

**ADDENDUM TO EXHIBIT A, DATED OCTOBER 21, 2013**

**Review of the Expert Report by Fred H. Cate, Dated September 22, 2013**

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*October 30, 2013*

The survey data used to generate the 2008 consumer survey of identity theft (MeRC Working Paper No. 23)<sup>1</sup> is attached to this addendum, in the form of two spreadsheets. One spreadsheet contains the key column identifiers, and the second one contains the data. The questionnaire used to gather the information is included in Appendix A of the working paper (also attached). These three documents are sufficient to do any analysis of the data that might be required.

1. The annual costs of identity theft excluding credit card fraud appear in Table 8, page 71 of the Working Paper. That is, the victims estimated that they spent an average of 16.9 hours to resolve problems arising from the fraud, and \$151 in out-of-pocket costs (in my original report, rounding errors resulted in quoting 17 hours and \$160 per victim of fraud).

2. In Table 4, the interpolated median was calculated from the original data, where the data were gathered in classifications of the amount the victims spent to resolve problems associated with the fraud (see Question 31, page 48 in the Working Paper)<sup>2</sup>. Victims were asked to check one of these classifications: \$0, Less than \$50, \$50-\$99, \$100-\$499, \$500-\$999, and so on. The interpolated median was calculated by summing the number of victims in each classification multiplied by the middle value in that classification (e.g. \$749.50 in the \$550 to \$999 classification), and then dividing that sum by the total number of fraud victims. The same process was used to calculate the interpolated median for the number of hours spent resolving problems associated with the fraud (see Question 30, page 47 of the Working Paper).

3. The data gathered in this survey were skewed. That is, there were many observations at relatively moderate and low values, but some others were quite high. This results in mean (average) values that are higher than median values. In fact in some of the data collected, there were more observations with zero values than with non-zero values. For such data, the median is zero, which accounts for the median out-of-pocket costs of \$0 indicated in Table 6. This of course does not mean that the out-of-pocket costs to all the victims was zero. It just means that these costs were zero for more than half of the victims. So the mean costs (see 1. above) are a much better overall indication of what identity fraud victims actually paid.

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<sup>1</sup> Susan Sproule and Norm Archer (2008) Measuring Identity Theft in Canada: 2008 Consumer Survey. MeRC Working Paper No. 23, McMaster eBusiness Research Centre (MeRC).

<sup>2</sup> The interpolated median is a standard method used to estimate the median in data that have been accumulated in classes instead of as raw numbers.

4. There have been a number of data breach cases in both Canada and the United States that have resulted in identity theft and fraud. Several of these are discussed in pages 90-99 in our recent book<sup>3</sup>. Page proofs of Chapter 5 of this book are attached for private review.

In addition, a 2013 U.S. survey by *Javelin* shows a substantial increase in fraud resulting from data breaches, particularly for individuals whose Social Security numbers were compromised<sup>4</sup>. One of the four key findings in the *Javelin* report was “This year, almost 1 in 4 consumers that received a data breach letter became a victim of identity fraud, which is the highest rate since 2010. This underscores the need for consumers to take all notifications seriously. 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.”

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<sup>3</sup> Norm Archer, Susan Sproule, Yufei Yuan, Ken Guo, and Junlian Xiang (2012) *Identity Theft and Fraud: Evaluating and Managing Risk*, Chapter 5. University of Ottawa Press, Ottawa, ON.

<sup>4</sup> Javelin (2013) “Identity Theft Report: Data Breaches Becoming a Treasure Trove for Fraudsters”, <https://www.javelinstrategy.com/brochure/276> (accessed Oct. 25, 2013)