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2008 Privacy Trust Study for Retail Banking[®]

Executive Summary

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2008 Privacy Trust Study for Retail Banking®

Executive Summary By Dr. Larry Ponemon, June 15, 2008

Privacy matters to retail banking customers. More than 69% of individuals participating in the sixth annual Privacy Trust Study for Retail Banking, (Study) strongly agree or agree that their primary banking institution is committed to protecting their personal information. Overall, privacy trust scores for all top 25 banks decreased slightly from 2007. However, those banks that experienced a significant data breach event saw a significant decline in their privacy trust scores.

For the first time, the Study also reveals the relationship between customers' trust and longevity in their banking relationship. Specifically, in 2008 the top five banks for privacy trust have an average longevity of 7.68 years (13% extrapolated churn rate) for their customers as opposed to 4.60 years (22% extrapolated churn rate) longevity for customers of the bottom five banks.

Conducted by Ponemon Institute and completed June 2008, the survey-based research asked consumers to indicate how secure and confident they feel when sharing their personal information with their primary institution. The Study included 6,404 adult-aged consumers representing all geographic regions within the United States.

In this report, we include data from our Privacy Trust Studies for Retail Banking conducted between 2004 and 2008 to track changes in consumers' perceptions about the importance of the privacy practices of their retail banks. What is evident is that trust has increased in importance in creating customer loyalty and brand strength in the U.S. Banking industry.

For example, in 2004 69% of respondents said that even among banks with the highest level of consumer trust, it would take only one or two data breaches to destroy that relationship. However, in 2007 and 2008, 82% report that they would churn after one or two breaches (please refer to data in Table 4). In other words, consumers increasingly expect their bank to have safeguards and procedures in place to protect them from identity theft, cyber crime and other abuses resulting from lost or stolen data. If consumers lose confidence that their bank is not taking appropriate measures to protect their data from a breach, they will churn.

Our research asked consumers the following questions about their bank's privacy commitments:

- The quality of privacy policy and notice disclosure
- Outreach activities for privacy and data security
- Online experience with special focus on privacy and data security
- Response (if any) to data breach incidents
- Perceptions about advertising, promotions and marketing
- Overall perceptions about the bank's services, quality and customer commitments

Our results show the factors that appear to build trust in the bank's privacy and data protection commitments are:

- The bank's overall service quality, especially experience with customer services.
- The bank's disclosure about its privacy and data security practices, especially when banking online.
- The bank's online identity and authentication procedures, when they are viewed as rigorous and difficult.
- Stated or implied commitment to stand behind the customer in the event of data theft or other related crimes resulting from lost or stolen data.
- The bank's advertising, promotion and customer outreach (was it viewed as respectful and did the customer have the opportunity to easily opt-out).

The factors that appear to erode trust in the bank's privacy commitments are.

- Data breaches – the notification of a data breach has the most negative impact on overall trust perceptions about the bank.
- Irrelevant or annoying advertising campaigns – including aggressive promotions for identity theft protection services, credit cards, home mortgages and other product offers that are mailed, emailed or telephoned.
- The bank’s aggressive use and sharing of their personal information, especially when the sharing involves an outsourcer in an off-shore location such as India
- Poorly staffed or automated customer services
- Rumors about the bank’s negligence or inability to protect customer information.

Survey

Drawing upon findings in earlier Ponemon Institute studies of the retail banks, the purpose of this research is to advance our understanding about how consumers feel when sharing personal information with those institutions they regularly bank with. As in prior privacy trust studies, respondents were asked to refer to the following definitions when framing responses to survey questions:

- Personal information – information about yourself and your family. This information includes name, address, telephone numbers, e-mail address, Social Security number, other personal identification numbers, access codes, age, gender, income, account activity and many other data about you.
- Privacy commitment – an obligation by the bank to keep your personal information safe and secure. This includes the commitment not to share your personal information without a just cause or without obtaining your consent to do so.

The survey instrument listed 25 major retail banking institutions in the United States selected according to approximate size. The survey also permitted respondents to write-in the name of a bank not listed on the survey form. Respondents were asked to indicate only one primary institution that they currently use for retail banking services, and then expressed their opinions on how secure and confident they are about this bank’s privacy commitment. Following is the adjective scale used by subjects to compile a PTS for US-based retail banking institutions listed within our survey instrument.¹

- Strongly agree that the bank is committed to protecting the privacy of my personal information.
- Agree that the bank is committed to protecting the privacy of my personal information.
- Unsure that the bank is committed to protecting the privacy of my personal information.
- Disagree that the bank is committed to protecting the privacy of my personal information.
- Strongly disagree that the bank is committed to protecting the privacy of my personal information.

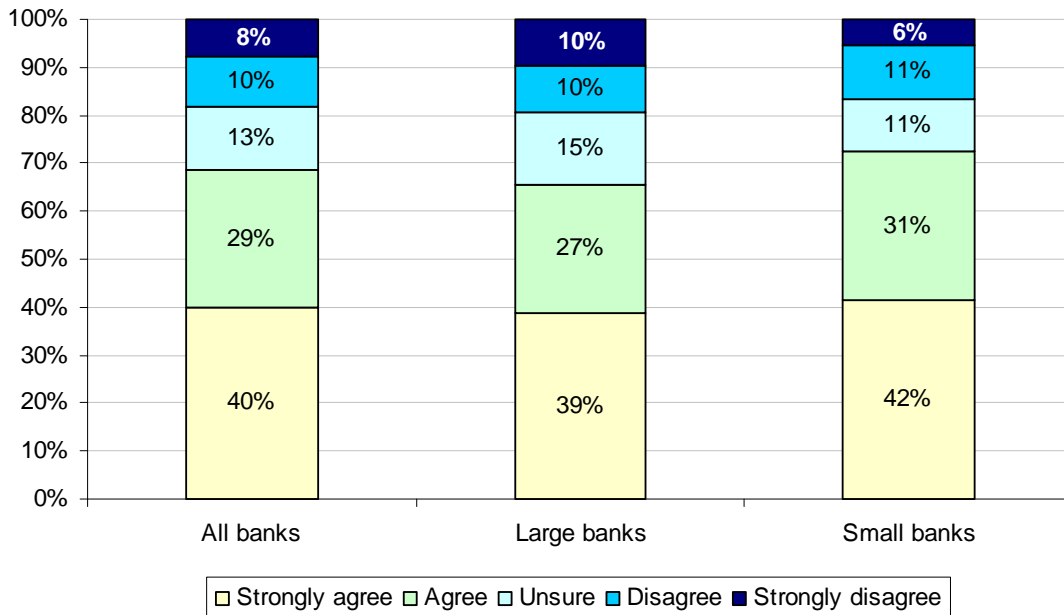
Bar Chart 1 summarizes the overall response distribution to the PTS variable used to compile an aggregated score for each banking institution rated by respondents. For sample analysis and segmentation, **large banks** are those listed in the top 25 based upon Federal Reserve statistics by deposit size.² **Small banks** are all other banking institutions rated by respondents that were not contained on the top 25 list. As shown, favorable responses conforming to Strongly Agree

¹The primary task required all respondents to provide an opinion about each bank that they currently use. Then respondents were required to choose the one organization that they view as their primary banking institution.

² See: Federal Reserve System, National Information Center.

(overall at 40%) and Agree (overall at 29%) represent the largest percentages for all banks, large banks and small banks. The bar chart also shows that small banks receive a slightly higher percentage of favorable responses than large banks.

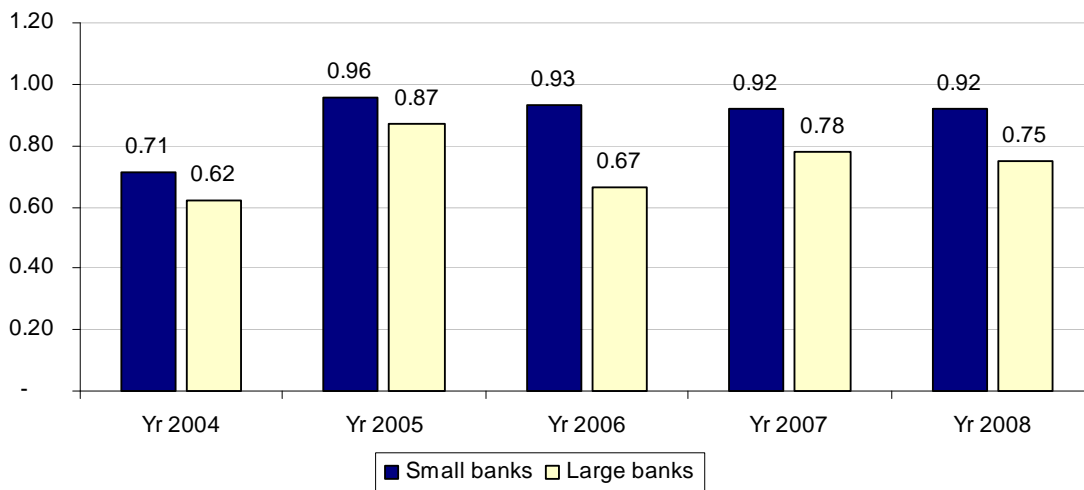
Bar Chart 1: Percentage of respondents' ratings to the following attribution:
I [strongly agree to strongly disagree] that my bank is committed to protecting personal information



The PTS for each bank utilizes a computational method that limits the score to a numerical value between ± 2 . A high PTS score suggests that customers view their bank as having superior privacy and data protection practices, and a low PTS score suggests the opposite.

Bar Chart 2 reports the average PTS for both small and large sized banks over the past five years.

Bar Chart 2: Average privacy trust scores for small and large banks over five years



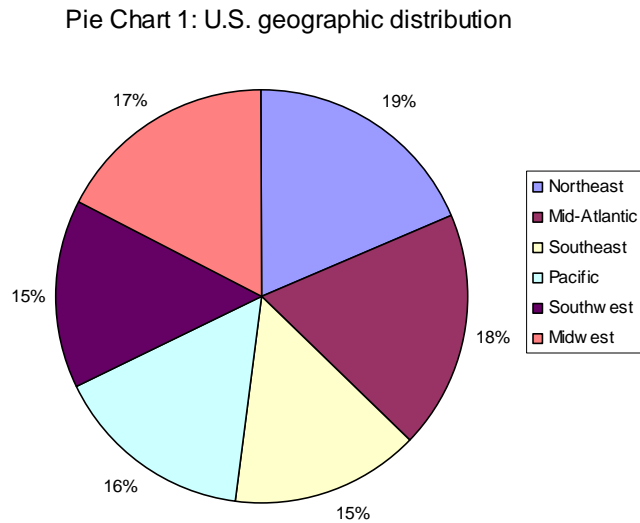
The pattern of average PTS results over the past five years shows that small banks consistently achieve higher privacy trust scores than large banks. In 2008, the average PTS for small banks is .92, while the average for large banks is .75. In addition to privacy trust score, our survey instrument 24 additional questions. Survey items were used in prior banking studies, thus allowing us to track results over time. These questions required subjects to respond to questions about the privacy and data protection practices of their primary banking institution.

Sample

Table 1a reports the response statistics and Table 1b reports the geographic distribution across major US regions. This year’s response rate is over 6%. Pie Chart 1 reports the distribution of respondents. All major geographic regions of the nation are represented and respondents in 43 states are included.

| Sample Characteristics | Total | Pct% |
|------------------------|--------|---------|
| Sample frame | 96,775 | 100.00% |
| Total responses | 6,907 | 7.14% |
| Total rejections | 503 | 0.52% |
| Final sample | 6,404 | 6.62% |

| US Regions | Sample | Pct% |
|--------------|--------|------|
| Northeast | 1,193 | 19% |
| Mid-Atlantic | 1,182 | 18% |
| Southeast | 955 | 15% |
| Pacific | 1,009 | 16% |
| Southwest | 950 | 15% |
| Midwest | 1,115 | 17% |
| Total | 6,404 | 100% |



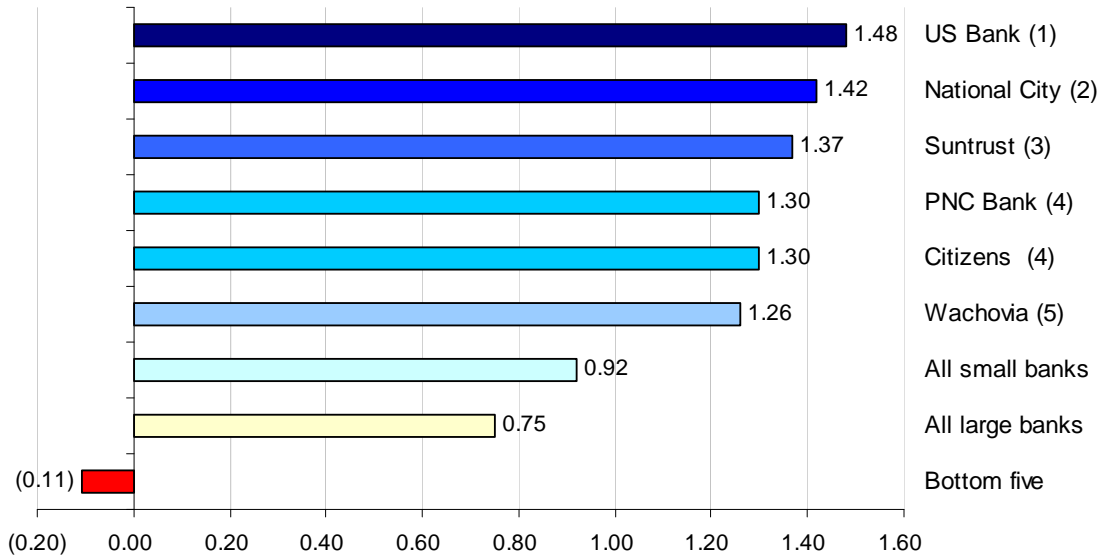
The largest percentage of respondents is located in the northeast. The smallest percentage is in the southwest region. Our sample frame of 96,775 consumers was composed of adult-aged individuals (18 years and above) who reside in the United States.³ Our sampling method used both Web and telephone surveys.

In total, 6,907 responses were collected. 503 responses were rejected because of pre-determined reliability tests or other completion errors. The resulting final sample used in the survey was 6,404 respondents.

The retail banks achieving the highest Privacy Trust Scores in our 2008 study are listed in ascending order in Bar Chart 3. The number next to each bar is the compiled PTS score for the bank. As mentioned, the PTS score is a surrogate for how customers view their bank’s privacy and data protection practices.

³The sample frame was built from purchased sample panels that were designed to be statistically representative of the U.S. adult aged population in terms of gender, age, household income and education based on U.S. Census data.

Bar Chart 3: Privacy trust scores for the top five institutions and averages for all small banks, large banks and bottom five institutions. Bracketed number is the 2008 ranking for the top five banks.



This year's study shows that U.S. Bank earns first place and National City earns second place. Suntrust earns third place. Both PNC and Citizens are tied for fourth place. Wachovia earns fifth place. The average PTS score for all top 25 (large) banks listed in our survey instrument is .75 and the negative PTS score of -.11 representing the average score for the bottom five banks in this year's study.

Table 2 provides the historic summary of privacy trust score ratings over past five years.

| Table 2 Historic summary | Years in Top Five | 2008 PTS Score | 2007 PTS Score | 2006 PTS Score | 2005 PTS Score | 2004 PTS Score |
|-----------------------------|-------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| U.S. Bank | 5 | 1.48 | 1.42 | 1.34 | 1.42 | 1.30 |
| National City | 5 | 1.42 | 1.30 | 1.34 | 1.67 | 1.26 |
| PNC Bank | 4 | 1.30 | 1.28 | 1.14 | 1.24 | NL |
| Wachovia | 4 | 1.26 | 1.30 | 1.23 | 1.24 | NL |
| Bank of America | 4 | NL | 1.38 | NL | 1.30 | 0.92 |
| Washington Mutual | 3 | NL | 1.24 | 1.21 | 1.39 | 1.37 |
| Fifth Third Bank | 2 | NL | N/L | 1.26 | NL | 1.10 |
| Suntrust | 1 | 1.37 | NL | NL | NL | NL |
| Citizens | 1 | 1.30 | NL | NL | NL | NL |
| Chase | 1 | NL | 1.24 | NL | NL | NL |
| Small banks | NA | 0.92 | 0.92 | 0.93 | 0.96 | 0.71 |
| Large banks | NA | 0.75 | 0.78 | 0.67 | 0.87 | 0.62 |
| Bottom Five | NA | (0.11) | (0.10) | 0.07 | 0.20 | 0.08 |

As shown in Table 2, only U.S. Bank and National City have been ranked as most trusted bank for privacy since the inception of this research series. PNC, Wachovia and Bank of America have been ranked among the top five for four of the past five years. New entrants to the top five most trusted banks for privacy include Suntrust and Citizens.

Notable survey responses

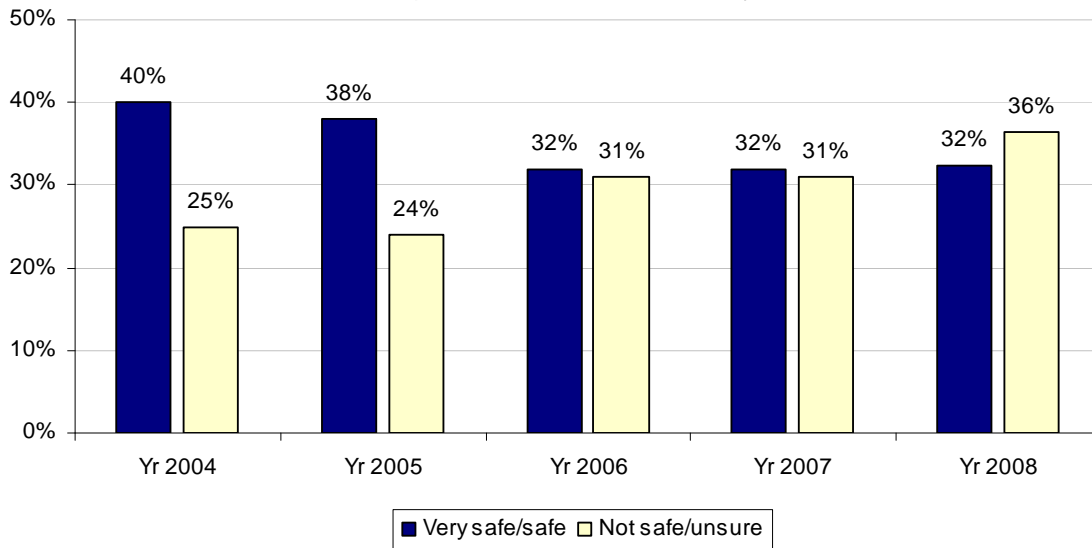
Following are the percentage frequencies of a subset of survey items. Please note we compare this year's responses to identical questions from our 2004, 2005, 2006 and 2007 studies.

Q. How safe is your bank in making sure your personal information is secure, such as account data, credit card numbers, access codes, Social Security number and so forth?

| Table 3 How safe is your bank in making sure your personal information is secure, such as account data, credit card numbers, access codes, Social Security number and so forth? | Yr 2004 | Yr 2005 | Yr 2006 | Yr 2007 | Yr 2008 |
|--|---------|---------|---------|---------|---------|
| Very safe | 15% | 13% | 12% | 12% | 12% |
| Safe | 25% | 25% | 20% | 20% | 20% |
| Moderately safe | 36% | 37% | 37% | 37% | 31% |
| Not safe | 11% | 11% | 16% | 16% | 18% |
| Unsure | 14% | 13% | 15% | 15% | 18% |
| Total | 100% | 100% | 100% | 100% | 100% |

Bar Chart4 contrasts positive (the percent of respondents who chose very safe or safe) and negative (the percent of respondents who chose not safe or unsure) perceptions over five years. In 2008, negative perceptions (at 36%) are higher than positive perceptions (at 32%) for the first time. In other words, respondents appear to have increasing concerns about the safety of their personal information held by banking institutions.

Bar Chart 4: How safe is your bank in making sure personal information is secure?
 Percentages show the combined very safe & safe response and the not safe & unsure response. Results shown for five years.



Q. If your bank had a privacy breach that resulted in the leakage of your personal information to unauthorized people or companies, do you believe it would let you know about the incident?

As shown in Table 3, there appears to be a consistent pattern of responses over the past five years. That is, a majority of respondents believe their banking institution would notify them in the

event their personal data was either lost or stolen. It is interesting to note that this year's Yes response is 71%, which is 8% lower than the 2007 result.

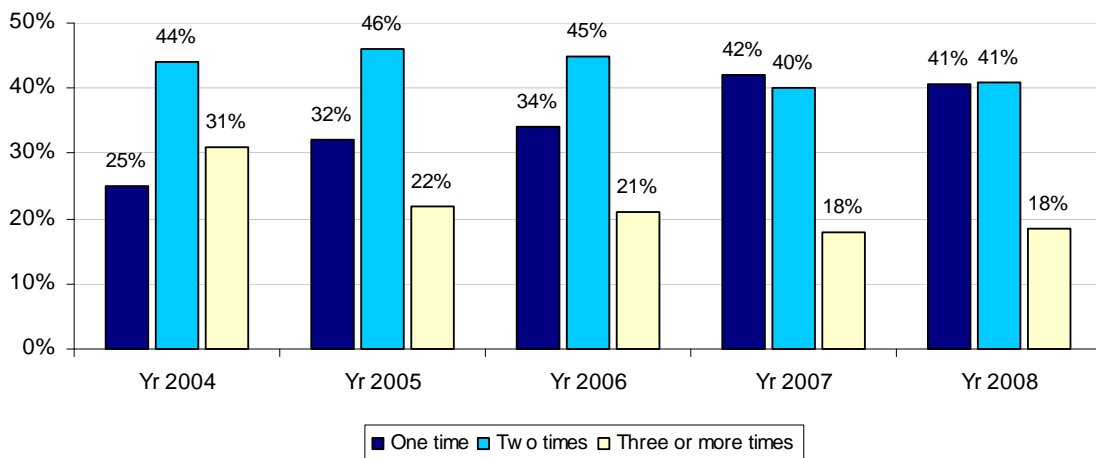
| Table 3 If your bank had a privacy breach that resulted in the loss or theft of your personal information, do you believe it would let you know about the incident? | Yr 2004 | Yr 2005 | Yr 2006 | Yr 2007 | Yr 2008 |
|--|---------|---------|---------|---------|---------|
| Yes | 70% | 69% | 68% | 79% | 71% |
| No | 18% | 17% | 18% | 15% | 19% |
| Unsure | 12% | 14% | 14% | 6% | 10% |
| Totals | 100% | 100% | 100% | 100% | 100% |

Q. How many notices of a privacy breach would it take before you lost confidence in your bank's ability to keep your personal information secure?

| Table 4 How many notices of a data breach would it take before you lost confidence in your bank's ability to keep your personal information secure? | Yr 2004 | Yr 2005 | Yr 2006 | Yr 2007 | Yr 2008 |
|--|---------|---------|---------|---------|---------|
| One time | 25% | 32% | 34% | 42% | 41% |
| Two times | 44% | 46% | 45% | 40% | 41% |
| Three times | 15% | 12% | 12% | 11% | 9% |
| Four times | 11% | 6% | 6% | 5% | 8% |
| More than four | 5% | 4% | 3% | 2% | 2% |
| Totals | 100% | 100% | 100% | 100% | 100% |

Bar Chart 5 shows a consistent pattern of data collected in all five years of study. The majority of respondents (over 82%) will lose confidence if their bank had two or more data breaches involving the loss or theft of their personal information.

Bar Chart 5: How many notices of a data breach would it take before you lost confidence in your bank's ability to keep your personal information secure? Results shown for five years.



Q. Would you transfer your account to another bank if you did not have confidence in its ability to adequately secure your personal information?

The findings in Table 5 show that 85% of respondents say they would transfer their business to another financial institution if they lost confidence in their bank's ability to protect their personal information. This suggests that trust is inextricably linked to the bank's ability to protect the personal information of banking customers.

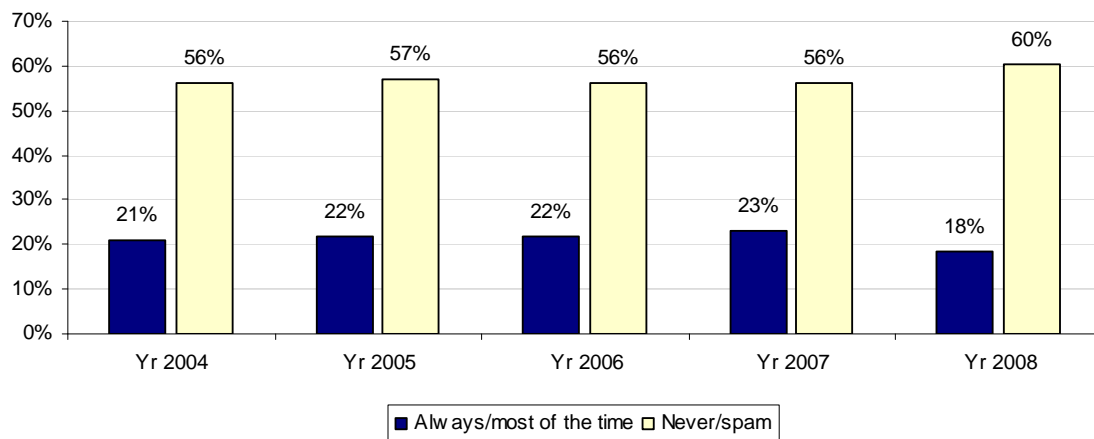
| Table 5 Would you transfer your account to another bank if you <u>did not</u> have confidence in its ability to adequately protect and secure your personal information? | Yr 2004 | Yr 2005 | Yr 2006 | Yr 2007 | Yr 2008 |
|---|---------|---------|---------|---------|---------|
| Yes | 59% | 67% | 68% | 79% | 85% |
| No | 20% | 15% | 15% | 18% | 11% |
| Unsure | 21% | 18% | 17% | 3% | 4% |
| Totals | 100% | 100% | 100% | 100% | 100% |

Q. The bank's marketing communication to you is (check one that best applies)?

| Table 6 The bank's marketing communication to you is relevant (check <u>one</u> that best applies)? | Yr 2004 | Yr 2005 | Yr 2006 | Yr 2007 | Yr 2008 |
|--|---------|---------|---------|---------|---------|
| Always | 6% | 6% | 6% | 7% | 7% |
| Most of the Time | 15% | 16% | 16% | 16% | 12% |
| On Occasion | 17% | 17% | 16% | 16% | 16% |
| Almost Never | 35% | 34% | 34% | 34% | 33% |
| Spam | 21% | 23% | 22% | 22% | 28% |
| Unsure | 5% | 5% | 5% | 6% | 5% |
| Totals | 100% | 100% | 100% | 101% | 100% |

Bar Chart 6 shows that the vast majority of respondents view the marketing communications from their primary financial institution as rarely important or valuable information.

Bar Chart 6: How relevant is the bank's marketing communications to you?
 Percentages show the combined *always* & *most of the time* and *never* & *spam* responses over five years

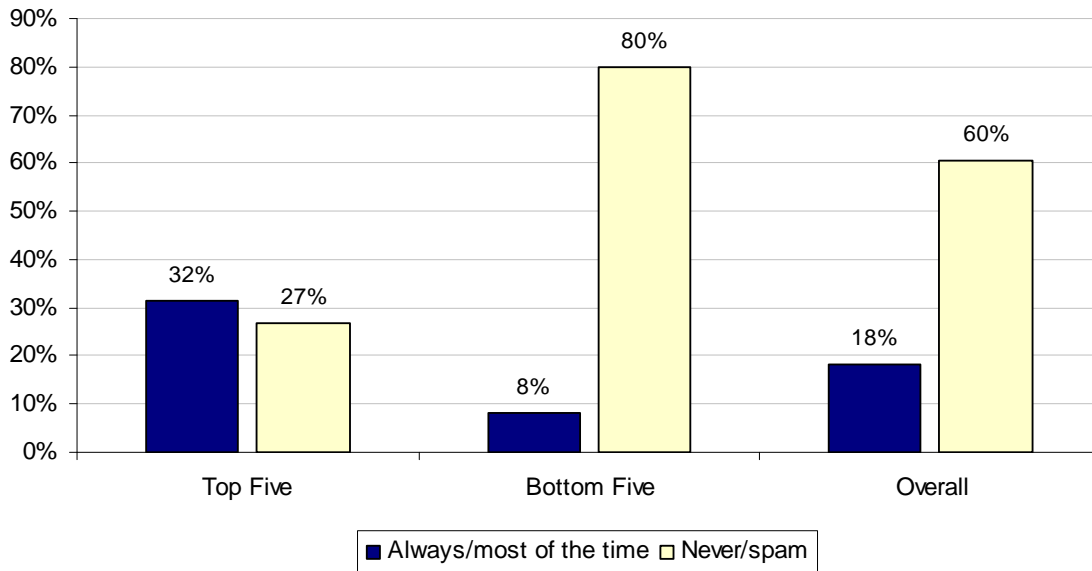


As shown in Table 7, there are significant differences in the perceptions of respondents based on privacy trust scores to the relevance of marketing communications. This result provides strong evidence that companies with a higher PTS are more likely to render marketing communications that are useful or relevant than companies with a lower PTS.

| Table 7 The bank's marketing communication to you is relevant (check one that best applies)? | Top Five | Bottom Five | Overall |
|---|----------|-------------|---------|
| Always | 10% | 3% | 7% |
| Most of the Time | 22% | 5% | 12% |
| On Occasion | 34% | 9% | 16% |
| Almost Never | 19% | 39% | 33% |
| Spam | 8% | 41% | 28% |
| Unsure | 8% | 3% | 5% |
| Totals | 100% | 100% | 100% |

Bar Chart 7 also demonstrates the relationship between marketing communications' relevance and PTS. As shown, respondents who bank with top five institutions are much more likely to perceive their bank's marketing communications as relevant to them.

Bar Chart 7: How relevant is the bank's marketing communications to you?
Percentages show the combined *always & most of the time* and *never & spam* for top five, bottom five and overall results from the 2008 study.



Additional analysis of respondents revealed that the following areas of aggressive marketing communications were most likely to reduce respondents' privacy trust scores.

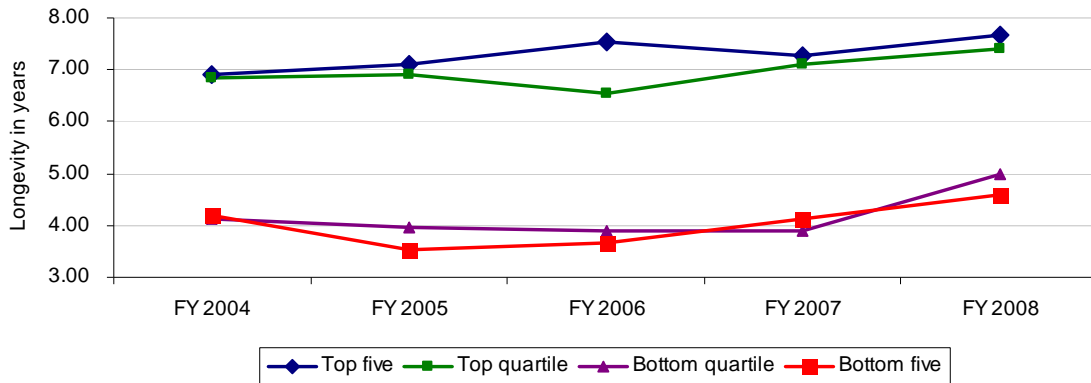
- Identity theft protection services (most negative marketing message)
- Credit or debit card offers
- Mortgage refinancing offers
- Other non-banking services

Privacy trust and churn rates

Table 8 reports the mean longevity reported by respondents. As shown, there appears to be a systemic relationship between longevity and privacy trust scores – that is, banks that are most trusted (top five) have much higher customer longevity than banks that are least trusted (bottom five banks). The results of Table 8 are reported in Line Graph 1 for banks in the top five, top quartile, bottom quartile and bottom five. It is clear from this figure that top performing banking institutions are more likely to retain customers than banks with lower PTS results.

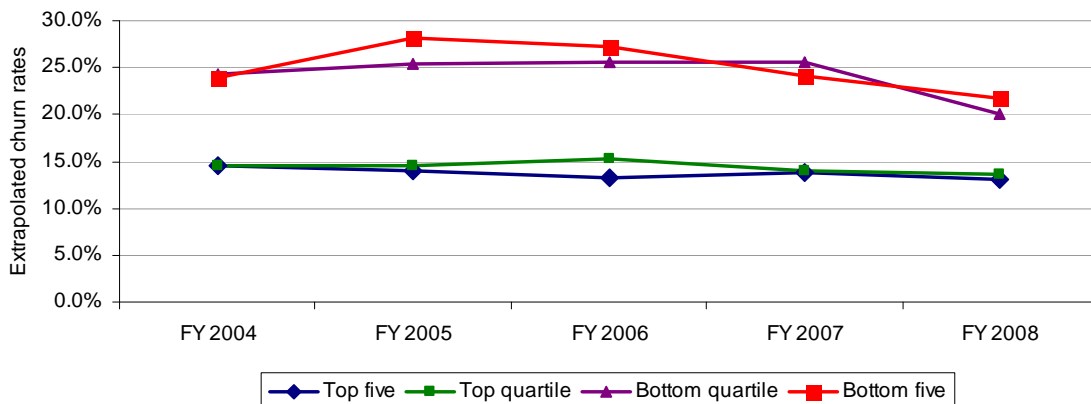
| Table 8 Average longevity (mean results) | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---------|---------|---------|---------|---------|
| Top five | 6.92 | 7.11 | 7.52 | 7.28 | 7.68 |
| Top quartile | 6.85 | 6.91 | 6.54 | 7.12 | 7.39 |
| Bottom quartile | 4.13 | 3.95 | 3.91 | 3.91 | 4.98 |
| Bottom five | 4.19 | 3.54 | 3.66 | 4.14 | 4.60 |

Line Graph 1: Average longevity (mean result) over five years
Q: How long have you been a customer of your primary financial institution?



Line Graph 2 reports the above results as an extrapolated churn rate. The calculation used is $1/\{\text{average longevity}\}$. Here, it is clear that banks that are most trusted for privacy appear to achieve a lower churn or turnover ratio than banks that are least trusted for privacy.

Line Graph 2: Extrapolated annual churn rate
Probability of churn per annum = $\{1/(\text{average longevity})\}$



Please note that while there are significant differences between the most and least trusted retail banks in terms of customer longevity and churn rates, we fully acknowledge that reasons other than the bank's privacy practices are likely affect this relationship. Such factors may include customer experience, media coverage, promotions and product quality.

A full research report can be obtained by contacting Ponemon Institute at the address below. If you have questions or comments about this research report or you would like to obtain additional copies of the document (including permission to quote from or reuse this report), please contact by letter, phone call or email:

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