IN BRIEF

Defending Your Financial Privacy: The Benefits and Limits of Self-Help

Introduction and Purpose

This *In Brief* summarizes the findings of the AARP Public Policy Institute Issue Paper, *Defending Your Financial Privacy: The Benefits and Limits of Self-Help*, by Professor Robert N. Mayer of the University of Utah.[1] Today's consumers face a significant challenge in navigating an increasingly complex marketplace and obtaining financial security. An important aspect of this financial management challenge is safeguarding their personal financial information from unauthorized access and theft. Threats to financial privacy have multiplied in recent years, both in terms of their frequency and seriousness. In 2005 alone, over 100 incidents of security breaches involving sensitive personal information exposed some 56 million consumers to potential identity theft. Given this situation and the continuing shift of responsibility for financial management and decision-making from employers and other institutions to individual consumers, how are consumers coping in this environment of fear and insecurity?

This Issue Paper investigates the state of consumer self-protection with respect to financial privacy. After assessing the advice being directed at consumers by government agencies, privacy activists, journalists, and businesses, the report summarizes and adds to survey research findings on the actions people are taking – and not taking – to defend their financial privacy. These actions by consumers establish the context for government policy and business initiatives in the area of financial privacy because the success of all three--consumer actions, government policy, and business initiatives--are interdependent.

Three empirical studies were conducted as a part of this report. The first of these is a content analysis of advice being offered to consumers on how to guard their financial privacy. The advice comes from thirty-two sources representing government agencies, nonprofit organizations, financial journalists, and for-profit companies. The second study is a small-scale effort to gauge the ease or difficulty of obtaining free access to one's credit report. The ability to obtain these reports was guaranteed by the Fair and Accurate Credit Transactions Act of 2003. The study is based on the experience of 77 people in a western state who tried to access their reports during the spring of 2005. The third study conducted for this report is a telephone survey of a nationally representative sample of 1,010 people age eighteen and older. The survey asks respondents whether they have engaged in a range of privacy self-protection activities. The data were collected between November 3 and November 7, 2004.

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Principal Findings

People vary in their desire for financial privacy, but large percentages of consumers have adopted new behaviors to guard their financial privacy. For example, the national survey commissioned for this report found:

- 51% of respondents claim to "always" shred their financial documents,
- 59% have added or updated anti-spyware software,
- 42% check Web site privacy policies "always" or "most of the time" before providing personal information,
 and
- 61% check Web site security policies "always" or "most of the time" before paying online.

Most people perceive that they are currently working hard to protect their financial privacy. When asked to describe the amount of time and effort they devote to protecting their financial privacy, 60 percent of people describe the amount as "a lot" or "moderate."

Most people have chosen to take new sensible precautions rather than give up transacting with firms offline and online, but a significant minority of consumers are choosing to avoid such transactions rather than expose themselves to invasions of their financial privacy. The survey commissioned for this report found clear evidence of offline and online avoidance behavior. For example, 64% of respondents report having asked a company to take their name off mailing or phone lists, and of the two-thirds of the sample who had a computer with internet access at home, 32% had never purchased anything online.

Conclusions

Consumers are "doing their part" by heeding the advice offered by various experts on how to defend personal financial privacy. Their actions are going beyond costless verbal concern for their financial privacy and have incorporated new behaviors into both their online and offline routines. In a few short years, consumers have adopted new habits related to the way they receive, send, and discard mail; the way they access their financial accounts; and the way they operate their computers. They are now in the process of incorporating another new habit—reading their credit reports and correcting any misinformation they contain.

Privacy is not costless. More privacy can mean higher prices, less convenience, and greater threats to personal health and safety. The consumer is therefore in the best position to decide how much privacy he or she wants. It does not follow, however, that the task of achieving this desired level of privacy falls solely on the shoulders of consumers. Nor is privacy a matter of consumer vs. business vs. government responsibility. Businesses and governments have a strong stake in creating a climate in which consumers are not only knowledgeable about how to defend their financial privacy but also are motivated to engage in privacy self-protection. Consumers will not participate in a marketplace in which they do not have confidence that their private financial information will stay private. This climate is best achieved when businesses and governments offer consumers efficient methods of guarding their privacy. In the absence of high benefit-low cost methods, consumers may succumb to "privacy protection fatigue" and choose instead to avoid new and potentially beneficial financial services.