

Incentivizing Firms to Protect Consumer Data: Can Reputation Play a (Bigger) Role?

Ying Lei Toh

Toulouse School of Economics

FTC PrivacyCon 2018, Washington D.C.

February 28, 2018

The logo for PrivacyCon 2018 is located at the bottom of the slide. It features the word "PRIVACYCON" in a bold, white, sans-serif font. The letters are set against a dark blue background that is part of a larger graphic design. This design includes a silhouette of a city skyline with various buildings and a large, colorful, abstract shape that resembles a stylized letter 'P' or a similar form. The colors in this graphic include shades of blue, green, yellow, and red. The year "2018" is also visible in a smaller font to the right of the main text.

PRIVACYCON

Can reputation play a role?

In theory, yes

- Investment lowers the probability of breaches





In practice,

Are consumers willing to punish the firm?

Are losses high relative to valuation?

Are consumers able to do so?

Do they know about the breach?

Policy Interventions

Indirect : Improving the reputation mechanism

Increase consumers willingness or ability to punish

Direct : Correcting the market failures

Imperfect information

Externalities

“Indirect” Interventions

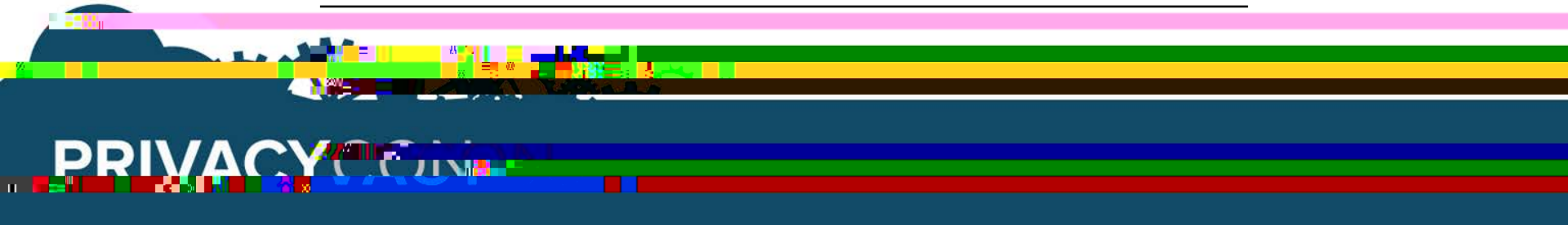
	<i>Impact on</i>			
	<i>Ability to Punish</i>	<i>Willingness to Punish</i>	<i>Investment Level</i>	<i>Consumer Surplus</i>
Expelling Breached Merchants	Ⓜ	+	+	+ / F
Active Monitoring by Bank	+	Ⓜ	+	+
Mandatory Breach Notification				

“Indirect” Interventions

	<i>Impact on</i>			
	<i>Ability to Punish</i>	<i>Willingness to Punish</i>	<i>Investment Level</i>	<i>Consumer Surplus</i>
Expelling Breached Merchants	Ⓜ	+	+	+ / F
Active Monitoring by Bank	+	Ⓜ	+	+
Mandatory Breach Notification	Greater transparency			

“Indirect” Interventions

	<i>Impact on</i>			
	<i>Ability to Punish</i>	<i>Willingness to Punish</i>	<i>Investment Level</i>	<i>Consumer Surplus</i>
Expelling Breached Merchants	Ⓜ	+	+	+ / F
Active Monitoring by Bank	+	Ⓜ	+	+
Mandatory Breach Notification	+			



PRIVACY

“Direct” interventions

	<i>Impact on</i>			
	<i>Ability to Punish</i>	<i>Willingness to Punish</i>	<i>Investment Level</i>	<i>Consumer Surplus</i>
Revealing Security Inv't or State	Imperfect information			
Liability Rule	Externalities			

“Direct” interventions

	<i>Impact on</i>			
	<i>Ability to Punish</i>	<i>Willingness to Punish</i>	<i>Investment Level</i>	<i>Consumer Surplus</i>
Revealing Security Inv't or State	Ⓜ	Ⓜ	+	+
Liability Rule	Ⓜ	Ⓜ	+	+

Policy Implications

Direct > Indirect interventions

Always good to improve information (about security and breaches)

Trade-off between protecting consumer ex-post and fostering investment incentives ex-ante