Bauerle's Bank Notes

Safety Sells

December 31, 2013

"Joy to the World" rang out last week. Criminals everywhere joined the chorus as Target, JP Morgan and others scrambled to cope with the most recent mass data security breach, this one affecting 40 million accounts. That's more than one for every ten Americans. CBS's evening newscast showed Target managers gathered in a Situation Room-like setting, mapping strategy, followed by a story detailing how account identifying data are sold over the Internet for as much as $40 per stolen account.

Meanwhile, PNC announced plans in the next five years to convert 2/3 of its branches to what it dubs the "universal" concept, "where technology trumps teller lines and staffers become financial consultants."[i] According to the PNC executive vice president interviewed for the story, "The universal banking concept is to shift our staffing. The employees can handle anything a customer can throw at them." The story added, "[t]hat also means PNC aims for more cross-selling of products and services."

Apart from highlighting the changes and challenges technology brings, the stories appear to have nothing in common. The breakdown of untouched-by-human-hands electronic financial commerce stands apart from market-savvy adaptation of good-old-fashioned personal banking. There the dissimilarity ends, however. The shared reality is a world that is data-centric. One in which the more you know about someone, the more you can do for someone, or to someone. A world in which knowledge, and therefore power, is distributed rather than concentrated.

As the Financial Times reported in its coverage of the Target data security breach, losses of this nature are growing. Banks want retailers to bear them and vice versa. Consumers channel Alfred E. Neuman, of "What, me worry?" fame. They chafe when they should be thankful that JP Morgan limited daily credit available to customers whose account data had been pirated. In other words, everyone wants it to be someone else's problem.

Realistically, heavy investment needs to be made by all parties to modernize not only the computer infrastructure that supports electronic commerce but the legal regime that allocates risk and responsibility. The last fifty years' history in automotive safety is illustrative. By mid-century, engineering advances made passenger cars fast and fun to drive. Design changes like swing-axle rear suspension improved roadability in 1950's-era Mercedes-Benz, but led to calamity in the 1961-63 Chevrolet Corvair. New safety features debuted, like Ford's "deep-dish" steering wheel, which placed the wheel's hub at greater distance from the driver, reducing the risk of chest injury in a frontal collision. In 1957, Ford sought to capitalize on its investment in safety features by advertising them heavily. The campaign flopped. Consumers instead bought Chrysler's stylish "longer, lower, wider" vehicles in record numbers. "Safety Doesn't Sell" became Detroit orthodoxy for the next three decades.

To turn the tide, it took annual highway deaths in the 1960's that exceeded total American deaths in Vietnam, public campaigns by figures like Clarence Ditlow of the Center for Auto Safety, nasty litigation over grossly negligent auto designs like the Ford Pinto, and legislation from Congress. Today, safety sells. Manufacturers that don't make it a priority can't succeed in the U.S. market.

Properly risk-managed electronic financial services require the same sort of sustained, multipronged effort. Consumer education is fundamental. So is retraining customer-facing industry personnel, who confuse banks' roles as creditor and fiduciary (the confusion likely will grow as platform personnel become "financial advisors" in the mode of PNC's "universal" bank). Equally important is banking industry engineering of safe products, as well as systems to identify and capture thieves. Suitable matching of those products with consumers is what PNC's and other banks' universal banking platform should be about. Competition, meanwhile, should focus on maximizing value (including by appropriate asset allocation) rather than promoting extravagant lifestyles, whether in Greenwich, Connecticut, or in the projects.

The five years since the Panic of 2008 have led bankers to believe their backs bear targets like the retailer's logo, painted by regulators, legislators, consumers, and lawyers masquerading as avenging angels. The way forward is one where common sense rules over visions of sugar plums and angels from on high. If a majority of us can accept that truth, safety will sell, and forward-thinking financial institutions and their stockholders will be rewarded.

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[i] "PNC commits to nontraditional 'universal' concept for bank branches,"
Pittsburgh Business-Times, Dec. 20-26, 2013, p. 11.