

The business benefits of improved trust via the GDPR

UK Insurer GDPR and PCI Working Group, 29 November 2017



LE

London
Economics



Policy issues



Consumer valuation of GDPR rights



Open questions and challenges



Data protection policy objectives & business impacts

What is the role of trust in data disclosure?



“**Enhanced protection of personal data** is a benefit to individuals who are less likely to be victims of identify fraud and can have more confidence sharing their data online. This may also have a knock-on economic benefit if it leads to an **increase in the use of internet services**. The Regulation also gives individuals greater control over their personal data through measures such as 'the right to be forgotten', and data portability.”

Ministry of Justice (2012)

“**Only one fifth of the UK public have trust and confidence in companies and organisations** storing their personal information.”

ICO (2017)

“As personal information becomes the currency by which society does business, organisations need to start making people’s data protection rights a priority. Putting data protection at the centre of digital businesses strategies is the **key to improving trust and digital growth.**”

ICO (2017)

“The apparent **basis on which trust is given is necessarily various**, including, for instance, the other’s reputation, appearance, past performance, expert qualification or certification, as well as situational rule governance, availability of negative sanctions and so on”.

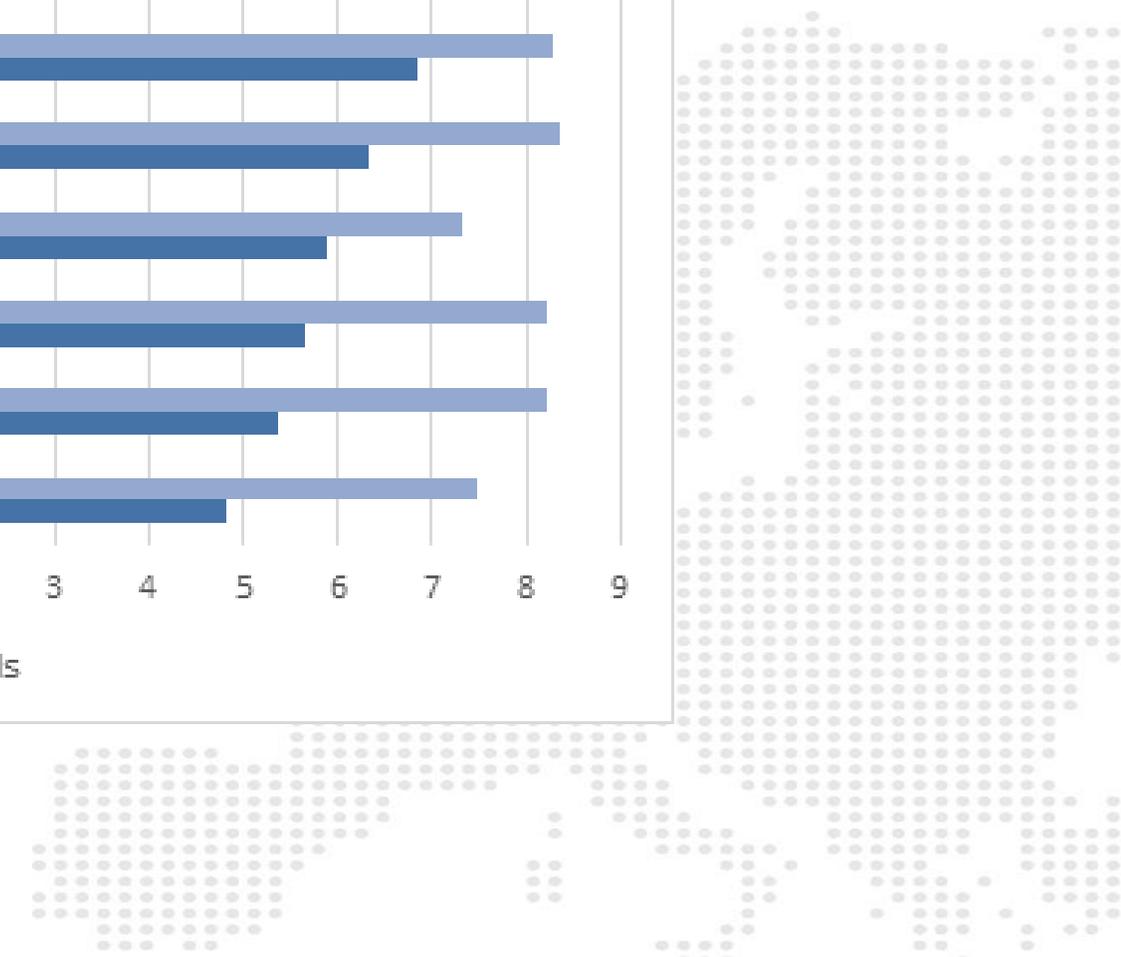
Luhman (1979, p. 34)

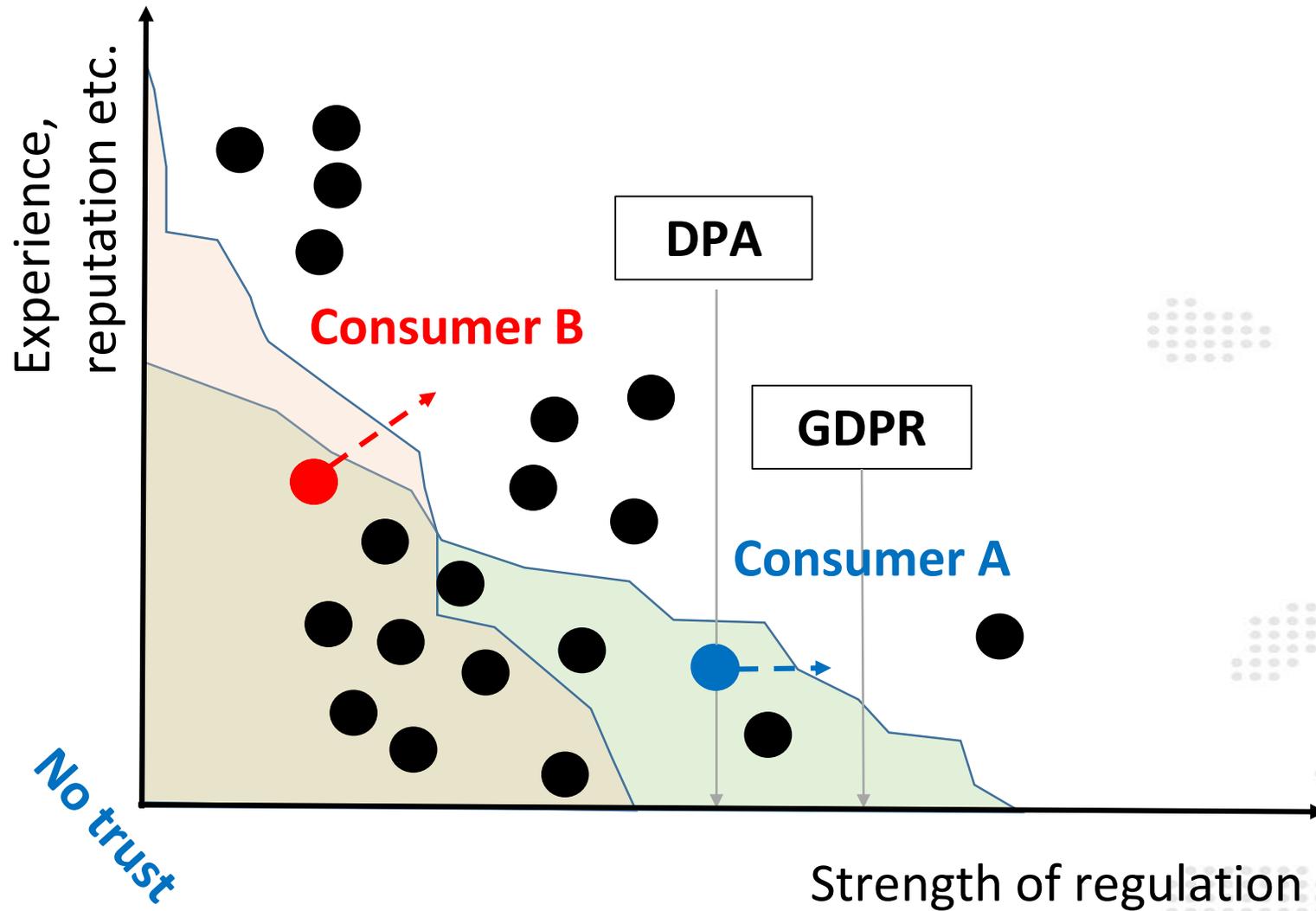
Trust is multidimensional

Factors in consumers' purchasing decision ranked by importance



LE survey (2017)





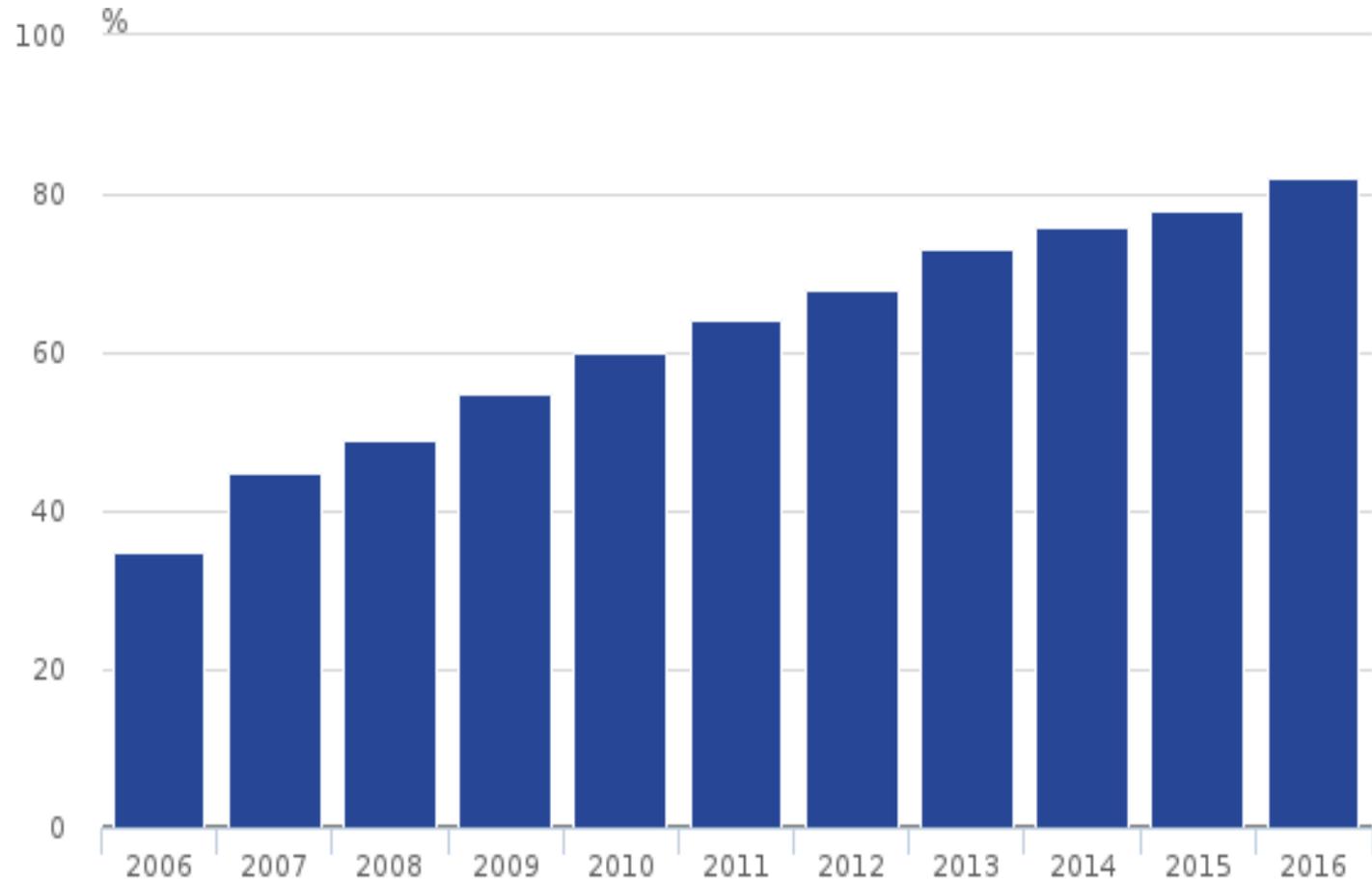
The **confidence boundary** demarcates the level of confidence necessary for transactions to take place

Confidence to engage in the online economy can come from the **strength of regulation** as well as from the consumers' **experience**, the **reputation** of the counterparty, etc.

Participation in digital markets is **pervasive and rising**

Little empirical evidence of a low trust environment

% of UK adults using the internet daily

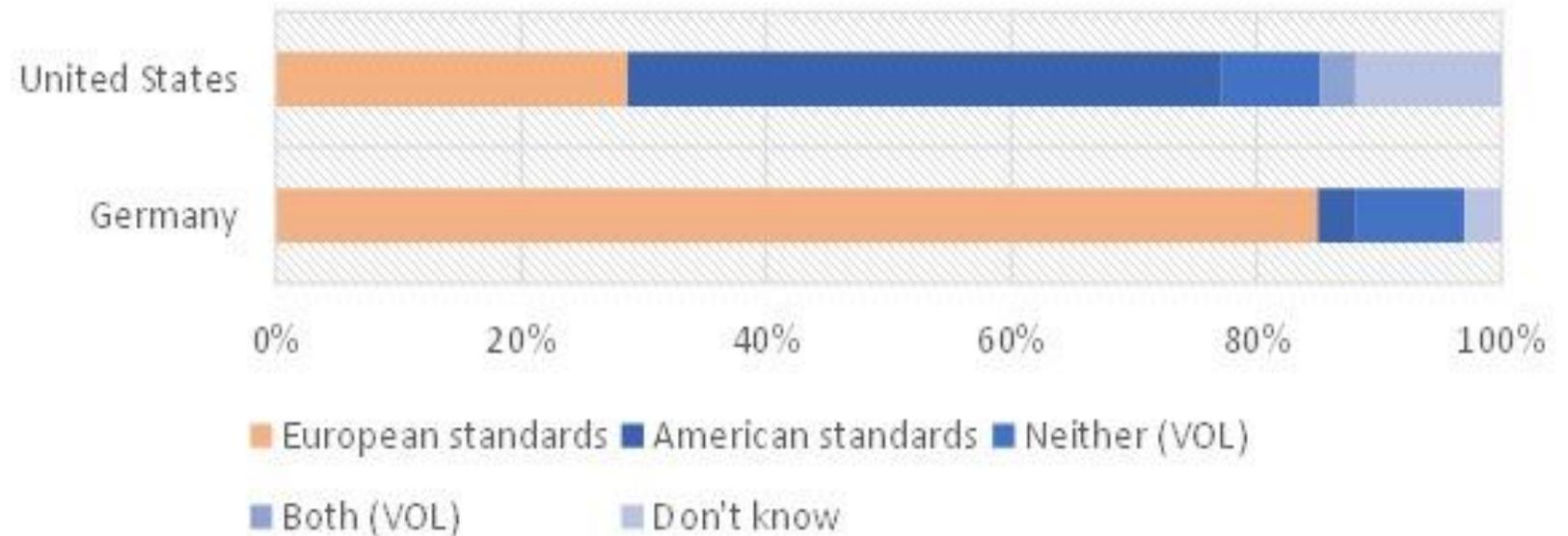


ONS (2016)

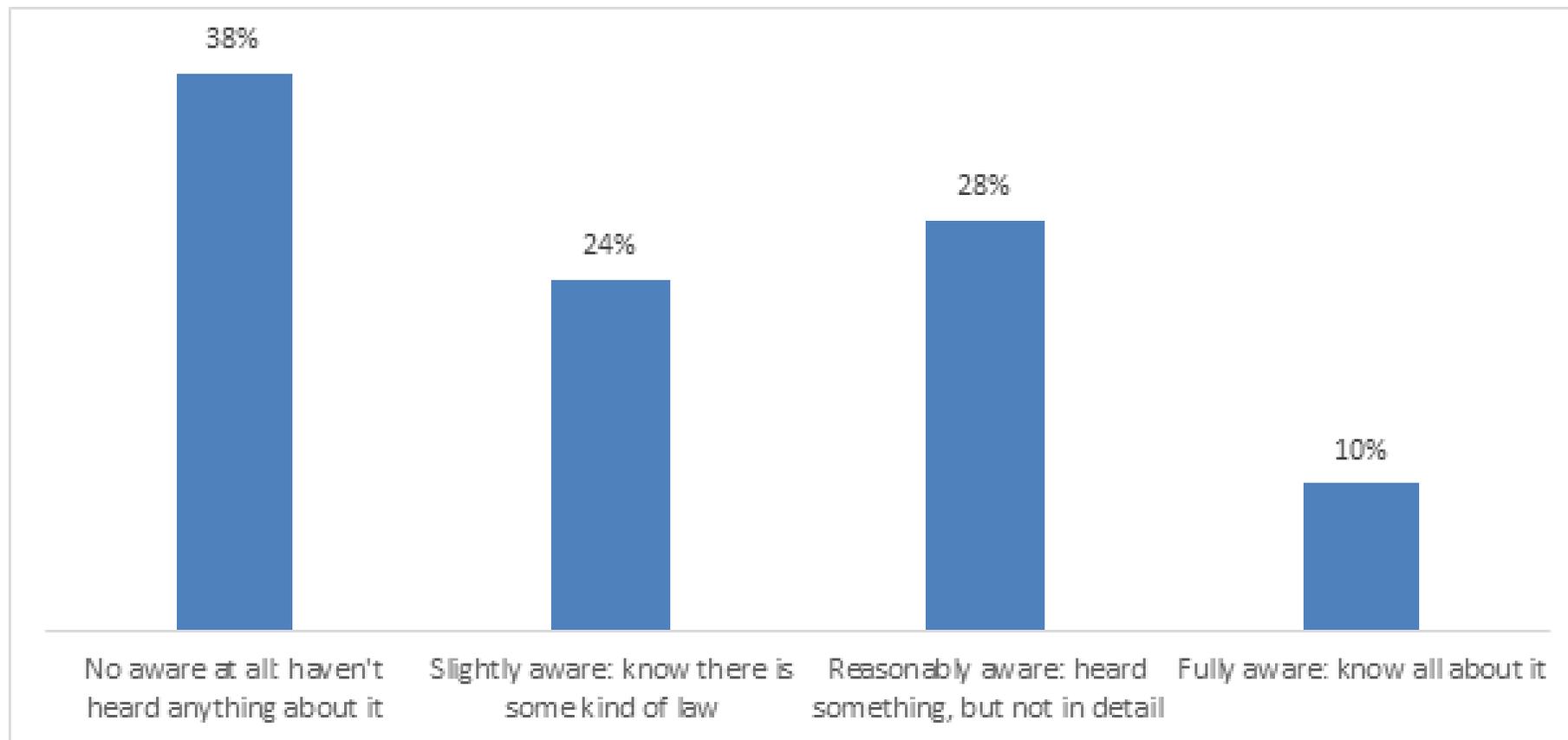
The US combines **lower trust** in the domestic data protection regime with a **higher level of digital development**

No evidence that the European digital economy suffers in comparison *because of* an insufficiently strong regulatory framework

"Now thinking about standards for products and services...In general, do you trust European standards or American standards more when it comes to data privacy?"



Consumer awareness of data protection law



Source: dataIQ (2017), Figure 1.2, p. 7

Trust & security concerns intersect

Figure 3.8: Types of information consumers are most concerned about providing online

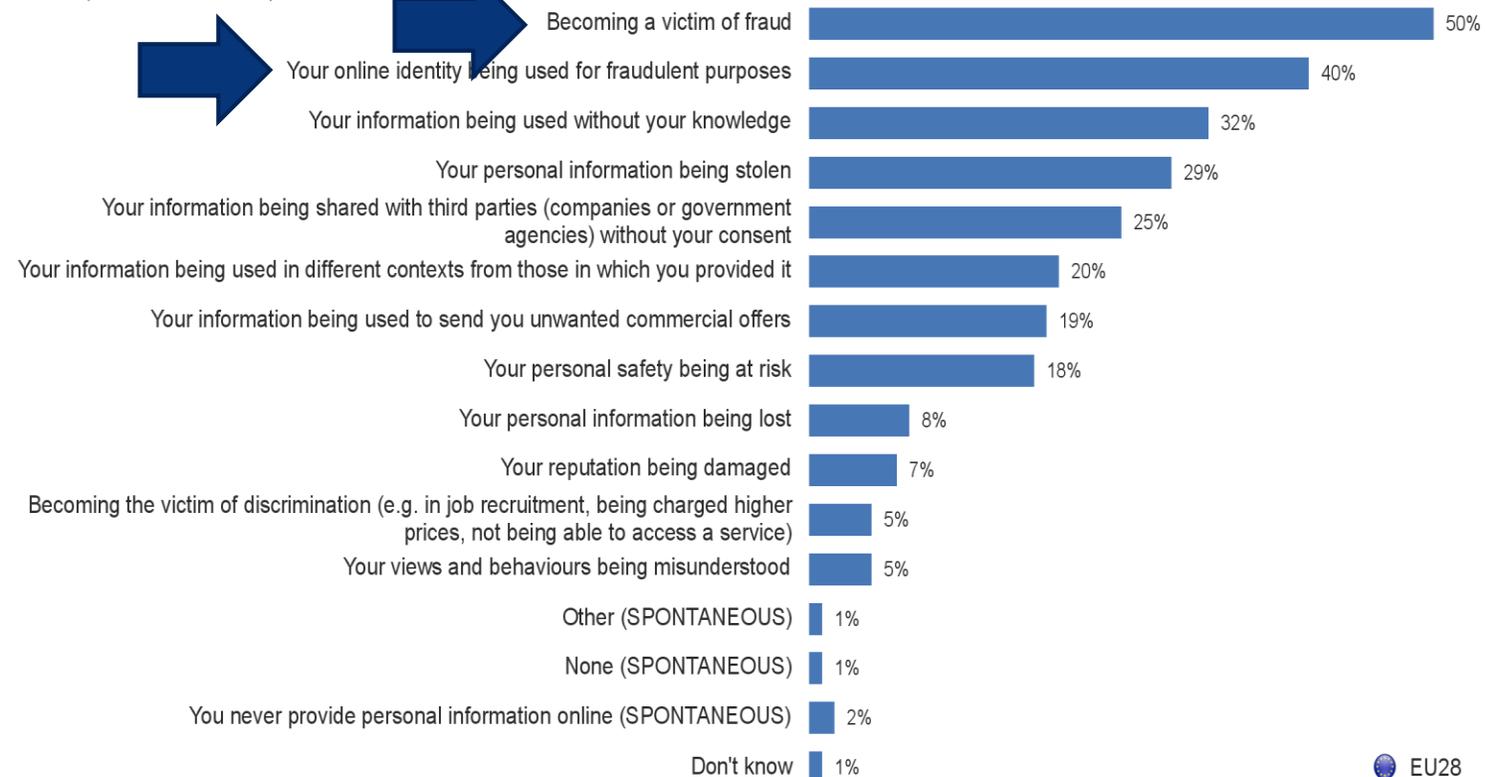
Looking at the types of information below, which three, if any, are you most concerned about providing to companies on the internet?



Base: Internet users; 1,155 adults

Digital Footprints (2016)

QB8. I will read out a list of potential risks for your personal information. According to you, what are the most serious risks of providing personal information online? (MAX. 3 ANSWERS)



Special Eurobarometer 431 (2015)

The role of trust in digital markets is not well understood

- A lot of the evidence (surveys) is unreliable ('privacy paradox')
- We know little about the *relative* strength of different factors that influence trust in digital markets
- There is no clear relationship between low reported trust and market developments

Policy changes may not have the intended consequences

- The regulatory environment is only one factor in determining trust
- Making trust more salient could benefit firms with a good brand image irrespective of data security/privacy protection

The upside potential of GDPR for businesses is extremely uncertain

- Besides some clear winners (firms with large consented databases) & losers (direct marketing), indications are that the effect will be small – at least initially



The value of GDPR rights for consumers

Choice experiment with UK consumers, Spring 2017



Measuring consumer valuation of GDPR rights

We use a “**choice experiment**” to test the valuation of GDPR rights by consumers

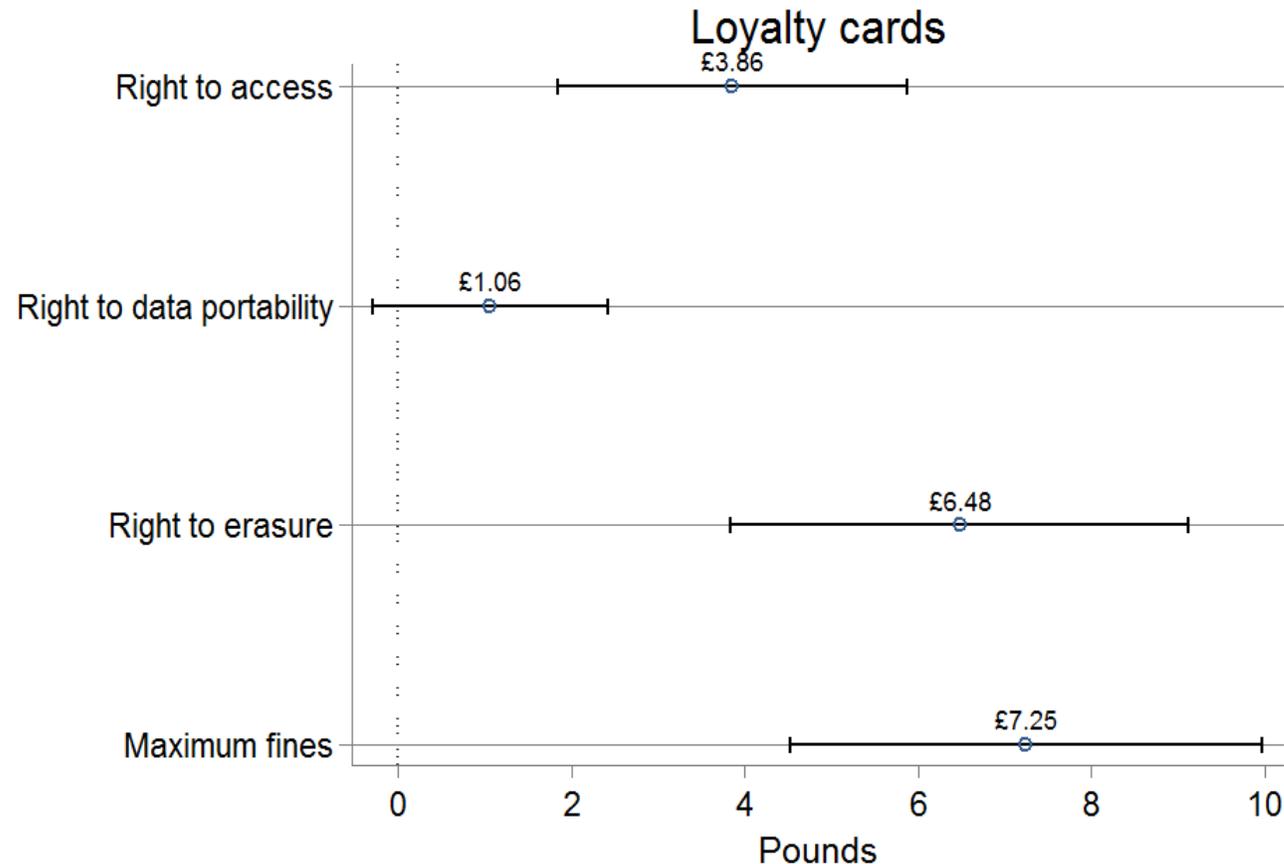
The weakness of existing empirical evidence calls for more sophisticated techniques than a simple survey

A choice experiment uses a survey format to induce people to make realistic choices

This is achieved by:

- providing a **realistic & familiar** setting/scenario in which people exercise their choice
- presenting a **sequence of choices** to allow for learning and even out the occurrence of random responses

Key insights



Personal data rights are valued highly (except right to data portability)

Consumers are willing to forego **5%-10% of savings** on normal spending instead of not having the rights given by the **GDPR**

Full report available at:

<https://tinyurl.com/y9dfcefy>

How does the choice experiment work?

3 scenarios:

Loyalty card
scheme

Smart meter

Health insurance
vouchers

6 choices per scenario

2 options per choice (accept/don't accept)

Choices vary in terms of

Money saved

Data rights

Fines

How does the choice experiment work?

YouGov

Suppose you have a choice between the two loyalty cards/schemes shown in the table below. Which of these would you choose?

	Loyalty card A	Loyalty card B
Discount you would receive on average per week on your food and drink shopping:	£1.24	£4.81
Under the conditions of service you can:		
Request, free of charge, complete details of the personal data the provider has on you	NO	YES
Copy or transfer your personal data from the current provider to another	YES	NO
Request the deletion or removal of personal data stored by the provider	NO	YES
Fine the provider will face if they process personal data without your consent or do not comply with the above conditions of service:	£15 million or 5% of turnover*	Zero

* Whichever is greater

Choose A

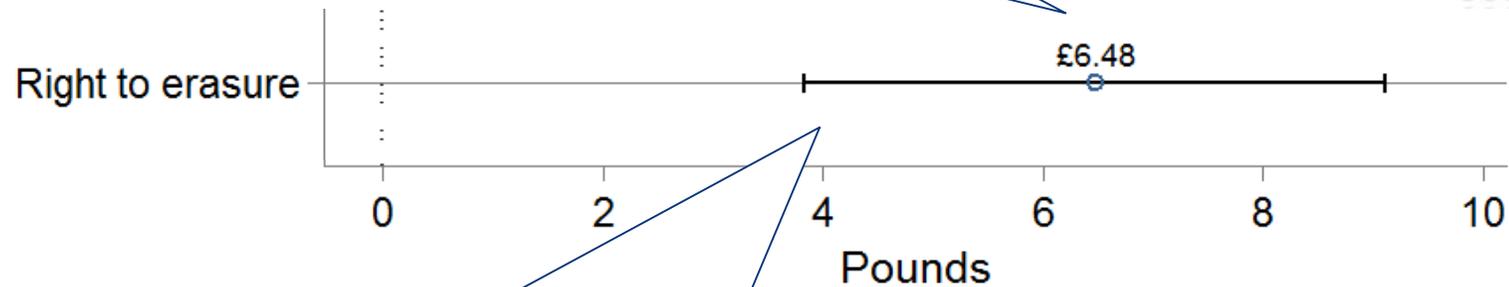
Choose B

Choose neither / Don't know



How to interpret the results?

Consumers are willing to forego £6.48 to have the right to erasure

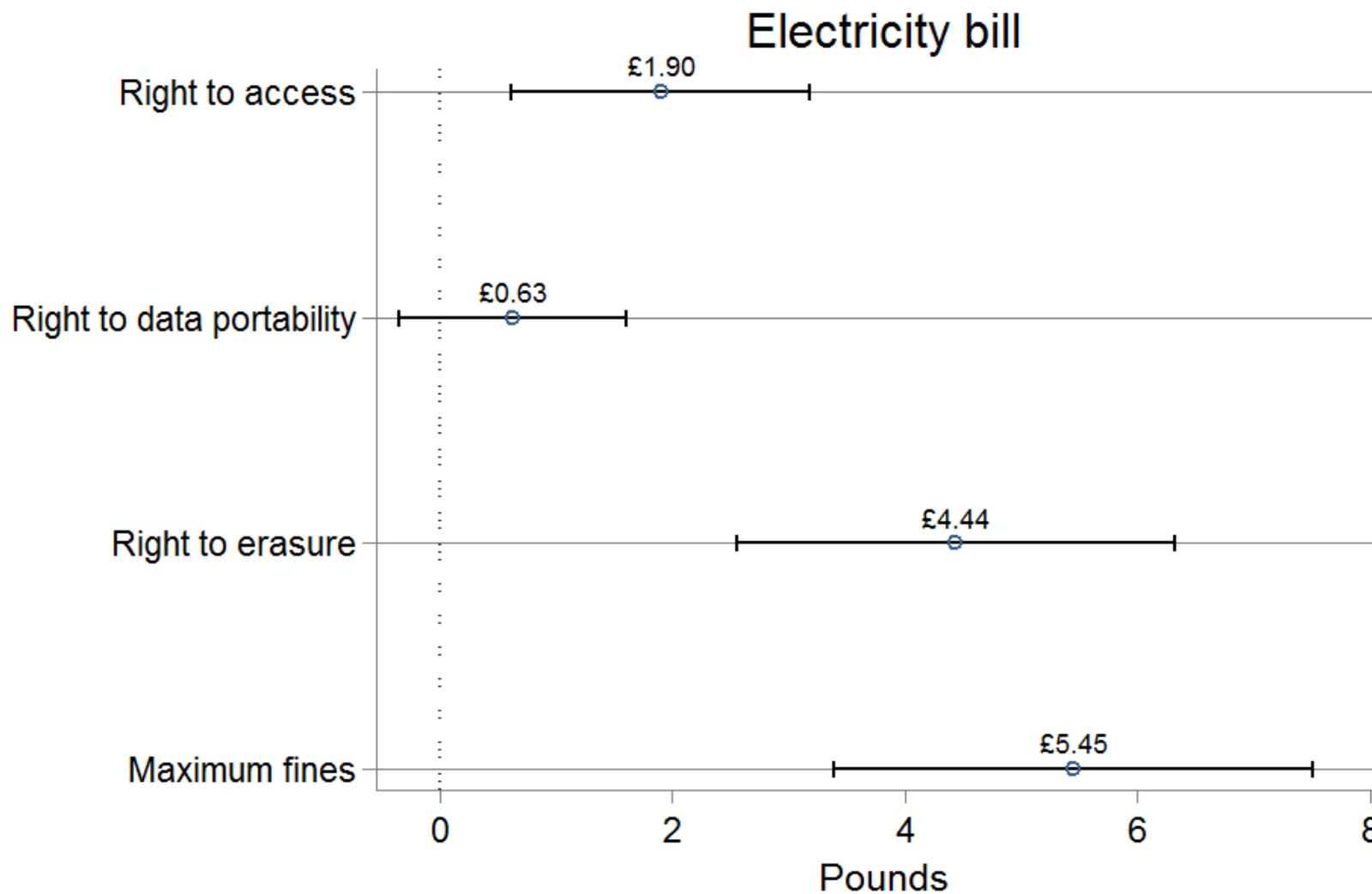


95% confidence interval of the estimate

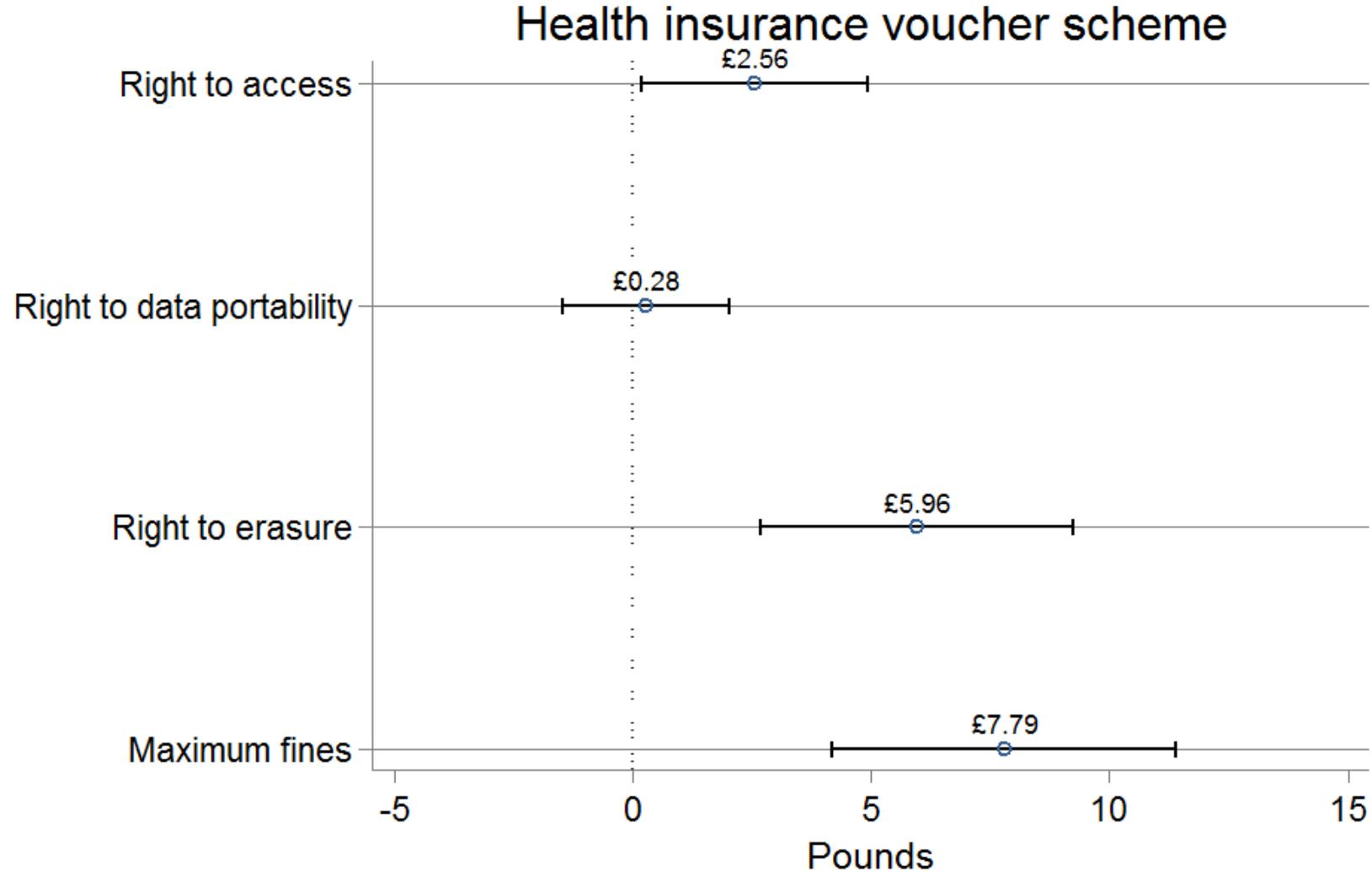
Results are consistent across scenarios



... fines get the highest valuation...

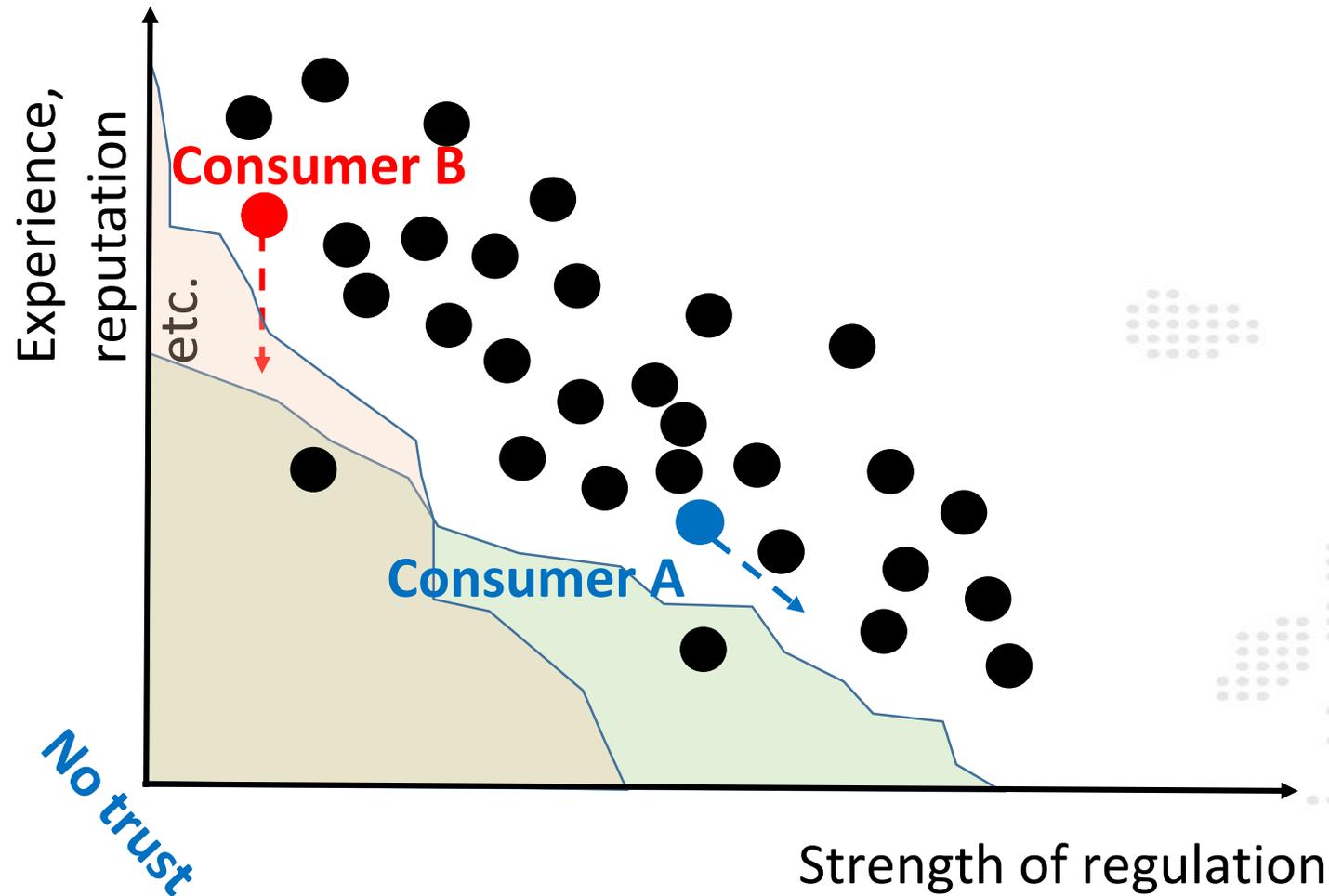


...right to data portability is valued the least



“Legal arrangements which lend special assurance to particular expectations and make them **sanctionable** (...) lessen the risk of conferring trust.”

Luhman (1979, p. 34)



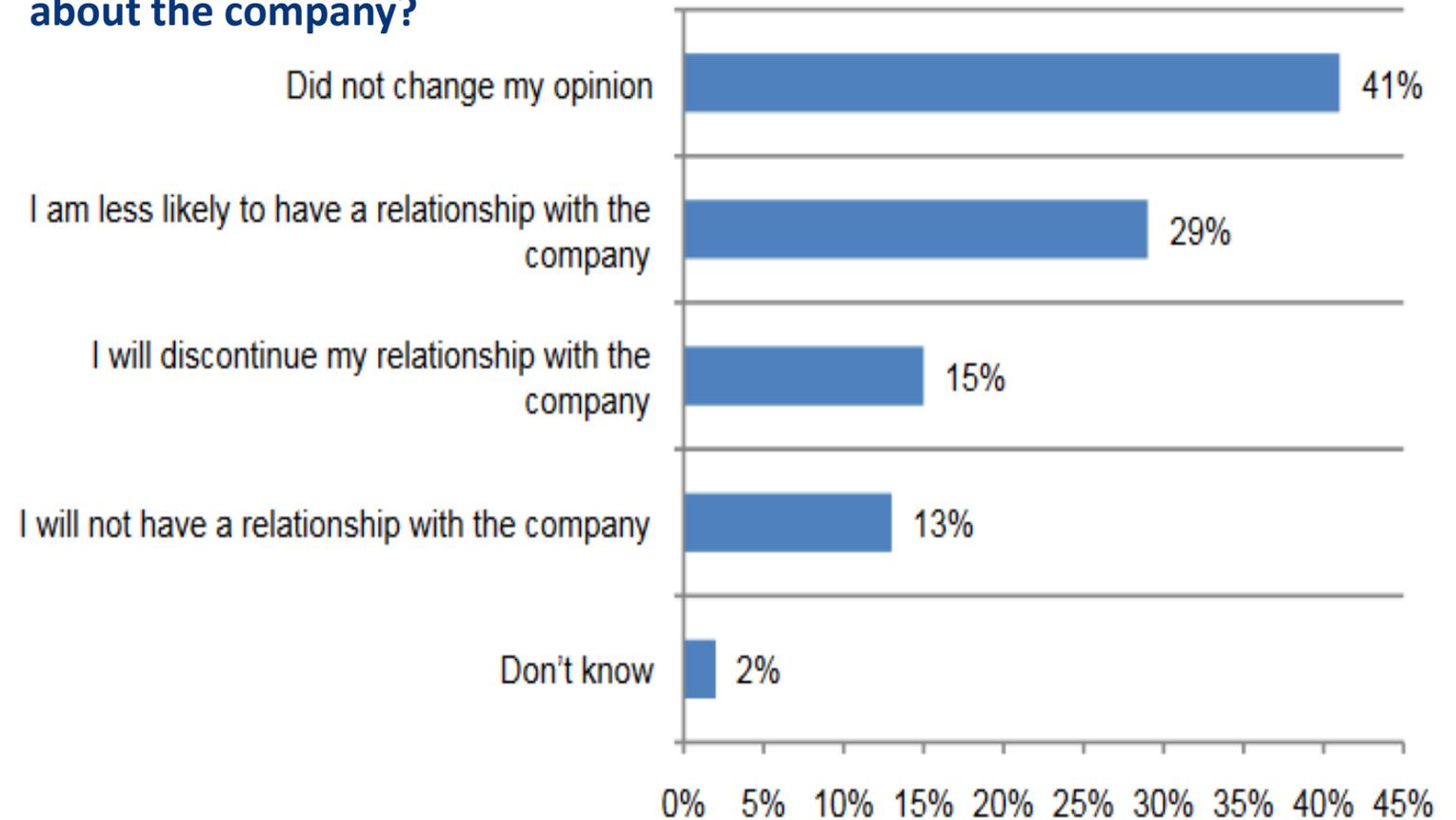
Most consumers are already 'above the threshold'

GDPR rights & fines mitigate localised loss of trust

GDPR rights & fines are a way to **internalise the externality** of harmful disclosure

A stronger regulatory framework reassures consumers that companies are incentivised (through rights that allow user control etc.) to keep data safe, and to react to a loss event by strengthening security

How did reading about the data breach affect your opinion about the company?



Source: Ponemon Institute (2014)



Implications for business

Value and valuation of personal data



Recommendations so far

Promote accountability

- Clear evidence that consumers value the fact that companies that are careless with their data get punished (fines)

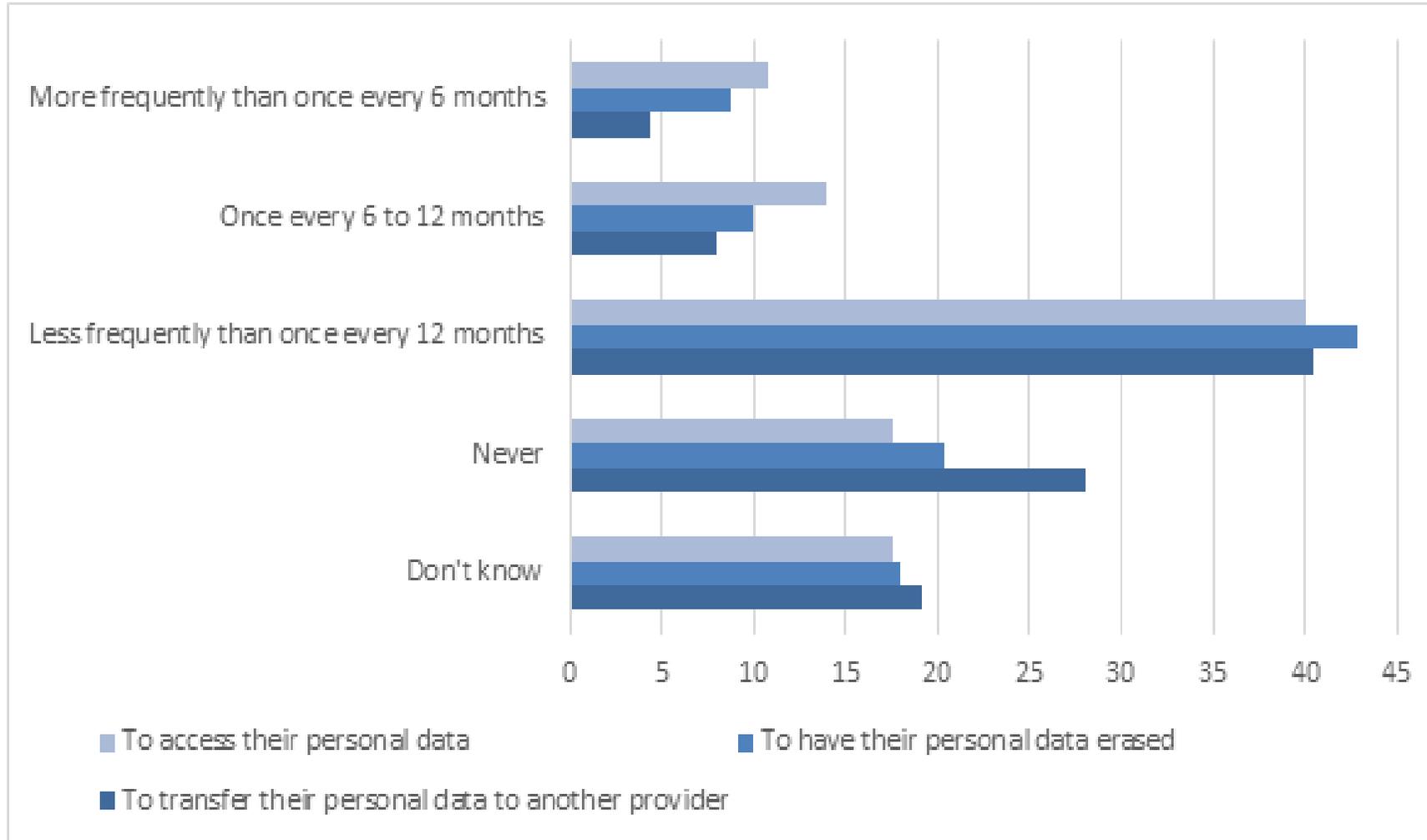
Invest in security

- Little evidence that consumers demand active control over their data (SARs etc.)
- What is clear that they care about their sensitive information

Watch out for portability

- The big unknown: potential scope for disruptive innovation
 - New entrants
 - New business models (intermediaries, PIMS)
- However, little evidence that consumers will make the first move

How frequently will consumers ask to access/transfer their data?



LE survey of data protection professionals (2017)

“The right way to think about privacy [...] is that it is an **externality** problem. I may be adversely affected by the way people use information about me and there may be no way that I can easily convey my preferences to these parties.

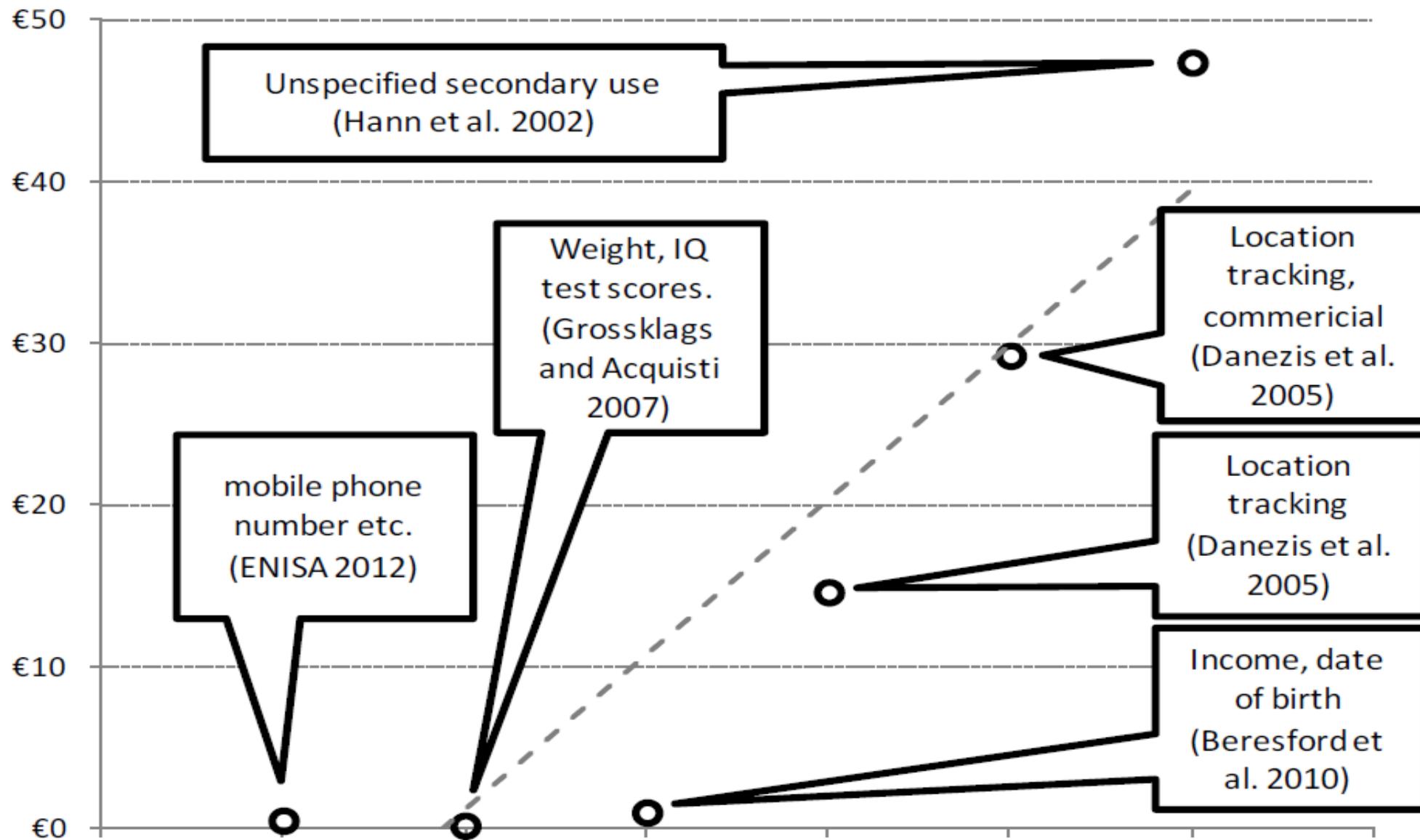
The solution to this externality problem is to assign property rights in information about individuals to those individuals. They can then contract with other parties [...] about how they might use the information.”

Shapiro & Varian (1997!)

How can we assign value to personal data?

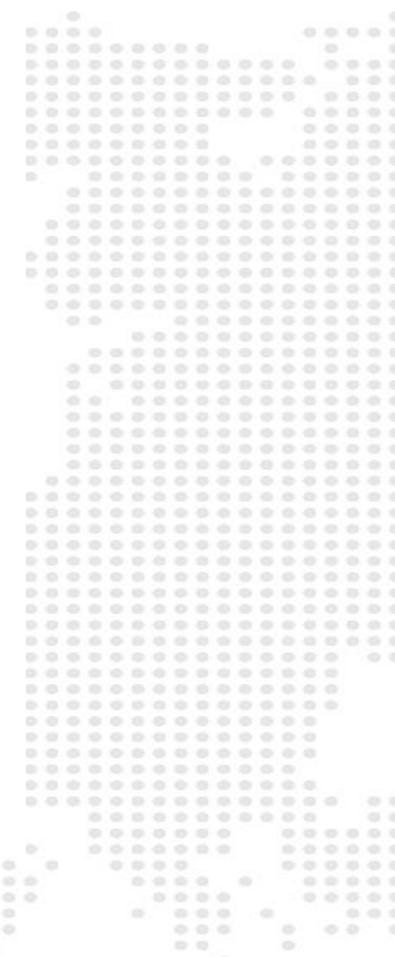
“Different pieces of information will matter differently to different people (your piano teacher may not be as interested in the schools you attended as your potential employer). The value of information will change over time (an online advertiser may not be as interested in logs of your online activity from five years ago as in your activity right now). In fact, the value and sensitivity of one piece of personal information will change depending on the other pieces of data with which it can be combined (...).” Acquisti et al. (2016), p. 446

“Less than one in ten (8%) of UK adults say they have a good understanding of how their personal data is made available to third parties and the public by companies and organisations in the UK.” ICO/Comres (2017)



Godel et al. (2012)

--> More data /more extensive data use -->



Obstacles to optimal data sharing (proportional to consumer value)

- Knowledge & perceptions differ
- How do you demonstrate value? What if you're not consumer facing (3rd party analytics)?
- Incumbent advantage, exacerbated by consent requirements?

Thank you!

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