

Chapter 5

Data security



5.1 Introduction

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- Who should read this chapter?** This chapter applies to **all firms** subject to the financial crime rules in ■ SYSC 3.2.6R or ■ SYSC 6.1.1R and to **e-money institutions** and **payment institutions** within our supervisory scope.
- 5.1.2
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- Customers routinely entrust firms with important personal data; if this falls into criminal hands, fraudsters can attempt to undertake transactions in the customer’s name. Firms must take special care of their customers’ personal data, and comply with the data protection principles set out in Schedule 1 to the Data Protection Act 1998. The Information Commissioner’s Office provides guidance on the Data Protection Act and the responsibilities it imposes on data controllers and processors. See section 4 and schedule 1 Data Protection Act 1998.



5.2 Themes

Governance

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The guidance in ■FCG 2.2.1G on governance in relation to financial crime also applies to data security.

Firms should be alert to the financial crime risks associated with holding customer data and have written data security policies and procedures which are proportionate, accurate, up to date and relevant to the day-to-day work of staff.

Self-assessment questions:

- How is **responsibility** for data security apportioned?
- Has the firm ever **lost customer data**? If so, what remedial actions did it take? Did it contact customers? Did it review its systems?
- How does the firm monitor that **suppliers of outsourced services** treat customer data appropriately?
- Are data security standards set in **outsourcing** agreements, with suppliers’ performance subject to monitoring?

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none">• There is a clear figurehead championing the issue of data security.• Work, including by internal audit and compliance, is coordinated across the firm, with compliance, audit, HR, security and IT all playing a role.• A firm’s plans to respond to data loss incidents are clear and include notifying customers affected by data loss and offering advice to those customers about protective measures.• A firm monitors accounts following a data loss to spot unusual transactions.• The firm looks at outsourcers’ data security practices before doing	<ul style="list-style-type: none">• The firm does not contact customers after their data is lost or compromised.• Data security is treated as an IT or privacy issue, without also recognising the financial crime risk.• A ‘blame culture’ discourages staff from reporting data losses.• The firm is unsure how its third parties, such as suppliers, protect customer data.

Examples of good practice	Examples of poor practice
business, and monitors compliance.	

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Five fallacies of data loss and identity fraud

- 1. **‘The customer data we hold is too limited or too piecemeal to be of value to fraudsters.’** This is misconceived: skilled fraudsters can supplement a small core of data by accessing several different public sources and use impersonation to encourage victims to reveal more. Ultimately, they build up enough information to pose successfully as their victim.
- 2. **‘Only individuals with a high net worth are attractive targets for identity fraudsters.’** In fact, people of all ages, in all occupations and in all income groups are vulnerable if their data is lost.
- 3. **‘Only large firms with millions of customers are likely to be targeted.’** Wrong. Even a small firm’s customer database might be sold and re-sold for a substantial sum.
- 4. **‘The threat to data security is external.’** This is not always the case. Insiders have more opportunity to steal customer data and may do so either to commit fraud themselves, or to pass it on to organised criminals.
- 5. **‘No customer has ever notified us that their identity has been stolen, so our firm must be impervious to data breaches.’** The truth may be closer to the opposite: firms that successfully detect data loss do so because they have effective risk-management systems. Firms with weak controls or monitoring are likely to be oblivious to any loss. Furthermore, when fraud does occur, a victim rarely has the means to identify where their data was lost because data is held in so many places.

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Controls

We expect firms to put in place systems and controls to minimise the risk that their operation and information assets might be exploited by thieves and fraudsters. Internal procedures such as IT controls and physical security measures should be designed to protect against **unauthorised access** to customer data.

Firms should note that we support the Information Commissioner’s position that it is not appropriate for customer data to be taken off-site on laptops or other portable devices which are not encrypted.

Self-assessment questions:

- Is your firm’s customer data taken **off-site**, whether by staff (sales people, those working from home) or third parties (suppliers, consultants, IT contractors etc)?
- If so, what **levels of security** exist? (For example, does the firm require automatic encryption of laptops that leave the premises, or measures to ensure no sensitive data is taken off-site? If customer

data is transferred electronically, does the firm use secure internet links?)

- How does the firm **keep track** of its digital assets?
- How does it **dispose** of documents, computers, and imaging equipment such as photocopiers that retain records of copies? Are accredited suppliers used to, for example, destroy documents and hard disks? How does the firm satisfy itself that data is disposed of competently?
- How are **access** to the premises and sensitive areas of the business **controlled**?
- When are **staff access rights** reviewed? (It is good practice to review them at least on recruitment, when staff change roles, and when they leave the firm.)
- Is there enhanced **vetting** of staff with access to lots of data?
- How are staff made aware of **data security risks**?

Examples of good practice	Examples of poor practice
<ul style="list-style-type: none">• Access to sensitive areas (call centres, server rooms, filing rooms) is restricted.• The firm has individual user accounts for all systems containing customer data.• The firm conducts risk-based, proactive monitoring to ensure employees' access to customer data is for a genuine business reason.• IT equipment is disposed of responsibly, e.g. by using a contractor accredited by the British Security Industry Association.• Customer data in electronic form (e.g. on USB sticks, CDs, hard disks etc) is always encrypted when taken off-site.• The firm understands what checks are done by employment agencies it uses.	<ul style="list-style-type: none">• Staff and third party suppliers can access data they do not need for their role.• Files are not locked away.• Password standards are not robust and individuals share passwords.• The firm fails to monitor superusers or other staff with access to large amounts of customer data.• Computers are disposed of or transferred to new users without data being wiped.• Staff working remotely do not dispose of customer data securely.• Staff handling large volumes of data also have access to internet email.• Managers assume staff understand data security risks and provide no training.• Unencrypted electronic data is distributed by post or courier.

<div>5.2.4</div>	<div><div><div></div><div>G</div></div><div><div>Case study – protecting customers’ accounts from criminals</div><div>In December 2007, the FSA fined Norwich Union Life £1.26m for failings in its anti-fraud systems and controls.</div><div>Firms should note that we support the Information Commissioner’s position that it is not appropriate for customer data to be taken off-site on laptops or other portable devices which are not encrypted.</div><div><div><div>•Callers to Norwich Union Life call centres were able to satisfy the firm’s caller identification procedures by providing public information to impersonate customers.</div><div>•Callers obtained access to customer information, including policy numbers and bank details and, using this information, were able to request amendments to Norwich Union Life records, including changing the addresses and bank account details recorded for those customers.</div><div>•The frauds were committed through a series of calls, often carried out in quick succession.</div><div>•Callers subsequently requested the surrender of customers’ policies</div><div>•Over the course of 2006, 74 policies totalling £3.3m were fraudulently surrendered.</div><div>•The firm failed to address issues highlighted by the frauds in an appropriate and timely manner even after they were identified by its own compliance department.</div><div>•Norwich Union Life’s procedures were insufficiently clear as to who was responsible for the management of its response to these actual and attempted frauds. As a result, the firm did not give appropriate priority to the financial crime risks when considering those risks against competing priorities such as customer service.</div></div><div>For more, see the FSA’s press release: www.fsa.gov.uk/pages/Library/Communication/PR/2007/130.shtml</div></div></div></div>
<div>5.2.5</div>	<div><div><div></div><div>G</div></div><div><div>Case study – data security failings</div><div>In August 2010, the FSA fined Zurich Insurance plc, UK branch £2,275,000 following the loss of 46,000 policyholders’ personal details.</div><div><div><div>•The firm failed to take reasonable care to ensure that it had effective systems and controls to manage the risks relating to the security of confidential customer information arising out of its outsourcing arrangement with another Zurich company in South Africa.</div><div>•It failed to carry out adequate due diligence on the data security procedures used by the South African company and its subcontractors.</div><div>•It relied on group policies without considering whether this was sufficient and did not determine for itself whether appropriate data</div></div></div></div></div>

security policies had been adequately implemented by the South African company.

- The firm failed to put in place proper reporting lines. While various members of senior management had responsibility for data security issues, there was no single data security manager with overall responsibility.

- The firm did not discover that the South African entity had lost an unencrypted back-up tape until a year after it happened.

The FSA's press release has more details: www.fsa.gov.uk/pages/Library/Communication/PR/2010/134.shtml

5.3.1



FCTR contains the following additional material on data security:

- ■ **FCTR 6** summarises the findings of the *FSA*'s thematic review of Data security in Financial Services and includes guidance on:

Governance (■ **FCTR 6.3.1G**)

Training and awareness (■ **FCTR 6.3.2G**)

Staff recruitment and vetting (■ **FCTR 6.3.3G**)

Controls – access rights (■ **FCTR 6.3.4G**)

Controls – passwords and user accounts (■ **FCTR 6.3.5G**)

Controls – monitoring access to customer data (■ **FCTR 6.3.6G**)

Controls – data back-up (■ **FCTR 6.3.7G**)

Controls – access to the internet and email (■ **FCTR 6.3.8G**)

Controls – key-logging devices (■ **FCTR 6.3.9G**)

Controls – laptop (■ **FCTR 6.3.10G**)

Controls – portable media including USB devices and CDs (■ **FCTR 6.3.11G**)

Physical security (■ **FCTR 6.3.12G**)

Disposal of customer data (■ **FCTR 6.3.13G**)

Managing third party suppliers (■ **FCTR 6.3.14G**)

Internal audit and compliance monitoring (■ **FCTR 6.3.15G**)

- ■ **FCTR 10** summarises the findings of the Small Firms Financial Crime Review, and contains guidance directed at small firms on:

Records (■ **FCTR 10.3.5G**)

Responsibilities and risk assessments (■ **FCTR 10.3.7G**)

Access to systems (■ **FCTR 10.3.8G**)

Outsourcing (■ **FCTR 10.3.9G**)

Physical controls (■ **FCTR 10.3.10G**)

Data disposal (■ **FCTR 10.3.11G**)

Data compromise incidents (■ **FCTR 10.3.12G**)

5.4 Sources of further information

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To find out more, see

- the website of the Information Commissioner's Office:
www.ico.org.uk.

