EFFECTIVE METHODS FOR USING
IDENTITY DOCUMENT VERIFICATION
TO INCREASE CONVERSION

A white paper presented by The Fraud Practice LLC.
Effective Methods for using Identity Document Verification to Increase Conversion

Author: David Montague

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The Trust Dilemma

ID verification isn’t a new concept, it is one of the original fraud prevention techniques from back in the day when eCommerce was new; a customer would send in a copy of their credit card and driver’s license to prove they were who they say they were. While at the time this process made organizations feel more comfortable with accepting an online transaction, the truth is this technique left a lot to be desired in terms of being able to accurately and quickly authenticate the consumer’s information, not to mention the less than ideal user experience.

There were several reasons these traditional in-house identity document checks were not effective. The consumer may have faxed a copy of their driver’s license, but manual resources were still needed to go through the scanned documents, extract the name, address and other identity information, and then perform reverse lookup and authentication checks on these data points. It wasn’t the most efficient process.

Not only did these early methods of Identity Document Verification lack efficiency, but they were also unable to build a high level of confidence that an identity document was real, or that it belonged to the person who actually submitted it. While review agents for the organization may have been able to spot glaring errors, obvious inconsistencies, or lack of official watermarks and holograms on an identity document, there were many signs of a forged document that could slip through. This includes features that are automated today such as being able to read magnetic ink, barcodes and machine-readable zones that will indicate information that should match elsewhere on the document.

Even if an identity document was legitimate, how would the organization know if what was the real owner of that passport submitting it or if it was stolen? Even with these checks the fact still remained that a 24 year old male could pretend to be the 57 year old female whose wallet he’s stolen, including her credit and ID cards.

Identity Document Verification has come a long way since the onset of eCommerce. Today’s commercial solutions include automated checks that recognize forgeries even a skilled Photoshop expert could not circumvent, they can automate the extraction of identity information to perform third party authentication, and they can provide a visual match by requiring the user to submit a picture that will be analyzed and compared to the identity document.
When we consider the technical capabilities and automated functions of Identity Document Verification services available today it shows the shortcomings of these in-house processes many merchants and organizations implemented. Even now in 2014, many organizations still rely on these outdated tactics. In addition, these homegrown systems are typically much more invasive and burdensome on the customer experience, which leads to increased abandonment.

Today, Identity Document Verification has evolved into a methodology that improves not only the accuracy of these checks, but also the customer experience. These are the two must-have points for it to be useful and usable.

**What Is Identity Document Verification and How Does It Work?**

Identity Document Verification is an excellent tool for transactions where regular verification does not work. Modern services allow consumers to take a photo of their driver’s license, ID card, passport, credit card, or other necessary document, upload it, and have it verified in seconds. In some cases the document might require a manual review and this will take a little longer.

The ability for consumers to upload documents with the device they’re already using, be it a computer, a tablet, or a cell phone, makes the experience quick and convenient. Modern Identity Document Verification services still add an extra step in the transaction or application process, but keep this extra step inside the current process flow, making it as easy as possible on the consumer and greatly reducing any impact on abandonment. Organizations can even white label the whole process so the consumer never feels like they are leaving the transaction or application process.

The verification seeks to confirm relevant information pertaining to a user’s identity that may be required for “know your customer,” anti-money laundering, and other compliance requirements. It is often used by financial institutions, financial services, and other organizations concerned with these regulatory requirements. It is also useful for businesses granting credit, or selling age-sensitive goods or services. Even outside of these industries where this verification may be required for legal and compliance reasons, many other types of merchants and organizations benefit from Identity Document Verification as well. Many merchants that use this fraud prevention technique won’t use it on every single transaction, but it is something to consider for cases where it can help drive increased revenue while keeping fraud down.

**Modern systems for ID verification turns any camera equipped device into a data capture tool. In most cases, verification takes less than a minute.**
Organizations performing Identity Document Verification should use a proper tool, because few people will be able to spot forgeries, and those not in the verification industry will not have the technology to decipher and verify the document’s magnetic ink, machine-readable zone, and barcode.

A third party Identity Document Verification provider can read and process customers’ documents, including mandatory symbols and codes, making sure they’re not forged. A person with moderate image editing skills and experience could forge identity documents that pass all checks performed by the naked eye, and many of these forged documents would not be detected by an organization manually reviewing identity documents collected directly from the user. Making changes to the MRZ, MICR, or barcode on an identity document is typically not something that can be done via Photoshop or other image editing techniques.

MICR stands for Magnetic Ink Character Recognition, and this is defined by the American National Standards Institute as the common machine language specification for paper based payment transfer systems. In other words, documents such as checks have a line printed with magnetic ink that can be recognized by high speed magnetic recognition equipment. This code contains information about the bank account from which the check will be drawn, identification number and routing number for the bank, and more.

The machine-readable zone (MRZ) contains information that confirms data on a passport. It contains date of birth, nationality, gender, expiration date, and similar. Through image editing software one could change the photo, birth date and other passport information, but this would not match the information indicated by the MRZ.

Barcodes are used on passports, driver’s licenses, and other documents to verify that the information is correct. A forged ID card might show a proper name, photo, and address, but have a barcode belonging to a can of peas. These are all details that a typical business does not have the expertise or technology to verify. Identity Document Verification excels at spotting forgeries – the systems are up to date with standards for background images, holograms, and micro text.

The Identity Document Verification solutions can also integrate with third party data, pull out information from documents, and perform an authentication or reverse lookup through another service or vendor. This is accomplished through Optical Character Recognition, or OCR, which refers to the process of recognizing the text characters and being able to provide this as text for other applications.
For example, when Thomas provides his national ID card his address is extracted and a reverse lookup on that address finds a matching name and a phone number that Thomas provided earlier in the transaction or application process.

An important consideration about how Identity Document Verification works is the types of documents it works with, and this can vary by vendor. These services are able to verify passports, driver’s licenses, national ID cards, and other traditional identity documents, but they may also be able to verify peripheral identity documents. These can include bank statements, insurance cards, utility bills and other non-government issued documents that can provide identity information. There is of course much variation in the national ID cards from country to country, so when choosing a provider it is important to make sure they can handle the countries and documents needed.

Identity Document Verification providers may go one step further in not only verifying the identity documents, but also making sure the person submitting them is the rightful owner. This is done through facial recognition where the consumer provides a picture of their face, which is compared against the image on their passport or national ID.

Tying biometric authentication to ID documents is a big win when it comes to preventing fraud. Facial recognition systems extract key features of a face, turn the features into an algorithm, and compares this with the picture taken from an ID document.
What makes Identity Document Verification Effective in Today’s Market?

Identity Document Verification has a focus on fraud prevention, but it is also a sales conversion enabler for merchants, allowing businesses to feel comfortable taking orders where normal verification checks fail. In today’s society an increasing number of people don’t have a landline phone, and many good customers cannot be verified through their phone number or address.

These problems persist even in regions where there is decent coverage of identity information that can be authenticated through third party vendors, but the issue becomes more prevalent in countries and regions where there is no reliable source of data for performing identity authentication.

This is especially troublesome for multi-national organizations that are applying different identity authentication and verification techniques, and using different services across many different countries. Identity Document Verification is a technique that can be applied globally, allowing for more consistent operational processes and transaction flows for consumers across the globe.

Using Identity Document Verification allows organizations to expand their reach with a streamlined workflow similar for all markets instead of using a multitude of routines and services. Identity Document Verification can also streamline the user’s experience, particularly on mobile platforms.

The verification is completed in an efficient three-step process without forcing the consumer to leave the website or application. Containing these steps within the existing website or application ensures minimal impact on abandonment.

⇒ Obtaining a picture of the document and the person
⇒ Matching the person with document
⇒ Checking the information on the document to make sure it’s authentic and not forged

As a fraud detection tool, Identity Document Verification gives one flow for many regions of the world and can greatly facilitate cross-border transactions. It can be implemented quickly, and provides verification in seconds.
Collecting copies of documents is not enough to verify an identity. They must be reviewed and match at least one other point of verification.

In order to verify an identity, just collecting copies of documents isn’t enough. In order to be meaningful they must be reviewed and match at least one other point of verification. For example the image on the ID card must match the person’s face. Information in a barcode or Machine Readable Zone must match the information provided as text on the document. Identity Document Verification vendors provide a level of accuracy when verifying that a document is not forged that organizations building home grown solutions are not able to match. This includes consistency and accuracy checks that can’t be seen or performed by the naked eye. As a result, even expert Photoshop skills are not enough to fool these checks.

Identity Document Verification isn’t something everyone needs to do, and even those who use it might not need it on every single transaction. It is something many should consider for select cases where it can help drive increased revenue while keeping fraud down. These cases include international transactions and instances where a person cannot be effectively authenticated and verified using traditional methods.

An organization may not be able to authenticate or verify the identity information a user provides, and this could be due to several different factors, ranging from unreliable data sources in the user’s country of residence to the consumer being transient or unbanked and therefore lacking accurate or available data through third party providers. Through Identity Document Verification, an organization is able to collect the identity information needed and verify that it is real by both ensuring it is a non-forged government document and ensuring a facial recognition match between the document and its provider.
Customer Experience

A functional Identity Document Verification process could make a world of difference, both for consumers and organizations. The process must be easy for the end consumer to use, and cost-efficient and trustworthy for businesses.

To be useful, the tool must be reliable and easy to integrate with the organization’s other systems and workflow. The traditional way of copying and faxing fails here; it might live up to a theoretical need of gathering papers, but it is not reliable. This creates additional steps outside of the transaction process, leading to a much higher risk of the customer giving up on the transaction or going to a competitor’s website instead.

Using a camera in a phone, tablet, or computer makes the procedure convenient, and the verification can generally happen in minutes, making it possible for the consumer to complete the process immediately without needing to leave the transaction or application process flow. Organizations should also be able to integrate the identity document and facial recognition image capture procedures into their application or checkout processes while maintaining consistent branding.

Many of these systems can also be used to streamline consumers’ online mobile experience through offering an option to fill out the fields in sign-up forms instead of having to type on the phone’s miniscule keyboard. Signing up through holding an ID card in front of the camera gives a positive experience of both the website and the company. This process not only provides the organizations with confidence that a consumer was able to provide an authentic identity document, but provides the consumer with the satisfaction of an expedited application or checkout process.

“Traditionally Identity Document Verification required a scanned or faxed copy of a passport or national ID which was cumbersome and not a good experience for the consumer. The key to making ID document verification viable wasn’t just about making sure we were really good at spotting forgeries, we also had to create a viable user experience that is compelling and easy enough for customers to complete.”

-- Michael Hagen, CEO, IDchecker
Who Needs Identity Document Verification?

Identity Document Verification is a good tool for those who do international business, organizations with a strong mobile presence, merchants selling high-risk and high-price goods, financial institutions, credit granting, financial services, travel, and organizations with KYC or AML requirements, or dealing with money movement.

Another market where the tool has proven useful is delivering high-price goods with courier, allowing the delivery person to double-check that the individual receiving the computer, cellphone or TV is the correct person. Some organizations use it in-store to verify identity when signing up for cellphone plans, credit cards, and similar. It has also become popular with renters and in person-to-person exchanges such as bed and breakfasts.

Financial institutions, money transfer services, and several other types of organizations often perform Identity Document Verification for application onboarding as well as when transacting with each new customer. Many merchants will use this technique, although it won’t be used on every single order. Identity Document Verification works well on consumers who cannot be verified through traditional authentication methods, or for high risk orders that merchant may otherwise walk away from.

In this sense Identity Document Verification is not only a fraud detection tool, but also a sales conversion enabler. It enables organizations to give customers the potential to convert through verifying their identity documents when otherwise the transaction or application would have been turned away.

In today’s society many people do not have a landline phone. Families and individuals who do not own their home might not show up in address verification searches, but they might still be excellent customers. Document verification is also beneficial for international transactions when reliable identity data through reverse lookups and other forms of authentication simply is not available for the country where the customer resides.
Practical Examples

⇒ Jane Smith has recently graduated from college, she is employed, and shares a rented apartment with her sister. She uses a prepaid cell phone, but now she wants to sign up for a monthly contract where she also makes payments on a new phone. Jane could be an excellent customer, but might fall through traditional verification systems because she is not connected to a landline phone, and she will not show up in an address match. Through Identity Document Verification the sale might still be possible, benefiting both parties.

⇒ ABC Inc. wants to expand their business to Europe. Their unique product has received a great response in a trial run, and could be shipped directly to end users from the factory. The European Union consists of 28 independent countries (Feb 2014) and each has its own solution for authentication services. Internationally, methods common in the USA such as linking a name to a phone number and/or address might be difficult, if not impossible. Using an Identity Document Verification service makes it possible to streamline the workflow instead of using a multitude of services.

⇒ Ingmar Johansson lives in Norway and has seen something available on a US website that is not sold in his country. When he attempts to pay for the purchase his identity cannot be verified, and normally the sale might fall through because there’s no way to prove that he is who he claims to be. This would be unfortunate for the merchant who loses a sale along with an opportunity to build market share, and a disaster for Mr. Johansson who can’t get the product anywhere else. With an Identity Document Verification system he can take photos of his passport and face, and the sale can go through.

⇒ Jana Krause moved to the USA from Germany a couple of years ago. She has a green card and works as an architect. She has rented a house together with her husband and has a pre-paid cell phone, because her identity could not be verified, so she could not get a post-paid contract. She wants to open a credit account with an online retailer to be able to make down payments on a computer along with establishing credit in the US. Using traditional verification methods, the eCommerce merchants would not be able to approve her, because even though she is a good customer she does not exist in the systems. Through Identity Document Verification the merchant would be able to confirm that Jana is a real person and is in fact attempting to make this purchase and application for credit. The merchant enjoys both a large sale and interest income, while Jana benefits from being able to purchase the computer and begin to build credit.
⇒ Remittance WorldWide, an online money transfer services company, processes cross-border transactions submitted through their website. They get a request from Tereza Konvalinka, a US citizen with relatives in the Czech Republic who wants to transfer a larger sum of money to her family. For new customers and large transfers Remittance WorldWide must collect and verify government issued identity documents in order to meet Consumer Due Diligence requirements. Through using Identity Document Verification, they can confirm Tereza’s identity quickly with as little disturbance as possible. The smooth and quick process makes Tereza - and other customers - more likely to finish the transfer.

Summary

Identity Document Verification can be a valuable fraud detection tool. It has evolved from an old-fashioned and inefficient copy and fax method into a methodology that improves accuracy as well as customer experience. These are the two must-have points for it to useful and usable.

Online identity document verification can spot discrepancies a human eye cannot, such as machine-readable data that doesn’t comply with the rest of the document, or a barcode belonging to a bottle of water instead of validating a person’s identity. This technique is considered essential by many financial institutions, financial services businesses, and other organizations that are required by legal and compliance standards to truly know who they are doing business with. Identity Document Verification is also useful for many types of merchants that may only use it on a subset of transactions where application of this technique is contingent on the country the consumer is coming from, high risk factors of the order, or simply not being able to authenticate the consumer through other means.

A functional Identity Document Verification process reviews and matches documents to at least one other point of verification. For example, matching the image on an ID card to a person’s face.

Depending on type of business, Identity Document Verification might not be used on every transaction made. It is a technique worth considering for cases where it can help increase sales conversion while keeping fraud down.
About the Fraud Practice

The Fraud Practice is a privately held US LLC based in Sarasota, Florida. The Fraud Practice provides training, research, and consulting services on eCommerce payments, fraud prevention, and credit granting. Businesses throughout the world rely on The Fraud Practice to help them build and manage their fraud and risk prevention strategies. Visit www.fraudpractice.com.

The Fraud Practice LLC
www.fraudpractice.com
David Montague, President and Principal Consultant

Toll Free: 1.888.227.0402
Telephone: 1.941.244.5361

Email: Questions@fraudpractice.com

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David Montague,
President
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