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Sent: Wednesday, May 01, 2002 3:55 PM
To: 'study.comments@ots.treas.gov'
Subject: Comments on the GLBA Information Sharing Study

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Importance: High

May 1, 2002

Sheila C. Bair
Assistant Secretary of the Treasury
Regulations and Legislation Division
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street, NW
Washington, DC 20052

ATTN: Study on GLBA Information Sharing

Dear Secretary Bair:

USAA appreciates the opportunity to comment on the information sharing practices of our organization. USAA is a member of the Financial Services Roundtable, the American Council of Life Insurers, and several member trade associations of the Financial Services Coordinating Council. We support the comments made by those groups, but wish to also submit comments from our own unique perspective.

Introduction to USAA

The United Services Automobile Association (USAA) has been serving present and former members of the U.S. military and their families for almost 80 years and has become one of America's leading insurance financial services companies. The association, well known for its exceptional customer service and the trust it has earned from its membership, offers its 4.5 million customers a variety of insurance, banking and investment products and services designed to help them meet their financial security needs.

The wide range of products and services offered by the USAA family of companies includes: property and casualty, life and health insurance; annuities; no-load mutual funds; discount brokerage; trust services; deposit and savings accounts; mortgages and relocation services; vehicle purchase assistance; and credit cards. The USAA Alliance Services Company offers additional quality products and services via strategic partnerships with carefully selected outside vendors, including: catalog merchandise, long distance, Internet service, home security, floral service, rental car programs, and cruise travel. With the exception of its property and casualty insurance products and alliance services, which are available only to USAA members, products are available to the general public.

USAA has a relatively unique relationship with its customers. The association is owned by its customers and thus does not have the

shareholder-driven obligations that some companies have to return dividends and profits. USAA's customers are commonly known within the organization - and self-referentially - as "members" of the USAA family. USAA's mission in serving its membership has been to provide "one-stop" financial services that address the unique needs of the military community and to back them with impeccable service that is tailored to the requirements of the men and women in uniform and their families. USAA members demand - and the Association is always striving to provide - a complement of financial products, which are always offered under the USAA brand.

One of USAA's foremost business goals is to maintain the legacy of trust and reputation for great service that it has developed with its customers for over three quarters of a century.

The Purposes of Sharing Information

USAA currently serves 95% of all active duty officers and one third of active duty enlisted personnel. While most Americans lead busy lives, the current nature of military service, including frequent moves, separated families, and rapid deployments magnifies our members' need for speed and efficiency in managing their personal finances from anywhere in the world.

One of USAA's overriding objectives is to provide our members with the fastest and most accurate customer service and to offer them only the most appropriate financial products for their needs. In order to meet that goal, we are investing in sophisticated information systems that are designed to fully integrate customer records and service capabilities and to allow for increased customer access to their accounts via the Internet.

Howard Beales of the Federal Trade Commission noted earlier this year that "Sharing information offers tremendous benefits, ranging from instant credit approval, to the convenience of a consolidated financial statement, to lower costs of processing transactions. We should not sacrifice such benefits needlessly."

We think this statement does an excellent job of summarizing some of the key benefits of affiliate sharing of information. USAA's own experience supports the notion that for 99% of our members the convenience and time saving from appropriate information sharing is more important than restricting the sharing of information between affiliated companies. Our members repeatedly ask, "Why do you ask me for information that I have already provided?" or, "Why can't you make it simpler to do business with you?"

Information sharing prevents customers from repeating information already provided to an affiliate. For these reasons, USAA is investing heavily in a future state operating model which requires each of its subsidiary

companies
to work together to meet its members' complete financial needs.

Examples
include prefilling lengthy applications using information known to our
affiliated companies, verifying USAA insurance coverage to assist in
closing
a USAA home loan, purchasing, financing and insuring a member's family
automobile, preparing a child for college or independent living, and
allowing a widow or widower to identify and manage relevant USAA
accounts.

In a tragic example, in the wake of the September 11 terrorist attacks,
USAA
survivor teams were able to assist victims in quickly sorting out all of
a
deceased or injured member's existing accounts. We sometimes even
identified insurance policies or banking and investment accounts that
family
members were unaware of.

We perceive no benefit in restricting a company from obtaining
information
from an affiliate that will assist in providing service to a customer.
The
company must and will still obtain the information, but the collection
will
be more expensive, more time consuming and will certainly create a
greater
burden for the consumer.

USAA's policies with regard to sharing customer information with
nonaffiliated third parties is much more restrictive. First, we may
need
third-party assistance to fully service or execute a product provided by
one
of USAA's affiliates (such as clearing a check drawn on our bank), or
jointly provided with another financial institution. The information
release
is limited to that necessary to conduct the transaction. The
Gramm-Leach-Bliley Act recognized the necessity of these relationships
and
exempted them from information sharing restrictions. Second, we may
verify a
member's USAA eligibility with our other approved alliance services
partners
to allow for the establishment of a USAA discount, but the information
release does not contain personal information beyond basic
identification
information necessary to provide customer service, and to ensure
compliance
with the contract. These limited disclosures are conducted within the
contractual boundaries of strict security controls.

Security Protections for Shared Information

It is our observation that little of the public debate on financial
information privacy is driven by concerns about security violations.
The
financial services industry, and certainly USAA, has outstanding
reputations
as stewards and protectors of their customers' personal information.

As a financial institution that would be irreparably damaged by any
allegations of mishandling of personal information, USAA has always
emphasized and invested in protecting customer information, both through
our
technology design and in the training of employees who have access to

member data. We argue that allowing a shared customer data platform actually permits greater investments to be made in the integrity and security of that system. Restrictions on affiliate information sharing would force USAA and other companies with multiple affiliates to expend scarce resources on creating separate, redundant databases.

USAA's financial services companies are heavily regulated at both the state and federal level. We believe that existing statutory and regulatory security requirements provide adequate protection, but also allow needed flexibility. Security is not a "one size fits all" proposition. The current requirements give companies the flexibility to design a security program that is based on the sensitivity of information, the storage or transmittal technology, the frequency of transmittal, the amount of risk, changes in technology and other variables. This in turn provides companies the opportunity to enhance its competitive advantage in the marketplace.

The Potential Risks for Customer Privacy

In USAA's experience, there is no risk to our members from allowing information sharing across our affiliated companies. We receive far more requests from our customers to share more information within USAA than we receive requests to share less information. We strive to protect the security of that information, as described above. Information is shared for the purpose of providing enhanced customer service and convenience. Within its desired operating model, USAA strives to present a "one company" face to our members. All of our marketing and informational materials inform the membership of the vast array of product choices from USAA and our mission to meet most of their financial needs. All of our products, including the products that are jointly marketed, are sold under a USAA brand. More than 99% of our customers understand and welcome and expect that USAA and its affiliates are working together to serve them better.

The Potential Benefits for Financial Institutions

USAA's corporate structure means that all of the organization's profits ultimately accrue to the benefit of our owner/members. Our mission is to serve their needs with high quality products at the lowest cost possible and to return dividends to them whenever possible. We address below the benefits of information sharing to our customers, since they are in essence the "financial institution" in USAA's case.

The Potential Benefits for Customers

As noted in our discussion of the purpose of information sharing, USAA believes that numerous benefits accrue to our members from allowing the free flow of information across our affiliates. Rapid and efficient account servicing is one of the most obvious, especially given the unique nature of

our customer base.

Fraud control is another key issue. Information sharing generally allows USAA to monitor accounts for illegal activity and to halt the spread of misdeeds and theft to other accounts if appropriate. With the passage of the USA PATRIOT Act, USAA and other financial companies accepted new responsibilities for helping combat terrorism; we strongly believe that restricting affiliate information sharing would open new avenues for misconduct across USAA and across the financial system in the US. Sharing of customer information across affiliated companies improves compliance with new requirements such as the USA PATRIOT Act and "know your customer" rules. The "know your customer" rules, which become effective next year, will require broker-dealers to keep current records of their customers' annual income and net worth, the very information that is restricted by an FCRA opt-out. Since the FCRA has no exemptions for compliance with other laws, the broker-dealer cannot use the information collected by its affiliates when the customer opts-out.

Information sharing leads to significant cost savings to USAA and its members. By allowing the use of integrated systems, we can not only save on technology costs but also achieve training and productivity efficiencies that benefit our members both financially and from a servicing perspective. In the case of serving our members through our approved alliance services partners, we allow our members to share in the significant discounts that we negotiate with the vendors at no cost or inconvenience to the member simply by identifying them within existing customer bases.

Allowing information sharing among our affiliates has also led to helpful product innovations of our own. For instance, in the wake of significant stock market valuation declines in 2001, USAA noticed a desire among our customers to shift their investments into insured depository products. USAA's investment company and bank teamed up to ensure that customers could make a quick and easy transfer of assets into a low cost deposit account.

We have also found that we can reduce the volume of marketing sent to our customers - often a high priority for those who profess to be interested in privacy - by allowing broad information sharing across the company. For instance, we can identify members who already have certain products and eliminate them from campaigns designed to promote those products. We can also identify members that we know wouldn't be interested in a specific product - such as the case of a childless household in a marketing campaign for our banking and investment products tailored to young children. The culmination of these customer benefits is an efficiently managed portfolio of products and services which meets customer expectations in a highly competitive marketplace.

The following recent examples provide concrete benefits several USAA members enjoyed from the efficient customer service we offer across our many lines

of business:

* A widow left with a high net worth estate. The representative referred her to a USAA financial planner, who recommended a comprehensive financial plan and arranged for a face-to-face consultation. The widow obtained the full comprehensive financial plan and was able to make plans to consolidate multiple accounts and arrange for appropriate investments to address her current needs.

* An 80-year-old widower whose joint accounts with his deceased wife had consisted of auto and homeowner's policies, mutual fund and brokerage accounts, and a credit card. A representative was able to change account registrations and convert the joint credit card to an individual account. A 60-year-old father who lost his son in an auto accident. The son's business consisted of an auto policy, an auto loan, and a credit card. On behalf of the grieving father, a representative was able to complete the insurance process, close out the loan, and make arrangements for final payment of the remaining credit card balance.

* A daughter whose deceased mother carried a USAA auto policy, a mutual fund, life insurance, annuities, and bank accounts. A representative helped her cancel the auto insurance, change the various account registrations, and arranged for a life insurance claims and benefits representative to explain the information on the life insurance and annuities.

* April 15 always brings a flurry of inquiries from members trying to beat the deadline to make IRA contributions. While the questions sometimes arise outside of those areas of the company that offer IRA products, USAA can easily transfer members to personnel who can assist with application questions, offer allocation assistance, and advise them about registering or applying online.

* USAA assists members who are making plans for retirement. Members have expressed many positive comments about USAA's ability to assess member needs and recommend a variety of appropriate options from among our Federal Savings Bank, our Investment Management Company, our Life Company's annuity products, and several financial planning products.

Adequacy of Existing Laws

Both the Fair Credit Reporting Act (FCRA) and the Gramm-Leach-Bliley Act (GLBA) offer significant consumer protections in the privacy arena, and as we've discussed above, USAA does not believe there are significant threats to customer privacy from affiliate information sharing.

We do, however, have concerns regarding the efficiency of these laws and have several suggestions for improvement.

One proposition is to create exemptions from the FCRA opt-out to facilitate legitimate business needs. For example, to prevent fraud, a company may share financial information with nonaffiliated third parties regarding a customer that has opted out. That same information may not be shared with an affiliate to prevent fraud. A customer's privacy elections should not be used as a cover for fraudulent activities. Under GLBA, information may be shared with non-affiliated third parties to service or process a transaction that has been requested or authorized by the customer. The same should be true for affiliate sharing.

We also strongly favor making the FCRA preemption of inconsistent state laws permanent while clarifying its scope. Companies invest large sums of money to comply with privacy requirements. Companies should have the assurance that their FCRA compliance will not become moot upon expiration of the current preemption. The intent and scope of the preemption should be clarified. Several states have enacted laws that place additional restrictions on affiliate sharing of financial information, including transaction and experience information, ignoring the current preemption.

Another significant concern is that the definition of nonpublic personal information is overly broad, to the extent that it protects name, address and phone numbers that are not grouped based on any sensitive financial information. GLBA protects a list of consumers of a financial institution on the assumption that some financial information is implied from the fact the individuals are customers of that financial institution. While this may be true if the list identifies that the consumer has a particular product, or reveals some element of the consumer's financial status, such as income, merely being a customer of a group of affiliated financial institutions does not provide any real financial information about that customer. Individuals do not really have an expectation of privacy in information that is publicly available through a phone book and other public sources. This information is regularly bought and sold by marketing list brokers without restraint of any kind. Protecting such information just because it is in the hands of a financial institution does not provide any real protection to consumers. Even if a decision is made that this information deserves some level of legal protection, it does not warrant the same level of protection as detailed transaction information, health information and other sensitive information protected by GLBA and the FCRA. We suggest modifying the definition of NPPI to exclude a customer list comprised of publicly available identifying information, unless the list was developed using some financial criteria such as income, assets, debt, or ownership of a particular financial product.

the categories of non-affiliate and affiliates to which the financial institution discloses nonpublic personal information, as well as the categories of information shared. Requirements pertaining to categorizing affiliates and categorizing the information shared with affiliates should be deleted. As discussed above, USAA strongly believes that the privacy notices that result from this rule should be as simple and streamlined as possible, in order to best serve the customer. USAA argues that requiring lengthy and duplicative disclosures about affiliate information sharing practices is not in the best interest of our membership or consumers in general. This additional disclosure is confusing to customers because, unlike the other detailed disclosures made under Section 503(b), it is not included in a customer's opt-out election under GLBA. There is no evidence that USAA is aware of that the categories of business of affiliates are of great concern to consumers. The GLB Act does not include this information as a required element under Section 503(b), so no legislative action is required prior to implementing this regulatory simplification. This is but one example of a disclosure requirement not mandated by Congress. During the comment period of the proposed regulations, numerous respondents discussed many more examples.

In general, the amount and detail of information required in the notices is excessive, includes information, which is not of great importance to consumers and distracts from the main message of the opt-out. Consumers will be more responsive to a simple disclosure with information that is relevant to the main message: what information sharing does the consumer have a right to opt out of and how does the consumer exercise that right. In a recent survey conducted by Harris Interactive and presented at the FTC workshop, 77% of consumers indicated they prefer a short privacy policy notice.

The Feasibility of Different Approaches

The most commonly suggested alternative approach is use of an opt-in model. We do not believe this model provides greater protection for consumers. In fact, it potentially deprives many consumers of the benefits of information sharing. The Harris Interactive Survey referenced above indicates that two out of three consumers do no more than glance at notices, largely because they lack interest. To deprive those consumers of the benefits of information sharing by requiring them to exercise an opt-in they haven't read, is a disservice to our customers.

As previously mentioned, one of USAA's foremost business goals is to maintain the legacy of trust and reputation for great service that it has developed for almost 80 years. To perpetuate this legacy and to meet the high expectations of its customers, U.S. military and their families, USAA must develop service innovations through the appropriate use of its

greatest
asset - customer information. This in turn demands a high level of
information sharing that is managed within carefully defined parameters.

We appreciate the opportunity to comment on these very important issues
and
look forward to working with you as the legislative and regulatory
debate on
financial privacy moves forward.

Sincerely,

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