

RBC enhances shareholder value through better privacy relationships

By Alan Pedersen

LARGE ORGANISATIONS SEEKING TO GAIN consumer trust will have to go further than meeting minimum regulatory requirements, argues Peter Cullen, Corporate Privacy Officer at the Royal Bank of Canada.

“Privacy is a business opportunity as much as it is a business risk,” said Peter Cullen as he concluded his speech at PL&B’s Annual International Conference in July. Privacy, he argued, affects a company’s bottom line and its shareholder value.

Privacy-related concerns among the consumer sector have rocketed since e-commerce took off, so much so, that the analysts and number crunchers have been trying to work out just how much of an issue it is and put a figure on the cost to the corporate community.

There is now emerging evidence that privacy practices can make a real difference to a company’s profit margin. Forrester Research estimates that the US e-commerce industry could have generated an extra \$16 billion in revenue last year, but for consumer fears over how their personal information would be treated. Jupiter Media Metrix suggests that privacy and security concerns could result in a further loss of over \$25 billion in online sales by 2006.

Large organisations need to exploit personal data if they are to successfully develop and market products and services to their customers, said Cullen. But, in order to use that data, an organisation has to be able to reassure its customers that their information will be respected. In order to achieve this, he said, there is a need to go further than simple compliance with the law.

PRIVACY RISKS TO BUSINESS

The Royal Bank of Canada has important assets that need protecting. It currently has around 12 million clients across Canada and the US, 1.8 million of which conduct their business online – the area which has attracted the greatest deal of concern in terms of privacy. “In our organisation,” said Cullen, “83 per cent of our clients have told us they would leave us if they felt their information was being improperly used or was not being protected.” This, he said, has a “significant impact on shareholder value.” Concerns over privacy and security are not the only issues that impact online sales revenues, according to Cullen. But he stressed his belief that they are key issues, and a failure to deal with them represents a “missed opportunity” for organisations wanting to drive their business forward.

Cullen suggested that, to some extent, consumer concerns were more to do with their perception of privacy risks, rather than reality. Of the 83 per cent of ‘privacy conscientious’ customers threatening to take their business elsewhere, only a quarter had actually experienced an affront to their privacy. He also argued that the media has played its part in stirring up unrest among the general public. In some cases, he said, companies that hit the headlines did not necessarily do anything wrong, but their business was still affected by the adverse publicity.

BRAND IMAGE

Privacy now plays a role in how the brand image of a company is regarded by consumers. Research carried out by the Royal Bank of Canada showed that privacy sits about half way up the list of factors that influence customers’ perceptions of the company brand. The research also showed that privacy accounts for roughly seven per cent of the decision-making process when consumers decide to which financial institution they will bring their business. Cullen said that this figure may not seem very high, but taking into consideration the many factors involved in purchasing financial products, the very fact that privacy figures at all, shows the importance it plays.

There are a number of other environmental factors outside the control of a company that will influence consumers’ perception of privacy and security. They can include the privacy practices of other companies, the introduction of new or additional legislation, or the rise of cybercrime on the Internet.

BALANCING THE RISK

Acknowledging the importance of privacy and respecting the concerns of customers over the use of their information is something businesses cannot afford to ignore. But, Cullen warned a balance is needed between respecting privacy and exploiting personal informa-

tion for profitable advantage. Consumers will take their business elsewhere should they feel their information is being misused or mistreated, but businesses still need to collect personal data. They still need to analyse and process customers' information in order to serve them effectively and market new products to them. The challenge, said Cullen, lies in maximising the use of data while ensuring that clients are aware and happy with the ways in which their details are being put to use.

PRIVACY BARRIERS

The larger the organisation, the harder the task in seamlessly incorporating privacy into the structure of the business. An organisation, such as the Royal Bank of Canada, has a diverse range of products and services, delivered across a number of technological platforms. It also has to contend with a diverse portfolio of consumers, all with varying privacy preferences and demands.

Aligning all these aspects is a key challenge, according to Cullen. For example, his company has 55,000 online points of contact, all of which need to display the same privacy policy. Another factor, common to larger organisations, is the outsourcing of personal data to third party companies. According to Cullen, the Royal Bank of Canada uses over 1,000 service providers to support the bank. Its approach to this potential problem has been to go further than simply introducing contracts that set out the terms and conditions for handling customer data. "Every supplier has to undergo a self-assessment which describes how they are going to treat and protect our customers' information," he said. Any shortcomings from the assessment, he said, would have to be rectified before contracts were signed.

Marketing and sales are another key area in which many companies fall down. In order combat this potential risk, Cullen explained, each sales unit was required to carry out an assessment of its privacy practices and develop action plans to be approved and reviewed by the Corporate

Privacy Officer. These assessments, he explained, are a risk management tool to improve privacy from a sales perspective, rather than a regulatory audit with penalties for non-compliance. As a result, Cullen explained, privacy has now become part of the 'sales dialogue' for financial products and services. "We actually explain what information we collect, what we use it for, what value we think it brings to the client, and what options the client has."

COMMUNICATING WITH THE PUBLIC

So how did the Royal Bank of Canada go about reassuring its customers that their data would be safe, secure and used ethically? Cullen's solution was to proactively inform customers of how their data is used. One channel for informing and notifying customers is through its online privacy policies.

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Corporate privacy policies have come under fire from consumer groups who suggest they are too long and too complex for consumers to understand. Cullen said that the Royal Bank's policy went further than the simple basics of listing what data would be collected and for what purposes. For example, its privacy policy does not just mention that cookies are used on its website, but actually goes on to explain what cookies are, how they work, and how customers can go about disabling them.

Every piece of marketing that is sent out to a customer includes details

on how the recipient can opt-out. And, because consumers are more sensitive with regard to e-mail marketing, it ensures that its clients, existing or potential, have opted-in.

Last September, the Royal Bank started making privacy-enhancing software available to its clients. This goes above and beyond mere regulatory requirements, but it enhances the organisation's reputation and image, argued Cullen. Apparently, the scheme has been such a success that the Royal Bank is now in the process of rolling these products out to clients on a much broader level.

Overseeing all these ideas, and ensuring that they are efficiently incorporated across the organisation, is the Privacy Management Committee (PMC), a team of senior executives. The PMC is handed the task of looking at the opportunities that good privacy practice can bring, providing top-level support for privacy initiatives and managing ongoing compliance issues.

PROVIDING AN ADDITIONAL LAYER OF TRUST

Consumers trust banks with their money and they trust them to provide sound advice. But, said Cullen, it is still uncertain as to whether they trust banks with their personal information. If they did, he believes organisations would be able to generate greater value throughout the business. But getting customers to trust an organisation's privacy practices requires a concerted effort. "Simply saying to our customers that we meet the regulatory hurdle, whether it be in the US or Canada, just isn't good enough. It's a matter of thinking about what's really important to the customer."



*The Royal Bank of Canada's privacy policy can be found on the organisation's website at:
www.royalbank.com/privacy*
