

Madam Chairwoman, Congressman Vento, and Members of the Subcommittee, thank you for the opportunity to testify about an issue that has enormous ramifications for the banking industry and their customers -- financial privacy. I commend you, Madam Chairwoman, for holding this timely hearing. In my oral statement, I will focus on two key elements of financial privacy, namely the importance of banks retaining the confidence and trust of their customers and the privacy related sections of H.R. 10. My written statement includes an extensive review of existing Federal and state privacy laws and banking practices.

The relationship between banks and their customers is built on the pervasive assumption of customers that their banks will maintain the confidentiality of that relationship. While technological advances and the demands of a competitive marketplace have placed a premium on the availability of personal information -- often at the expense of personal privacy -- the way in which banks respond to these pressures is of enormous importance. If banks fail to honor customer expectations that personal information will be kept in confidence, they will impair the most priceless asset of their banking franchise -- the trust of their customers. Thus, privacy is not just an important consumer issue; it is an issue with implications for the long-term vitality and stability of the banking system.

By its very nature, banking is driven by information. Bankers have always relied on access to personal financial information to make fundamental judgments about their customers' qualifications for financial products and services. Information exchanges thus have long served a useful and critical market function that has benefited consumers and financial institutions alike by facilitating credit and other financial transactions.

Recent advances in technology that permit the efficient collection, storage, analysis and dissemination of vast stores of information, coupled with the changing structure of the financial services industry and the development of efficient new delivery systems, have increased the market value of customer information. Although financial conglomerates may profit from the cross-marketing opportunities and consumers may benefit from the availability of a broader array of custom-tailored products and services, there is a serious risk that these developments may come at a price to individual privacy. The challenge is to balance those competing pressures.

H.R. 10, as passed by the House, adopts a measured approach that provides consumers with notice and choice about certain of the information-sharing practices of financial institutions, without impeding the flow of information essential to doing business. This is a positive step in assuring consumers that their information will be handled appropriately and in providing consumers with increased control over their personal information.

In my view, however, a serious question can be raised whether H.R. 10 adequately protects the confidence of customers in the confidentiality of their relationship with their banks. In his May 4th proposal regarding privacy, the President indicated his support for legislation that would give consumers control over the use and sharing of all their financial information, both among affiliates and with nonaffiliated third parties. H.R. 10 is a good first step toward meeting that goal, but I believe that customers will reasonably expect more. In particular, the distinction H.R. 10 makes between information sharing with affiliates and nonaffiliates -- allowing

customers to opt out with respect to the latter, but not the former -- is, I believe, likely to erode customer confidence rather than enhance it.

Is it realistic to think that customers will see a meaningful distinction between information sharing within the same corporate family and with unrelated entities? Will customers believe that the legislation adequately covers their reasonable expectations regarding the use and transfer of confidential information they have imparted to their banks? If the answers to these questions are in the negative, the failure to provide protection for the sharing of information with affiliates could have a profound effect -- particularly in a world of expanded financial conglomeration -- on the willingness of customers to maintain the kinds of relationships with the banking system they have in the past. While the desire of bankers to take advantage of new cross-marketing opportunities is entirely understandable, a primary objective of policy makers should be to assure that doing so does not cause fundamental damage to the banking system.

I cannot overstate the importance of addressing consumer expectations about the confidential treatment of financial information to maintaining the public's confidence in the banking system. And I urge that, in crafting an appropriate response to consumer privacy concerns, banks and Congress put themselves in the shoes of a customer and ask, "Will my financial institution use my personal information in a manner consistent with my expectations?" and "Will I have any control over the use of my information?" Whatever legislative formulation ultimately results, American consumers deserve the right to be able to answer "Yes" to those questions.