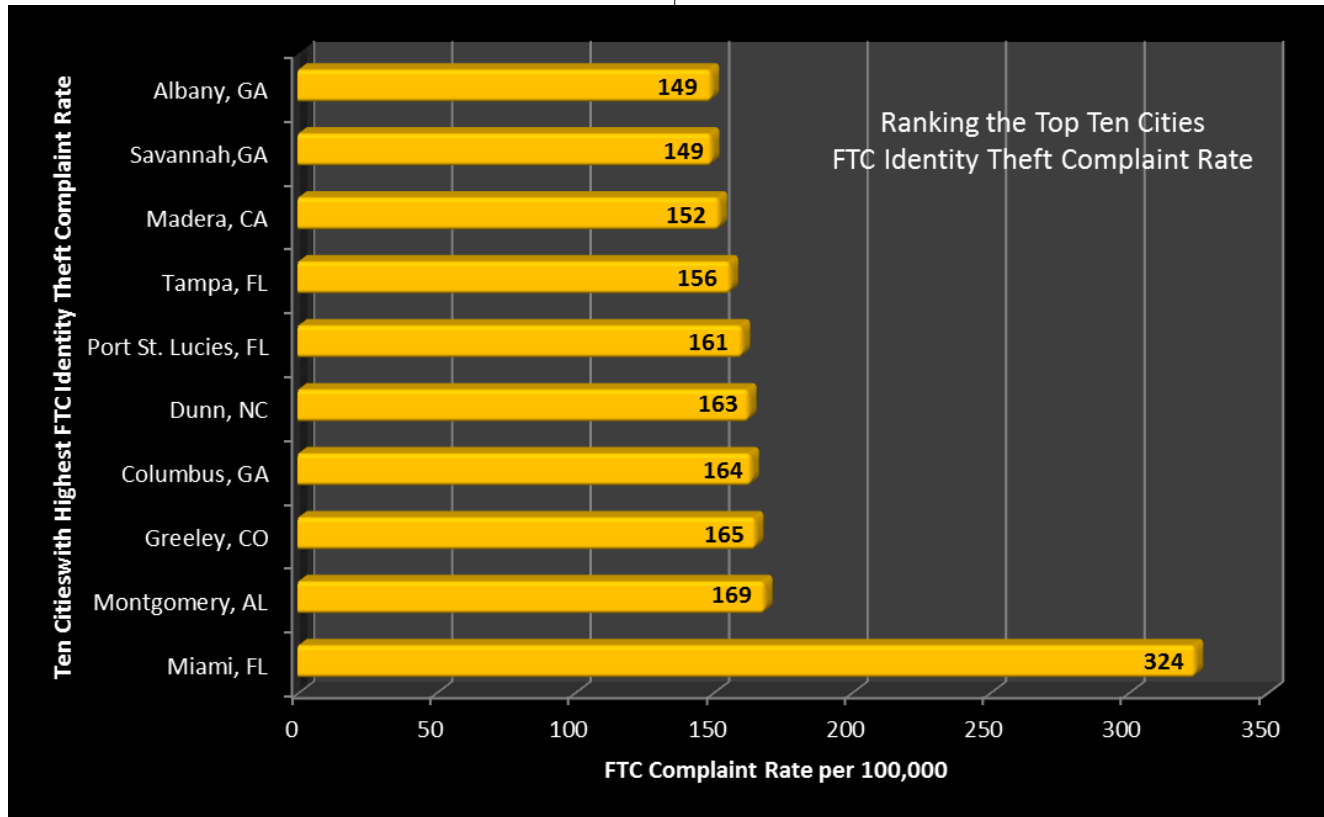
¹Federal Trade Commission. *Identity Theft Survey Report*. September, 2003.

²Federal Trade Commission. *Identity Theft Survey Report*. November, 2007.



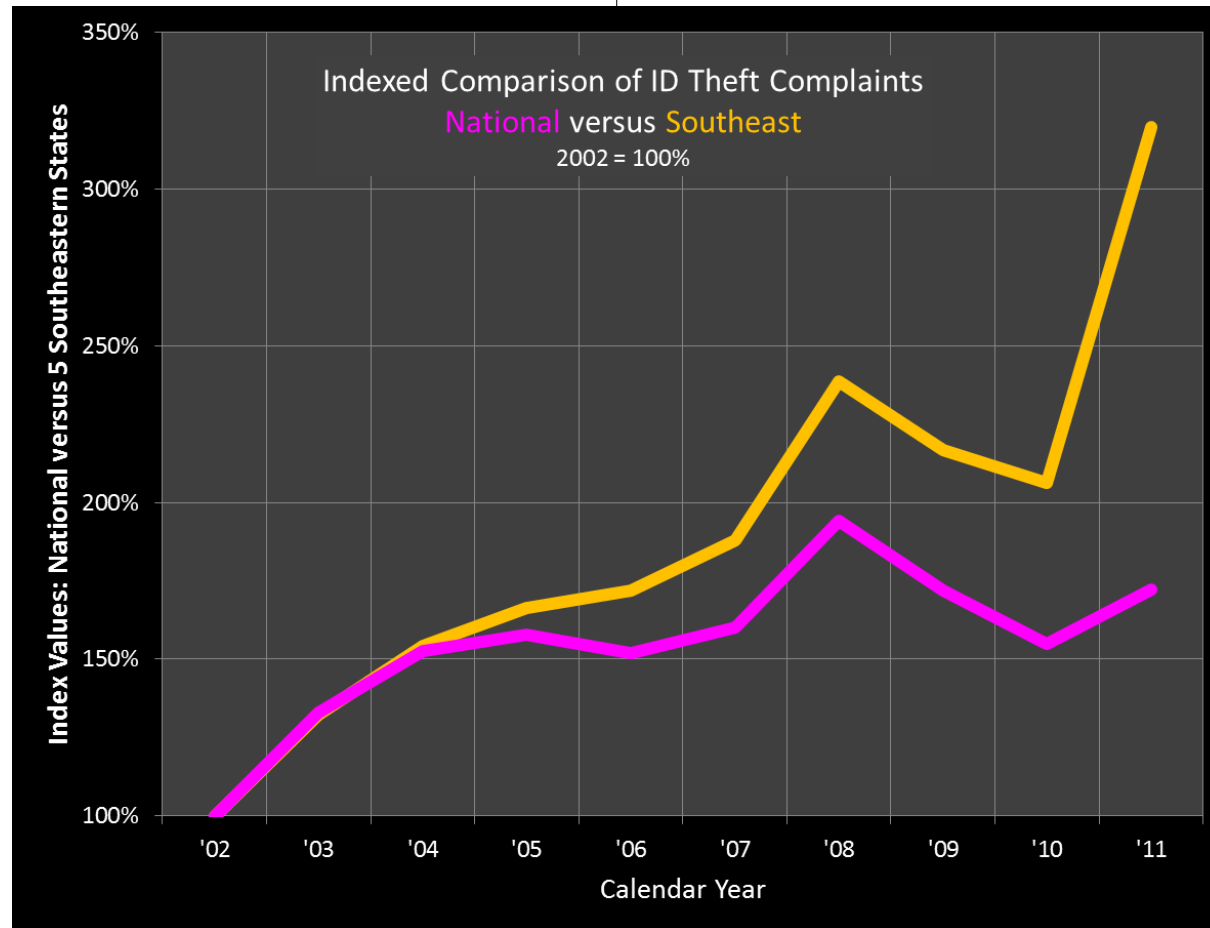


Florida first rose to the forefront of the identity theft pandemic in 2009 when the Sunshine State skyrocketed to the dominant position for being the most victimized state by identity thieves. Florida has maintained this position by a hefty margin over perennial bastions of identity fraud: California, Arizona, and Texas. Particularly shocking is the concurrent rise of **Georgia** to the runner-up position, substantially outpacing California.



Seven of the ten worst cities (metropolitan statistical areas) for identity theft are situated in the southeast. The list is headed by the **Miami, Florida MSA**, which is being victimized at an apocalyptic rate, nearly twice that of the second-worst city, **Montgomery, Alabama**. The second-ten tier of most victimized cities includes eight southeastern states, including the **Atlanta MSA** (11) and **Orlando** (12).

Consequently, 15 of the first 20 most victimized cities are situated in the southeast. Additionally, 77% of the increase in 2011 national identity theft complaints filed with the FTC originated from the southeastern states. It is apparent that a serious identity theft crime wave has struck Florida. This outbreak may be spreading into Georgia, Alabama, Mississippi, and South Carolina.



Index of National Identity Theft Complaints

2002	100%
2003	133%
2004	152%
2005	158%
2006	152%
2007	160%
2008	194%
2009	172%
2010	155%
2011	172%

Index of 5 Southeastern States ID Theft Complaints

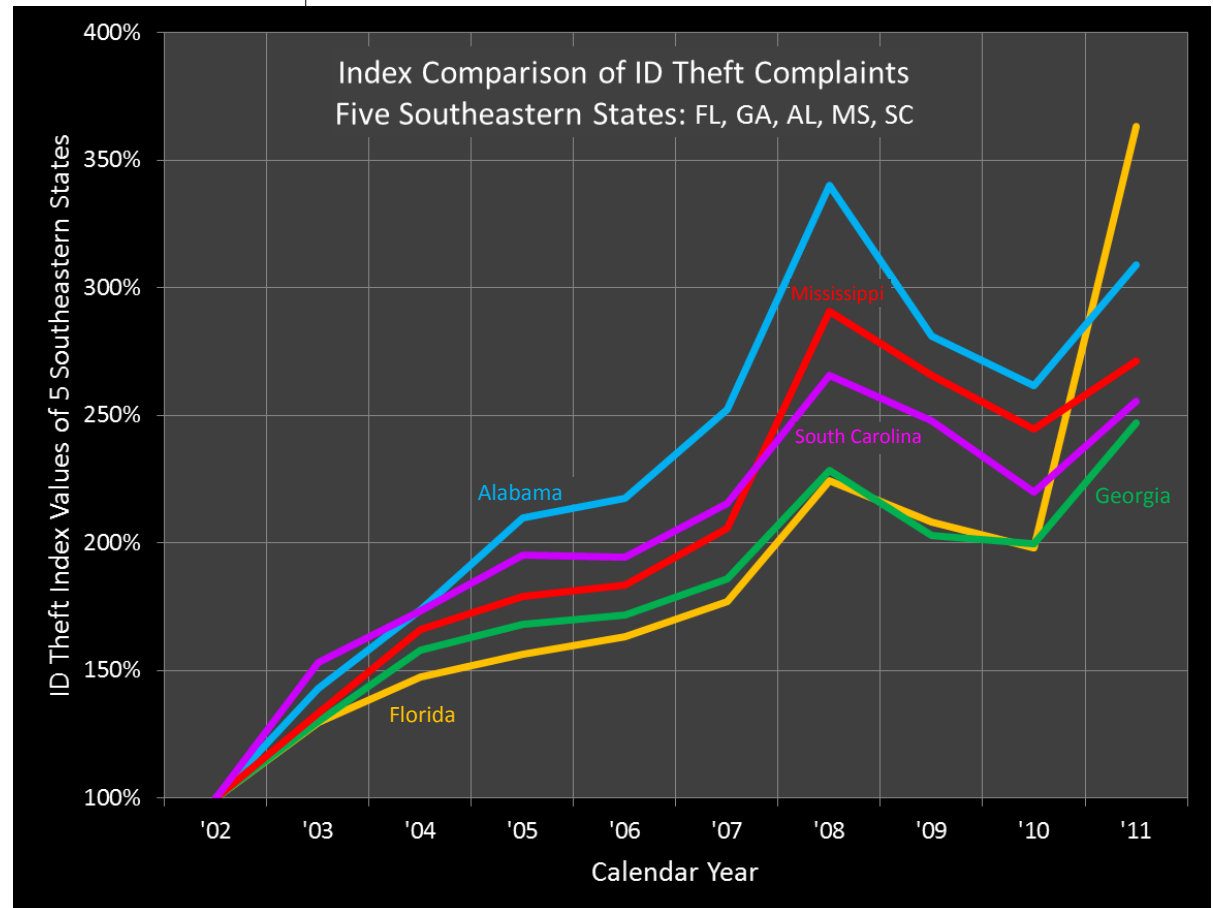
2002	100%
2003	132%
2004	154%
2005	166%
2006	172%
2007	188%
2008	239%
2009	217%
2010	206%
2011	320%

The graph represents a comparison between the national annual incidence of identity theft and the aggregate of five southeastern states: Florida, Georgia, Alabama, Mississippi, and South Carolina. The metrics have been converted to an index representing complaints filed with the Federal Trade Commission; 2002 established as the base year with a value of 100.

The two indices demonstrated a **79%** correlation even though they diverged by 20 points in 2006. The spread increased by 45 points in 2009 when Florida became the nation's most victimized state and Georgia occupied the fourth position. In 2011, the region's identity theft skyrocketed and the spread increased to 148 points — a crime wave of epic significance.

Matrix of Correlation Coefficients
State Incidence of Identity Theft

	FL	GA	AL	MS	SC
FL		91.1%	79.2%	79.7%	78.8%
GA			97.3%	96.6%	97.3%
AL				98.4%	98.5%
MS					97.7%
SC					

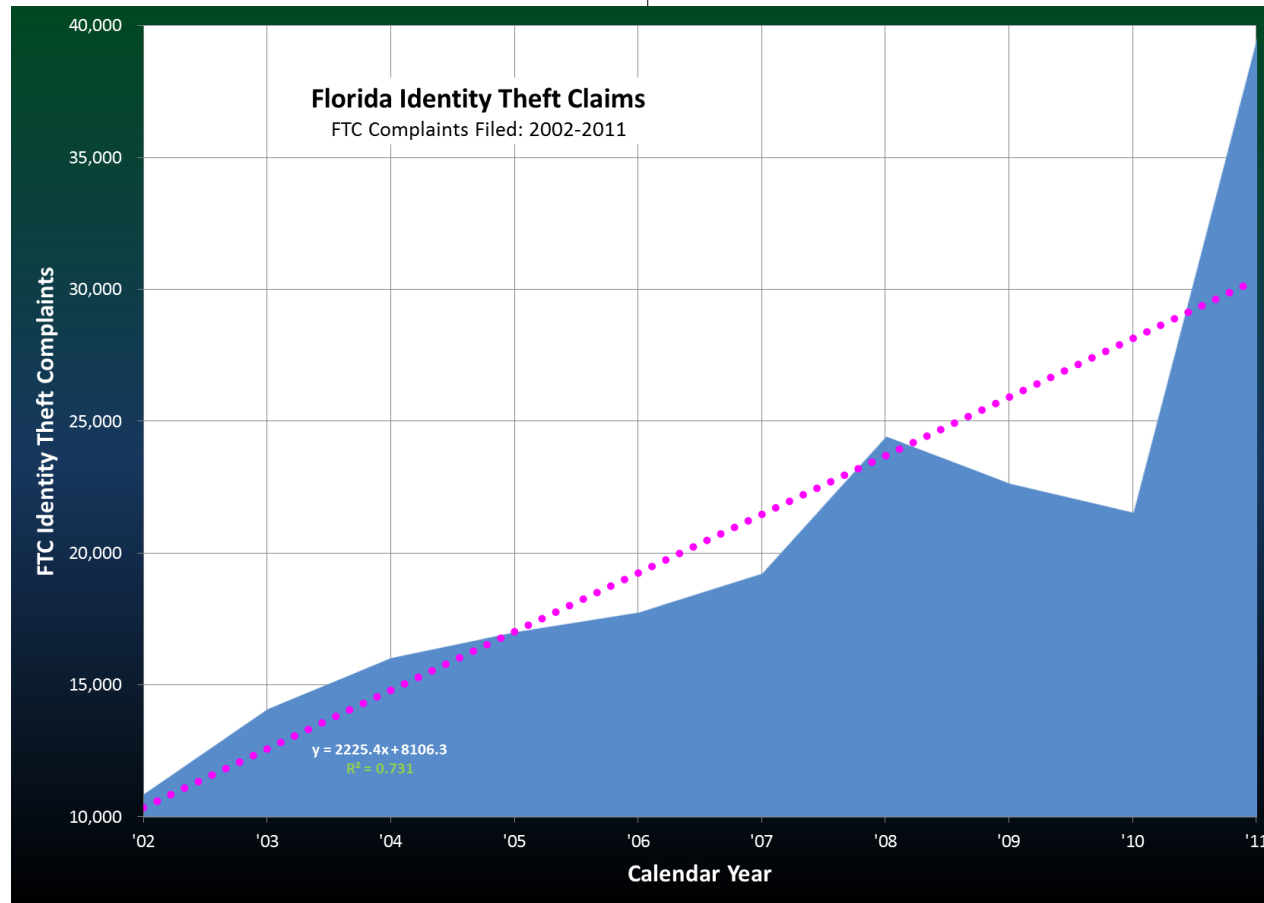


The graph is an indexed depiction of identity theft complaints filed with the FTC from five southeastern states. Visually, their trends appear similar, until Florida breaks out in 2011. It is interesting that the highest initial growth was demonstrated by Alabama (13.4%), followed by Mississippi (11.9%), and then South Carolina (11.8%). The accompanying matrix of linear correlation coefficients is highly significant from a statistical perspective. Georgia identity

theft is correlated to Florida by 91%. However, Alabama, Mississippi, and South Carolina are less driven by Florida but are correlated to Georgia by 97%. Such extraordinary correlation yields R^2 values of 94%. This means that only 6% of the movement in Alabama, Mississippi, and South Carolina is a result of factors other than explainable changes in Georgia. **Florida drives Georgia; Georgia drives Alabama, Mississippi, and South Carolina.**

National Identity Theft Complaints Filed with FTC

2001	86,250
2002	161,977
2003	215,240
2004	246,909
2005	255,687
2006	246,214
2007	259,314
2008	314,594
2009	278,385
2010	251,105
2011	279,156



Florida Identity Theft Complaints Filed with FTC

2001	5,696
2002	10,898
2003	14,119
2004	16,062
2005	17,048
2006	17,780
2007	19,270
2008	24,440
2009	22,664
2010	21,581
2011	39,595

Florida identity theft complaints filed with the Federal Trade Commission have risen from 5,696 in 2001 to 39,595 in 2011. This equates to an annual compound growth rate of **21.4%**. Florida's meteoric growth contrasts to a national average of 12.5% over the same period. Florida FTC identity theft complaints dipped slightly in 2009 and 2010.

Nevertheless, the overall trend is relatively linear as depicted in the graph's dotted line. The least squares regression analysis indicates a coefficient of determination of 73.1% (85.5% correlation coefficient). The trend remains statistically significant despite a dramatic increase in 2011 complaints of **83.5%**.

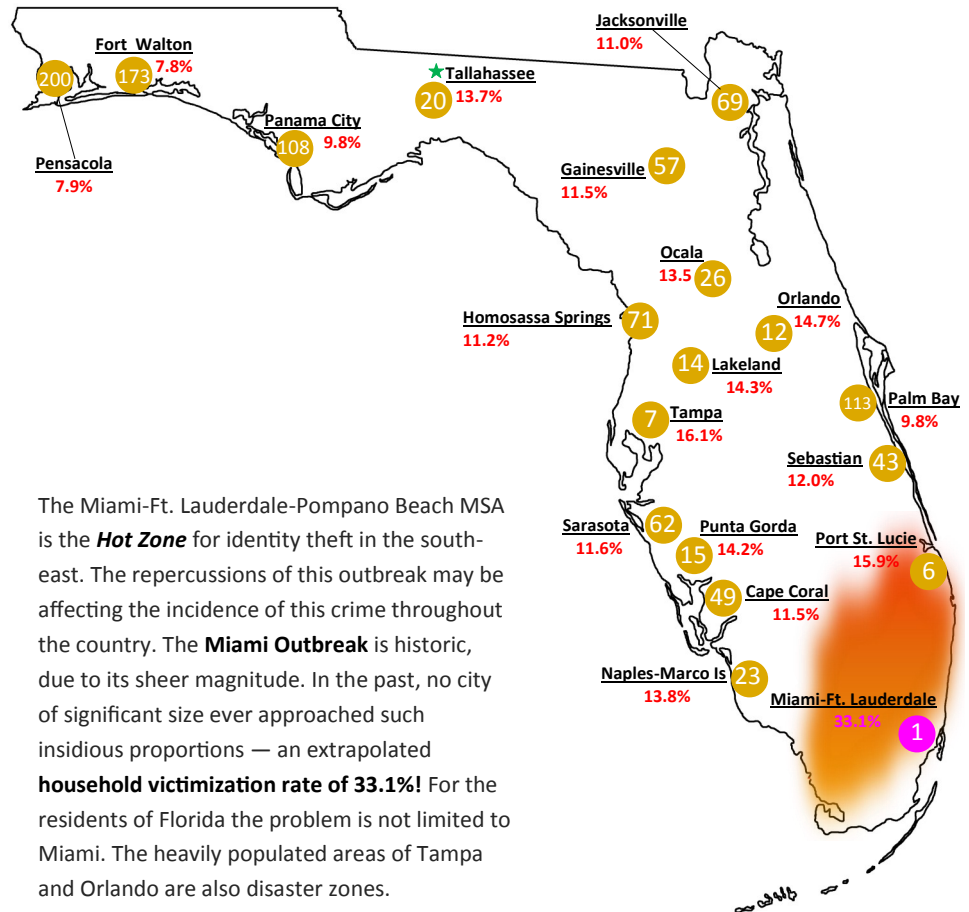
Florida

Identity Theft Victimization by MSA CALENDAR YEAR 2011

Nat'l Rank	Florida Metropolitan Statistical Areas	Extrapolated ID Theft Victims	Household Victimization Rate
1	Miami-Fort Lauderdale-Pompano Beach	729,103	33.1%
6	Port St. Lucie	26,678	15.9%
7	Tampa-St. Petersburg-Clearwater	176,812	16.1%
12	Orlando-Kissimmee	124,204	14.7%
14	Lakeland	34,033	14.3%
15	Punta Gorda	8,976	14.2%
20	Tallahassee	19,946	13.7%
23	Naples-Marco Island	17,494	13.8%
26	Ocala	17,619	13.5%
43	Sebastian-Vero Beach	6,524	12.0%
49	Cape Coral-Fort Myers	28,173	11.5%
57	Gainesville	11,968	11.5%
62	Sarasota-Bradenton-Venice	31,622	11.6%
69	Jacksonville	58,632	11.0%
71	Homosassa Springs	6,275	11.2%
108	Panama City-Lynn Haven	6,524	9.8%
113	Palm Bay-Melbourne-Titusville	21,068	9.8%
173	Fort Walton-Crestview-Destin	6,067	7.8%
200	Pensacola	14,087	7.9%

Which Cities in Florida Are Most Susceptible to Identity Theft?

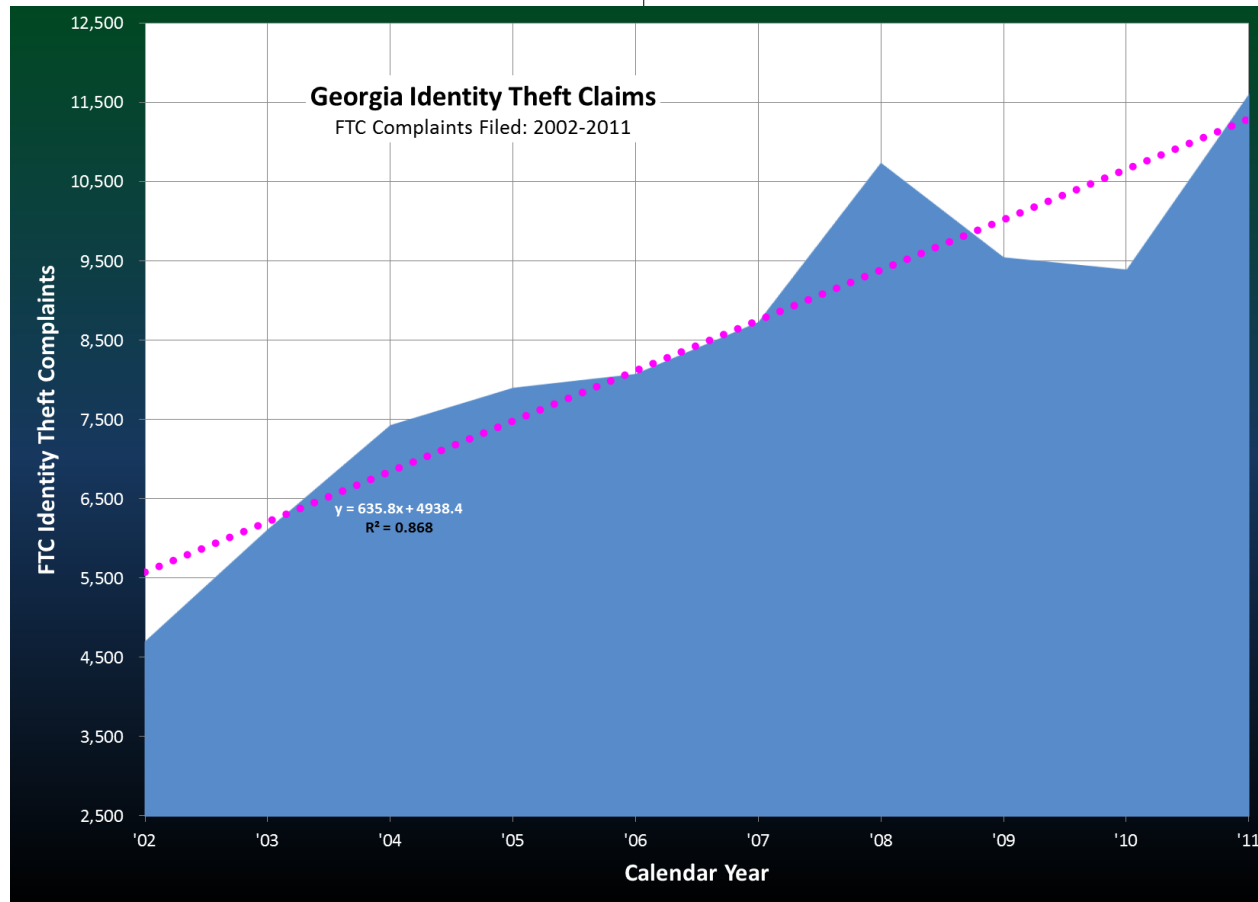
FTC NATIONAL RANK (GOLD)
HOUSEHOLD VICTIM RATE (RED)



The Miami-Ft. Lauderdale-Pompano Beach MSA is the **Hot Zone** for identity theft in the south-east. The repercussions of this outbreak may be affecting the incidence of this crime throughout the country. The **Miami Outbreak** is historic, due to its sheer magnitude. In the past, no city of significant size ever approached such insidious proportions — an extrapolated **household victimization rate of 33.1%**! For the residents of Florida the problem is not limited to Miami. The heavily populated areas of Tampa and Orlando are also disaster zones.

National Identity Theft Complaints Filed with FTC

2001	86,250
2002	161,977
2003	215,240
2004	246,909
2005	255,687
2006	246,214
2007	259,314
2008	314,594
2009	278,385
2010	251,105
2011	279,156



Georgia Identity Theft Complaints Filed with FTC

2001	2,592
2002	4,709
2003	6,127
2004	7,440
2005	7,918
2006	8,084
2007	8,744
2008	10,748
2009	9,556
2010	9,404
2011	11,625

Complaints of identity theft filed by Georgia residents with the Federal Trade Commission have risen over the past decade in a consistent linear fashion. In fact, the least squares trend has been correlated to time by approximately 93.2%; R^2 is calculated at 86.8%. Identity theft in Georgia since 2001 has grown annually at 10.4%. Based on Georgia's per capita rate of identity fraud, it is now ranked as the second worst state. Are the problems in contiguous Florida spilling over into Georgia? Statistics indicate that Florida trends account for 80% of the identity fraud issues in Georgia.

Georgia

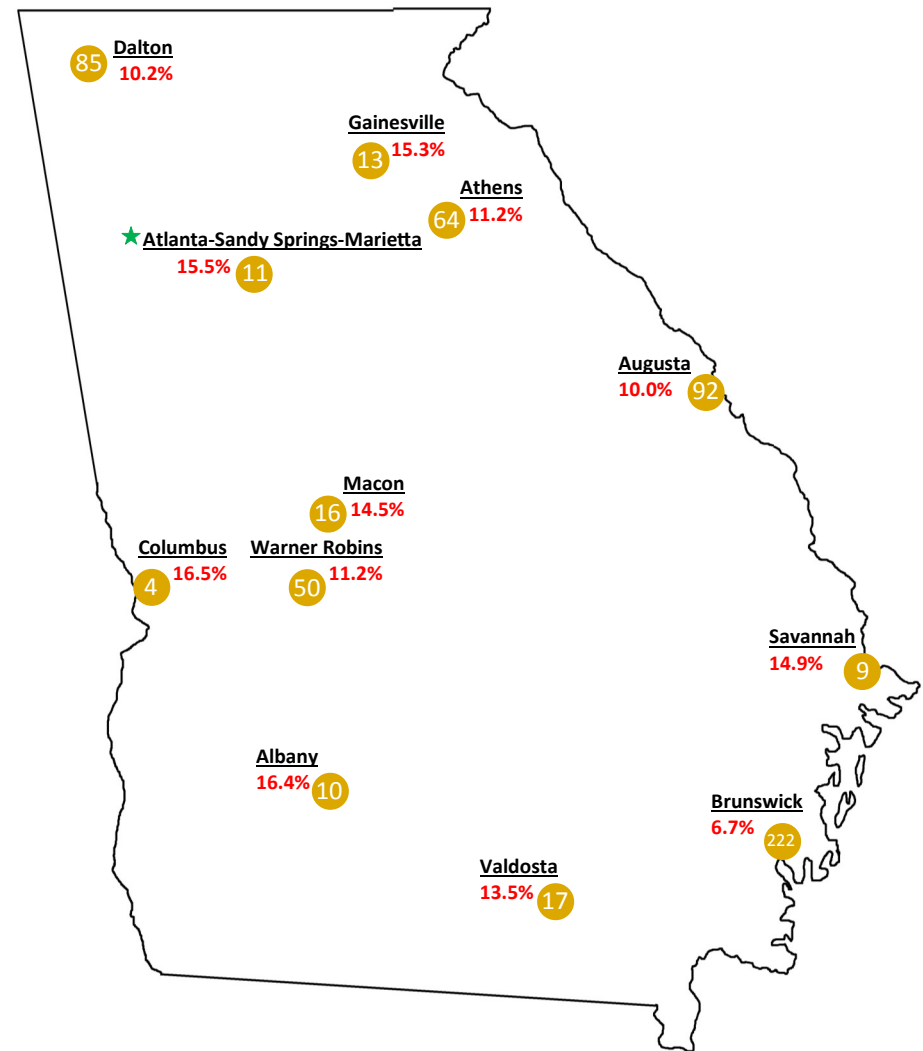
Identity Theft Victimization by MSA
CALENDAR YEAR 2011

Nat'l Rank	Georgia Metropolitan Statistical Areas	Extrapolated ID Theft Victims	Household Victim Rate
4	Columbus (AL-GA)	19,239	16.5%
9	Savannah	20,444	14.9%
10	Albany	10,181	16.4%
11	Atlanta-Sandy Springs-Marietta	323,580	15.5%
13	Gainesville	10,846	15.3%
16	Macon	13,297	14.5%
17	Valdosta	7,438	13.5%
50	Warner Robins	6,192	11.2%
64	Athens-Clarke (county)	8,560	11.2%
85	Dalton	5,734	10.2%
92	Augusta-Richmond County	22,107	10.0%
222	Brunswick	2,992	6.7%

From an identity theft perspective, the only compliment for Georgia is that the Atlanta victimization rate is half of the Miami rate — but **Atlanta** identity theft issues are atrocious by any reasonable comparison. Unfortunately, the city can expect 323,000 victims this year — impacting 15.5% of households. Victim rates in other Georgia MSAs are extraordinary; fortunately, none are mega-population centers. Clearly, Georgia's extraordinary rates of identity theft are centered around Atlanta.

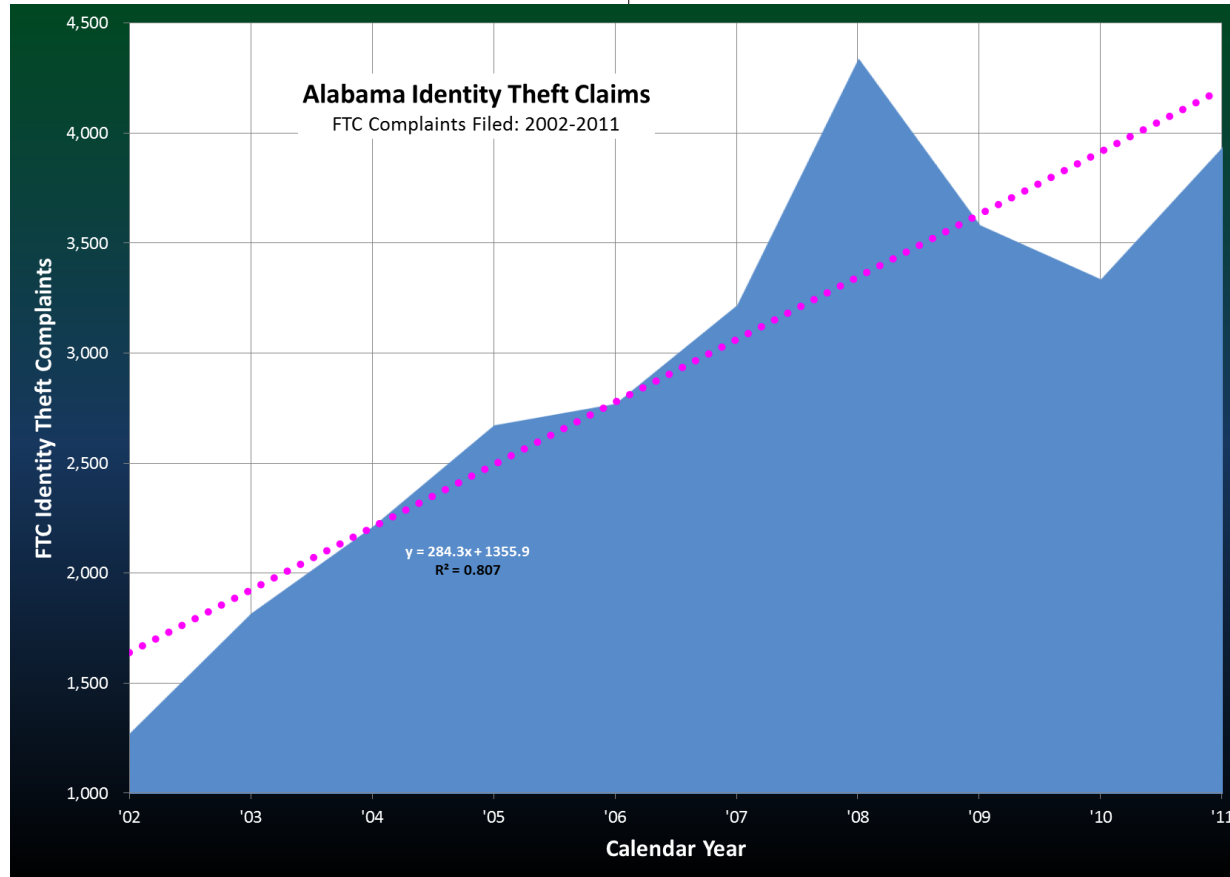
Which Cities in Georgia Are Most Susceptible to Identity Theft?

FTC NATIONAL RANK (GOLD)
HOUSEHOLD VICTIM RATE (RED)



National Identity Theft Complaints Filed with FTC

2002	161,977
2003	215,240
2004	246,909
2005	255,687
2006	246,214
2007	259,314
2008	314,594
2009	278,385
2010	251,105
2011	279,156



Alabama Identity Theft Complaints Filed with FTC

2002	1,276
2003	1,823
2004	2,216
2005	2,675
2006	2,774
2007	3,221
2008	4,342
2009	3,586
2010	3,339
2011	3,942

The bad news for **Alabama** is its close proximity to Florida (also contiguous) and a common border with Georgia. Result: Alabama has vaulted to **No. 12** on the list of states ranked worst for per capita rates of identity theft. This compares to a ranking of No. 38 in 2002. The ten-year trend for identity theft in Alabama is decidedly upward: time series yields an R^2 value of 80.7% or a correlation coefficient of 89.8%. Since 2002, identity theft in Alabama has grown annually at a rate of **13.4%**.

Alabama

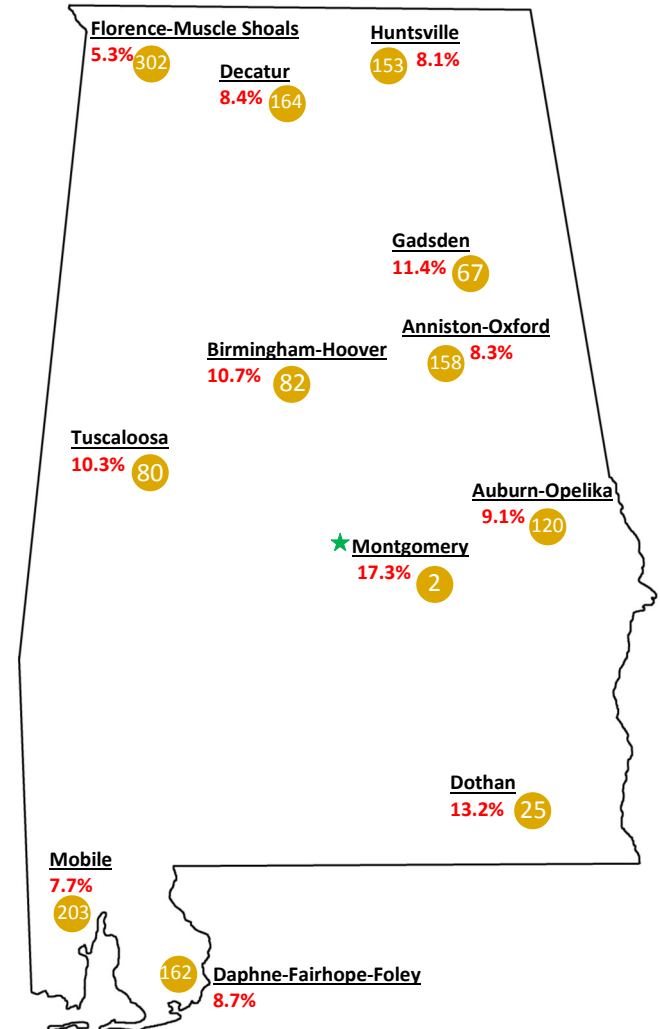
Identity Theft Victimization by MSA
CALENDAR YEAR 2011

Nat'l Rank	Alabama Metropolitan Statistical Areas	Extrapolated ID Theft Victims	Household Victim Rate
2	Montgomery	25,639	17.3%
25	Dothan	7,604	13.2%
67	Gadsden	4,686	11.4%
80	Tuscaloosa	8,934	10.3%
82	Birmingham-Hoover	47,828	10.7%
120	Auburn-Opelika	5,028	9.1%
153	Huntsville	13,422	8.1%
158	Anniston-Oxford	3,906	8.3%
162	Daphne-Fairhope-Foley	5,901	8.7%
164	Decatur	5,111	8.4%
203	Mobile	12,508	7.7%
302	Florence-Muscle Shoals	3,075	5.3%

The Crimson Tide is well-known for its national championship football teams. In keeping with the FTC National Identity Theft Poll, 'Bama placed the city of **Montgomery** as the **No. 2** most victimized MSA in 2011.

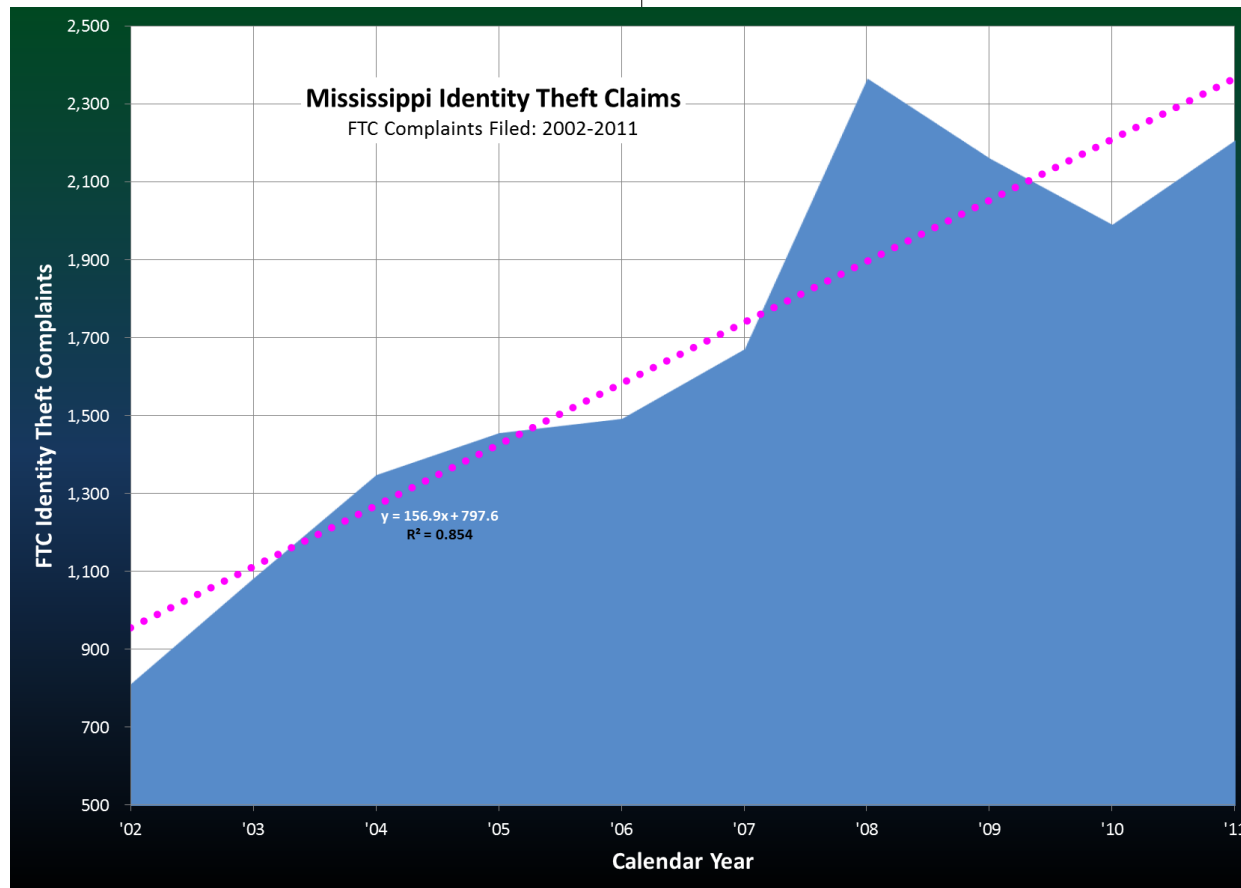
Which Cities in Alabama Are Most Susceptible to Identity Theft?

FTC NATIONAL RANK (GOLD)
HOUSEHOLD VICTIM RATE (RED)



National Identity Theft Complaints Filed with FTC

2002	161,977
2003	215,240
2004	246,909
2005	255,687
2006	246,214
2007	259,314
2008	314,594
2009	278,385
2010	251,105
2011	279,156



Mississippi Identity Theft Complaints Filed with FTC

2002	814
2003	1,084
2004	1,350
2005	1,458
2006	1,494
2007	1,673
2008	2,367
2009	2,161
2010	1,992
2011	2,210

Like Alabama, **Mississippi** has been susceptible to the Georgia Effect. This correlation has pushed Mississippi to **No. 17** on the list of states ranked worst for per capita rates of identity theft. This unenviable move compares unfavorably to Mississippi's No. 39 ranking in 2002. The ten-year trend for identity theft in Mississippi is upward: time series yields an R^2 value of 85.4% or a correlation coefficient of 92.4%. Since 2002, identity theft in Alabama has grown annually at a rate of **11.8%**.

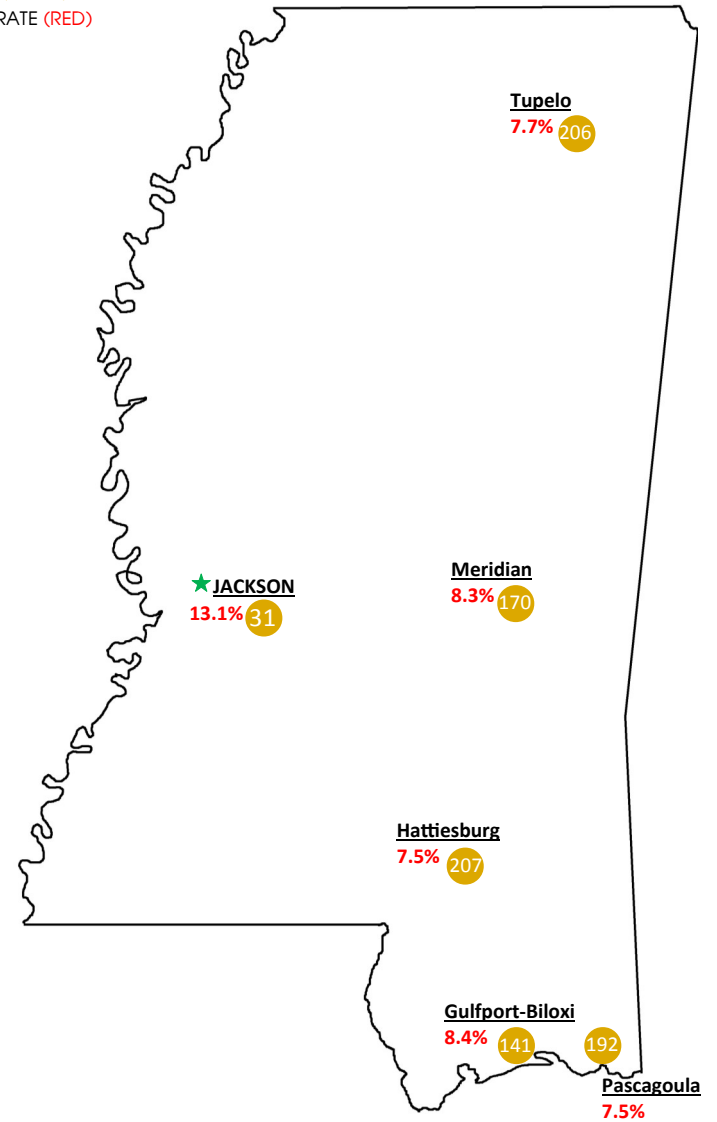
Mississippi

Identity Theft Victimization by MSA
CALENDAR YEAR 2011

Nat'l Rank	Mississippi Metropolitan Statistical Areas	Extrapolated ID Theft Victims	Household Victim Rate
31	Jackson	27,924	13.1%
141	Gulfport-Biloxi	8,269	8.4%
170	Meridian	3,532	8.3%
192	Pascagoula	4,779	7.5%
206	Tupelo	4,072	7.7%
207	Hattiesburg	4,238	7.5%

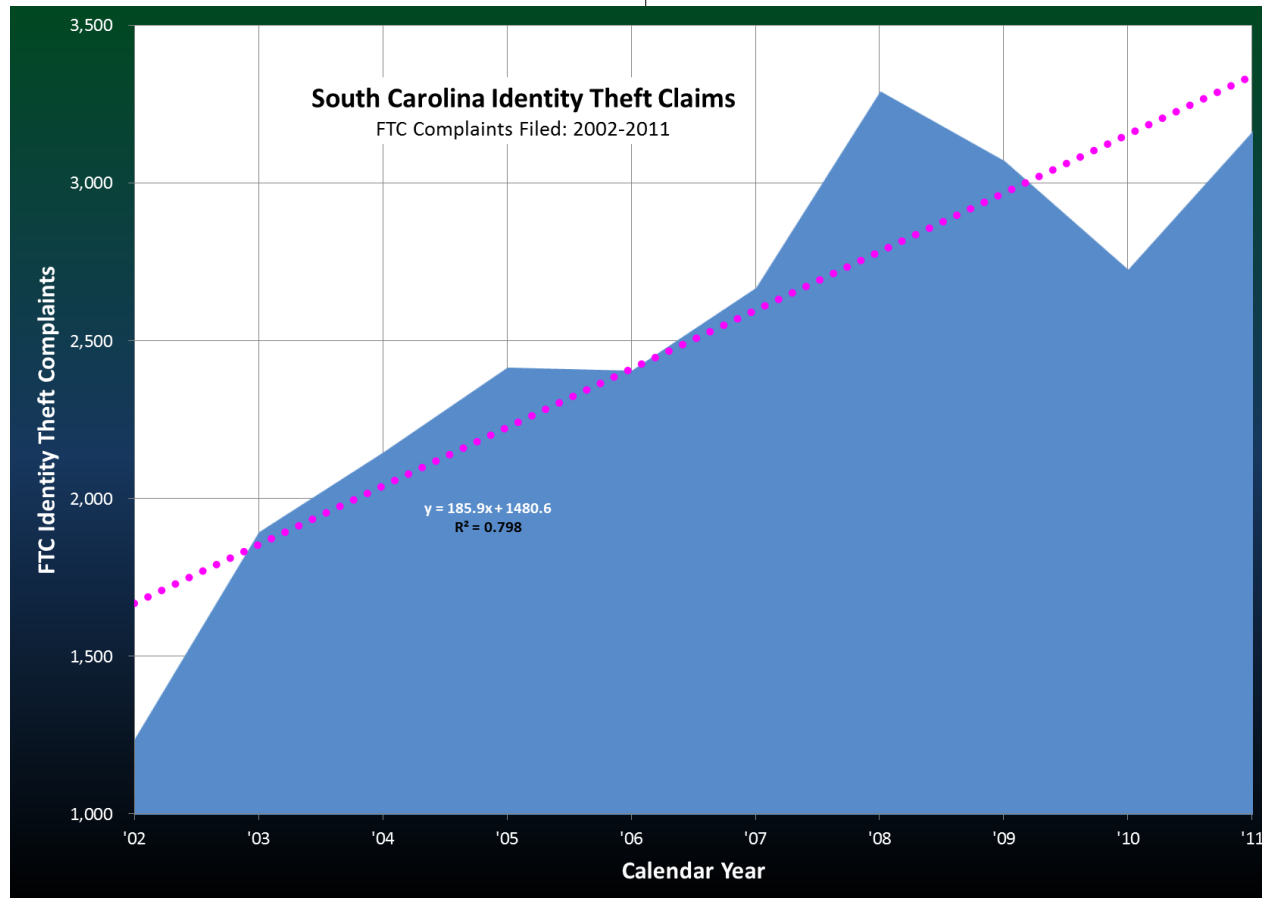
Which Cities in Mississippi Are Most Susceptible to Identity Theft?

FTC NATIONAL RANK (GOLD)
HOUSEHOLD VICTIM RATE (RED)



National Identity Theft Complaints Filed with FTC

2002	161,977
2003	215,240
2004	246,909
2005	255,687
2006	246,214
2007	259,314
2008	314,594
2009	278,385
2010	251,105
2011	279,156



So. Carolina Identity Theft Complaints Filed with FTC

2002	1,239
2003	1,895
2004	2,148
2005	2,416
2006	2,408
2007	2,670
2008	3,292
2009	3,070
2010	2,726
2011	3,168

South Carolina has not been immune to the outbreak of identity theft in the Southeast. The fraud issues in Georgia seem to have infiltrated South Carolina as evidenced by its 2011 ranking of **No. 20** on the list of worst states for per capita identity theft. This compares to a ranking of No. 35 in 2002. The ten-year trend for identity theft in South Carolina is upward: time series yields an R^2 value of 79.8% or a correlation coefficient of 89.3%. Since 2002, identity theft in South Carolina has grown annually at **10.9%**.

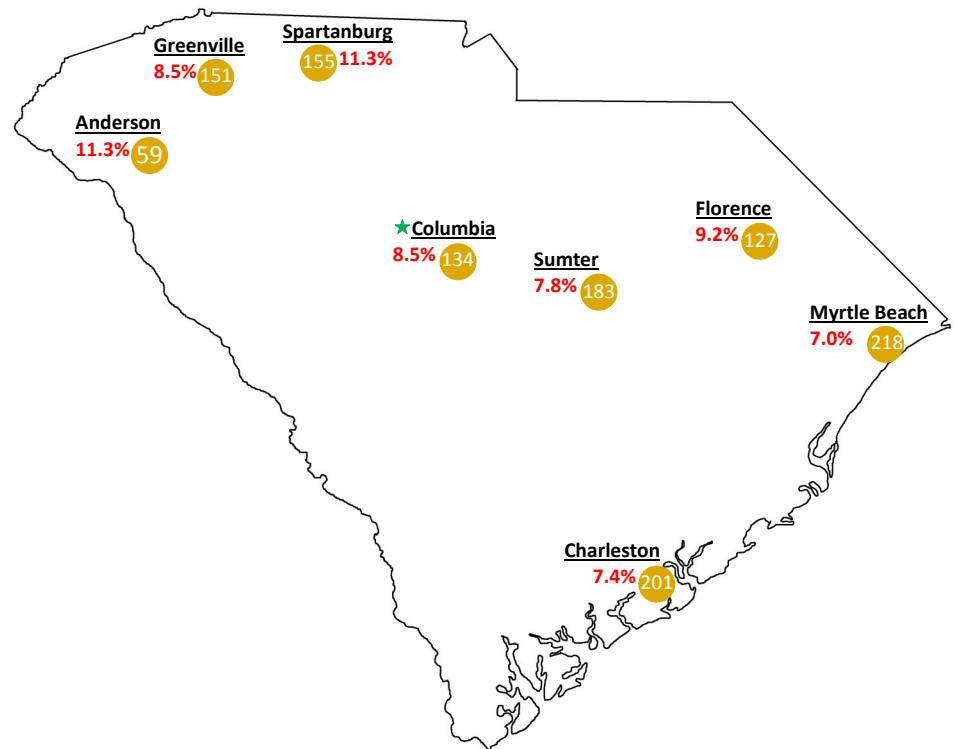
South Carolina

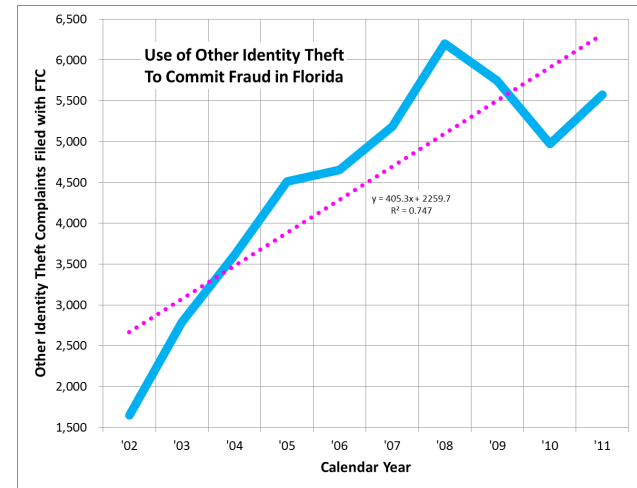
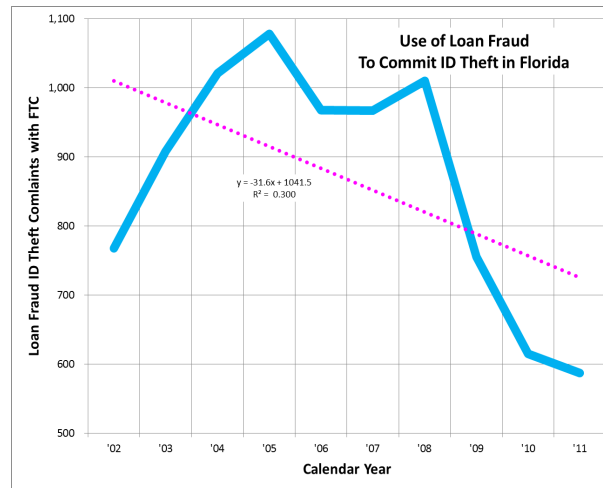
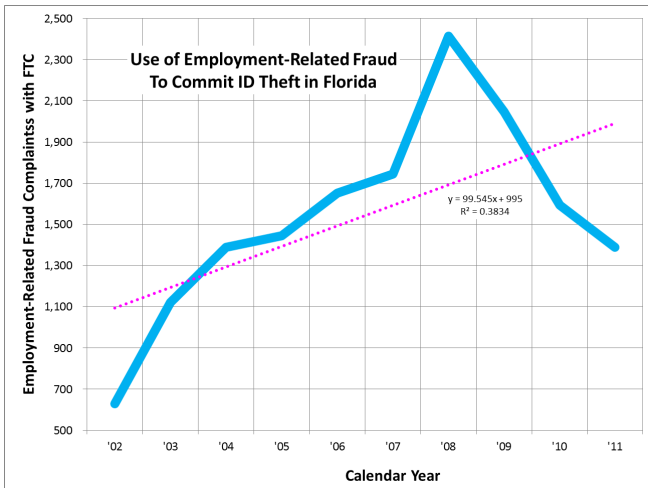
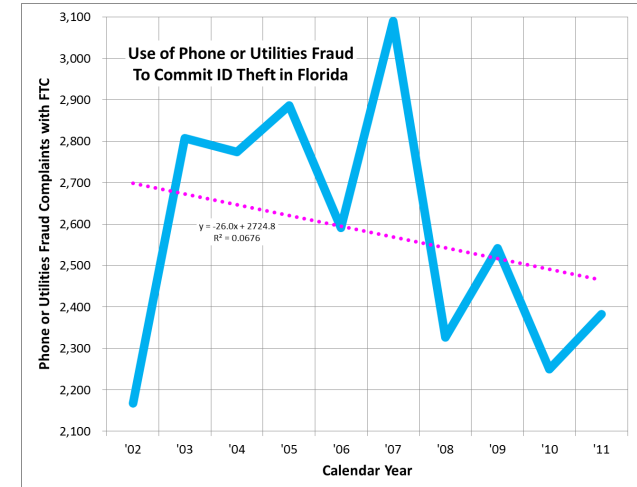
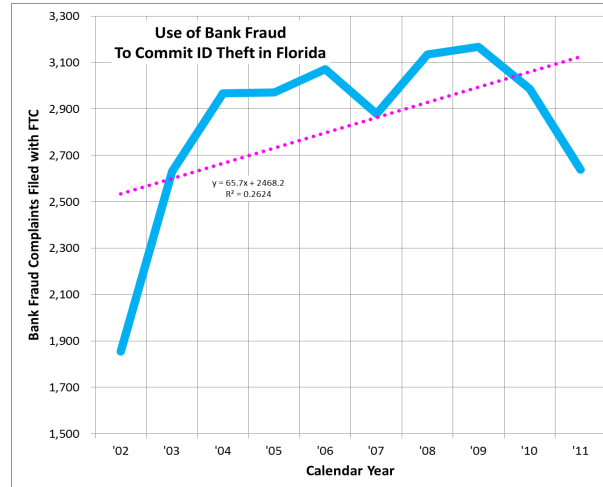
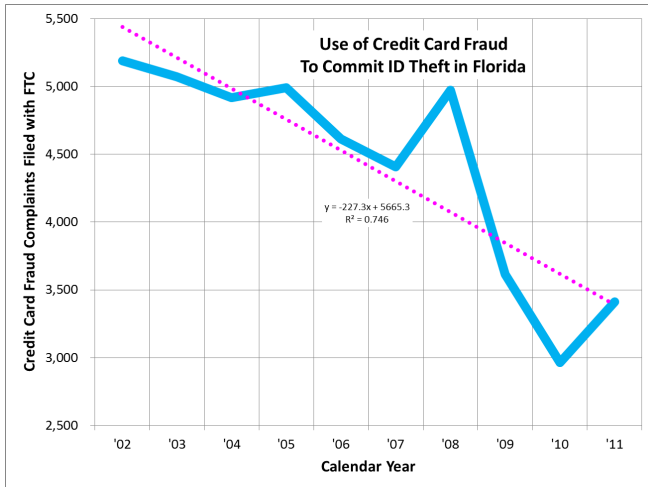
Identity Theft Victimization by MSA
CALENDAR YEAR 2011

Nat'l Rank	South Carolina Metropolitan Statistical Areas	Extrapolated ID Theft Victims	Household Victim Rate
59	Anderson	8,352	11.3%
127	Florence	7,438	9.2%
134	Columbia	25,930	8.5%
151	Greenville-Mauldin-Easley	21,400	8.5%
155	Spartanburg	9,557	8.5%
183	Sumter	3,324	7.8%
201	Charleston-North Charleston	19,530	7.4%
218	Myrtle Beach-Conway-North Myrtle	7,438	7.0%

Which Cities in South Carolina Are Most Susceptible to Identity Theft?

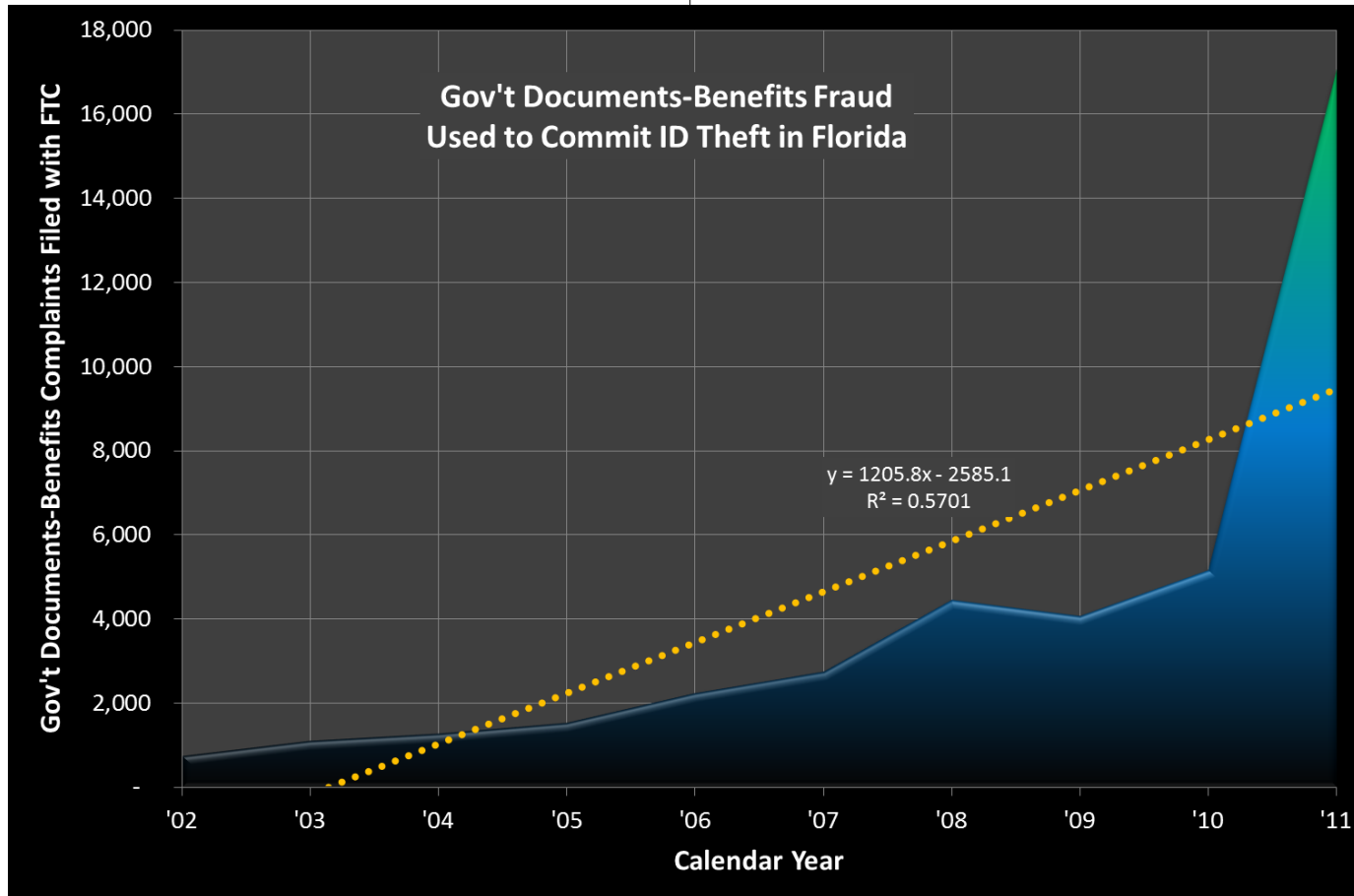
FTC NATIONAL RANK (GOLD)
HOUSEHOLD VICTIM RATE (RED)





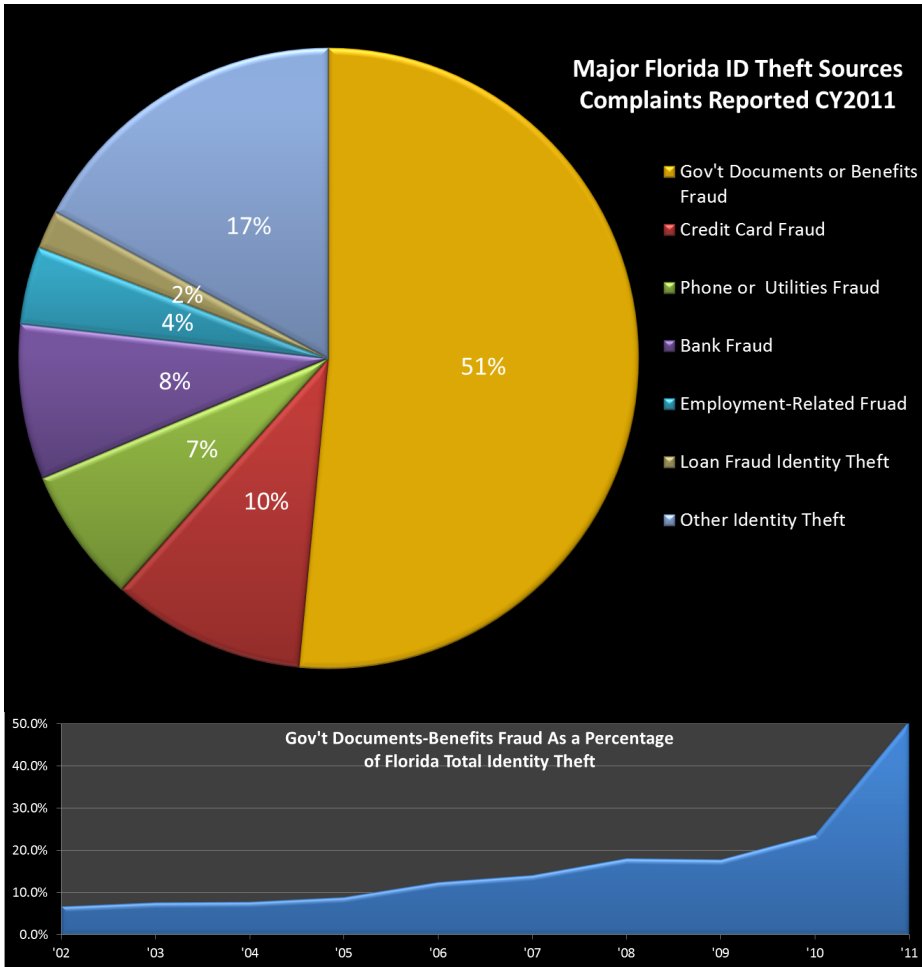
The array of six line graphs is intended to depict the ten-year trends of the traditional forms of fraud used by criminals in Florida to hijack identities. The results are surprising, considering the unprecedented outbreak of identity theft which began in 2008. Three traditional fraud vehicles have declined since 2002: credit card, phone or utilities, and loan fraud. Note

the downward slope of the dotted trend line. Bank fraud and employment-related fraud have been declining since 2008. Although the slope of their trends remains positive, both trends have been deeply penetrated. In effect, identity has exploded in Florida, but the perpetrators have switched from the traditional approach.

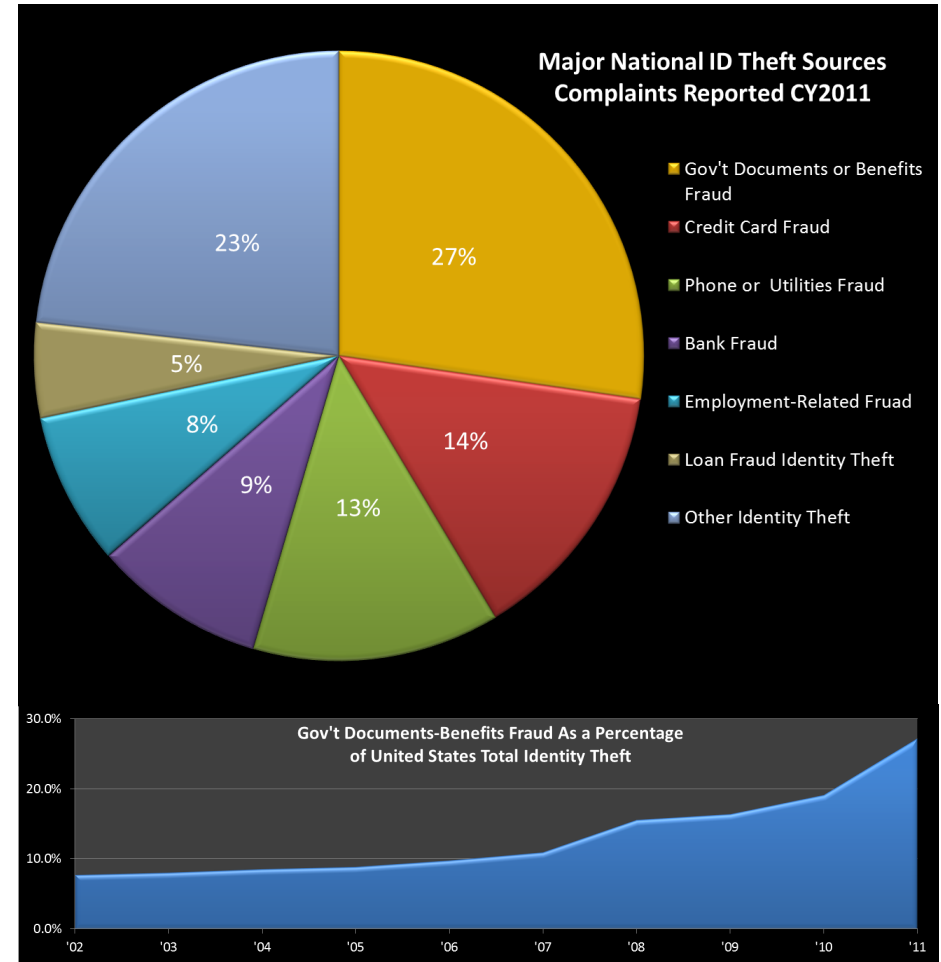


There is a seventh fraud category — **Government Documents-Benefits Fraud**. The trend in this variant of identity theft explains the rise of identity theft in Florida and the Southeast. This fraud involves the illegal use or counterfeiting of government-issued forms and documents (i.e. driver’s license, Social Security card, birth certificate), or the willful misrepresentation of identity to gain some form of benefit (i.e. Social Security, welfare, unemployment

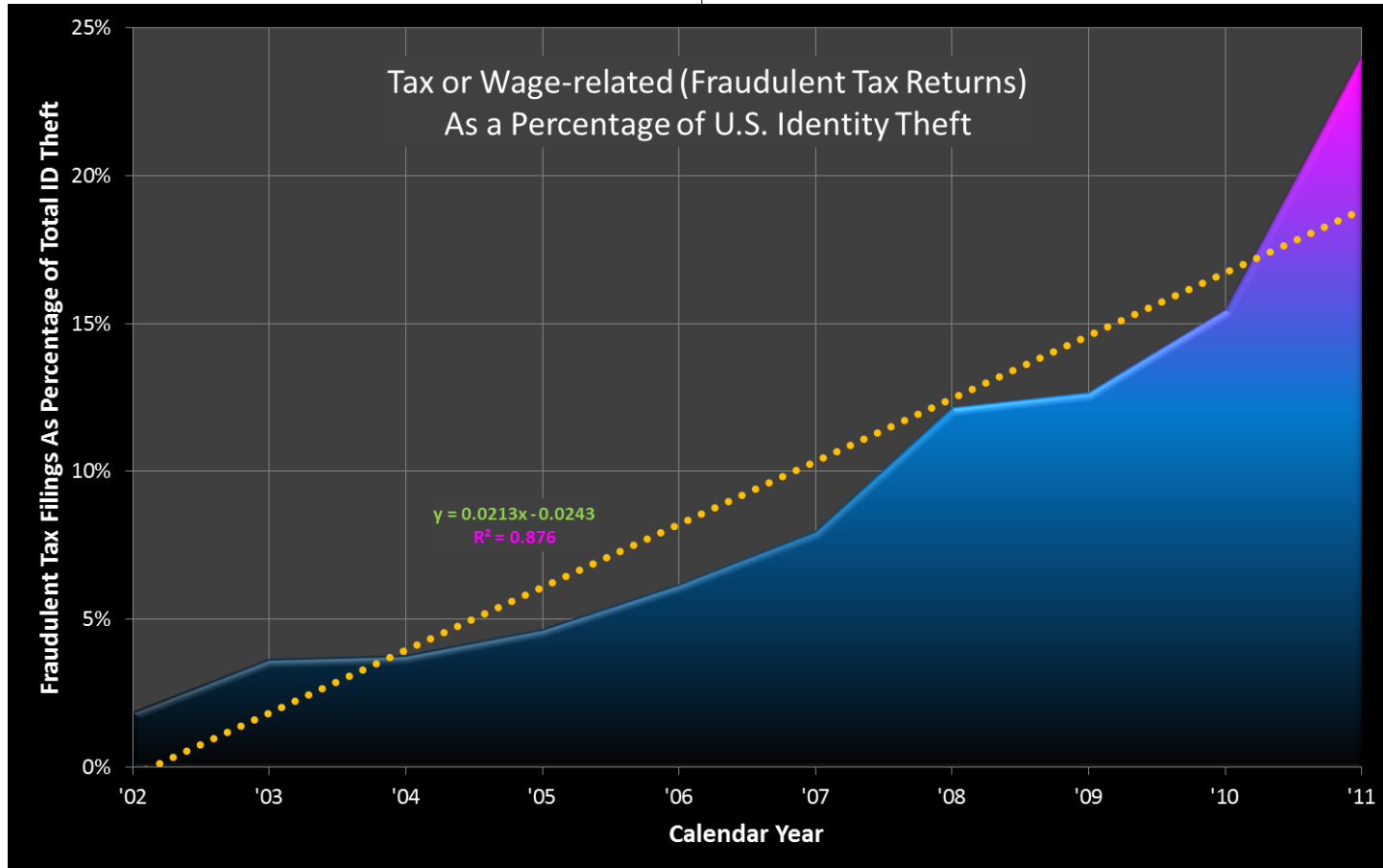
benefits). The nature of this fraud may be the most virulent. It now extends to a relatively new category classified as Immigration Benefit Fraud or passport and visa fraud which is being viewed as a threat to national security. Unfortunately, government documents-benefits fraud may be the **most difficult form of identity theft to detect**. Further, our experience has demonstrated this to be one of the most difficult frauds to resolve.



The composition of identity theft in Florida has changed radically over the past decade. In 2002, the most prevalent variant was credit card fraud, 48% versus 10% in 2011. Other notable declines include loan fraud from 17% to 2%, phone or utilities fraud from 20% to 7%, and bank fraud from 17% to 8%. The most significant change has been the meteoric rise in **government documents-benefits fraud** from 7% in 2002 to 51% in 2011.



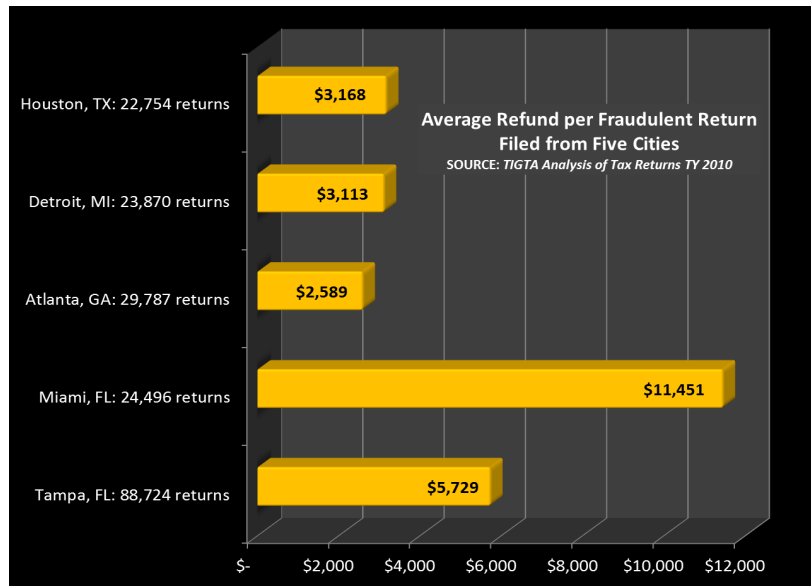
The nature of identity theft is changing nationally, as well. The more traditional forms of identity fraud are being replaced by the more toxic government documents-benefits fraud, albeit at a slower rate than Florida. Nevertheless, this difficult to detect and resolve form of identity theft has risen nationally from 8% in 2002 to 27% in 2011. Conversely, credit card fraud has dropped from 42% to 14% and bank fraud from 17% to 9%.



Meet the most virulent form of identity theft ever unleashed — the **Tax or Wage-related strain of Documents-Benefits Fraud**. This is the metaphoric equivalent of the Motaba virus, a fictionalized hemorrhagic fever with 100% morbidity, sensationalized in the movie thriller *Outbreak*. Unfortunately, this identity theft pathogen is all too real and America is hemorrhaging billions of dollars at an unprecedented rate — **it is pandemic!**

The outbreak began in 2008 and became epidemic in 2010-2011. The above chart depicts the unabated rise of this fraud from 1.9% of all U.S. identity theft in 2002 to 24.1% in 2011. Tax or Wage-related identity theft has increased every year during the past decade. In fact, the graph includes a linear trend line with an R^2 value of 87.6% or a time series correlation of 93.6%. This phenomenon was well-documented and should not have come as a surprise.

In 2010, a single home in Tampa, Florida, submitted 518 fraudulent tax returns and received refunds totaling \$1.8 million. A post office box in Orlando, Florida, received over \$1 million, representing refunds from 703 fraudulent federal tax returns. The outbreak has become so acute that the **Treasury Inspector General for Tax Administration** recently conducted several audits focusing on identity theft and fraudulent filings. The TIGTA concluded that the Internal Revenue Service identified approximately one million fraudulent returns for TY2010, representing \$6.8 billion in bogus refunds — the good news. Unfortunately, the IRS paid \$5.2 billion in refunds generated from 1.5 million additional fraudulent returns – and these were just the cases identified by the audit. Eighty percent of the fraudulent filings requested direct bank deposits, including pre-loaded debit cards for their refunds.



In a recent report, the TIGTA published their analysis of fraudulent returns filed from five cities. The results are shown in the accompanying graph, the most startling being an average of \$11,451 refunded on 24,496 returns filed from Miami, Florida. The TIGTA also concluded that even with improvements in the IRS fraud detection system, they will likely **pay over \$21 billion in additional fraudulent claims (2011-2015)**. The problem is worsening. By mid-2012, the Internal Revenue Service had already stopped \$12 billion in fraudulent refunds for TY2011.

The TIGTA also released a profile of the identity theft victims who were not detected by the IRS fraud scans. These included: deceased, elderly, citizens of U.S. possessions, students, children, and those with income levels not requiring filing a tax return. The implication is that targeted victims are only those least likely to file a legitimate tax return. However, in a subsequent study entitled *“Most Taxpayers Whose Identities Have Been Stolen to Commit Refund Fraud Do Not Receive Quality Customer Service.”* The title pretty well describes the paper’s content. The TIGTA details the avalanche of identity theft cases inundating IRS personnel and the delays and poor service hundreds of thousands of taxpayers are receiving. For the most part, these are not the deceased or children; they are ordinary tax-paying Americans.

In conclusion, we would be remiss not to mention that crimes of this magnitude attract the most sophisticated, well-organized criminal networks which may include drug cartels and foreign governments.

