

Customer Benefits of Information Integration by Financial Services Companies: Summary

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Ernst & Young LLP studied and quantified the largely unseen benefits that accrue to financial services customers as a result of information use. The findings are based on interviews with and surveys of large, integrated financial services companies, which are members of The Financial Services Roundtable. The results from these institutions that represent 30 percent of financial services revenue are significant.

The ability of the Roundtable member companies to appropriately use information produces annual savings of \$195 per year for an average customer household, or \$17 billion per year. It also saves an average customer household four hours per year, or 320 million hours per year. Ernst & Young determined that restrictions on how information is used could squelch customer cost savings, resulting in what amounts to a three percent excise tax.

Other real benefits include:

- Information is essential to preventing fraud.
- Use of information *reduces* junk mail. Three to six times more mail more direct marketing material would be sent if companies could not target their mailings.
- Customers obtain convenience and save time by calling one centralized call center for all their accounts.
- Similar benefits of cost savings and convenience accrue from Internet-based services.
- Customers save time when companies use information already present at another affiliate to “pre-fill” applications for new services.
- Companies offer services proactively based on changes in a customer’s financial situation.
- Arrangements with third parties can provide services at lower prices to customers, particularly at small financial services companies with fewer affiliates.

Dispelling several misconceptions, Ernst & Young determined that of those companies surveyed **none** sell Social Security numbers for marketing purposes, **none** share medical data other than as needed for information processing, and **none** share information on specific credit card purchases for customer profiling.

The total cost of information sharing restrictions could be even higher, since these estimates do not include the savings from other financial institutions, or the costs resulting from restricting information flows to reduce fraud, increase the availability and lower the cost of credit, provide co-branded credit cards and automated teller machine networks nationwide, or develop future innovative services and products.

Ernst & Young’s research seeks to educate policy makers and the public on how the appropriate use of information produces real consumer benefits of time, convenience, fraud protections, and fewer marketing contacts.

Customer Benefits from Current Information Sharing by Financial Services Companies

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THE FINANCIAL SERVICES ROUNDTABLE



By

Ernst & Young LLP

EXECUTIVE SUMMARY

Customers Save Time and Money Because of Information Sharing

Customers of financial services companies obtain significant benefits from information sharing, including increased convenience, personalized service, and real savings of time and money. Ernst & Young estimated the benefits to customers of the 90 large banks, insurance and securities companies that are members of The Financial Services Roundtable (FSR). Based on publicly available industry data and a survey of the FSR membership,¹ the findings are:

Trust and the Use of Information. U.S. customers provide information to their financial institutions because they trust them to protect that information and use it wisely. To the extent these companies share customer information with affiliates and/or third parties, the information sharing provides customers with more services at lower prices, and allows the companies to increase efficiency, lower costs, and pass savings forward to customers.

Savings Per Household. Information sharing saves FSR members' customers on average \$195 per customer household per year. In addition, the average FSR household saves close to 4 hours per year because of convenience provided by information sharing.

Money Saved. For all customers of the FSR members, the current dollar savings due to information sharing total about \$17 billion per year. About \$9 billion of this total comes from information sharing with third parties, and about \$8 billion is due to information sharing with affiliates. These estimates would be larger for the entire financial services industry.

Time Saved. In addition, information sharing saves FSR members' customers about 320 million hours per year. About 115 million hours are saved because of information sharing with affiliates, and 205 million hours because of information sharing with third parties.

Sources of Benefits. Customers benefit from information sharing across a wide variety of services. They save money from outsourcing to third parties, relationship pricing, and proactive offers. Customers save time because of information sharing by call centers, internet based services, third party services, proactive offers and pre-filled applications.

Exhibit 1: The Estimated Benefits of Information Sharing

Information sharing produces **significant annual savings** for the customers of the 90 FSR members:

\$195 per year for an average customer household, or **\$17 billion** per year

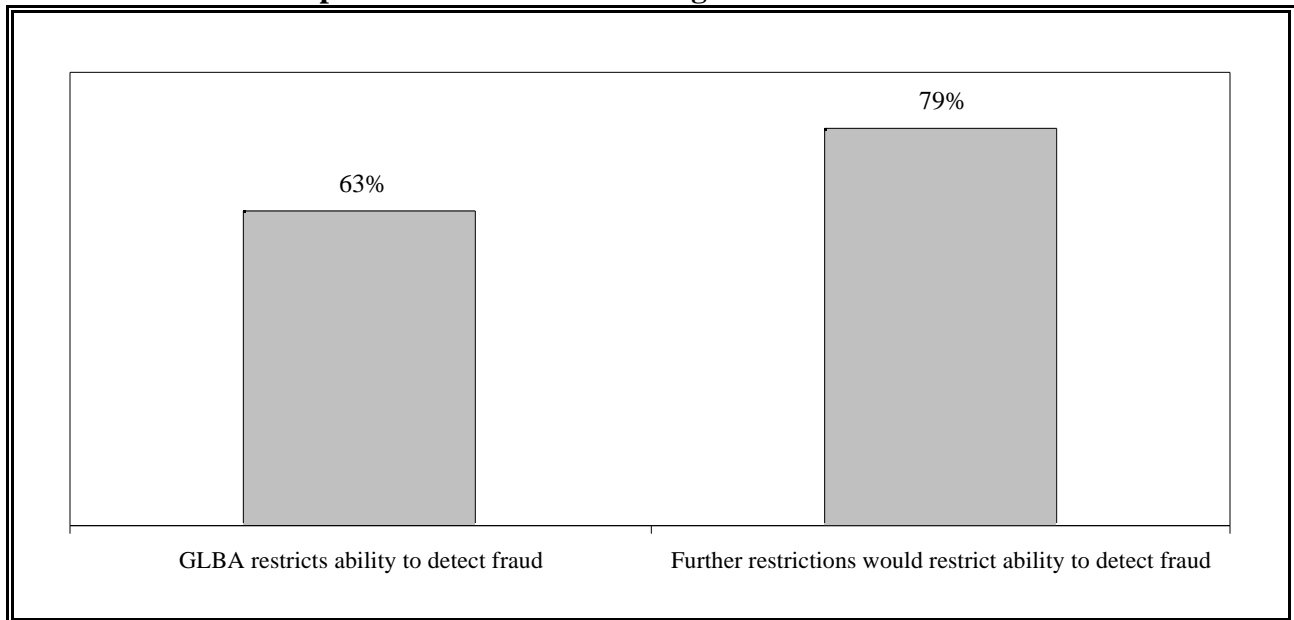
¹ This study used a survey of companies rather than of customers. Customers may not be fully aware of the extent of information sharing required to provide them services, or whether these services are offered through affiliates or a single legal entity. Companies, on the other hand, know how much information they share, why they share it, and the benefits they provide customers because of information sharing. See Appendix I for details on the methodology.

4 hours per year for an average customer household, or **320 million hours** per year

Common Misperceptions

Fraud and Identity Theft. Proposed restrictions on information sharing are often motivated by public concerns about identity theft. However, the ability to share information *reduces* identity theft by preventing fraud. While the estimated benefits do not include fraud reduction, additional restrictions on information sharing could make fraud detection more difficult. As shown in Exhibit 2, over 60 percent of survey respondents said that the Gramm-Leach-Bliley Act’s information sharing provisions would restrict their ability to detect fraud.

Exhibit 2. Impact of Information Sharing Restrictions on Fraud Prevention



Survey Questions: “Do you think the Gramm-Leach-Bliley requirements regarding information sharing would restrict your ability to detect fraud, in spite of exemptions for fraud prevention?” and “Do you think potential new restrictions on information sharing would restrict your ability to detect fraud, even with similar exemptions for fraud prevention?”

Mass Marketing versus Targeted Marketing. Privacy concerns are partly motivated by marketing solicitations. Contrary to common perception, however, the ability to share information can actually reduce the number of solicitations consumers receive. The FSR members save about \$1 billion per year by using targeted marketing instead of mass marketing – savings which can be passed forward to customers. A shift back to mass marketing could force companies to send out over three times as many solicitations to achieve the same level of sales.

Other Misperceptions. Some common consumer concerns are also founded on misperceptions. Of the 46 financial institutions responding to the Ernst & Young survey:

None sells Social Security numbers.

None shares medical data (other than as necessary for information processing).

None shares information on specific credit card purchases for customer profiling.

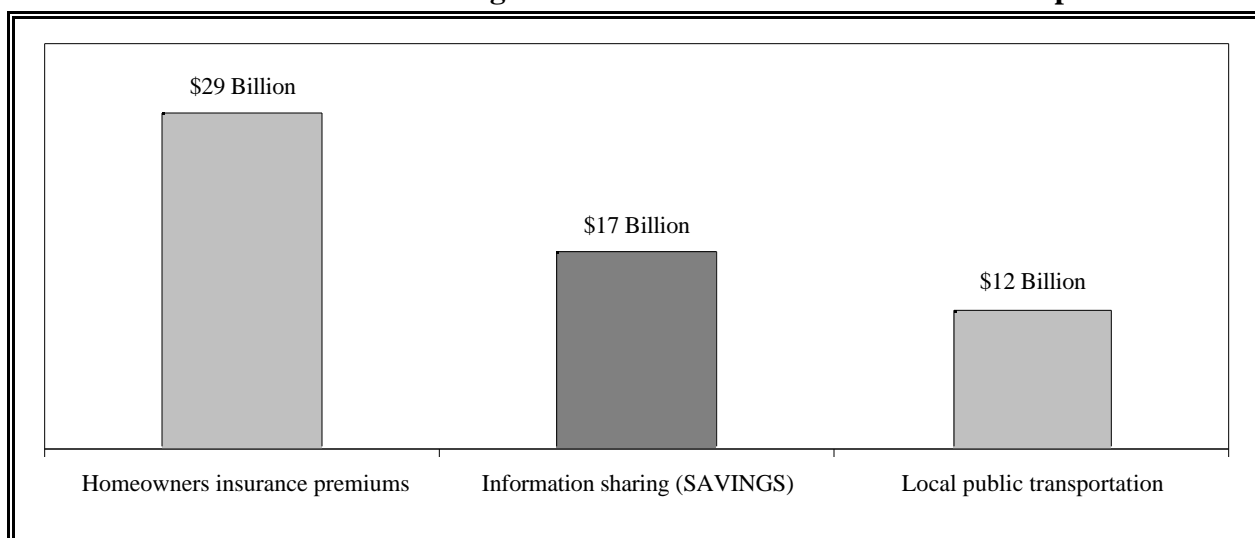
Putting the Benefits in Context

The estimates, which are indicative of the *general magnitude* of benefits that customers obtain from information sharing, represent an *important first step* towards informing the policy debate about the source and size of these benefits.

Significant restrictions on information sharing could impose up to \$17 billion in additional costs on the FSR company customers – the equivalent of a *3 percent excise tax* on these financial services companies' revenues.

Exhibit 3 compares the annual benefits from information sharing to some common U.S. household expenditures. The \$17 billion information sharing benefits are for customers of the 90 members of the FSR, and would be larger for all U.S. households. Nevertheless, the \$17 billion estimate *represents significant savings* – these households save about 40 percent more from information sharing than all U.S. households spend on local public transportation, and about 60 percent of what U.S. households spend on homeowners' insurance premiums.

Exhibit 3. Information Sharing Benefits Relative to U.S. Household Expenditures



Information sharing savings are for households that are customers of the 90 members of The Financial Services Roundtable. Other expenditure items are for all U.S. households.

Sources: Local public transportation: U.S. Department of Commerce (2000); Homeowners insurance premiums: Insurance Information Institute (2000); Information sharing savings: Ernst & Young estimates.

These information sharing benefits only account for savings provided by the 90 companies in the FSR, and *do not include savings created by information sharing at thousands of other U.S. banks, insurance firms, securities companies, thrifts and credit unions.*

These estimates *do not include:*

- Savings from *fraud reduction* because of information sharing;
- Customer benefits from the *expanded availability and lower price of credit* because of better risk quantification due to information sharing;
- Benefits from information sharing by *ATMs* and co-branded or *affinity credit cards*;

Future benefits from information sharing.

Sources of Benefits

Exhibit 4 identifies the sources of customer benefits from information sharing, and lists examples of each.

Exhibit 4. Customer Benefits of Information Sharing

<p>FRAUD AND IDENTITY THEFT. Fraud detection techniques often rely on information sharing to identify anomalies. Sharing information makes it easier to contain the damage of fraudulent activity, and for customers to restore their credit and identity.</p> <p><i>"Customers [are] better protected from becoming a victim of crime, such as identity theft or receipt of counterfeit currency, because of information shared with law enforcement and other federal entities, credit bureaus, and Visa issuers clearing house" – Retail Bank</i></p>
<p>CALL CENTERS. Customers obtain convenience and save time by calling one centralized call center for all their accounts.</p> <p><i>"Today customers can call one number to transfer funds/make payments or <u>purchase</u> a variety of services that span affiliates – they expect this." – Retail Bank (paraphrased)</i></p>
<p>INTERNET BASED SERVICES. Customers benefit by using one Web site for all their accounts.</p> <p><i>"Customers want their relationship put together on the Web – not broken apart!" – Retail Bank</i></p>
<p>PRE-FILLED APPLICATIONS. Customers save time when companies use information already present at another affiliate to pre-fill applications for new services.</p> <p><i>"Telephone customers have asked, 'Can you fill that out for me?' Customers like not having to fill out paperwork with information we already have on file." – Insurance Company</i></p>
<p>RELATIONSHIP PRICING. Companies provide discounts to customers who purchase services from multiple affiliates.</p> <p><i>Examples: Packaged discount programs; waived fees on checking accounts; free checks, traveler's checks and/or money orders; and approval of borderline loan applicants.</i></p>
<p>PROACTIVE OFFERS. Companies offer services proactively based on changes in a customer's financial situation.</p> <p><i>Examples: Offering investment products to a customer who has recently paid off college loans; offering lower premiums to a customer whose driving record has improved.</i></p>
<p>TARGETED MARKETING. Companies use shared information to <i>reduce</i> junk mail – no home equity loan offers to renters.</p> <p><i>"Customers receive reduced mail, more appropriate mail, along with less confusion..." – Retail Bank</i></p>
<p>THIRD PARTY SERVICES. Arrangements with third parties can provide services at lower prices to customers.</p> <p><i>Examples: Credit cards, mortgages, claims replacement, electronic bill payment.</i></p>

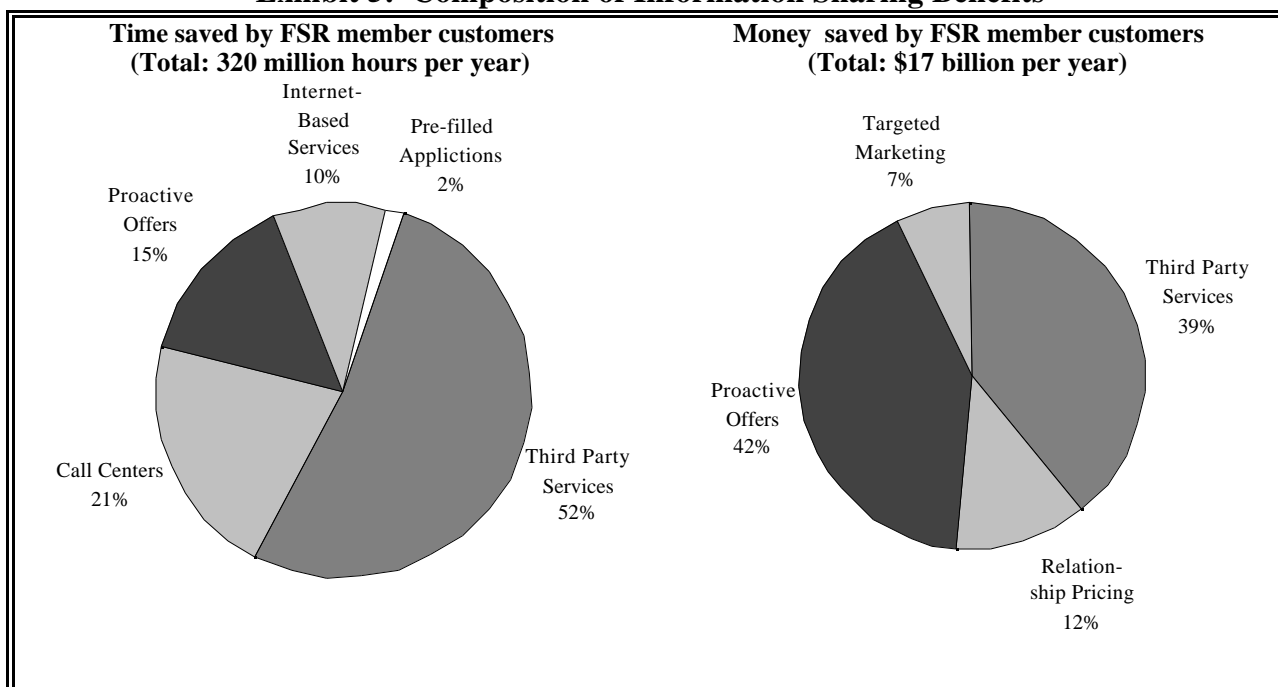
Exhibit 5 shows the composition of information sharing benefits:

A large share of time and money saved is from *third party services*, a subset of all benefits from sharing with third parties. Many financial services providers are seeking to provide "one-stop shopping" through a full range of financial services, and are partnering with third parties to provide their customers with low-cost, efficient services (e.g., credit cards, insurance). Using third parties allows financial institutions to provide additional services to their customers more efficiently and less expensively than if they had built the same service lines in-house, saving customers about 170 million hours and \$7 billion annually.

Call centers provide significant savings of time. Companies integrate their call centers for different affiliates and/or third parties to allow customers the ability to access all their accounts with one phone call. *Internet based services*, which provide similar convenience, are still a relatively new but rapidly growing delivery channel. Call centers save about 70 million hours and Internet based services over 30 million hours a year.

Proactive offers and *relationship pricing* provide significant savings of time and money for FSR member customers. Proactive offers save customers time (50 million hours) and money (\$7 billion) by offering and educating them about services when they are most likely to need them, for instance, offering a customer lower premiums on automobile insurance because of improvements in her driving record. Relationship pricing allows financial institutions to provide lower prices for customers with multiple relationships spanning different affiliates or third parties, saving customers over \$2 billion a year.

Exhibit 5: Composition of Information Sharing Benefits



Conclusion

Financial institutions share information for a variety of reasons, including to improve efficiency, reduce fraud, and provide improved products, services and pricing to their customers. The estimates in this study focus on the third reason, i.e., the savings of time and money to customers as a result of sharing of nonpublic personal information with affiliates and third parties.

The findings are significant. Information sharing provides real benefits to customers. If additional restrictions were placed on the sharing of such information with affiliates and third parties, these benefits to customers – up to \$17 billion of cost savings and 320 million hours of time savings annually – would be at risk. A negative impact of this magnitude merits serious consideration before any additional restrictions are placed on information sharing by financial services companies.

Table of Contents

<u>EXECUTIVE SUMMARY</u>	I
<u>Customers Save Time and Money Because of Information Sharing</u>	i
<u>Common Misperceptions</u>	ii
<u>Putting the Benefits in Context</u>	iv
<u>Sources of Benefits</u>	v
<u>Conclusion</u>	vii
<u>I. INTRODUCTION</u>	1
<u>Information and the Financial Services Industry</u>	1
<u>Trends and Themes in the Financial Services Industry</u>	2
<u>II. BENEFITS FROM INFORMATION SHARING</u>	4
<u>Reduction in Fraud and Identity Theft</u>	6
<u>Improved Customer Service / Convenience</u>	8
<u>Call Centers</u>	8
<u>Internet Based Services</u>	10
<u>Pre-Filled Applications</u>	12
<u>Availability and Price of Product Offerings</u>	13
<u>Relationship Pricing</u>	14
<u>Proactive Offers</u>	15
<u>Mass Marketing versus Targeted Marketing</u>	16
<u>Other Benefits</u>	18
<u>Third Party Services</u>	18
<u>Benefits Not Quantified</u>	19
<u>III. COMPLIANCE: GLBA AND BEYOND</u>	20
<u>Implementing GLBA</u>	20
<u>Tilting the Playing Field: Winners and Losers</u>	22
<u>Running to Stand Still?</u>	25
<u>The Next Wave: Potential Future Legislation</u>	25
<u>APPENDIX I: METHODOLOGY</u>	26
<u>Interviews and Survey Design</u>	26
<u>Survey Instrument</u>	26
<u>Survey Response</u>	27
<u>Estimation of Benefits</u>	28
<u>Extrapolation to FSR Membership</u>	29
<u>APPENDIX II: MEMBERS OF THE FINANCIAL SERVICES ROUNDTABLE</u>	31
<u>REFERENCES</u>	33

List of Exhibits

Exhibit 1: The Estimated Benefits of Information Sharing.....	i
Exhibit 2. Impact of Information Sharing Restrictions on Fraud Prevention.....	ii
Exhibit 3. Information Sharing Benefits Relative to U.S. Household Expenditures.....	iv
Exhibit 4. Customer Benefits of Information Sharing.....	v
Exhibit 5: Composition of Information Sharing Benefits.....	vi
Exhibit 6. Estimates of Financial Fraud.....	6
Exhibit 7. Impact of Information Sharing Restrictions on Fraud Prevention.....	7
Exhibit 8. Impact on Call Centers of Restrictions on Sharing Information with Affiliates.....	9
Exhibit 9. Impact on Internet-Based Services of Restrictions on Sharing Information with Affiliates	10
Exhibit 10. Examples of Relationship Pricing.....	14
Exhibit 11. Selected Services Provided through Information Sharing with Third Parties.....	18
Exhibit 12. Difficulty of Implementing GLBA.....	22
Exhibit 13. Ability of Companies to Merge Affiliates Due to Information Sharing Restrictions.....	23

Survey Respondents In Their Own Words

In Their Own Words: Fraud Prevention.....	7
In Their Own Words: Call Centers.....	8
In Their Own Words: Internet-based Services.....	11
In Their Own Words: Pre-Filled Applications.....	12
In Their Own Words: Proactive Offers.....	15
In Their Own Words: Targeted Marketing.....	16
In Their Own Words: Third Party Services.....	18
In Their Own Words: Merging Affiliates.....	23

I. INTRODUCTION

Information and the Financial Services Industry

In February 2000, the current economic expansion became the longest expansion in U.S. history. (Washington Post, 2000) Much of the credit for this extended period of non-inflationary growth is attributed to the "information economy." The ability to efficiently use and share information allows producers to lower the cost of producing goods through outsourcing, increases in productivity, and other improvements in the production process. According to the Department of Commerce, about 35 percent of U.S. economic growth between 1995 and 1998 can be attributed to information technology. (U.S. Department of Commerce, 2000)

In November 1999, Congress passed the Financial Services Modernization Act ("Gramm-Leach-Bliley Act" or "GLBA"). While the Act eases long-standing restrictions on affiliations among banks, securities firms and insurance companies, Title V of GLBA introduces restrictions on the use and sharing of information by financial services providers. The Act requires that financial institutions provide customers the right to "opt out" of the sharing of nonpublic personal information with certain third parties, and requires that companies disclose to their customers their information sharing practices with affiliates. State legislators can enact their own privacy rules.

Clearly, these two developments are moving in opposite directions. The sophisticated use of information is of growing importance to the U.S. economy and the financial services industry. Further restrictions on the use of that information could have significant implications for American households.

Information has played a vital role in the growth of the financial services industry. The use of technology and customer data has permitted innovations that better enable financial institutions to lower costs and meet their customers' needs. Access to customer data has improved lenders' ability to quantify credit risk. The result has been the extension of credit to numerous households that would previously have been denied. A better understanding of risk also reduces losses through bad debts, lowering the cost of credit for consumers. Ready and efficient access to information speeds up the access to credit. Access to accurate, consistent information has also allowed for the securitization of loans, which further expands access to, and lowers the cost of, credit.

The U.S. credit reporting system provides benefits to American consumers that are not available to consumers in foreign countries that do not have similar systems. Mortgages in the U.S. are processed considerably faster than in Europe, and are 200 basis points lower than they would be if the credit reporting system did not exist. (Kitchenman, 1999) If U.S. policymakers had

constrained information sharing when the credit reporting system first evolved, these benefits would probably never have been produced.

In addition to the impact on the cost and availability of credit, the ability to share customer information provides customers with increased convenience, personalized service, and real savings of time and money. Ernst & Young estimated these customer benefits with the assistance of interviews with members of The Financial Services Roundtable (FSR) and a survey of the FSR membership. The results of the survey, and the findings regarding the benefits of information sharing, are discussed more fully in Section II.

Trends and Themes in the Financial Services Industry

This section discusses some trends and themes in the financial services industry that are important to the issue of customer benefits from information sharing.

Increased Use and Sharing of Information. The use of information is increasingly important for the financial services industry. Technology and financial innovation have allowed companies to use information to provide their customers with better and more personalized service, and to save them time and money. Financial institutions share information to increase their efficiency and provide more choices and better prices for their customers in a competitive marketplace.

Relationship Management. Perhaps no term appeared as frequently in the survey responses and interviews as "relationship." Numerous organizations described themselves as "the relationship bank" or "relationship financial services provider." This should not be surprising. Financial services providers have always been in the business of securing and maintaining the trust of customers. Customers are only willing to give their hard earned money to financial institutions because they know that they can trust their institutions to handle the funds responsibly. A recent American Banker/Gallup survey found that 89 percent of people surveyed rated the banking system as "safe and secure." (American Banker, 2000) The same issues of trust extend to the use of information. Customers need to be assured that their information will be used responsibly. To this end, many financial institutions have proactively developed privacy policies, and have begun informing their customers of these policies on the Internet, even before GLBA. Financial service providers recognize that customer relationships based on trust and service are their most valuable asset. Companies that violate the trust of their customers in the pursuit of short term profits risk their reputations and their customer base.

Full Service Providers and Integration. Another recurring theme in the interviews and survey responses was the attempt by many institutions to become full service providers that provide a complete range of services for their customers. Some institutions seek to provide all of these services themselves, either through developing their own service lines, or through mergers and acquisitions made possible by the passage of GLBA. Others, however, find it more economical to partner with other companies to provide services. The ability of companies to provide such

"one-stop-shopping" increases convenience and saves time for customers. These developments depend on the ability to share information with affiliates and/or third parties.

Different Legal Structures. Individual financial services companies have very different legal structures, which are frequently the result of past and/or current regulatory environments. Financial services affiliations are often invisible to people outside these companies, and customers tend to think of affiliated financial services providers as a single entity. In reality, however, there may be scores of affiliates, who need to share information to provide seamless services to their customers. Among the companies who responded to the survey, for instance, the number of affiliates ranged from four to several thousand. Restrictions on information sharing among affiliates would create a non-level playing field that penalizes some companies (those with multiple affiliates) for regulations outside of their control. Some institutions may be able to merge affiliates, while others cannot because of regulatory constraints, tax consequences, business or other reasons. This point is discussed further under "Tilting the Playing Field" in Section III.

II. BENEFITS FROM INFORMATION SHARING

To date, the debate on privacy of customer financial information has been largely devoid of any estimates of the benefits to customers from information sharing. The estimates presented in this report represent the first attempt at identifying and quantifying the major benefits to customers from information sharing. The estimates shown here are for the membership of the FSR, which accounts for about 30 percent of the revenues of the financial services industry (banking, insurance and securities).

The estimates are based on publicly available industry data and a survey of the members of The Financial Services Roundtable. The survey questions were designed to ask for specific information on customer benefits in various areas—as such, the savings are based on educated estimates from knowledgeable individuals at some of the largest financial institutions. They are indicative of the general magnitude of benefits that customers may obtain from information sharing. This study represents an important first step in quantifying these benefits, and we believe the policy debate could benefit from further research on this issue.

The estimated benefits of information sharing relate to the current practices of financial services providers. It is important to remember, however, that this is a rapidly changing industry, where innovations could generate even larger benefits from information sharing in the near future. Many of the institutions indicated in interviews and surveys that the technology is just starting to make further innovations possible, e.g., by integrating databases that were earlier separate and through the growth of the Internet. Services such as account aggregation will provide larger customer benefits in the future, as information sharing makes it possible to provide better, personalized services to customers who need them the most.

In addition, the estimated benefits of information sharing are conservative in that they do not comprehensively include all benefits that customers could obtain from information sharing. The estimates do not include savings from services such as fraud prevention, co-branded/affinity credit cards, and the sharing of information to provide services at automated teller machines. They do not include the savings from increased access to credit at lower prices because of information sharing. In fact, over 20 percent of survey respondents indicated that they share nonpublic personal information with affiliates in ways other than those covered by the survey. The benefits generated by this information sharing are not included in the estimates presented here.

These benefits are currently received by customers. As such, they may be largely invisible to many customers, who may take for granted a ten percent discount they currently get from relationship pricing or the ability to save a few minutes on a call to their financial service provider's call center.

The benefits estimated are total benefits received without taking into account possible costs. Increased information sharing may increase the risk that information could be misused.

Information sharing per se does not result in additional costs, but could increase the damage from a single case of misuse. Strengthened policies and procedures, and penalties for misuse, are needed to minimize these costs.

Unless otherwise stated, the estimates of information sharing presented here relate to information shared with third parties and/or affiliates. The estimates are not aimed at quantifying the impact of GLBA or any other specific legislation, but instead at demonstrating the benefits that customers currently obtain from information sharing with third parties or affiliates. Policymakers should be aware that restrictions on information sharing could place some or all of these benefits at risk. For instance, customers could lose a significant share of these benefits under:

- Outright bans on certain kinds of information sharing;

- Opt-out provisions where large numbers of customers opt-out; or

- Opt-in provisions where small numbers of customers opt-in.

While customers exercising their right to opt out or opt in presumably make the decision with which they feel most comfortable, it is not clear that all customers are aware of the information sharing conducted by financial institutions to provide services they may take for granted. They may thus inadvertently make a decision that results in a loss of benefits. In cases where large numbers of customers opt-out (or fail to opt-in) of information sharing, financial institutions may entirely curtail some services that depend on information sharing, because there are too few customers to make these services economically viable. Thus customers who choose to opt-in (or choose not to opt-out) to information sharing may still lose access to these services and benefits.

GLBA explicitly does not pre-empt further state legislation restricting information sharing by financial services companies. In considering any further restrictions or requirements, however, policymakers should consider whether the perceived benefits from "not sharing" will outweigh the loss of benefits that would occur. These estimates are not intended to make that decision, but rather to inform the policy debate about the benefits at stake.

The benefits presented in this report are divided into the following categories:

- Reduction in fraud and identity theft*

- Benefits that provide improvements in *convenience and customer service*;

- Benefits that result in savings and improvements in *product offerings (availability and price)* to customers; and

- Other benefits*, such as third party services.

Reduction in Fraud and Identity Theft

Financial services providers lose significant amounts of money from fraud, some or all of which will ultimately be borne by customers. Comprehensive estimates of the total amount of financial fraud are not available, but, as shown in Exhibit 6, the annual cost is billions of dollars. Fraud violates our sense of privacy and self.

Not surprisingly, identity theft, the latest variety of fraud, is a major concern for customers. Estimates of the number of identity theft victims this year range from 500,000 to 750,000. Victims spend an average of 175 hours and \$800 actively trying to resolve the problems caused by their identity theft. (CALPRIG/Privacy Rights Clearinghouse, 2000) The calls for restrictions on information sharing are at least partly fueled by the frightening stories of identity theft, with the implicit assumption that fraud is made easier because of lax financial information sharing.

Exhibit 6. Estimates of Financial Fraud

Type of Fraud	Estimated Annual Cost
Insurance fraud (property/casualty)	\$21 billion
Check fraud	\$13 billion
Identity theft	\$3 billion
Credit card fraud	\$0.6 billion

Sources: Insurance: Insurance Information Institute, 2000

Credit card: Faulkner & Gray, 2000.

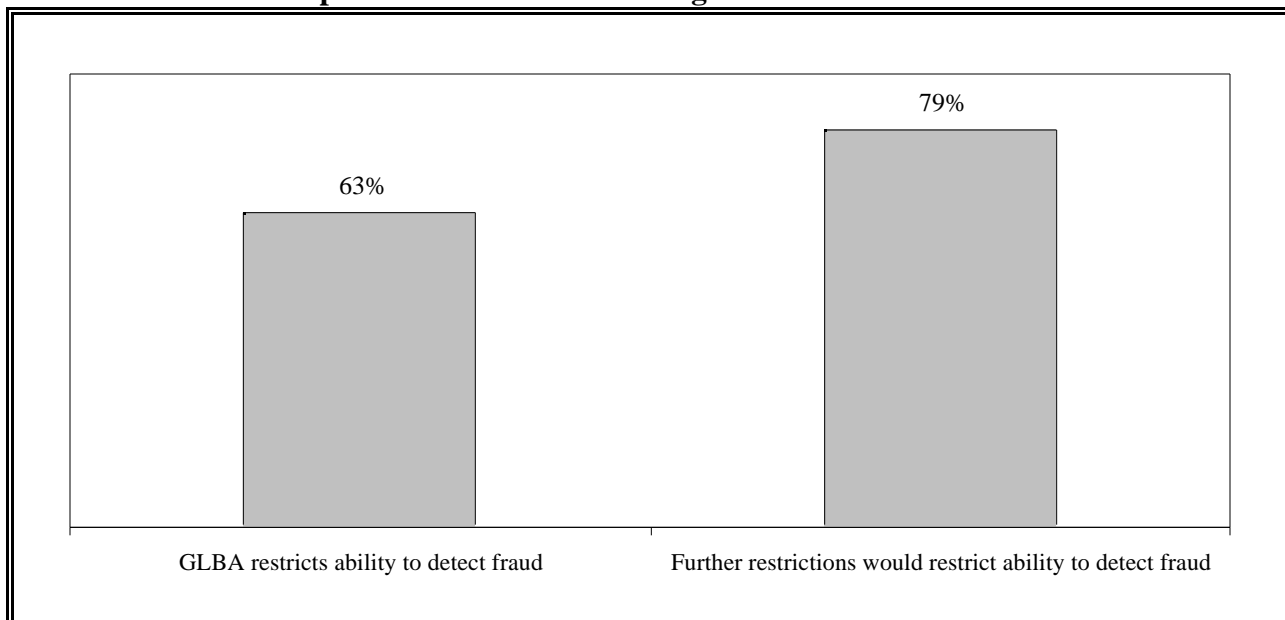
Check fraud: Nilson Report, 1997.

Identity theft estimates based on estimates of 500,000 identity theft victims and modal fraudulent charges of \$6,000 from CALPRIG/Privacy Rights Clearinghouse, 2000.

Recognizing the importance of this issue, Gramm-Leach-Bliley explicitly provides exemptions for fraud prevention. It is likely that any future legislation would also exempt fraud prevention. In spite of these exemptions, however, restrictions on information sharing would probably have the unintended consequence of *increasing* fraud. An opt-out provision, for instance, could be used by criminal minds to make identity theft harder to detect. As shown in Exhibit 7, over 60 percent the survey respondents thought that the Gramm-Leach-Bliley information sharing restrictions would restrict their ability to detect fraud, *even with the exemptions for fraud prevention*. Almost 80 percent also thought that potential new restrictions on information sharing with affiliates or third parties would make fraud detection more difficult, even with similar exemptions.

In addition, the sharing of information makes it easier to resolve issues and limit damage after fraud has been detected. If financial institutions are able to share information with affiliates and third parties, they are better able to contain the situation, with less burden on the customer.

Exhibit 7. Impact of Information Sharing Restrictions on Fraud Prevention



Survey Questions: "Do you think the Gramm-Leach-Bliley requirements regarding information sharing would restrict your ability to detect fraud, in spite of exemptions for fraud prevention?" and "Do you think potential new restrictions on information sharing would restrict your ability to detect fraud, even with similar exemptions for fraud prevention?"

Unfortunately, there was a low response rate on the survey for questions relating to the number of cases of fraud and the losses suffered. This may be because of the highly confidential and sensitive nature of this information. Given the low response rate, we were unable to provide estimates on the customer benefits from fraud reduction. However, our interview sessions with five FSR members and the comments on fraud provided on the surveys, suggest that information sharing plays a significant role in detecting and mitigating fraud. The magnitude of, and public concern over, the problem suggest the need for further study and consideration of this issue.

In Their Own Words: Fraud Prevention

"Financial services customers expect their financial institution of choice to be able to maintain a full and complete picture of their assets and to help them on all accounts when they are victims of fraud. Most customers express frustration when we either ask or advise them that we must transfer them to an affiliate company in order to file a separate fraud report " – Insurance Company

"Customers [are] better protected from becoming a victim of crime, such as identity theft or receipt of counterfeit currency, because of information shared with law enforcement and other federal entities, credit bureaus, and Visa issuers clearing house" – Retail Bank

Improved Customer Service / Convenience

The benefits in this section accrue largely from improved customer service and convenience. *Call centers* and *internet based services* share information across affiliates and third parties, and give customers the convenience of checking balances, transferring funds, or conducting other transactions across multiple accounts at different legal entities. *Pre-filled applications* use information previously provided to one entity to save a customer time when applying for a service at another affiliate or unaffiliated third party.

Call Centers

Given the importance of relationship management and service to their business, call centers are a key component of the business model of financial services providers. About 90 percent of the respondents to the survey reported that they provide call centers to their customers. U.S. financial institutions spend an estimated 4.4 percent of their sales revenues on call centers. In 1997, 30 percent of bank customers gained access to services through the telephone, second only to ATMs. (American Bankers Association, 1998) About 13 percent of the FSR members' customers have accounts at multiple affiliates and use call centers in any given year.

Call centers provide financial services customers with convenience in obtaining information or transacting business by telephone. As financial institutions seek increasingly to provide a full range of financial services to their customers, call centers often need to share information with affiliates or third parties to provide customers with the convenience of using a single phone number. Customers with numerous financial products from the same institution expect the ability to access their deposit accounts, investments, insurance policies, credit cards, and mortgage loans with one phone call. They do not want to have to call multiple phone numbers to change an address, check an account balance, or transfer funds. Insurance customers are spared the inconvenience of having to "tell their story" more than once when they suffer a loss. Since insurance companies often have separate affiliates in different states because of regulatory constraints, customers who suffer a loss away from home (e.g., a car accident while on vacation) currently benefit from the ability of the local affiliate to share information with the affiliate that wrote their policy. In addition, having a centralized call center with shared information allows companies to better serve their customers through proactive offers and fraud prevention – these are discussed elsewhere in this report.

In Their Own Words: Call Centers

"Today customers can call one number to transfer funds/make payments or purchase a variety of services that span affiliates – they expect this." – Retail Bank (paraphrased)

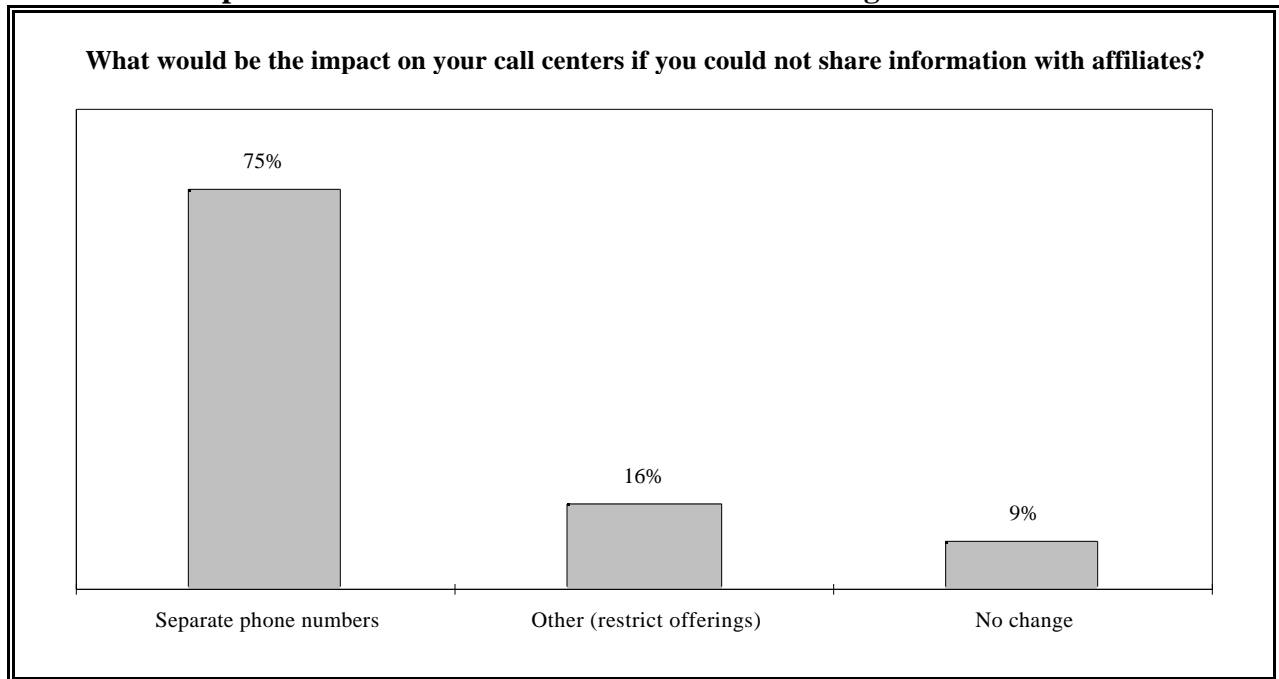
"Customers do not relate to affiliates. They think of us as [Name of Bank], especially with regards to [our] branded affiliates." – Retail Bank

"One common [call center] database means that customers do not have to 'tell their story' more than once. Also,

using common information, we are able to select affiliate companies that best meet our customers' needs..." – Insurance Company

The survey responses indicate that financial institution customers save significant amounts of time because of the convenience of call centers that share information across affiliates or third parties. On average, customers save a little over an hour per year because of information sharing from call centers. In aggregate, customers of the FSR members save about 70 million hours a year because of information sharing by call centers. If financial service providers could not share information with third parties or affiliates, customers would lose these savings. Exhibit 8 shows the likely response of the financial institutions in the E&Y survey if their call centers were prevented from sharing information with affiliates. As shown, 75 percent of companies would require their customers to call separate phone numbers for different financial products, which would reduce the convenience that customers obtain from call centers. Only nine percent said they would make no change in the operation of their call centers.

Exhibit 8. Impact on Call Centers of Restrictions on Sharing Information with Affiliates



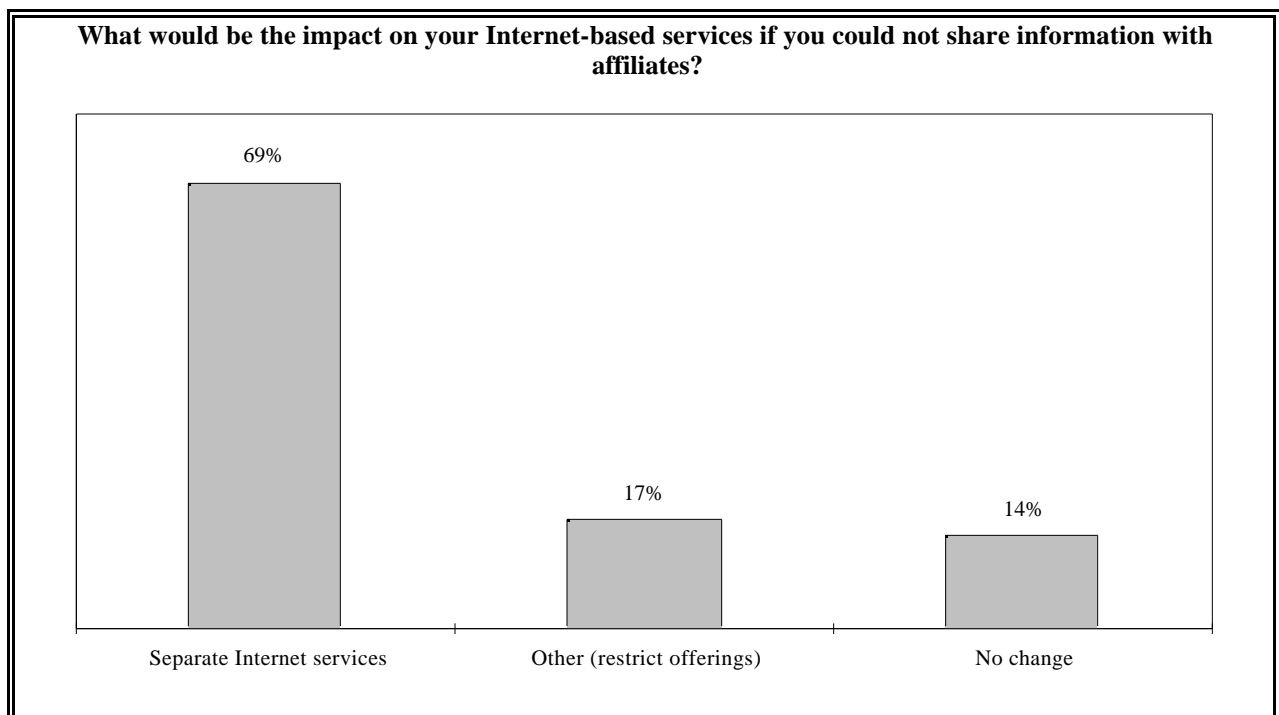
Internet Based Services

Financial services, like many other industries, are being profoundly affected by the Internet, a rapidly growing and increasingly important vehicle for delivering services. Forrester Research estimates that about 6 million U.S. households used the Internet to access financial services in 1999, and forecasts that the number will grow to over 20 million by 2003.

Internet-based services provide customers with convenience in obtaining information or transacting business online. Customers with financial products from different affiliates or third parties can benefit from the ability to obtain information or transact business across multiple services at one integrated Web site.

Customers of the companies responding to the survey save an average of three hours per year because of Internet-based services that share information. In aggregate, FSR members' customers save over 30 million hours per year because Internet-based services are able to share information across multiple affiliates. As the popularity of these relatively new services grows, the time savings from information sharing by Internet-based services is expected to increase.

Exhibit 9. Impact on Internet-Based Services of Restrictions on Sharing Information with Affiliates



If financial service providers could not share information with third parties or affiliates, customers would lose these savings. Exhibit 9 shows the likely response of the financial

institutions in the E&Y survey if their Internet-based services were prevented from sharing information with affiliates. As shown, about 70 percent of companies would create separate web pages for different affiliates, which would raise costs and reduce the convenience and time savings for customers, and would create potential confusion from the existence of multiple Internet sites.

In addition to the Internet-based services of traditional "bricks and mortar" banks, insurance and securities firms, online financial services are also provided by a number of primarily online companies. Among others, these include service providers (e.g., Quicken.com, E*Trade), companies that provide a gateway to other financial service providers (LendingTree.com), or companies that aggregate information from other companies' sites. These "non-traditional" companies were not included in the survey, thus understating the estimated customer savings. A recent Forrester report found that 92 percent of these companies partner online, and 48 percent of them sell products on other firms' sites – a finding that suggests potentially large customer benefits from this group. (Forrester Research, July 2000)

A number of companies mentioned account aggregation, a relatively recent development that provides a customer her complete balance sheet, including her accounts with different companies. It is likely that many financial service companies will provide account aggregation in some form over the Internet. The potential benefits from account aggregation are large, and since most of the survey respondents do not yet offer much in this area, these estimates underestimate the potential future benefits from information sharing.

These aggregation services are specifically requested by customers, indicating the customer benefits from information sharing and the demand for "one-stop" financial services. In considering further legislation, policymakers should consider the potentially large benefits from these services.

In Their Own Words: Internet-based Services

"Internet access implies ease of use and access. Customers would find it confusing to have to access several different sites to conduct their business. The cost would also be higher..." – Retail Bank

"Customers want their relationship put together on the Web – not broken apart!" – Retail Bank

"The convenience of Internet-based services appeals to customers; part of that convenience is access to a variety of products and services, which we are able to provide through multiple affiliates and third parties." – Retail Bank

"Customers benefit from a more complete view of their 'financial balance sheet'" – Retail Bank

Pre-Filled Applications

Financial services providers often have the ability to fill out portions of application forms in using information they already have. For example, a customer applying for a home loan at a mortgage affiliate could avoid having to provide information that was already provided to the retail banking affiliate when the customer opened a checking account. Many financial institutions also use pre-filled applications on pre-approved offers that are sent to their customers. To the extent that these pre-filled applications use information from different affiliates or third parties, they rely on information sharing.

Pre-filled applications save time and provide convenience for customers. In addition, they reduce error rates in the data entry process by using information previously entered, and make it easier to update records.

On average, customers of FSR member companies save about 10-20 minutes a year because of pre-filled applications using information sharing. In aggregate, these savings amount to about 6 million hours per year for FSR members' customers. If financial service providers could not share information with third parties or affiliates, customers would lose these savings.

In Their Own Words: Pre-Filled Applications

"Telephone customers have asked, 'Can you fill that out for me?' Customers like not having to fill out paperwork with information we already have on file." – Insurance Company

"Sharing data with call centers saves customers time in application processing because call centers do not have to 'look up' data elsewhere." – Retail Bank

Availability and Price of Product Offerings

The benefits provided in this section accrue from services that are related to the product offerings of financial services providers. To the extent that companies are able to better match their product offerings and pricing to different customers, they realize cost savings that can be passed forward to customers. In addition, customers can benefit by getting less marketing material than they would if information sharing was not used.

Relationship pricing allows financial institutions to offer lower prices on bundled products, if customers purchase multiple products, which may be offered by different legal entities. Customers with existing relationships with an organization may get increased access to services or benefit from lower prices at an affiliate or third party.

In some cases, financial institutions make *proactive offers* to customers who would benefit from certain services because of a change in their circumstances. For instance, an insurance customer whose driving record has recently improved may be offered lower premiums at another affiliate within the same group of insurance companies.

Targeted marketing, like proactive offers, seeks to identify customers who are most likely to benefit from a certain product or service. However, whereas proactive offers are typically discrete events, targeted marketing is often more organized and on a larger scale. Using targeted marketing, financial institutions are able to send out fewer solicitations, so that renters, for instance, are not sent offers for home equity loans.

Relationship Pricing

Many financial institutions provide customers with discounts on services based on existing relationships. These price reductions may take the form of "hard packages," in which customers get a reduced price for purchasing certain bundles of financial services. Insurance companies routinely provide such price reductions for customers who "multiline" (purchase multiple types of insurance). Customers may qualify for reduced or waived fees, lower interest rates on loans, and other price reductions, based on existing relationships. The provision of these price reductions often relies on the ability to share information across affiliates or third parties. Without access to this information, financial institutions would not know whether customers had multiple relationships and qualified for price reductions.

Customers with existing relationships with a financial organization may also get increased access to services. For instance, a borderline loan applicant may be accepted rather than denied based on an existing relationship with a bank. Similarly, a bank officer may use her discretion to waive a long standing customer's "not sufficient funds" fee on a check that would otherwise have bounced.

FSR members report that about 5 percent of their customers benefit from relationship pricing. On average, those customers of FSR member companies save about \$50-100 per year because of relationship pricing based on information sharing. In aggregate, these savings amount to \$2 billion for FSR members' customers. If financial service providers could not share information with third parties or affiliates, customers would lose these savings. Exhibit 10 lists some of the examples of relationship pricing provided by survey respondents.

Exhibit 10. Examples of Relationship Pricing

Packaged discount programs (reduced charges for customers purchasing a package of financial services)

Checking accounts (lowered or waived charges for customers of multiple affiliates)

Free checks, traveler's checks and/or money orders for customers with financial relationships with affiliates

Discount against *commission charged for securities* purchased through an affiliate

Approval of borderline loan applicants with liquid assets at an affiliate

Proactive Offers

Financial institutions also seek to improve the quality of their services by using customer information to make proactive offers. Proactive offers allow companies to better align the services offered to meet a customer's needs, through the use of customer information. Financial service providers are able to offer services at the time needed, e.g., life events such as college or marriage. An insurance company may inform policyholders that they qualify for lower insurance premiums because of improvements in their driving record, or may notify them that they could save on their premiums by switching to another affiliate. Homeowners may be notified when they are potentially underinsured because their property values have risen. A bank customer that has recently paid off her student loans may be informed about mutual funds by an investment affiliate. While customers are often too busy to notice such changes or to continuously look for savings, their financial services providers have the ability to review their information and make proactive offers. FSR members report that, on average, about 10 percent of their customers benefit from proactive offers annually.

On average, customers of FSR member companies save about one hour a year, and about \$75-100 per year because of such proactive offers. To put these savings in context, \$75 in increased investment income because of a timely offer to move funds from a checking account to an investment product amounts to a 5 percent return on \$1,500 principal, while a \$100 reduction in insurance premiums because of an improved driving record amounts to about \$8 saved per month. In aggregate, these savings amount to about \$7 billion and 50 million hours per year for FSR members' customers. If financial service providers could not share information with third parties or affiliates, customers would lose these savings.

These estimates assume that the financial institutions sending customers proactive offers are able to fulfill real unmet needs of their customers. To the extent that offers are made for services that customers already have, the benefits would be lowered. However, the increased use of information sharing makes it more likely that financial services companies are able to offer their customers services they really need at times in their lives when they most need them.

In Their Own Words: Proactive Offers

"We continually evaluate ways we can let customers know about products and services that may be of interest to them... Customers save even more time with preapproved offers... it takes an average of 17 days to process a credit card application and notify the applicant of the results. Preapproved offers eliminate this waiting period." – Retail Bank

"[We are] able to offer medical supplemental insurance to older customers as they open new accounts." – Retail Bank

Mass Marketing versus Targeted Marketing

Americans are used to being inundated with "junk" mail. Direct marketers spend about \$176 billion each year soliciting customers, and the average U.S. household received over 500 solicitations last year. (Forbes, 2000) Not surprisingly, we often treat financial product solicitations with the same level of interest as the envelopes telling us that we may already have won millions of dollars.

In the popular perception, information sharing by financial institutions is sometimes equated with unsolicited marketing. What is often overlooked, however, is that the ability to share information allows financial service providers to target their marketing to the customers most likely to need their products, and that enough customers take advantage of targeted offerings to make them worth sending. By obtaining information on homeownership from the banking affiliate, for instance, a mortgage lending affiliate can target its home equity loan offers to those most likely to need a home equity loan: homeowners with significant home equity and other debts, rather than renters. FSR members report that they would send out about three to six times more direct marketing if they could not use information sharing for targeted marketing. Targeted marketing results in real savings for financial institutions, some or all of which will be passed forward to customers in price reductions. It helps them provide better, more relevant services to customers, and reduces the volume of "junk" mail. (After all, junk mail isn't really "junk" unless it offers something you don't need and want. The much-covered anecdotes about pre-approved credit cards offered to family pets suggest that some companies are either not using targeted marketing, or are not using it well. This is the sort of wasted money and effort that we can expect to see less of as targeted marketing becomes more precise and more prevalent.)

FSR members save about \$1 billion per year through targeted marketing based on shared information – savings that can then be passed forward to customers. Almost all of the survey respondents said that if they could not use targeted marketing, they would resort to mass marketing instead, while a few said that they may eliminate direct marketing completely. If restrictions on information sharing curb the ability to use targeted marketing, customers could expect to receive more irrelevant junk mail, and to pay higher prices for financial products. Based on the survey responses, a shift back to mass marketing could force these companies to send out over three times as many solicitations in order to achieve the current level of sales. To the extent that some companies may cease their direct marketing altogether, there could be some decline in the volume of direct marketing, but customers would be less likely to receive marketing offers for products they really need.

In Their Own Words: Targeted Marketing

"In theory, targeted marketing can save 80 percent of mailing and production costs. 80 percent of the market comes from 20 percent of the customers. The ability to target these highest value customers allows us to not mail to the rest and still create similar overall sales." – Insurance Company

"Customers receive reduced mail, more appropriate mail, along with less confusion..." – Retail Bank

Other Benefits

Third Party Services

As financial services providers seek to provide "one-stop shopping" through a full range of financial services, they are increasingly partnering with third parties to provide their customers with less expensive, efficient services. Using third parties allows financial institutions to provide additional services to their customers more efficiently and at lower cost than if they had built the same service lines in-house. Customers may save because of their financial services providers' ability to negotiate lower group rates, e.g., group insurance rate policies provided to bank customers. At times, they may gain access to products that would not be available to them as individuals, e.g., insurance policies that are not large or profitable enough to be serviced by an individual agent.

The companies responding to the survey listed a wide range of services that are provided through the sharing of information with third parties. A bank may use a third party to provide insurance to its customers, while an insurance company may provide a credit card by partnering with a credit card issuer. Insurance companies often use third parties to process claims and conduct repairs in the case of a loss. Exhibit 11 lists a few examples from the survey responses of third party services provided through the use of information sharing.

Exhibit 11. Selected Services Provided through Information Sharing with Third Parties

Banks:	Insurance:	Securities / Other:
Insurance	Claims Replacement	Vehicle and home insurance
Credit Cards	Long Term Care	
Mortgages	Roadside Assistance	
Trust, Brokerage and	Car Rental	
Retirement Planning	Electronic Bill Payment	

On average, customers of FSR member companies save about 2.5 hours a year, and about \$100 per year because of the use of information sharing to provide third party services. In aggregate, these savings amount to about \$7 billion and 170 million hours per year for FSR members' customers. As shown in Exhibit 11, these savings come from a wide variety of services provided by third parties, including insurance, credit card, mortgages, electronic bill payment, and others.

In Their Own Words: Third Party Services

"If we could not share [information] with third parties, our insurance business would cease." – Retail Bank

"A customer who opens a checking account may order checks, request an ATM card, enroll in Internet-based banking and sign up for our package of discount programs. All five of these services are provided by or with assistance from third parties. We would probably not offer Internet-based banking or the packaged discount program if we could not rely on a third party..." – Retail Bank

Benefits Not Quantified

As described above, this report attempts to identify and quantify the major sources of benefits from information sharing for customers of financial services companies. This list is not exhaustive, however, and the estimates presented here do not include savings from all sources of benefits. For instance, the estimates do not include benefits from the following sources:

- *Fraud and identity theft reduction.* As discussed above, these estimates do not include savings from fraud reduction. Given the magnitude of this issue, the savings from fraud reduction because of information sharing are potentially large. However, estimates could not be reasonably derived from the survey responses because of limited responses on this issue.
- *Co-branded / affinity credit cards.* Co-branded / affinity credit cards often provide significant benefits to customers such as rewards, airline miles, or credits towards purchases of gasoline or other products. The benefits from these cards are not included in the estimated benefits.
- *ATMs.* Information sharing by automated teller machines (ATMs) also provide some savings to customers. To the extent that these benefits are not included in the estimates, the savings are understated.
- *Increased availability and lower cost of credit.* As mentioned elsewhere in this report, U.S. customers obtain increased access to credit at lower prices because of information sharing. The estimates presented here do not include these benefits.
- *Future innovations.* The benefits presented here are based on current information sharing practices at some of the largest U.S. financial institutions. Future financial and information technology innovations could produce benefits beyond those estimated here.

III. COMPLIANCE: GLBA AND BEYOND

As discussed in the previous section, customers currently receive large and real benefits from information sharing, some or all of which would be lost under further legislative or regulatory restrictions on companies' ability to share financial information. These benefits, though significant, do not capture the complete impact of the restrictions on information sharing. As with any new laws and regulations, GLBA's information sharing provisions create compliance costs for companies (some portion of which may be passed forward to customers in higher prices), and have differential impacts (i.e., some companies "win" while others "lose").

Implementing GLBA

GLBA imposes a high compliance burden on financial services providers. By July 2001, companies must:

Re-assess their privacy practices to identify information shared with affiliates or third parties;

Modify databases and forms to separate shared information and identify customers opting out;

Train customer service personnel to handle the modified databases and forms and to conduct business in compliance with the regulations;

Prepare disclosure statements describing their privacy practices; and

Provide disclosure statements to customers.

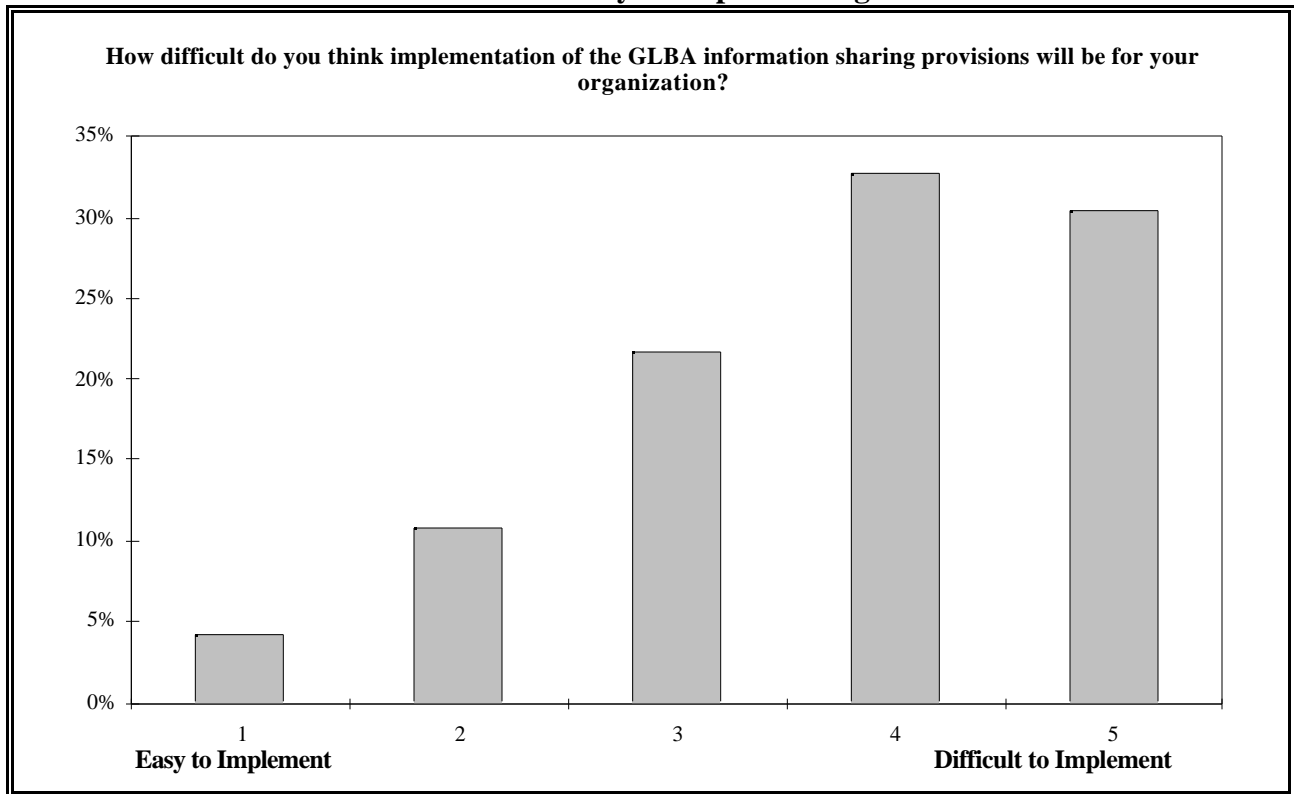
For many companies, these measures represent new challenges that they must grapple with and to which they will have to devote significant resources. The companies surveyed were asked to rate the difficulty of implementing GLBA for their organization on a scale of 1 to 5 (1 = "easy to implement", 5 = "difficult to implement"). As shown in Exhibit 12, the overwhelming majority of respondents said that GLBA would be difficult to implement.

Based on the survey responses, the costs of implementing GLBA for the FSR members are estimated at over \$400 million. This compliance cost only includes the 90 banking, insurance and securities firms that are members of the FSR. Unlike the benefits of information sharing, however, these costs could be significant even for the smaller companies that are not members of the FSR. In addition, industries such as credit unions, thrifts and retail trade are not included in this estimate. The overall cost of implementing GLBA will be much higher.

More than half of respondents indicated that 100 percent of these costs would be passed forward to their customers in the form of higher fees, commissions, interest rates, and premiums. Costs that are not passed directly to customers would lower returns for shareholders, and would be borne by millions of households who hold stock in financial services companies, either directly or through mutual funds or retirement accounts.

In addition, as discussed below, these costs are not borne equally by all companies.

Exhibit 12. Difficulty of Implementing GLBA



Tilting the Playing Field: Winners and Losers

Public policy often has a redistributive component. Usually, this is by design. A system of progressive income taxation and benefits programs, for instance, redistributes income from the wealthy to the poor. The information sharing restrictions in GLBA, however, are likely to have distributive impacts that are undesirable and unintended.

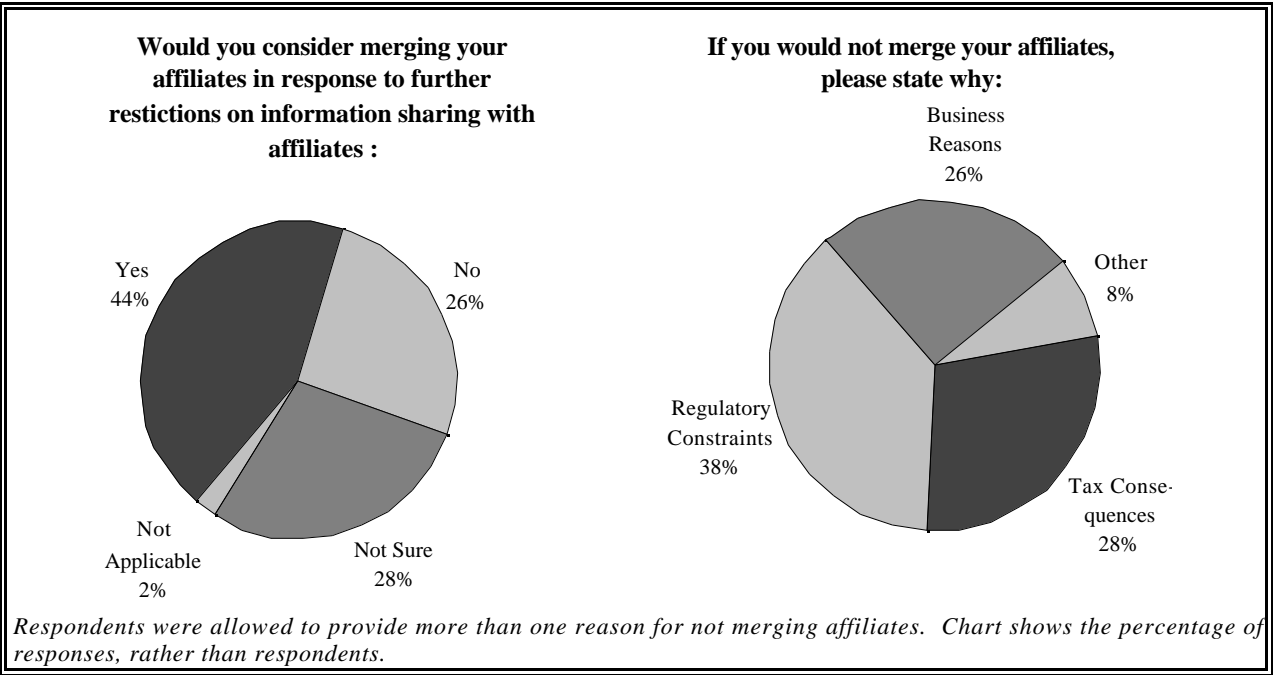
Given its emphasis on information sharing with other affiliates, GLBA places a greater burden on companies that are structured with many affiliates. A company with a large number of affiliates will face a high compliance burden, while another company of identical size and business mix will face a much lower burden, simply because it had no affiliates. This distortion imposes significant costs on some companies in a competitive industry. The large variance in the number of affiliates illustrates this redistributive impact (companies responding to the survey ranged from having four affiliates to several thousand affiliates.)

The number of affiliates in an organization is not arbitrary. Often, financial services companies have more affiliates because of past and/or current regulatory environments. In other cases, business considerations may influence the decision to have more affiliates. For instance, a

number of banks pointed out that their business strategy has been to have many affiliates with a large degree of autonomy. This decentralized structure allowed relatively large organizations to compete with smaller banks, by replicating a community bank feeling.

As shown in Exhibit 13, some institutions may be able to merge affiliates, while others cannot because of regulatory constraints, tax consequences, business or other reasons. While over 40 percent of companies said they would consider merging affiliates, over one-fourth of companies said that they would not consider merging to lower the burden of compliance. The most common reason (38 percent of responses) for not being able to merge affiliates is regulatory constraints.

Exhibit 13. Ability of Companies to Merge Affiliates Due to Information Sharing Restrictions



In Their Own Words: Merging Affiliates

"Insurers are highly regulated, and we would have to get regulatory approval to redomesticate many of our affiliates." – Insurance Company

"We operate a family of community banks, each with their own local name, CEO, and board. Merging affiliates destroys our uniqueness – we'd look like everybody else." – Retail Bank

"Merging our investment affiliate would subject the bank to additional SEC regulations." – Retail Bank

The information sharing restrictions of GLBA disadvantage some companies for factors that are usually unrelated to privacy and often beyond their control. It is hard to imagine that this "tilting of the playing field" was the legislative intent of Congress.

Running to Stand Still?

Public policy often raises questions of efficiency. For instance, does a tax system impose a high burden to collect taxes, relative to the revenue it raises? Does a community's implementation of its recycling plan spend significant energy in recycling materials, compared to producing those materials afresh?

The companies surveyed were asked whether GLBA has caused them to change their information sharing practices. While GLBA's privacy provisions are causing most companies to reassess their privacy policies, and to disclose their policies to customers, most companies responded that the Act had produced no significant change in the way they share information. Yet, as discussed above, these companies will have to spend hundreds of millions of dollars to comply with GLBA.

The Next Wave: Potential Future Legislation

GLBA does not pre-empt state legislative restrictions on information sharing by financial services companies. Already, some state legislatures are considering more stringent legislation. A possible component of future legislation is the move to an "opt-in," rather than an "opt-out," requirement for third party information sharing. Under an opt-in system, customer information would not be shared, unless customers explicitly opted-in to request that their information be shared. FSR members were asked to estimate the response rate under the current opt-out system, as well as under a hypothetical opt-in regime. While there was considerable variation in the responses, the majority of respondents indicated that the response rate under either system would be 10 percent or less.

This finding has significant consequences for financial services customers, since it suggests that response rates would be low if an opt-in system were adopted, and most customers would lose the information sharing benefits estimated in this report. With low response rates under an opt-in, companies may no longer provide many of the services detailed earlier, which would lead to the loss of benefits even for customers who want them. Further restrictions also raise other issues, such as the cost of implementation, which are beyond the scope of this study.

The loss of the information sharing benefits described in this report would increase the industry's costs and increase time lost by customers, to the detriment of the economy, consumers, and the financial services industry. For the FSR membership alone, customers stand to lose savings of up to \$17 billion and 320 million hours annually. Costs of this magnitude merit serious consideration before any additional restrictions are placed on information sharing by financial services companies.

APPENDIX I: METHODOLOGY

The benefits to customers from information sharing by financial services companies were estimated using publicly available data and a survey of the 90 member companies of The Financial Services Roundtable. This approach deliberately sought to survey the companies rather than the customers. Conversations with financial services experts indicated that customers are often not aware of the extent of information sharing required to provide the services they use. Customers often do not know they are dealing with different affiliates. Companies, on the other hand, typically know how much information they share, why they share it, and what they provide to customers because of information sharing. Thus, a customer using a call center to transact business may not be aware of the amount of information shared across affiliate lines to provide that service. The manager in charge of the call center, on the other hand, does know how many customers call the call center annually, how long the average call lasts, and should be able to reasonably estimate how much longer the average caller would spend if she had to call multiple phone numbers instead of one centralized phone number.

Interviews and Survey Design

To help develop a comprehensive survey instrument, E&Y conducted interviews with five members of The Financial Services Roundtable. The five organizations interviewed were diverse in terms of their geographical location, size, business mix and number of affiliates. These interviews typically lasted about four hours, and were designed to develop an understanding of the current information sharing practices of financial services providers, and to identify the main relevant issues and services. Companies were informed of the purpose of the interview, and were asked to provide access to employees representing different business practices who could contribute meaningfully to a discussion of information sharing practices and the benefits obtained by customers. Company representatives at these sessions included privacy officers, corporate counsels, representatives from call centers, online banking, information services, retail banking, and from affiliates such as mortgage banking, insurance, credit cards, and others.

The information obtained during these interviews helped to define the issues and design a survey of the FSR membership. A preliminary version of the survey instrument was pre-tested on three additional FSR members. The pre-test was used to refine the survey and to develop a better understanding of the types of questions respondents could likely answer, as well as a reasonable response time.

Survey Instrument

The survey questionnaire was divided into a number of sections asking for information about different services: Call Centers; Internet Based Services; Third Party Services; Relationship

Pricing; Proactive Offers; Pre-Filled Applications; Targeted Marketing; Co-Branded/Affinity Credit Cards and Fraud / Account Problems. Each of these sections asked questions about the number of customers who benefit from the sharing of information with third parties and/or affiliates to provide these services, and the time and money saved per customer because of information sharing.

In addition, there were sections asking for general financial information; benefits to specific customer groups; current information sharing practices; opt-out vs. opt-in; and responses to restrictions on information sharing.

The questions in the survey asked about the sharing of *nonpublic personal information*, and covered sharing with *affiliates* as well as with *nonaffiliated third parties*. For each of these terms, the definitions used were those provided in GLBA. Definitions were provided to respondents.

Companies were encouraged to respond to as many questions as possible, and to provide their best estimates using available information. In cases where estimates were unavailable, respondents were still encouraged to provide anecdotes or examples in the comments section. Respondents were asked not to use ranges, but to provide point estimates as far as possible.

Survey Response

The survey was sent to all 90 members of the FSR. The initial deadline for responding to the survey was two weeks. However, many companies indicated that they needed more time to collect the relevant data. As a result, the deadline was extended to give companies additional time to respond.

A number of rounds of follow-up calls were made to non-respondents, to find out why they had not responded, and to encourage them to respond. In cases where companies had questions about the survey, E&Y was made available to provide clarification.

Follow-up conversations were also conducted with respondents who had provided inconsistent or unusable responses (e.g., "many" or "few" instead of a number, number of households instead of customers, ranges instead of point estimates). As needed, data were modified to correct these inconsistencies.

Responses were received from 46 respondents. The 46 respondents accounted for about 64 percent of the membership's revenues.

Two companies did not return filled in survey questionnaires, and indicated that they were not responding because the survey did not apply to them. One company indicated that they have no retail customers, and thus do not share any nonpublic personal information obtained from retail customers. The other company indicated that they do not have any affiliates or relationships

with third parties, and that they consequently conduct no information sharing. These companies were treated as responses with no information sharing benefits. Including these two additional companies, the respondents' share of the membership's revenues was about 69 percent.

Estimation of Benefits

The first step of the estimation of benefits to customers from information sharing was to estimate the benefits to the companies who had responded to the survey. The data from survey respondents were examined for internal consistency.

Respondents were asked to distinguish in their responses between "not applicable" (indicating that a company does not provide a particular service and that the question therefore does not apply), "unavailable" (indicating that the issue does apply, but the respondent was unable to provide an estimate), and zero (indicating, for instance, that the issue does apply, but there are no benefits that customers obtain). In some cases, respondents misused these terms in their answers. The consistency checks identified such responses and made replacements as necessary. For instance, if a company responded with zeroes to all the questions in a particular section, the responses were replaced with "not applicable." On the other hand, if a company responded with a non-zero response to the question asking how many customers obtain a particular service annually (indicating that the issue is applicable), and then responded with a zero when asked for the average time savings, this response was treated as a zero.

Once the data had been checked for internal consistency, descriptive statistics were generated for the main analysis variables in the database. This included examination of the distribution of responses, means, medians, maxima, minima and coefficients of variance.

Based on this analysis, outliers were identified, and replaced with median responses instead. The replacement of outliers was only conducted for responses that reported benefits far *larger* than the rest of the respondents. Answers that reported unusually *low* benefits were not replaced with the median. This was done deliberately, to obtain an estimate that is conservative, and errs on the side of understating the total benefits to customers. The identification and replacement of outliers on questions asking for the number of customers benefiting from a particular service was done on the basis of the ratio of customers benefiting from the service relative to the total customer base of the company. For instance, an organization's response would be treated as an outlier if it reported that 100 percent of its customers call its call center every year, while most respondents indicated that between 0 and 30 percent of their customers call their call centers.

Questions on the estimated time and money saved per customer were treated differently. These questions in particular involved some degree of estimation by the respondents, whereas answers to other questions (e.g., asking for the number of customers using a particular service annually) were based on factual information. There was no evidence that companies with more customers were able to provide more meaningful estimates. Therefore, the preference was to not

overemphasize the responses of large companies on these questions. Consequently, for these questions, each company's response was replaced with the median response, unless the company's response was "not applicable." (The alternative methodology, using each company's response would have weighted each response by that company's number of customers, giving large companies' estimates greater emphasis.) In addition to outliers, responses of "unavailable" were replaced with median values.

After completing the validation and substitutions described above, the total benefits for the customers of the survey respondents were calculated for each individual issue area. This was done based on the data on the number of customers who benefit annually from that particular service, as well as the average time and/or money saved per customer from the service in question. These benefits were totaled to give the total benefits from information sharing for the customers of the survey respondents.

Benefits were not calculated in two issue areas: fraud and co-branded/affinity credit cards. In these cases, there was not enough data to make a reasonable estimate. In the case of fraud, for instance, only five responses provided estimates of the time and money saved from fraud reduction because of information sharing with third parties. The interviews with the five FSR members and the comments provided in the fraud section do indicate that there are significant customer benefits in this issue area. Given the level of consumer concern over this issue, we would welcome further research on this subject.

Extrapolation to FSR Membership

The estimated benefits to customers of the respondent companies were extrapolated to the FSR membership. The benefits were not extrapolated to the entire financial services industry. The members of The Financial Services Roundtable represent the largest financial institutions, and are not representative of the entire industry. In addition, the Roundtable's membership is more heavily weighted towards banks, with less representation from insurance and securities firms. The sample is representative of the FSR membership, however – the respondents represent over two-thirds of the membership's revenues, and are diverse in terms of size and geographic distribution.

The estimated benefits for the respondents were extrapolated to the FSR membership based on companies' revenues, since the number of customers of nonrespondents was unavailable. However, the data provided by respondents on the number of customers and total revenues exhibit a high degree of correlation (close to 80 percent). Consequently, revenues represent a good proxy for number of customers.

Data on revenues of FSR members were obtained from the Roundtable. For survey respondents, the revenues reported by respondents on the surveys were cross checked against the revenues provided by the FSR. The two sets of numbers matched up well. In cases where the numbers

differed, the respondents' reported revenues were used, unless investigation revealed that the respondent had provided an erroneous number.

The total revenues of the respondent companies represent 69 percent of the total (including the two companies who "responded" by indicating that they conduct no sharing of retail customer information with other legal entities). The respondent companies' total benefits were multiplied by 1.449 ($1 / 0.69$) to extrapolate the benefits of the respondents to all the FSR member companies.

The average benefits per "customer relationship" were also calculated. A customer relationship was defined as one individual's relationship with one financial institution, where the financial institution was the parent organization. This approach was used since each company reported the number of retail customers their organization had, and there was no way of determining which customers were counted multiple times because they had relationships with multiple respondents.

The benefits per customer relationship were then converted to the benefits per average household. This was done based on data indicating that the average U.S. household has customer relationships with six different financial organizations. (Kitchenman, 2000) This seems reasonable, given a household with multiple members, and relationships for banking, insurance, retirement accounts, other investments, and credit cards.

APPENDIX II: MEMBERS OF THE FINANCIAL SERVICES ROUNDTABLE

1	ABN-AMRO, Inc.
2	AEGON USA, Inc.
3	Allfirst Financial, Inc.
4	AMCORE Financial, Inc.
5	American General Financial Corporation
6	AmSouth Bancorporation
7	Associated Banc-Corp
8	Associates First Capital Corporation
9	BancorpSouth, Inc.
10	BancWest Corporation
11	Bank of America Corporation
12	Bank of Hawaii
13	Bank of Tokyo-Mitsubishi Trust Company
14	BANK ONE CORPORATION
15	BB&T Corporation
16	CCB Financial Corporation
17	Centura Banks, Inc.
18	Citigroup
19	Citizens Financial Group, Inc.
20	City National Corporation
21	Comerica Incorporated
22	Commerce Bancshares, Inc.
23	Compass Bancshares, Inc.
24	Credit Suisse First Boston
25	Cullen/Frost Bankers, Inc.
26	Deutsche Bank
27	Edward Jones Investments
28	F.N.B. Corporation
29	Fifth Third Bancorp
30	First Commonwealth Financial Corporation
31	First National of Nebraska
32	First Security Corporation
33	First Tennessee National Corporation
34	First Union Corporation
35	First Virginia Banks, Inc.
36	Firststar Corporation
37	FleetBoston Financial Corporation
38	Ford Motor Credit Co.
39	Fortis, Inc./Assurant Group
40	Fulton Financial Corporation
41	General Motors Acceptance Corporation
42	Goldman Sachs Group Inc.
43	Harris Bankcorp, Inc.
44	Hibernia Corporation
45	HSBC USA, Inc.
46	Hudson United Bancorp.
47	Huntington Bancshares Incorporated
48	IBJ Whitehall Financial Group
49	Jefferson-Pilot Corporation
50	KeyCorp
51	M&T Bank Corporation

52	Marshall & Ilsley Corporation
53	Mellon Financial Corporation
54	Mercantile Bankshares Corporation
55	Michigan National Corporation
56	National Bancorp of Alaska, Inc.
57	National City Bancorporation
58	National City Corporation
59	National Commerce Bancorporation
60	Nationwide Insurance Enterprise
61	North Fork Bancorporation, Inc.
62	Northern Trust Corporation
63	Old Kent Financial Corporation
64	Old National Bancorp
65	One Valley Bancorp, Inc.
66	Pacific Century Financial Corporation
67	Provident Bankshares Corporation
68	Provident Financial Group, Inc.
69	Raymond James Financial, Inc.
70	Regions Financial Corp.
71	ReliaStar Financial Corporation
72	Riggs National Corporation
73	Sky Financial Group
74	State Farm Mutual Automobile Insurance Co.
75	Summit Bancorp
76	SunTrust Banks, Inc.
77	Synovus Financial Corp.
78	TCF Financial Corporation
79	The Bank of New York Company, Inc.
80	The Chase Manhattan Corporation
81	The PNC Financial Services Group
82	U. S. Bancorp
83	U.S. Trust Corporation
84	United Bankshares, Inc.
85	USAA
86	Wachovia Corporation
87	Washington Mutual, Inc.
88	Wells Fargo & Company
89	Whitney Holding Corporation
90	Zions Bancorporation

Listing shows the 90 FSR members used for calculations in this report, and may differ from the current membership of the FSR.

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