

ACB Privacy Compliance Survey

America's Community Bankers conducted a survey of its membership to evaluate the costs and customer response relating to compliance with the Gramm-Leach-Bliley Act's (GLBA) privacy provisions. As of July 1 of this year, all depository institutions were required to create and distribute a statement to each customer that accurately reflects the institution's privacy policies and practices. GLBA also requires institutions to refrain from sharing nonpublic personal information with nonaffiliated third parties (except under limited circumstances) unless customers are provided with the ability to "opt-out" of such information sharing.

ACB's survey concludes that the costs to comply with the GLBA privacy provisions were significantly greater for community banks on both a per-customer and percentage of expenses basis. The survey indicates that when adjusted for size, the costs to comply with GLBA were inversely proportional to the size of the institution. In other words, the compliance burden on smaller community banks was significantly greater than that of larger banks. ACB's survey also observed that only a small fraction of those customers who were given the opportunity to opt-out actually elected to do so. Finally, institutions which reported receiving feedback from their customers found overwhelmingly that customers did not find the privacy statement provided useful information.

Survey Background:

During the month of October ACB sent the survey to each of our member institutions. We received 186 responses from institutions with total assets as small as \$10 million to several institutions with assets exceeding \$10 billion. These diverse institutions represent approximately \$400 billion in industry assets.

Cost of Compliance:

Overall, estimated compliance costs were approximately \$1.37 per customer, with total estimated compliance costs for individual institutions varying widely from as little as \$1,000, to more than \$2 million. The survey data revealed one constant: the burden of compliance with the GLBA privacy requirements was most significantly felt by smaller institutions. When comparing the amount institutions spent to comply with the privacy provisions of GLBA against their reported non-interest expenses (e.g., salaries, employee benefits, occupancy costs, etc.) the results are particularly striking. As a percentage of non-interest expenses, the smallest group (less than \$50 million) of institutions paid almost four times as much as the largest group in the survey (greater than \$10 billion). Whether the data are evaluated on a per customer basis, or on a percentage of dollars spent, smaller institutions paid more.

This is likely due to the amount of set costs all institutions incurred to comply with GLBA. Larger institutions with in-house legal and consulting staff were able to do most of the compliance work themselves, while many smaller institutions sought outside legal help and consultants in order to comply.

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Institution Type	% Reporting	Avg. Total Compliance Cost	Avg. Per Customer Cost	Privacy / Non-Interest Expenses Ratio
\$10b and above	3%	\$658,012	\$0.27	.1443%
\$1b - \$10b	11%	\$79,419	\$1.38	.2209%
\$500m - \$1b	11%	\$25,301	\$1.07	.2219%
\$100m - \$500m	46%	\$16,861	\$1.46	.3765%
\$50m - \$100m	17%	\$6,599	\$1.70	.3765%
<\$50m	12%	\$4,569	\$2.37	.5529%
Total	100%		\$1.37	

Information Sharing / Opt-Out:

The survey found that the great majority of institutions with less than \$1 billion in assets do not share customer information with non-affiliated third parties beyond the basic exceptions provided under GLBA. Approximately one of every two institutions with assets greater than \$1 billion shares information with non-affiliated third parties (subject to the opt-out provisions) to offer products and services they believe their customers would find of value. Of those institutions that offer their customers the choice to opt-out, the overwhelming majority (60%) report that less than 1% of their customers elected to opt-out. ACB believes that this reflects the trust consumers place in their financial institution.

Customer Response Rate / Opt-Out

Type	# Reporting	Offer Opt-Out	Customer Response Rate / Opt-Out					
			< 0.5%	.5 – 1%	1 – 5%	5 – 10%	10 – 20%	> 20%
> \$10b	6	4 (67%)	0	0	2	1	1	0
\$1b - \$10b	20	10 (50%)	1	3	5	1	0	0
\$500m - \$1b	20	5 (25%)	1	2	1	1	0	0
\$100m - \$500m	85	15 (18%)	9	1	2	2	1	0
\$50m - \$100m	32	6 (19%)	6	0	0	0	0	0
<\$50m	23	3 (13%)	2	0	0	0	0	1
Total	186	43 (23%)	19/44%	6/14%	10/23%	5/12%	2/5%	1/2%

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Customer Response:

Customer response to the privacy policies have been mixed. Of those institutions that reported receiving customer feedback, the majority indicated that their customers did not find the privacy policies useful. This may be due to the high degree of specificity required under the GLBA privacy regulations. About one third of the institutions reporting indicated they had not received any feedback from their customers.

Privacy Policy Customer Feedback

Response	% Reporting Feedback
Very Useful	3%
Somewhat Useful	40%
Not Useful	57%
No Customer Feedback	N/A

America's Community Bankers is a member driven national trade association representing community banks that pursue progressive, entrepreneurial and service-oriented strategies to benefit their customers and communities. To learn more about ACB, visit www.AmericasCommunityBankers.com.