RISKS OF IDENTITY THEFT: CAN THE MARKET PROTECT THE PAYMENT SYSTEM?

Identity theft has affected the financial markets for as long as alternatives to cash transactions have existed. But today, data breaches often result in the loss or theft of personal information for thousands—if not millions—of people.

Stacey L. Schreft, a vice president and economist at the Federal Reserve Bank of Kansas City, investigates the threats identity theft poses to the economy and the payment system in “Risks of Identity Theft: Can the Market Protect the Payment System?” The article appears in the fourth quarter edition of the Bank’s Economic Review.

Schreft explores how traditional barriers to identity theft have become ineffective as technology transforms the ways people pay for goods and services, make investments and track their finances. Private sector initiatives—such as industry standards for data security—are positive steps toward addressing the problem, but market imperfections still encourage data breaches and expanding digital markets for personal information.

Schreft concludes that the efficiency and integrity of the retail payment system are at risk from identity theft. The challenge is for government to find appropriate ways to protect the system from those risks.

The article is available on the Bank’s website at www.KansasCityFed.org.