Privacy concerns

Privacy in the financial marketplace is a burning issue, finds *Yelena Tsarenko* and *David Stewart*.

Personal information is currency for a financial institution. By assessing the level of a customer's risk, a financial institution forms a risk profile to make decisions such as whether or not to grant a loan and the conditions under which it will operate. However, many customers harbour deep concerns about privacy in general and financial privacy in particular.

This study was designed to measure both the level of consumer concern with personal information requested on loan applications and with the level of protection afforded by financial institutions.

THE DESIGN OF THE STUDY

The study was conducted in two stages. First, the range, depth and fine detail of information requested from banks, credit unions and mortgage originators on the application forms of 55 financial institutions were analysed.

This revealed inconsistencies that were then used in designing the second stage of the study. This involved a national phone survey to consumers who at some stage had applied for a credit card or mortgage. The survey questionnaire comprised three sections. The first measured the degree of consumer concern with disclosing personal information for the inconsistent items. The second included general questions on consumer privacy concerns. The third included demographic characteristics of respondents.

RESPONDENT PROFILE

The sample included 456 respondents across Australian metropolitan and rural areas. Sixty per cent of respondents were female and respondent age groups were quite evenly spread: 18 to 34 years (20 per cent), 35 to 44 years (26 per cent), 45 to 54 years (27 per cent), 55 years and over (26 per cent).

Respondents were also asked their main financial institution, and the results are in reasonable alignment with industry figures: CBA (25.6 per cent), ANZ (14.2 per cent), Westpac (14.2 per cent), NAB (13.5 per cent), St George (7.1 per cent) and Bendigo Bank (4.3 per cent), accounting for 78.9 per cent of the total. Respondents were nearly evenly split between mortgage holders (50.5 per cent) and credit card holders (49.5 per cent).

INCONSISTENCIES

While financial institutions offer loan instruments with similar features, there are many inconsistencies in personal information required. Where there is a definite need on the part of an institution to acquire such information, it is suggested that actions are taken to

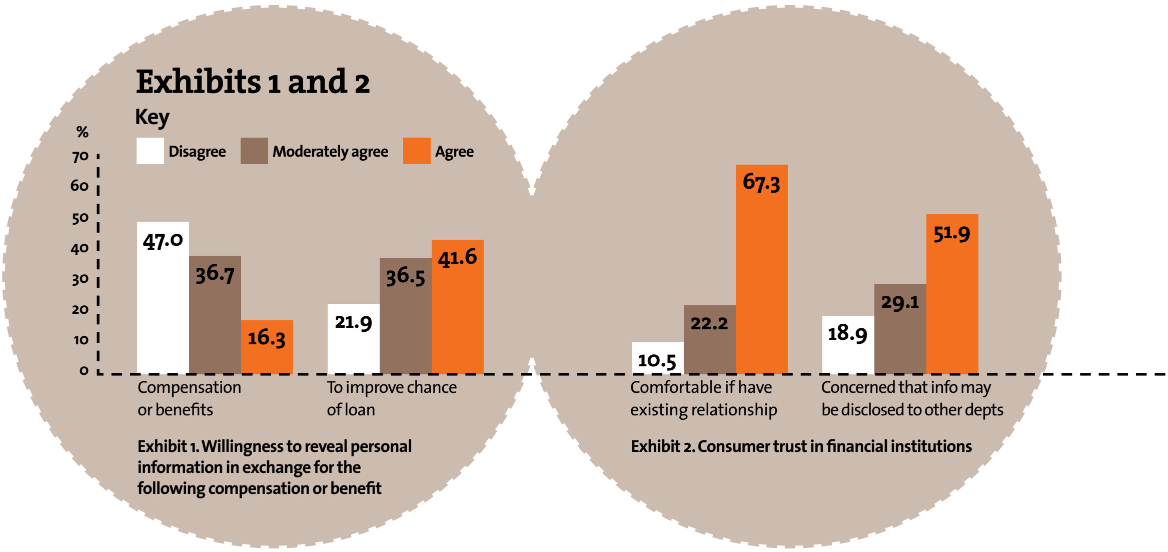

Exhibit 1. Willingness to reveal personal information in exchange for the following compensation or benefit

Exhibit 2. Consumer trust in financial institutions

ameliorate their impact on customer concerns with disclosure of personal information.

EXHIBITS

Willingness to disclose information for compensation (see Exhibit 1):
This study explored whether consumers would be willing to provide additional personal information if they were to receive some form of compensation, from two perspectives – unspecified compensation, and one that explicitly stated 'it would improve your chances of getting the loan'. Responses to these were diametrically opposed, as Exhibit 1 shows. In the main, people are reluctant to give private information for unspecified compensation, but are happy to do so if it would improve their chance of obtaining a loan.

The issue of trust (see Exhibit 2):
This study explores trust held by consumers in financial institutions with which they have an existing relationship. Over 67 per cent of respondents were comfortable with providing personal information when they have an established relationship. Older consumers were less comfortable than younger consumers.

This study measured the level of concern that personal information may be disclosed to other entities within the same financial institution: rural respondents show less concern than their metropolitan counterparts; mortgagees are more concerned than credit card holders and older consumers (65+ years) appear to be less concerned than 25–44-year-olds.

General questions about privacy (see Exhibit 3):
Respondents were asked their thoughts on the adequacy of current privacy legislation and whether privacy statements fully explain how personal information will be used, and if it's secure.

One-third felt privacy legislation is not adequate and the federal government is not making enough effort to protect Australian's privacy. More specific statements on security and information use reveal that over 40% of respondents are strongly concerned with the security of their personal information and also that privacy statements fail to fully explain how this information will be used.

IMPLICATIONS FOR MANAGEMENT

First, in designing loan applications, institutions need to consider the level of concern generated by personal information requests, both in terms of content and wording. This is in addition to the recognised requirement for non-disclosure of personal information to a third party.

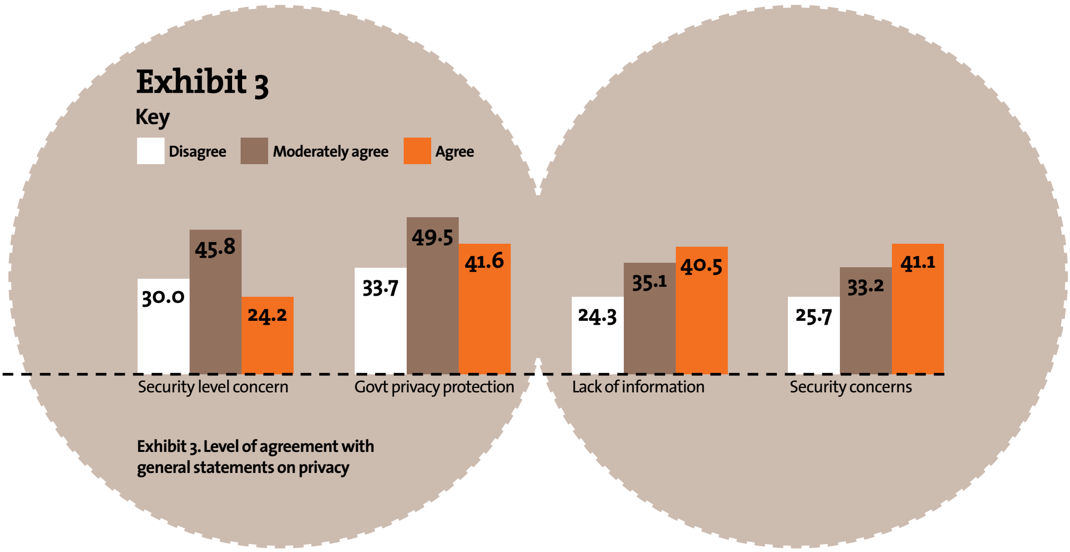

Exhibit 3. Level of agreement with general statements on privacy

Second, this study has identified a number of inconsistent items in loan applications. This lack of uniformity raises concerns as to the ultimate value of this information in assessing risk. If, however, an institution deems it necessary to request such information then they should consider providing applicants with supporting rationale.

Third, as an alternative response to these inconsistencies, financial institutions may seek to adopt a uniform code of required information, taking into account the interests of all concerned parties. This would ameliorate customer anxiety and privacy concerns. As a consequence, some institutions may adopt a privacy charter that positions them as being less invasive or showing a heightened sensitivity towards consumer privacy concerns. An alternative marketing strategy which may evolve is to offer compensation to loan applicants for the provision of information that may be perceived as sensitive or too personal. However, as this research indicates, the form of compensation must relate directly to the purpose of the loan.

Overall, these results suggest that the level of trust that consumers have for financial institutions is positive, especially for those that already have an existing relationship with the institution. However, a perceived lack of control over the internal use of personal information remains a concern.

Finally, assessing consumers' general perceptions on privacy has revealed on-going issues that can only be addressed by legislation. Specifically, there are concerns over security of personal information. In addition, more effort is required by institutional policymakers to fully explain how personal information will be used in their privacy statements.

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