

Doing The Right Thing:

How Electronic Age Verification Protects Kids Online



An IDology, Inc. Whitepaper

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Taming the Wild West of the 21st Century

As a society we have established and live by a set of rules designed to keep merchandise and services intended for adults out of the reach of children. In most states, alcohol sales are restricted to anyone under 21 and 18 to buy tobacco. Entertainment rating systems are used to determine if the content of movies, music or video games is suitable to minors. Adult content magazines are kept out of site behind clerk counters in many stores across the US. Advertising guidelines are followed for age-restricted products and promotional items. Convicted sexual predators are required to register their residence.

Yet on the Internet, it is more like we live in the Wild West where anything goes. Logically we know all these rules still apply. But enforcing them is a different situation.

Kim Cameron, Architect of Identity at Microsoft Corporation, states the problem clearly within his paper on the Laws of Identity: “the Internet was built without a way to know who and what you are connecting to.”¹ And Peter Steiner, cartoonist at the New Yorker hints at the dangers this poses in his well known cartoon: “On the Internet, nobody knows you’re a dog.”²

Fortunately, advanced age and identity verification technology solutions exist that foster online trust and allow businesses to know who their customer is when selling, marketing or distributing age-restricted or age-sensitive products, services or content. The result of such solutions is a safer online environment for kids that supports adult freedom of choice and protects sensitive identifying information.

This white paper will review the emerging trends in the age and identity verification market and examine the benefits of integrating an electronic age verification solution within your business.



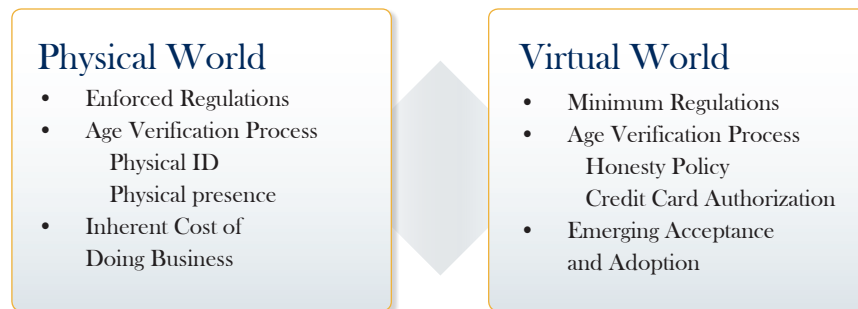
“On the Internet, nobody knows you’re a dog.”

1. Kim Cameron, *Laws of Identity*, May 2005, 1

2. Peter Steiner’s cartoon first appeared in the *The New Yorker*, on July 5, 1993 and is reproduced in compliance with the copyright laws of the United States

Market Drivers Impacting Age & Identity Verification

Comparing Two Worlds



In the bricks and mortar world age-restricted and age-sensitive protection standards are well established and enforced. We all know the steps such as comparing someone's physical appearance to an authentic and legal picture ID like a driver's license. However in the virtual world, most companies have not implemented appropriate age verification mechanisms and some have implemented inadequate methods. Depending on the reason for a verification, there are two methods some businesses use today to verify age - the honesty policy or by credit card authorization.

Both methods present obstacles and are not considered effective for protecting children online. Some of the reasons include:

- The honesty policy does not work - according to one study 31% of 7th-12th graders pretend to be older to get onto a website³
- Kids have their own credit cards
- Credit card authorization validates the card only, not that the person using the credit card is the rightful owner
- Credit card companies have issued guidelines saying credit cards are not a valid method of age verification and merchants selling age-restricted products need to have the appropriate controls in place to ensure that they abide by the laws governing these transactions

3. The Henry J Kaiser Family Foundation, *Generation M study: Media in the Lives of 8-18 year-olds*, March 2005, 30

The amazing growth of social networking websites has highlighted the need for age verification. Recently MySpace.com has been under fire from attorney generals about its attempts to address the dangers the site poses to teens including the opportunity for adults to interact with minors. The company is now faced with a lawsuit pertaining to alleged inappropriate interactions of an adult with a minor.

In an effort to address these complaints, MySpace announced that it will deploy a database that will contain the names and physical descriptions of convicted sex offenders in the United States and automatically search for matches between the database and MySpace user profiles. In response to this announcement, Connecticut Attorney General Richard Blumenthal described the ineffectiveness of this measure without age and identity verification by saying, “Convicted sex offenders can swiftly circumvent these protections by using fake names – which they can do with ease.”⁴

Additionally, Xanga another social networking site was fined by the Federal Trade Commission (FTC) over alleged violations of the Children’s Online Privacy Protection Act (COPPA). The FTC said Xanga collected, used, and disclosed personal information from children under the age of 13 without first notifying parents and obtaining their consent.⁵

Because of the events and issues surrounding social networking sites, attorney generals from numerous states have a newly established task force to study the impact and potential harm to children from an apparant lack of lawlessness in online communities. Specifically, Blumenthal has called for MySpace to enact several practical steps including initiating a member login with age verification and restricting access to adult content to individuals 18 or older along with other steps.⁶

4. Anick Jesdanun, *MySpace Aims to Keep Sexual Predators off Web site* (Associated Press) December 6, 2006, found online at <http://www.indystar.com/apps/pbcs.dll/article?AID=/20061206/LOCAL17/612060473/1012>

5. Nicholas Carson, *FTC Nails Xanga with Record Fine*, (Internetnews.com) September 8, 2006, found online at <http://www.internetnews.com/bus-news/article.php/3631131>

6. Richard Blumenthal in a letter addressed to Attorney Christine Varney of Hogan & Harston LLP in Washington, D.C., March 20, 2006, found online at <http://www.ct.gov/lib/ag/lib/ag/children/MySpacebullets.pdf>

Parent Controls vs. Corporate Responsibility

It takes a village to raise a child. Society has decided that we all protect kids together in the physical world – from lawmakers and businesses to teachers, caregivers and parents.

Yet, in the virtual world, a common argument for not using electronic age verification is that it is the responsibility of the parent to monitor the online activity of their children. Electronic age verification bridges the gap between parental control and corporate responsibility by serving to assist parents – particularly since children have access to the Internet outside of their home.

About 17 million youth ages 12-17 use the Internet representing 73% of those in this age bracket.⁷ While many access the Internet at home or school, 60% of teens still report that they use the Internet “somewhere else”—away from home and from school.⁸

Teens are also savvy Internet users so that relying solely on parental control software and Internet filters to protect children online is just not enough. In fact, 64% of teens and 66% of parents say that online teens know more about the Internet than their parents.⁹

Overall, electronic age verification plays an important part in assisting parents and caregivers by enabling businesses to enact the same protection standards online that have been recognized and enforced in our bricks and mortar world.

7. PEW Internet & American Life Project, *Teenage Life Online*, 1

8. UCLA Center for Communication Policy, The UCLA Internet Report—*“Surveying the Digital Future”* 2003, 65

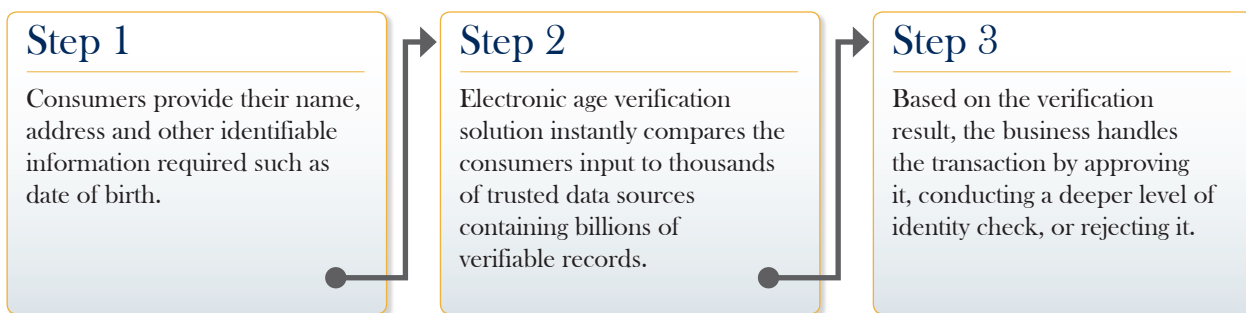
9. PEW Internet & American Life Project, *Teenage Life Online*, 5

The Age Verification Market

Electronic Age Verification technology is not new although the adoption of its use has only recently started to gain traction in the market. Any industry concerned with protecting children online while at the same time promoting adult-choice and access to adult content can benefit from electronic age verification.

How Electronic Age Verification Works

So what exactly is Electronic Age Verification? Simply put, it is an automatic way of comparing information provided by the consumer such as name, address and date of birth against information found in thousands of trusted and verifiable data sources. The end result provides a verification that helps businesses instantly make more informed decisions regarding their approvals of transactions or access grants.



Early Adoption by Industry Leaders

Certain industries have companies that are early adopters of electronic age verification. In May 2005, the Supreme Court opened up the direct shipment of wine for review on a state by state basis. Before this ruling, thought-leader wineries such as Kendall-Jackson Wine Estates Limited deployed age verification and continue to lead the wine industry in using this technology to do the right thing for their businesses and customers.

Also in 2005, the Cellular Telecommunications Industry Association (CTIA) released the Wireless Content Guidelines which carriers follow when developing programs that distribute age-restricted and age-rated content. These guidelines include using content filters and access control, such as electronic age verification, and are designed specifically to provide consumers with tools and controls they need to make informed choices when accessing carrier content.¹⁰

Even before the Master Settlement Agreement was signed in November 1998 the tobacco industry has used age verification when marketing cigarettes both in the bricks and mortar world and also online.

The most recent early adopter comes from the beer industry. One of the major brewers announced it will incorporate age verification to access all of its websites in 2007. This will certainly address findings from a study conducted by the Center on Alcohol Marketing and Youth at Georgetown which estimated that 13 percent of visits to alcohol-branded sites were initiated by people under age 21, and that 34 percent of in-depth visitors to a brewery's website were underage.¹¹ This is a significant advancement for the beer industry which has until now relied on the honesty policy for allowing access to its marketing websites.

Risks of Not Using Electronic Age Verification

The media's focus on issues surrounding social networks as well as the increased accessibility of content have caught the attention of lawmakers so that it is no longer a matter of if, but when, age verification will be required of ecommerce companies providing adult-related content, goods or services. However, the risks associated with waiting for this mandate and not voluntarily electing to deploy an electronic age verification solution are immediate. These risks include:

10. CTIA Wireless, the International Association for Wireless Telecommunications industry, Wireless Content Guidelines, found online at http://files.ctia.org/pdf/CTIA_Board_Approved_Guidelines.pdf

11. Center for Alcohol Marketing and Youth, *Clicking with Kids: Alcohol Marketing and Youth on the Internet*, March 2004, 3

Brand Reputation

Negative attention from the media can damage a company's reputation. It is possible that companies not taking proactive steps to protect children online will become a target for advocacy groups, boycotts and other government sponsored initiatives that pose a threat to their public perception. And not being considered a good corporate citizen impacts an important way consumers support brands - with their wallets.

Regulatory Compliance Issues

One of the most complex issues facing ecommerce today concerns regulation. Poor compliance measures and lack of due diligence increases liability and minimizes a business's ability to establish an affirmative defense through best efforts. Because the Internet allows commerce across multiple jurisdictions, different regulation standards of geographies can be tricky. One example is within the wine industry which takes regulatory issues very seriously. As a result, compliance software solutions such as ShipCompliant have emerged that help wineries manage the complexity of geographic wine sales regulations including providing built-in electronic age verification technology. When any business is unable to show the efforts it has taken to promote sales to legal age adults in situations involving age-restricted products and services, the economic impact from legal problems and regulatory fines can be significant.

Financial Risk

In addition to decreased revenue from negative PR, other financial impacts include the potential for increased spending on marketing and legal costs as well as high penalty fines for failing to meet the guidelines under COPPA. And if age verification is handled manually, companies experience slower processing rates and a higher cost of doing business.

Competitive Position

Industry-leading companies are often recognized as being forward-thinking in their ability to capitalize on the latest trends and gain market share. Ecommerce companies continuing to operate without a way to verify legitimate, age appropriate customers, when others in the industry are moving toward this practice, risk their competitive ability to sustain a successful, revenue-generating business.

To minimize these risks, an automated age verification solution that protects the privacy of adults and children without eliminating adult-choice or restricting the flow of ecommerce for a business is needed.

Industries In Need of Electronic Age Verification:

Telecommunications - content, including age-restricted movies, games and adult content, is becoming more accessible through wireless devices

Retail - the Internet opened up new channels of commerce for everyone including age-restricted products like wine and cigars

Social Networks - online communities allow interaction between adult and youth members which increases the risk that a child will be approached by a predator. And because it is difficult to monitor the various forms of content available within a social network, it is possible for children to have access to racey content. Social networks also have an added need for identity verification since performing searches against predator lists is ineffective if the person is not positively identified

Marketing - applying the same standards for beer, tobacco, and adult content advertising and distribution in an unregulated channel

Entertainment - operates an expanded distribution channel for rated-content such as movies, music and games containing violent and/or explicit material

Benefits of Electronic Age Verification

A number of significant benefits emerge when businesses use electronic age verification including:

Positive PR Image - Instead of being perceived in a negative light, businesses have the opportunity to position themselves positively as doing the right thing and being industry leaders for protecting children online.

Maintains Regulatory Compliance - With an electronic age verification system, all rules and regulations under COPPA are upheld. By conducting age verification on all transactions, you protect your business from the liabilities associated with selling or offering age-restricted or age-sensitive products and services. Electronic age verification abides by society's rules and helps businesses establish an affirmative defense through due diligence of best efforts.

Overall Brand Protection - Electronic age verification protects a company's brand reputation and establishes the business as a good corporate citizen.

Improves Financial Results - The use of an automated electronic solution helps ecommerce companies keep the speed of the Internet and process more transactions. This increases revenue or customers faster and it decreases the amount of manual review needed to process transactions thus limiting the amount of headcount required to operate your business. Exception transactions are handled faster and more efficiently thus freeing up staff to handle other business operations.

Increases Competitive Position - Early adoption of electronic age verification shows forward thinking and helps establish companies as thought leaders.

Other benefits of electronic age verification include:

- Protects children
- Promotes adult-choice
- Improves customer satisfaction
- Proactive self-regulation limits the impact of future enforced regulations

Selecting an Age Verification Vendor

When looking for a provider to electronically verify the age and identity of your consumers, there are many factors to consider including:

Market Experience - Seek a solution provider that has been working with age verification technology and offering a solution for several years. Rather than offering band aid solutions, an experienced provider will have a proven, mature product and be a leader in the age verification market. Be sure to get a list of clients and ask for references.

3rd Party Endorsements - Many industry organizations are dedicated to helping members' select trusted and competent providers of various services important to the industry. Look for a solution that has 3rd party endorsements from age-related industry organizations either within or and outside of your specific industry. A good provider will be a thought-leader on age verification and will often be sought out by lawmakers and law enforcement as a knowledgeable market expert.

Security - Work with a provider that understands security encompasses more than just encryption technologies. Try to find a solution that will protect both your business and your customers from fraud and identity theft. Look for a solution that can verify the age and identity of someone without requiring sensitive information from the consumer like a social security number or credit history.

Product Flexibility & Scalability - Seek a solution that answers your immediate needs but can easily change and grow with the demands of your business. It should be easy to set up and change system rules that trigger actions to complete transactions quicker and without manual review. Work with a provider that can offer the best mix of products to meet several different levels of identity verification. The ideal solution will allow you to take advantage of more in-depth identity verification techniques when needed so that you can verify someone is who they claim.

Ease of Integration - To help minimize the impact on your business, look for a solution that is service-based so that you can be up and running in just a few days. Be sure the vendor supports a project with training and documentation such as technical and end user help guides. A good provider will offer several different deployment options to cover all the service areas within your business including your call center. In addition, the solution should not require IT resources to maintain or change once it is integrated.

Due Diligence Efforts - The right solution provides the necessary transaction reporting for you to maintain due diligence files. Select a provider that is knowledgeable and aware of the guidelines and rules for establishing an affirmative defense and maintains a positive relationship with lawmakers interested in the use of electronic age verification.

Data Protection Standards - Try to find a company that promotes the responsible use of data. The right solution will have strict protocols for using and sharing data and will not collect and store data, nor will it present data within verification results. Additionally, it should not be restricted to any single data provider and have the ability to access multiple independent data sources. Finally the ideal solution should eliminate any impact on credit reports when performing verifications.

Supports Consumer Privacy - Be sure to select a vendor that addresses the identity theft crisis by supporting consumer privacy. Different providers have varying philosophies on this issue so be sure to select a partner that demonstrates the highest level of consumer locate rates with input requirements that match your business model and does not over expose sensitive data. Additionally, the ideal solution will follow all the guidelines set forth in COPPA. The right vendor will consult with you on the best way to communicate to your customers the protection measures you are taking and will support this by providing scripts to follow and a trusted mark to place on your site.

The IDology Advantage

IDology is a best of breed provider focused solely on delivering leading solutions in the age and identity verification market. Our real-time, technology solutions verify an individual's age and identity in customer not present transactions such as online or in a call center without interrupting the transaction. What makes us different is that we do this in a way that builds more confidence with your customers - by protecting sensitive data and promoting consumer privacy.

IDology's ExpectID Age is recognized by many as the solution setting the industry standard for age verification services. ExpectID Age confirms someone's age while supporting the guidelines set forth by COPPA and the rules of the credit card associations. Our unique patent-pending process instantly analyzes billions of data records to confirm someone's age in a matter of seconds. When situations need more in depth verification, you can take advantage of our ExpectID IQ solution which offers non-intrusive, intelligent questions relating to that person's history such as a question involving a previous address or an associated person. By requiring a minimum of name and address only to perform verifications, your customers are comfortable with the amount of information they are required to share.

ExpectID Age has been endorsed by WineAmerica as the premier solution for its members selling wine on the Internet and recently the State of Michigan tested and approved ExpectID Age for all direct wine shipments in and out of the state. Currently, IDology is conducting age verification for customers in several age-restricted industries including wine, distilled spirits, tobacco, and other age-rated vendors and services. Additionally, our product is integrated within several other solutions serving the telecommunications and wine industries including a managed service for mobile content; ShipCompliant, a wine industry leader in ecommerce and compliance solutions; Nexternal's e-shopping cart; and within the ecommerce offerings of one of the largest e-markets for the wine industry, the WineWeb.

Designed to offer complete flexibility, IDology's solutions run on an advanced, rules-based platform engine which enables clients to configure their solution based on defined business rules specific to their market, including performing verifications through a hand held device. And as the demands of the market change, you can change these business rules in real-time without having to rely on IT resources.

Using a patent-pending process to return quick, accurate results, our solutions are backed by maximum uptime and state-of-the-art facilities.

The ExpectID product suite includes:

ExpectID Age - confirms someone's age and supports COPPA guidelines and rules of the Credit Card Association

ExpectID - locates a valid ID based on name and address only; can incorporate SSN4 and DOB

ExpectID IQ - advanced verification process that presents robust multiple-choice questions related to someone's personal history

All of our solutions are easy to deploy and offer several different delivery methods to have you up and running quickly.

Take the first step toward protecting children online while protecting your business by scheduling a product demonstration. Call 866-520-1234 or email info@idology.com to set up an appointment.



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