

The Costs of Privacy

# The Costs and Benefits of Privacy

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The Costs of Privacy

## The Costs of Privacy in a multinational company

- The findings of the IBM / Ponemon Study
- The costs of legal changes / practical example
- What will come next

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### I. Cost of Privacy Study

- IBM and Ponemon Institute did the first study of the cost associated with privacy practices of 44 major corporations.
- Results from The 2004 Cost of Privacy Study provide baseline of how large organizations are allocating resources to mitigate privacy risk or to build trust with their key stakeholders.
- Contact Ponemon Institute to obtain copy of the 2004 study.

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### Privacy Cost Definitions

Key definitions about cost:

- Direct cost – the direct expense outlay to accomplish a given activity (as noted under cost description).
- Indirect cost – the amount of time, effort and other organizational resources spent, but not as direct cash
- Opportunity cost – cost resulting from inefficient or ineffective compliance, incl cost of failure / non-compliance.

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### Privacy Cost Activity Centers

Our Study addresses nine core cost centers:

1. Privacy Office – dedicated staff, office overhead, travel and business equipment.
2. Policy & Procedures – creation, review, publication and dissemination of the privacy policy (privacy notice ).
3. Downstream Communications –communication and outreach activities.
4. Training & Awareness – education about the privacy policy, program and related concepts.
5. Technologies – privacy technologies, enhance responsible information management, or protect critical infrastructure.
6. Employee Privacy –protection of sensitive employee records, including health care and OSHA claims.
7. Legal Activities –legal review, as well as legal defense costs.
8. Audit & Control –monitoring, verification of privacy program, including self-assessment tools.
9. Redress & Enforcement –investigation and collaboration with law enforcement.

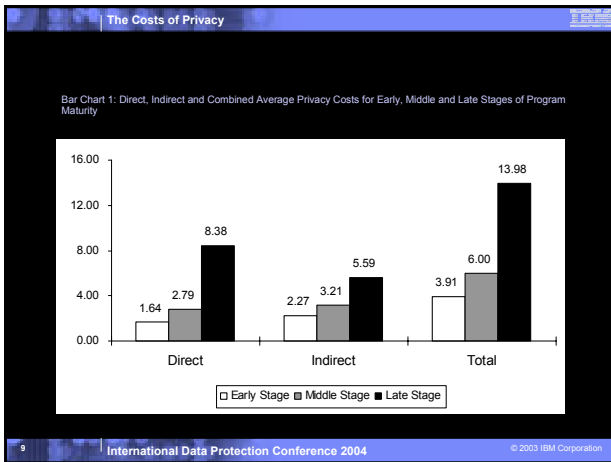
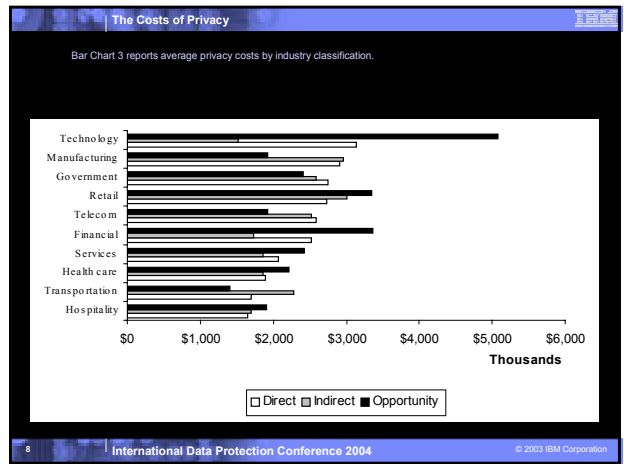
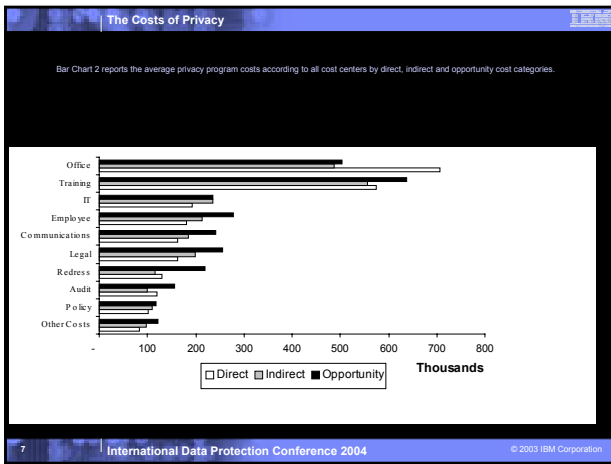
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### Table 1: Privacy Cost by Activity Centers

Centers	Direct	Indirect	Opportunity
Program Office	706,250	486,991	503,203
Policy	101,705	109,679	118,162
Communications	163,068	185,305	241,637
Training	575,568	556,601	636,657
Enabling Technology	193,750	234,702	236,243
Employee Privacy	181,250	213,381	278,466
Legal	162,500	198,213	256,122
Audit & Control	119,318	98,980	157,283
Redress	128,977	116,226	219,701
Total spending estimates	2,415,34	2,297,64	2,768,51
Percentage spend by category	32%	31%	37%

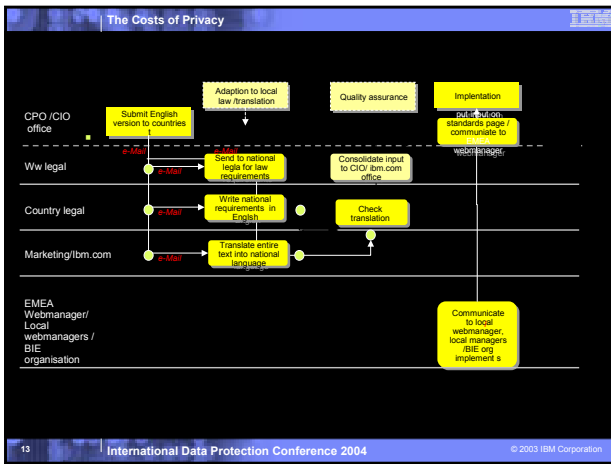
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- Key Results Summary
- Total direct spend on privacy varies considerably across 44 large multinational organizations. Company spending ranges from less than \$500k to over \$22 million annually
  - It is unclear if companies in heavily regulated industries expend more resources on privacy compliance.
  - On average, expenditures on privacy office (overhead) and training programs are the highest program cost activities.
  - On average, expenditures on redress and audit/control activities are the lowest program center activities.
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- Other Key Results - Continued
- As privacy programs mature, resources become centralized under the direct control (budget authority) of the privacy office.
  - Most participating companies believe that privacy expenditures will increase over the next one to three years. Many believe that expenditures on privacy enabling technology will increase significantly as new tools for audit and preference management become available.
  - Using cost survey results, market size analysis suggest that direct and indirect spending by large corporations over the next 12 months is about 2.7 billion dollars. As corporate privacy programs evolve from early to late maturity stages, costs should markedly increase to just under 7 billion dollars within the Fortune 500 companies.
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- II. Costs of legal changes
- The LAW:
    - Electronic communication directive opt-in for commercial communication
    - Notices statement: opt-in any time revocable
    - Transposed slightly differently into national laws
  - The Compliance Costs:
    - Control of notices statements with help of tool
    - Web Crawlers, 5300 pages on the IBM web collect personal data, web crawler for 35 languages of which 28 in the EU
      - For opt-out e-mail management: GECS, 28%
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## Privacy Reports from the Watchfire tool

Organization	Total Web Pages	Total Pages w/ Issues	Total # of Issues	Encr ypt Type	Form Metho d	Issue Categories						
						Opt- In	Restri ct Use	DBO S'tme nt	Privac y Link	Notice S'tment		
<b>IBM EMEA View (+/-)</b>	1814	278	15%	1214		252	1	237	225	230	29	240
Austria	46	0	0%	0	0	0	0	0	0	0	0	0
Belgium	91	8	9%	39	5	0	8	8	8	2	8	8
Bulgaria	12	0	0%	0	0	0	0	0	0	0	0	0
Croatia	27	1	4%	1	1	0	0	0	0	0	0	0
Cyprus	12	0	0%	0	0	0	0	0	0	0	0	0
<b>Czech Republic</b>	39	6	15%	22	6	0	4	4	4	4	0	4
Denmark	33	8	24%	32	8	0	6	6	6	6	0	6
Egypt	3	2	67%	10	2	0	2	2	2	2	0	2
Estonia	1	1	100%	5	1	0	1	1	1	1	0	1
Finland	56	15	27%	64	15	1	11	11	13	0	13	13

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## The Future: Information Explosion Continues... (Actually, it's accelerating)

**Technology Trends**

**COMPUTING:**

- Chips/\$ 10x in 5 years
- Computing power/\$ 10x in 4 years

**STORAGE:**

- Storage/\$ 10x in 6 years

**COMMUNICATIONS:**

- Backbone 100x in 5 years
- Local loop 100x in next 5 years

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### The Costs of Privacy

## Flexibility and Choice

- Server Consolidation
- Usage-based
- Capacity on demand
- Virtualizing the data center
- Computing as a utility

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### The Costs of Privacy

## Privacy-Enhancing Technologies: Questions

- How to recognize data collections?
- How to decide which data to provide in a given situation?
- How to keep track of data and identities?
- What can one do with the data received?
- How to enforce correct usage?
- How to enable businesses to work with multiple identities?
- How to authenticate and authorize (relative to a pseudonym)?

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## The Future of data privacy:

- Private data becomes a commodity, user decision,
- Privacy becomes much more difficult to control
- Data transfers become the norm not the exception,
- The access to data is more important than the location
- The possibilities for misuse increase exponentially
- The risk for companies and government of misuse increase exponentially as well.
- (Mis)Trust in companies and government will be the issue, data privacy fundamentalists,
- Current level of government and private data privacy protection resources will not be enough to control data privacy in the global economy

## Conclusion: Data Privacy in the future will only exist with the help of PETS

- Technology will enable enterprises and individuals to be more responsive, productive, innovative, resilient
- Technologies will enable enterprises to be more responsible, compliant, self-controlled
- Data Privacy Authorities and data privacy officers to work on use of PETS
- PETS and security technologies are the chance to stay on top of the IT-technology development.

To end on a happy note:

Customers don't give us their trust,  
they only lend it to us,  
If we don't justify it  
they take it back.