



Red Flags Rule Compliance Program Certification and Accreditation

Overview

Identity Management Institute (IMI) is a leading global organization dedicated to the field of identity management including the prevention and detection of identity theft and related fraud with a focus on awareness, training, assessment and certification. IMI has developed a certification and accreditation process for supporting, reviewing and validating a company's identity theft prevention program ("Program") in accordance with the Red Flags Rule ("Rule") requirements. Although, compliance with the Rule is mandatory, certification is not a requirement under the law; however, IMI's certification process will support and confirm a covered company's efforts for implementing an effective identity theft prevention program in compliance with the Red Flags Rule.

Certification Objective

The primary objective of the Red Flag Rule is to require affected companies develop and implement a consistent and effective process for identifying, detecting and preventing identity theft. The objective of a Program certification is to guide company management and validate their efforts for developing and implementing the Program.

Benefits of Red Flag Program Certification

Red Flag program certification has many benefits during the stages of program planning, development, and implementation. IMI's Red Flag program certification process will provide guidance regarding program components, improvement areas, and validation of the final program. Other benefits may include:

- Consistency and efficiency
- Higher compliance confidence with the Rule
- Improved customer satisfaction and loyalty
- Reduced fraud costs
- Increased awareness and focus
- Increased profitability
- Enhanced corporate status
- Competitive advantage
- Lower insurance premiums



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- Lower chance of government audits
- Preparation for regulatory agency audits

Who Should Consider Red Flag Program Certification?

Red Flag program certification is a voluntary process and independent from all regulatory bodies. Financial institutions and creditors with covered accounts should consider certifying their identity theft prevention program to receive an independent assessment and ensure compliance with the Rule. The certification process will guide management for developing and improving a program that meets the requirements and expectations of regulatory bodies and auditors.

Who Certifies The Red Flag Program?

Identity Management Institute is the leading global organization dedicated to identity risk management supporting its professional members through training, assessment and certification. IMI certifies its members and corporate compliance programs through independent standards developed by IMI.

About Red Flags Rule

On October 31, 2007, a joint committee of the OCC, Federal Reserve Board, FDIC, OTS, National Credit Union Administration (NCUA) and the Federal Trade Commission (FTC) passed the final legislation for Section 114 of the Fair and Accurate Credit Transactions Act of 2003 (FACTA), also known as the Identity Theft Red Flags and Notices of Address Discrepancy or "Red Flags Rule". The Rule requires that all organizations subject to the legislation must *develop and implement a formal, written and updated Identity Theft Prevention Program (Program) to detect, prevent and mitigate identity theft.*

The final rule became effective on January 1, 2008 and all covered entities had to be compliant with the Rule by November 1, 2008. The FTC enforcement date is effective January 1st, 2011.

Who must comply with the Red Flags Rule

The Red Flags Rule applies to *financial institutions and creditors with covered accounts.*

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A financial institution is defined as a state or national bank, a state or federal savings and loan association, a mutual savings bank, a state or federal credit union, or any other entity that holds a transaction account belonging to a consumer. Most of these institutions are regulated by the Federal bank regulatory agencies and the NCUA. Financial institutions under the FTC's jurisdiction include state-chartered credit unions and certain other entities that hold consumer transaction accounts.

Creditors include finance companies, automobile dealers, mortgage brokers, utility companies, and telecommunications companies. Where non-profit and government entities defer payment for goods or services, they are also considered creditors. Most creditors, except for those regulated by the Federal bank regulatory agencies and the NCUA, come under the jurisdiction of the FTC.

Definitions

A transaction account is a deposit or other account from which the owner makes payments or transfers. Transaction accounts include checking accounts, negotiable order of withdrawal accounts, savings deposits subject to automatic transfers, and share draft accounts.

A creditor is any entity that regularly extends, renews, or continues credit; any entity that regularly arranges for the extension, renewal, or continuation of credit; or any assignee of an original creditor who is involved in the decision to extend, renew, or continue credit. Accepting credit cards as a form of payment does not make an entity a creditor.

A covered account is an account used mostly for personal, family, or household purposes, which involves multiple payments or transactions. Covered accounts include credit card accounts, mortgage loans, automobile loans, margin accounts, cell phone accounts, utility accounts, checking accounts, and savings accounts. A covered account is also an account for which there is a foreseeable risk of identity theft such as small business or sole proprietorship accounts.

Red Flag Program Clarification Act of 2010

Following Senate approval of the bill, the House also passed the "Red Flag Program Clarification Act of 2010" on 12/7/2010 which was subsequently approved by the



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President of the United States to exclude certain entities from the covered entities under the Red Flags rules.

The Clarification Act includes the following language regarding the definition of a creditor as one that regularly and in the ordinary course of business:

- Obtains or uses consumer reports, directly or indirectly, in connection with a credit transaction,
- Furnishes information to consumer reporting agencies in connection with a credit transaction, and
- Advances funds to or on behalf of a person, based on an obligation of the person to repay the funds or repayable from specific property pledged by or on behalf of the person. This excludes creditors who advance funds on behalf of a person for expenses incidental to a service provided by the creditor to that person.

Red Flag Program Compliance Components

Identity Management Institute (IMI) has identified four areas within the Red Flag program which must be assessed and validated before the Program can be certified as follows:

1. PROGRAM ADMINISTRATION
2. RISK ASSESSMENT PROCESS
3. RED FLAG MANAGEMENT
4. PROGRAM MANAGEMENT

Program Administration: The Rule requires the proper administration of the Program to establish approval and oversight, scope, objectives, responsibilities, reporting and timing. Program administration must specify plans for periodic updates, be approved by the Board of Directors (BOD), a committee of the BOD, or senior management, and address appropriate staff training as well as service provider oversight.

Risk Assessment Process: An initial risk assessment must be completed to identify how identity theft might occur within the organization. Although the regulation identifies certain red flags which need to be addressed, each company must identify identity theft

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red flags within its own operations based on a comprehensive risk assessment. Subsequent risk assessments are necessary to ensure the Program is updated periodically and reflects changes in identity theft risks facing financial institutions, creditors and their customers.

Red Flags Management: Upon discovery of all identity theft red flags in the risk assessment process, necessary policies and procedures must be established, documented and communicated to prevent, detect and respond to red flags.

Program Management: This section relates to the execution of the Program which ensures established plans, policies and procedures are followed for effectively identifying, detecting, and preventing identity theft in action. Employee training and services provider management are also addressed when managing the Program.

Note: lessons learned from ongoing operations is part of a comprehensive Program risk management process which must be analyzed, reflected in the Program updates, and communicated to all appropriate staff.

Certification Process

IMI offers three levels of certification services for organizations which might be in various stages of their Red Flag Program implementation:

- 1) Development - For organizations which have not yet developed a Red Flag compliance program, IMI will work with company management and staff to guide them through the development stage by providing the necessary checklists, templates and guidance.
- 2) Pre-Assessment – For organizations which have developed a Program but need an independent assessment of their Program before certification, IMI offers a pre-assessment service which will review the Program documentation and provide management with a list of actionable steps ensuring a complete compliance program.
- 3) Certification – Organizations which have a Program in place and feel that their Program is effective and ready for a certification audit, can engage IMI to complete an audit and certify their Program.



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Company staff who are engaged in the development or improvement stages of the Program are encouraged to become Certified Red Flag Specialist™ (CRFS). An active CRFS designation demonstrates having an up to date knowledge and training to properly design and manage an identity theft prevention program in compliance with the federally mandated Red Flags Rule.

Accreditation Process

Interested audit organization may register with IMI and become an approved certification body to certify Red Flag Programs. Accreditation is a choice and not an obligation. However, accreditation ensures that registered certification bodies follow a pre-approved audit and certification approach designed by IMI. By joining IMI, registered audit organizations will gain the confidence of their clients and receive increased referrals by being listed on IMI website as registered auditors. Audit staff and managers will also be eligible to apply and become Certified Red Flag Specialist™ (CRFS).

Accreditation requirements include CRFS designation by Red Flag audit staff and managers through onsite training and examination, and annual membership and registration dues.

Application Process

Please contact IMI to discuss your Red Flag compliance needs and application process for certification or accreditation.

Certification and Accreditation Cost

Certification cost depends on many factors including the state of the Program, company size, number of employees, number of locations and number of covered accounts. Please contact IMI for more details.

Accreditation and registration of audit organizations is an annual process and related costs depend largely on the size of the audit organization, registration level with IMI, and number of employees who will require CRFS certification. Please contact IMI for more details.

Certification Maintenance



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Once a Red Flag compliance program is certified, a full audit is required every two years to maintain certification as the law or the identity theft threats constantly change.

About Identity Management Institute

Identity Management Institute (IMI) is a leading global organization dedicated to the field of identity management including the prevention and detection of identity theft and related fraud with a focus on awareness, training, assessment and certification. IMI is the certification and accreditation body for identity theft prevention programs as well as the administrator for the Certified Red Flag Specialist™ (CRFS), Certified Identity Risk Manager™ (CIRM), and Certified Identity Protection Advisor™ (CIPA) professional designations. Please visit the IMI website for more details at www.theimi.org

Professionals interested in becoming a Certified Red Flag Specialist™ (CRFS) should refer to the program overview document available for download at <http://www.identitymanagementinstitute.org/CRFS.html>