State of South Carolina –
Forward from the Breach

Executive Vice President, Chief Legal Officer & Secretary
March 5, 2013

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Why We Are Here

LifeLock

- A Leading Provider of Proactive Identity Theft Protection Services
- Consumer Identity Protection
- Fraud Protection for Enterprises

My Experience

- Executive Vice President, Chief Legal Officer & Secretary - LifeLock
- Vice President, General Counsel & Chief Privacy Officer - Initiate Systems
- Assistant Counsel to the President of the United States - The White House
- Corporate & Securities Partner - Sonnenschein, Nath and Rosenthal Law Firm
- A.B. Harvard College, J.D. University of Michigan Law School, M.Phil. UWA

How We See Things

- Enterprise & Consumer
- Holistic Approach
- Education, Awareness & Proactive Tools

Our New Reality – A New Level of Fraud

“America must also face the rapidly growing threat from cyber-attacks. We know hackers steal people's identities and infiltrate private e-mail. We know foreign countries and companies swipe our corporate secrets. Now our enemies are also seeking the ability to sabotage our power grid, our financial institutions, and our air traffic control systems. We cannot look back years from now and wonder why we did nothing in the face of real threats to our security and our economy.”

2013 State 0f the Union Address

Identity Theft by the Numbers: South Carolina

In South Carolina, the number of complaints of identity theft grew from 68.5 per 100,000 persons in 2011 to 90.6 complaints of identity theft per 100,000 persons in 2012

Source: Javelin Strategy & Research - 2013 Identity Theft Report: Data Breaches Becoming a Treasure Trove for Fraudsters – February 2013

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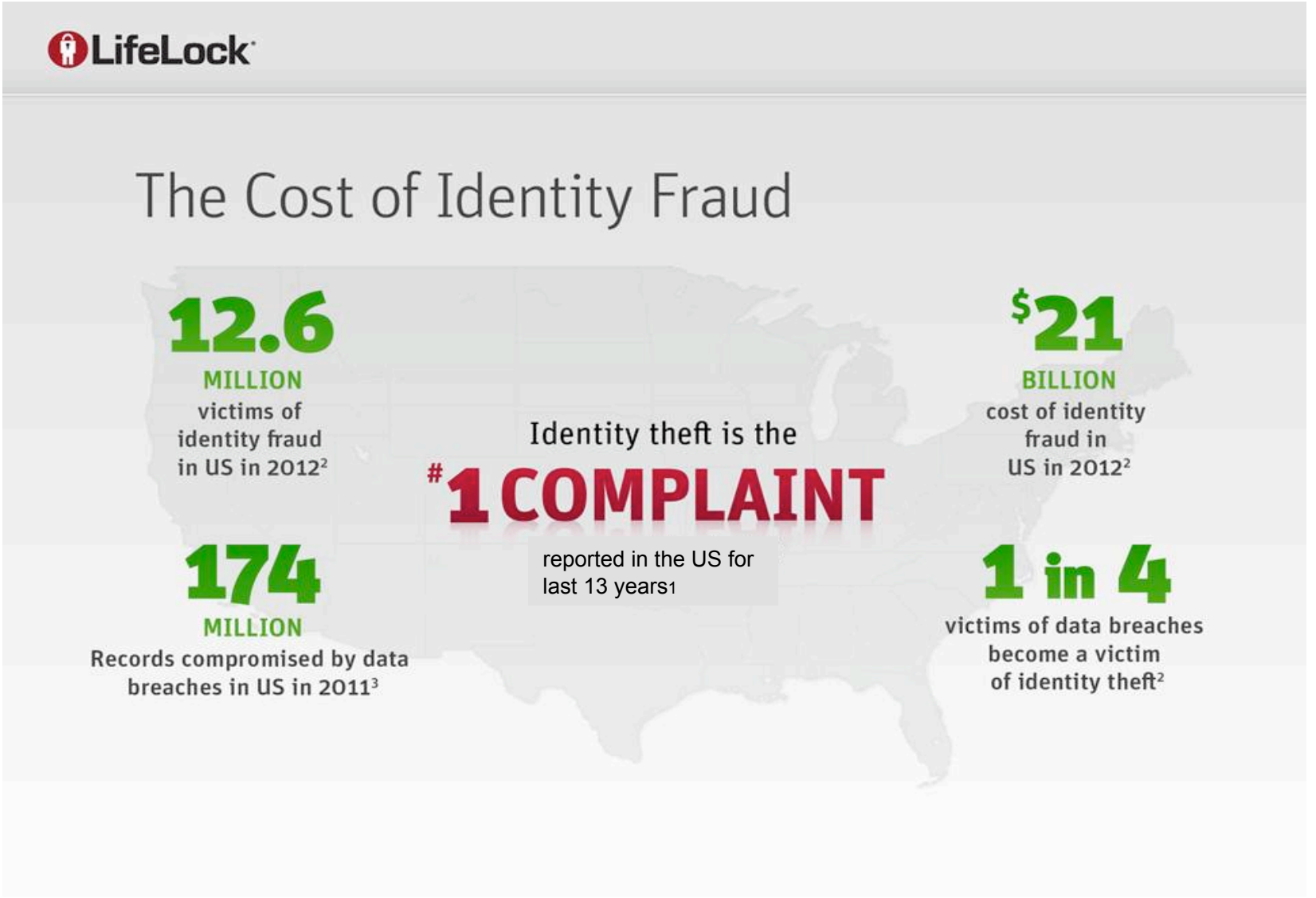
ID Theft & Fraud Is a Growing Part of our World

“Fraud incidents and the amount stolen continued its upward trend. Approximately one million more adults were victimized by identity fraud in 2012, compared to 2011. This is the second highest number of victims since the study started.”

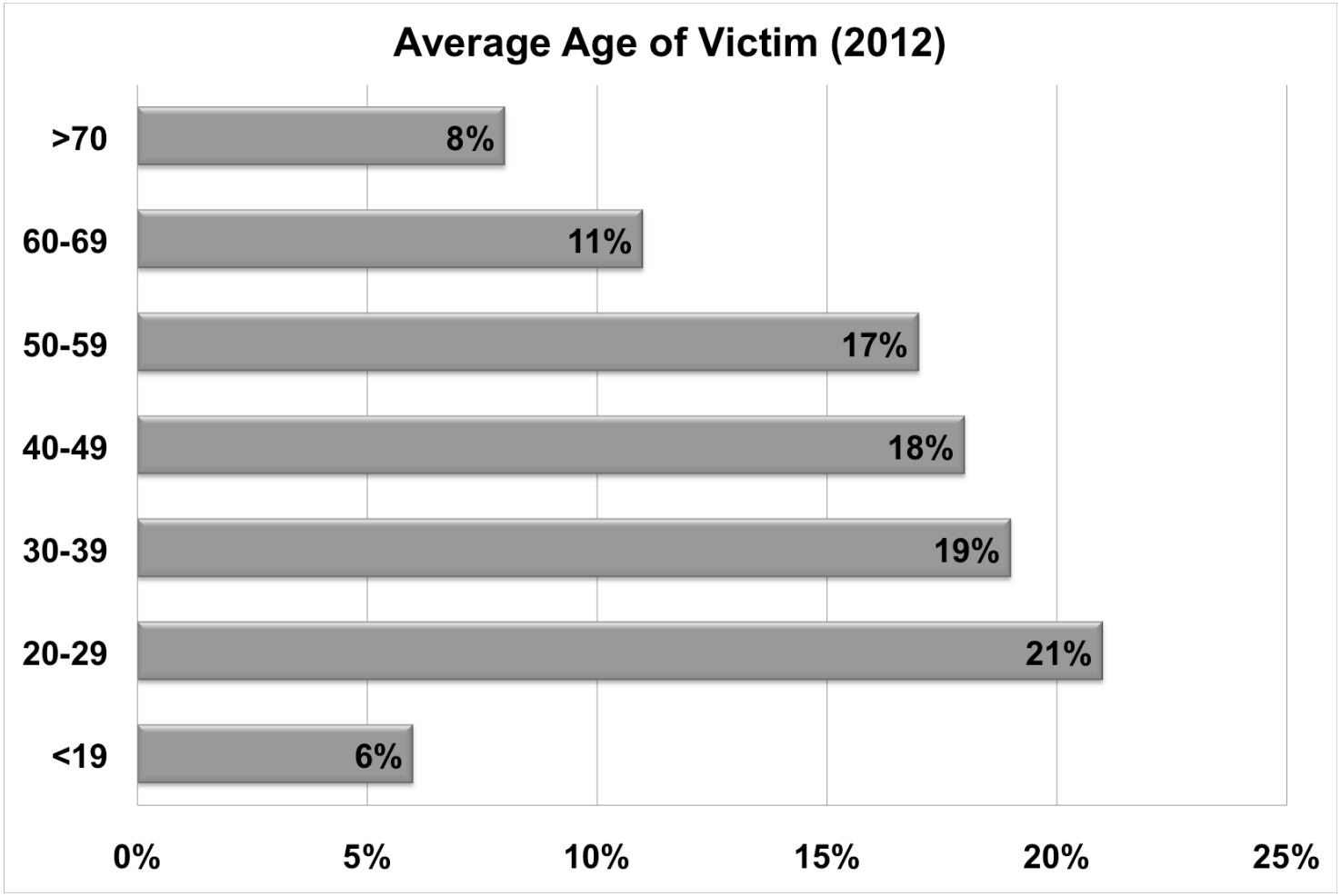
Source: Javelin Strategy & Research - 2013 Identity Theft Report: Data Breaches Becoming a Treasure Trove for Fraudsters – February 2013

Identity Theft by the Numbers



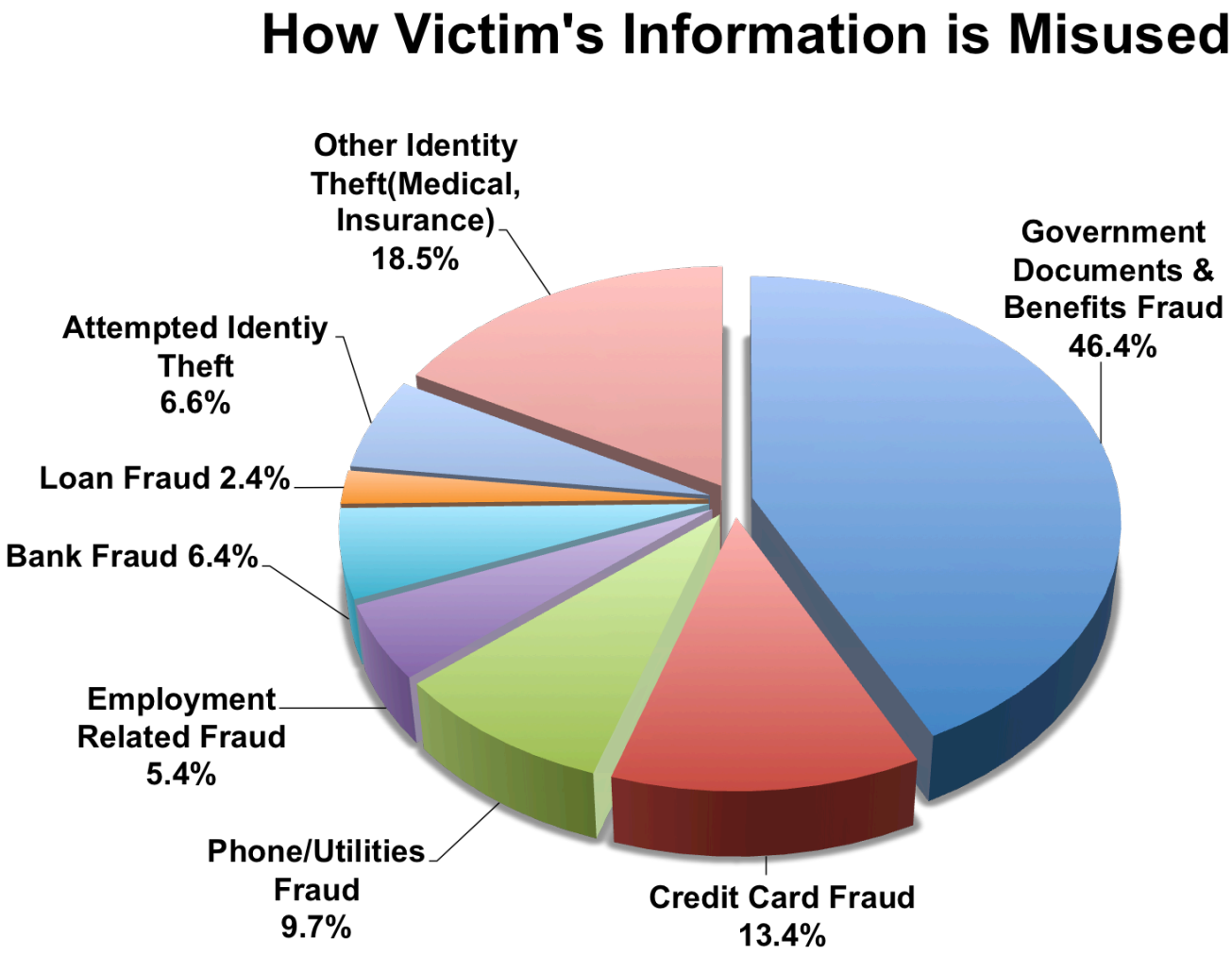
Source: Javelin Strategy & Research – February 2013 - Page 18

Average Age of Victim Complaints (National)



Source: Federal Trade Commission. "Consumer Sentinel Network Data Book for January – December 2012." February 2013.

National Statistics: Identity Theft Complaints



Source: Federal Trade Commission. "Consumer Sentinel Network Data Book for January – December 2012. February 2013

South Carolina: Identity Theft Complaints

Rank	ID Theft Type	Percentage[1]
1	Government Documents or Benefits Fraud	1,879	44%
2	Credit Card Fraud	483	11%
3	Phone or Utilities Fraud	457	11%
4	Bank Fraud	250	6%
5	Employment-Related Fraud	165	4%
6	Loan Fraud	104	2%
	Other	962	22%
	Attempted Identity Theft	266	6%

[1]Percentages are based on the 4,282 victims reporting from South Carolina. Note that CSN identity theft complaints may be coded under multiple theft types.

Source: Federal Trade Commission. "Consumer Sentinel Network Data Book for January – December 2012. Page 62 February 2013

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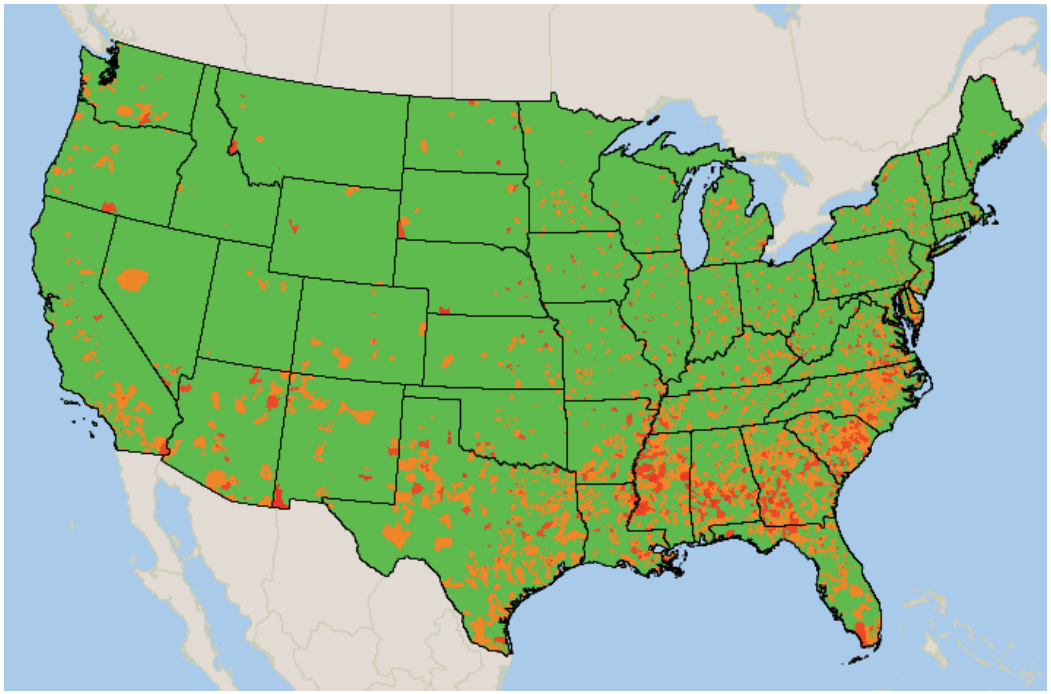
Where are the Identity Fraud Rings Located?

Fraud rings can be found anywhere in the U.S., but research shows a belt of fraud stretching through the rural Southeast.

ID Analytics research pinpoints the exact locations of where these rings are operating. Although fraudsters can be found anywhere in the U.S., there appears to be a "belt of fraud" that runs through the rural Southeast, extending from Virginia to Mississippi, with significant activity in **the Carolinas**, Georgia, Florida and Alabama. There are also hot spots of fraud ring activity in Louisiana, Texas, New Mexico, Arizona and the West Coast. We find further hotbeds in Michigan, Delaware, Kentucky, Tennessee and Arkansas.



Source: ID Analytics – I See Fraud Rings – Fraud Ring Study – November 2012

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Data Breach - It Happened, Now What?

"The personal information lost in data breaches are frequently used to commit fraud. While credit card numbers remain the most popular item revealed in a data breach, in reality other information can be more useful to fraudsters… Not all breaches are created equal. The study found consumers who had their Social Security number compromised in a data breach were 5 times more likely to be a fraud victim than an average consumer."

Source: Javelin Strategy & Research - 2013 Identity Theft Report: Data Breaches Becoming a Treasure Trove for Fraudsters – February 2013

Top 10 Government Data Breaches for 2012 as Reported by *Government Technology Magazine*

1. **South Carolina** (3.3 million unencrypted bank account numbers & 3.8 million tax returns)
2. **California Department of Social Services** (data on 700,000 individuals)
3. **Utah Department of Health** (health information & PII of more than 780,000 Utah citizens)
4. **California Department of Child Support Services** (800,000 sensitive health and financial records)
5. **United States Bureau of Justice Statistics** (1.7 GB of sensitive data)
6. **City of Springfield** (1,000 vehicle descriptions from online police reports & records from more than 280,000 summons)
7. **United States Navy & DHS** (database information that included usernames, passwords, email IDs, and security questions and answers)
8. **Wisconsin Department of Revenue** (sensitive seller information about 110,000 people and businesses)
9. **NASA** (data on 10,000 employees)
10. **New Hampshire Department of Corrections** (dates and sentencing information & PII of prison staff members)

Source: Government Technology Magazine – December 2012
http://www.govtech.com/blogs/lohrmann-on-cybersecurity/2012-Review-Most-Significant-120212.html

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We know the Problem – What about the Solutions?

We have a 21st Century Problem

- South Carolina is not alone
- Solutions need to be Proactive and Comprehensive – Look Beyond Credit Monitoring

Approach the Problem in a Comprehensive Way

- Enhancing security measures is just the first step
- Empower your citizens with the best technology
- Inspire industry to Innovate

Consider a 21st Century, Holistic Solution

- Increase Data Security
- Enhance State Fraud Assurance with Real-time Visibility
- Arm citizens with Proactive Protection against Identity Theft Threats
- Provide Professional Remediation Assistance

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The Next Steps the State Should Consider

- **Look at Proactive Enterprise Solutions**
- **Provide Consumers with Proactive Comprehensive Tools**
- **Educate & Outreach To Your Citizens**
- **Protect Your Infrastructure**

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The Next Steps the State Should Consider

Look at Proactive Enterprise & Consumer Solutions

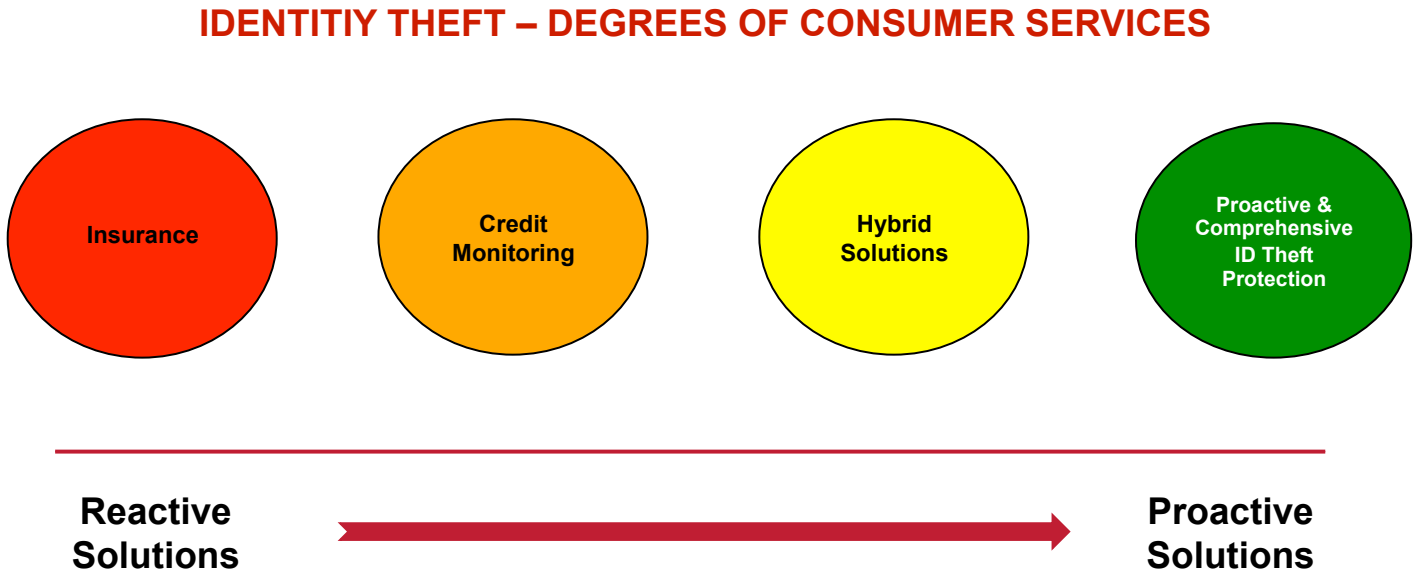
- Enterprise Tax Fraud ID Monitoring and Alerts to detect fraud and reduce improper payments
  - Stolen Identity Tax Return (SITR) fraud is one of the fastest growing crimes
  - *USA TODAY reported*, last July, the Treasury Inspector General for Tax Administration issued a report showing that the IRS failed to prevent 1.5 million potentially fraudulent tax returns from being processed last year, resulting in refunds to identity thieves of more than $5.2 billion. The Inspector General estimated that the IRS could issue $21 billion in fraudulent tax refunds as a result of identity theft over the next five years. [I]
  - Implement a comprehensive filter on the Enterprise (DOR) to protect from processing and paying fraudulent tax returns
  - Leverage real-time alerting technology to connect DOR with consumers

[I] -Source: USA TODAY - - S.C. data breach just latest in hacker onslaught, October 26, 2012

The Next Steps the State Should Consider

Provide Consumers with Proactive Comprehensive Tools

Consumer Proactive Monitoring, Alerts and Remediation



Comprehensive Identity theft protection services beyond credit monitoring and credit freezes -- designed to detect, alert, and proactively resolve potential identity theft related matters – can provide more protection for the citizens of South Carolina.

The Next Steps the State Should Consider

Education & Outreach To Citizens

- **Law Enforcement Training**
  - Provide Training & Support to State & Local Law Enforcement & Prosecutorial Teams
  - Look at Greater Punitive Action for Identity Theft Crimes

- **Children**
  - 140,000 identity frauds are perpetrated on minors each year and most are not captured by conventional credit monitoring1
  - Educate our children to be safe and protect their identity
  - Ensure that legislation to protect children also acknowledges that their parents / guardians may want to work with a provider of comprehensive consumer identity theft protection services
  - Comprehensive services with an offering for Children are a plus

- **Seniors**
  - Responsive providers of ITPS will use call centers with live operators, phone, and text capabilities to supplement email in order to reach citizens

1 Source: ID A Labs 2011 Study on Child ID Theft

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The Next Steps the State Should Consider

Educate & Outreach To Your Citizens

- **Business**
  - Work with Businesses to look out for Business Identity Theft
  - Tax Fraud is a factor in Business ID Theft
  - Provide Materials to Employers to Educate Employees – Post Breach

- **Legislators**
  - Assemble Legislators & Staff for regular updates on ITPS
  - ITPS should become part of your dialogue with Citizens

- **Victims Assistance Training**
  - Work with National Groups such as NOVA on developing ID Theft Victims Assistance Programs
  - Ensure that Victims Outreach/Ombudsman is part of your strategy

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The Next Steps the State Should Consider

Protect You Infrastructure

- Maintain Proper Levels of IT Security & Data Breach Prevention
- Have Breach Protocol
- Employ best of breed technologies to help the DOR reduce the risk of fraudulent payments and partner with consumers by providing proactive alert technology

Long Term Considerations for a 21st Century Solution

The Three Elements Necessary for a Successful Partnership for Future Risk Management

- ❑ Government
- ❑ Citizens
- ❑ Industry Innovators

RECOMMENDATION:

Provide a tax incentive for all citizens of South Carolina that enables the individual to proactively partner in the fight against identity theft and identity fraud by selecting from the best technologies available (offering proactive and comprehensive solutions) and inspiring industry to continue to innovate (in order to effectively compete for such business) to come up with increasingly better solutions year after year to tackle the long-lasting effects of this data breach, as well as the changing trends of this crime.

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Q & A