



2015 Cost of Data Breach Study: Global Analysis

Benchmark research sponsored by IBM
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May 2015



2015¹ Cost of Data Breach Study: Global Analysis

Ponemon Institute, May 2015

Part 1. Introduction

2014 will be remembered for such highly publicized mega breaches as Sony Pictures Entertainment and JPMorgan Chase & Co. Sony suffered a major online attack that resulted in employees' personal data and corporate correspondence being leaked. The JPMorgan Chase & Co. data breach affected 76 million households and seven million small businesses.

IBM and Ponemon Institute are pleased to release the *2015 Cost of Data Breach Study: Global Analysis*. According to our research, the average total cost of a data breach for the 350 companies participating in this research increased from \$3.52 to \$3.79 million². The average cost paid for each lost or stolen record containing sensitive and confidential information increased from \$145 in 2014 to \$154 in this year's study.

In the past, senior executives and boards of directors may have been complacent about the risks posed by data breaches and cyber attacks. However, there is a growing concern about the potential damage to reputation, class action lawsuits and costly downtime that is motivating executives to pay greater attention to the security practices of their organizations.

In a recent Ponemon Institute study, 79 percent of C-level US and UK executives surveyed say executive level involvement is necessary to achieving an effective incident response to a data breach and 70 percent believe board level oversight is critical. As evidence, CEO Jamie Dimon personally informed shareholders following the JPMorgan Chase data breach that by the end of 2014 the bank will invest \$250 million and have a staff of 1,000 committed to IT security.³

Global study at a glance

- 350 companies in 11 countries
- \$3.79 million is the average total cost of data breach
- 23% increase in total cost of data breach since 2013
- \$154 is the average cost per lost or stolen record
- 12% percent increase in per capita cost since 2013

For the second year, our study looks at the likelihood of a company having one or more data breach occurrences in the next 24 months. Based on the experiences of companies participating in our research, we believe we can predict the probability of a data breach based on two factors: how many records were lost or stolen and the company's industry. According to the findings, organizations in Brazil and France are more likely to have a data breach involving a minimum of 10,000 records. In contrast, organizations in Germany and Canada are least likely to have a breach. In all cases, it is more likely a company will have a breach involving 10,000 or fewer records than a mega breach involving more than 100,000 records.

In this year's study, 350 companies representing the following 11 countries participated: United States, United Kingdom, Germany, Australia, France, Brazil, Japan, Italy, India, the Arabian region (United Arab Emirates and Saudi Arabia) and, for the first time, Canada. All participating organizations experienced a data breach ranging from a low of approximately 2,200 to slightly more than 101,000 compromised records⁴. We define a compromised record as one that identifies the individual whose information has been lost or stolen in a data breach.

¹This report is dated in the year of publication rather than the fieldwork completion date. Please note that the majority of data breach incidents studied in the current report happened in the 2014 calendar year.

²Local currencies were converted to U.S. dollars.

³New JPMorgan Chase Breach Details Emerge by Mathew J. Schwartz, Bankinfosecurity.com, August 29, 2014

⁴The terms "cost per compromised record" and "per capita cost" have equivalent meaning in this report.

In this report, for the first time, we will examine two factors that affected the financial consequences of a data breach. The first is executive involvement in their organization's IT security strategy and response to data breaches. The second is the purchase of cyber insurance to mitigate the cost of a data breach. With the increasing cost and volume of data breaches, IT security is quickly moving from being considered by business leaders as a purely technology issue to a larger business risk. This shift has spurred increased interest in cyber insurance.

The three major reasons contributing to a higher cost of data breach in 2015:

Cyber attacks have increased in frequency and in the cost to remediate the consequences. The cost of data breaches due to malicious or criminal attacks increased from an average of \$159 in last year's study to \$170 per record. Last year, these attacks represented 42 percent of root causes of a data breach and this increased to 47 percent of root causes in this year's study.

The consequences of lost business are having a greater impact on the cost of data breach. Lost business has potentially the most severe financial consequences for an organization. The cost increased from a total average cost of \$1.33 million last year to \$1.57 million in 2015. This cost component includes the abnormal turnover of customers, increased customer acquisition activities, reputation losses and diminished goodwill. The growing awareness of identity theft and consumers' concerns about the security of their personal data following a breach has contributed to the increase in lost business.

Data breach costs associated with detection and escalation increased. These costs typically include forensic and investigative activities, assessment and audit services, crisis team management and communications to executive management and board of directors. This total average cost increased from \$.76 million last year to \$.99 million in this year's report.

More companies are integrating forensic tools into their incident response procedures. In the long-term, deployment of these solutions will prove beneficial to companies because they will provide a clearer picture of the root causes of their data breaches. However, in many cases, these tools enable companies to discover the full extent of the breach. This may result in the reporting of higher data breach costs than in previous years.

Key findings

Data breaches cost the most in the US and Germany and the lowest in Brazil and India. The average per capita cost of data breach is \$217 in the US and \$211 in Germany. The lowest cost is in Brazil (\$78) and India (\$56). The average total organizational cost in the US is \$6.5 million and in Germany \$4.9 million. The lowest organizational cost is in Brazil (\$1.8 million) and India (\$1.5 million).

The cost of data breach varies by industry. The average global cost of data breach per lost or stolen record is \$154. However, if a healthcare organization has a breach the average cost could be as high as \$363 and in education the average cost could be as high as \$300. The lowest cost per lost or stolen record is in transportation (\$121) and public sector (\$68). The retail industry's average cost increased dramatically from \$105 last year to \$165 in this year's study.

Hackers and criminal insiders cause the most data breaches. Forty-seven percent of all breaches in this year's study were caused by malicious or criminal attacks. The average cost per record to resolve such an attack is \$170. In contrast, system glitches cost \$142 per record and human error or negligence is \$134 per record. The US and Germany spend the most to resolve a malicious or criminal attack (\$230 and \$224 per record, respectively).

Malicious or criminal attacks vary significantly by country. Fifty-seven percent of all breaches in the Arabian Cluster and in France 55 percent of all breaches are due to hackers and criminal insiders. Only 32 percent of all data breaches occurring in India are due to malicious

attacks and in Brazil it is 30 percent. However, India and Brazil have the most data breaches due to system glitches. Breaches due to human error are highest in Canada.

Board involvement and the purchase of insurance can reduce the cost of a data breach.

For the first time, we looked at the positive consequences that can result when boards of directors take a more active role when an organization had a data breach. Board involvement reduces the cost by \$5.5 per record. Insurance protection reduces the cost by \$4.4 per record.

The loss of customers increases the cost of data breach. Certain countries have more problems retaining customers following a data breach and, therefore, can have higher costs. These are France, Italy, UK and Japan. Countries with the lowest churn rate are Canada, India and Brazil. Industries with the highest churn are health, pharmaceuticals and financial services.

Notification costs remain low, but costs associated with lost business steadily increase.

Lost business costs are abnormal turnover of customers, increased customer acquisition activities, reputation losses and diminished good will. The average cost has increased from \$1.45 million in 2014 to \$1.57 million in 2015. Notification costs have declined from \$0.19 million in 2014 to \$0.17 million in this year's study.

Certain countries are more likely to have a data breach. Last year's study introduced a new analysis on the likelihood of one or more data breach occurrences. It is interesting that the likelihood of a data breach varies considerably across countries. Brazil and France are most likely to have a data breach involving a minimum of 10,000 records. Canada and Germany are least likely to have a data breach.

Time to identify and contain a data breach affects the cost. For the first time, our study shows the relationship between how quickly an organization can identify and contain data breach incidents and financial consequences. Malicious attacks can take an average of 256 days to identify while data breaches caused by human error take an average of 158 days to identify. As discussed earlier, malicious or criminal attacks are the most costly data breaches.

Business continuity management plays an important role in reducing the cost of data breach. The research reveals that having business continuity management involved in the remediation of the breach can reduce the cost by an average of \$7.1 per compromised record.

Cost of Data Breach FAQs

What is the purpose of this research? Our goal is to quantify the economic impact of data breaches and observe cost trends over time. We believe a better understanding of the cost, the root causes and factors that influence the cost will assist organizations in determining the appropriate amount of investment and resources needed to prevent or mitigate the consequences of an attack.

What is a data breach? A breach is defined as an event in which an individual's name plus a medical record and/or a financial record or debit card is potentially put at risk—either in electronic or paper format. In our study, we have identified three main causes of a data breach: a malicious or criminal attack, system glitch or human error. The costs of a data breach can vary according to the cause and the safeguards in place at the time of the data breach.

What is a compromised record? We define a record as information that identifies the natural person (individual) whose information has been lost or stolen in a data breach. Examples can include a retail company's database with an individual's name associated with credit card information and other personally identifiable information. Or, it could be a health insurer's record of the policyholder with physician and payment information. In this year's study, the average cost to the organization if one of these records is lost or stolen is \$154.

How do you collect the data? Ponemon Institute researchers collected in-depth qualitative data through more than 1,500 separate interviews conducted over a ten-month period. Recruiting organizations for the 2015 study began in January 2014 and interviews were completed in March 2015. In each of the 350 participating organizations, we spoke with IT, compliance and information security practitioners who are knowledgeable about their organization's data breach and the costs associated with resolving the breach. For privacy purposes we do not collect any organization-specific information.

How do you calculate the cost? To calculate the average cost of data breach, we collect both the direct and indirect expenses incurred by the organization. Direct expenses include engaging forensic experts, outsourcing hotline support and providing free credit monitoring subscriptions and discounts for future products and services. Indirect costs include in-house investigations and communication, as well as the extrapolated value of customer loss resulting from turnover or diminished customer acquisition rates.

How does benchmark research differ from survey research? The unit of analysis in the *Cost of Data Breach* study is the organization. In survey research, the unit of analysis is the individual. We recruited 350 organizations to participate in this study. Data breaches ranged from a low of 2,200 to slightly more than 101,000 compromised records.

Can the average cost of data breach be used to calculate the financial consequences of a mega breach such as those involving millions of lost or stolen records? The average cost of a data breach in our research does not apply to catastrophic or mega data breaches such as Sony because these are not typical of the breaches most organizations experience. In order to be representative of the population of global organizations and draw conclusions from the research that can be useful in understanding costs when protected information is lost or stolen, we do not include data breaches of more than approximately 100,000 compromised records in our analysis.

Are you tracking the same organizations each year? Each annual study involves a different sample of companies. In other words, we are not tracking the same sample of companies over time. To be consistent, we recruit and match companies with similar characteristics such as the company's industry, headcount, geographic footprint and size of data breach. Since starting this research in 2005, we have studied the data breach experiences of 1,629 organizations globally.

Global at a glance

This year's annual study was conducted in 11 countries: United States, Germany, Canada (for the first time), France, United Kingdom, Italy, Japan, Australia, Arabian Cluster, Brazil and India, with a total benchmark sample of 350 organizations. Country-specific results are presented in 11 separate reports.

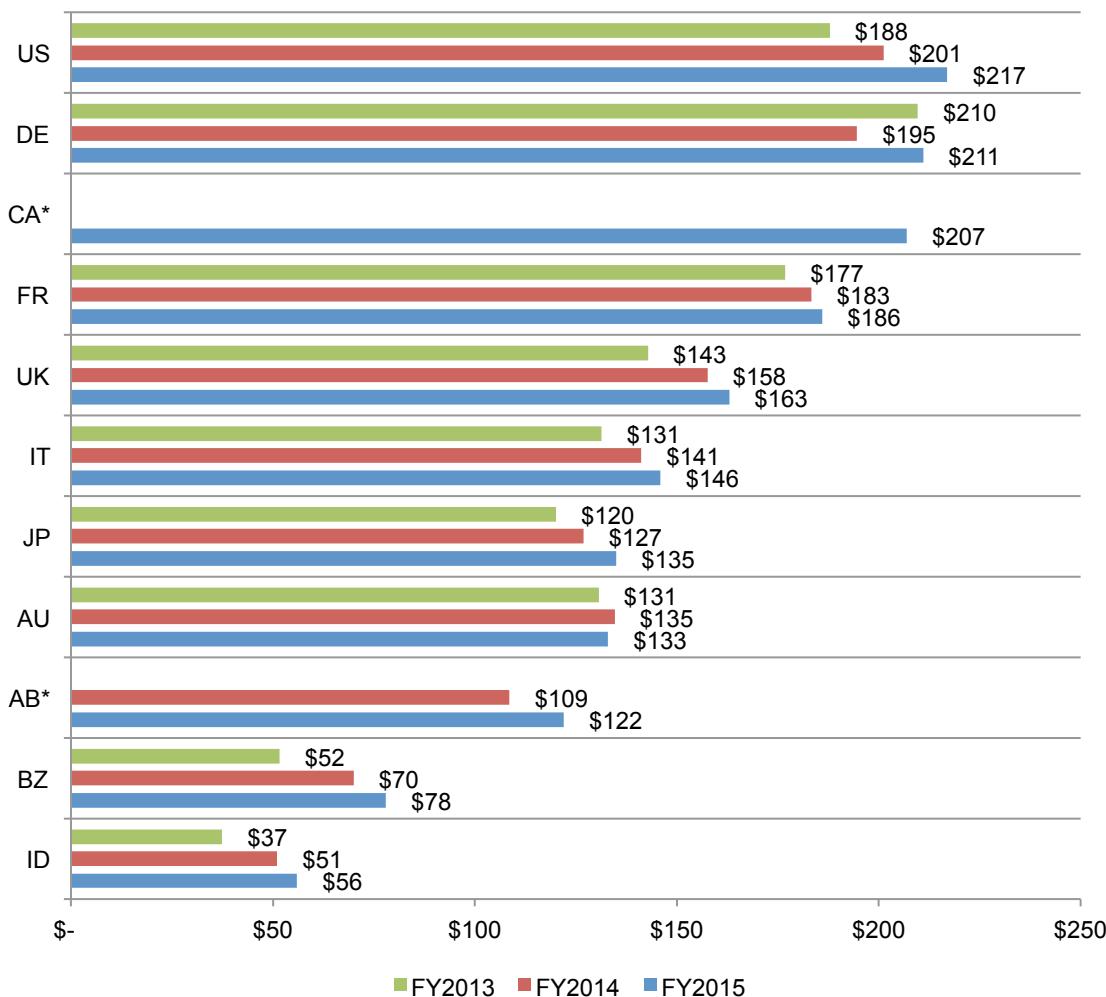
Figure 1 presents the average per capita cost of data breach over three years expressed in US dollars for 11 country studies. As shown, there is significant variation among country samples.⁵ The consolidated average per capita cost for all countries was \$154 compared to a \$145 average cost calculated last year (excluding Canada). The US and Germany continue to have the highest per capita costs at \$217 and \$211, respectively. India and Brazil had the lowest costs at \$56 and \$78, respectively.

Figure 1. The average per capita cost of data breach over three years

*Historical data is not available

Consolidated view (FY 2015 = 350, FY 2014 = 315, FY 2013 = 277)

Measured in US\$



⁵ Per capita cost is defined as the total cost of data breach divided by the size of the data breach (i.e., the number of lost or stolen records).

Part 2. Key Findings

In this section, we provide the detailed findings of this research. Topics are presented in the following order:

- Global and industry differences in cost of data breach
- Root causes of a data breach
- Factors that influence the cost of data breach
- Trends in the frequency of compromised records and customer turnover or churn
- Trends in the cost components of data breach
- The likelihood an organization will have a data breach
- Mean time to identify and contain a data breach
- The impact of business continuity management on the cost of data breach

The following table lists 11 countries, legend, sample sizes and currencies used in this global study. It also shows the number of years of annual reporting for each country ranging from one year for Canada to 10 years for the United States.

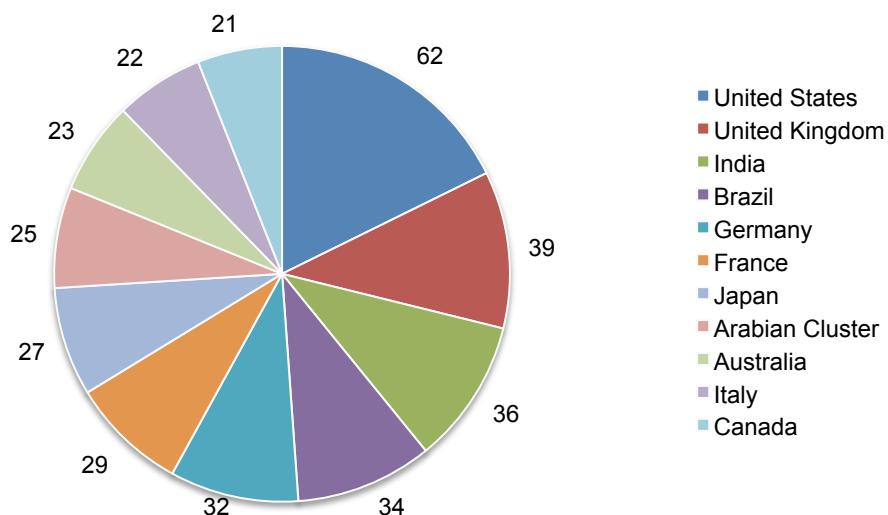
Table 1. Global Study at a Glance					
Legend	Countries	Sample	Pct%	Currency	Years of study
AB	Arabian Cluster*	25	7%	AED/SAR	2
AU	Australia	23	7%	AU Dollar	6
BZ	Brazil	34	10%	Real	3
CA	Canada	21	6%	CA Dollar	1
DE	Germany	32	9%	Euro	7
FR	France	29	8%	Euro	6
ID	India	36	10%	Rupee	4
IT	Italy	22	6%	Euro	4
JP	Japan	27	8%	Yen	4
UK	United Kingdom	39	11%	GBP	8
US	United States	62	18%	US Dollar	10
	Total	350	100%		

*AB is a combined sample of companies located in Saudi Arabia and the United Arab Emirates

The following chart shows the distribution of 350 participating organizations within 11 countries. As can be seen, the US represents the largest segment with 62 organizations and Canada the smallest sample with 21 organizations.

Pie Chart 1. Frequency of benchmark samples by country

Consolidated view (n=350)



Global and industry differences in the cost of data breach

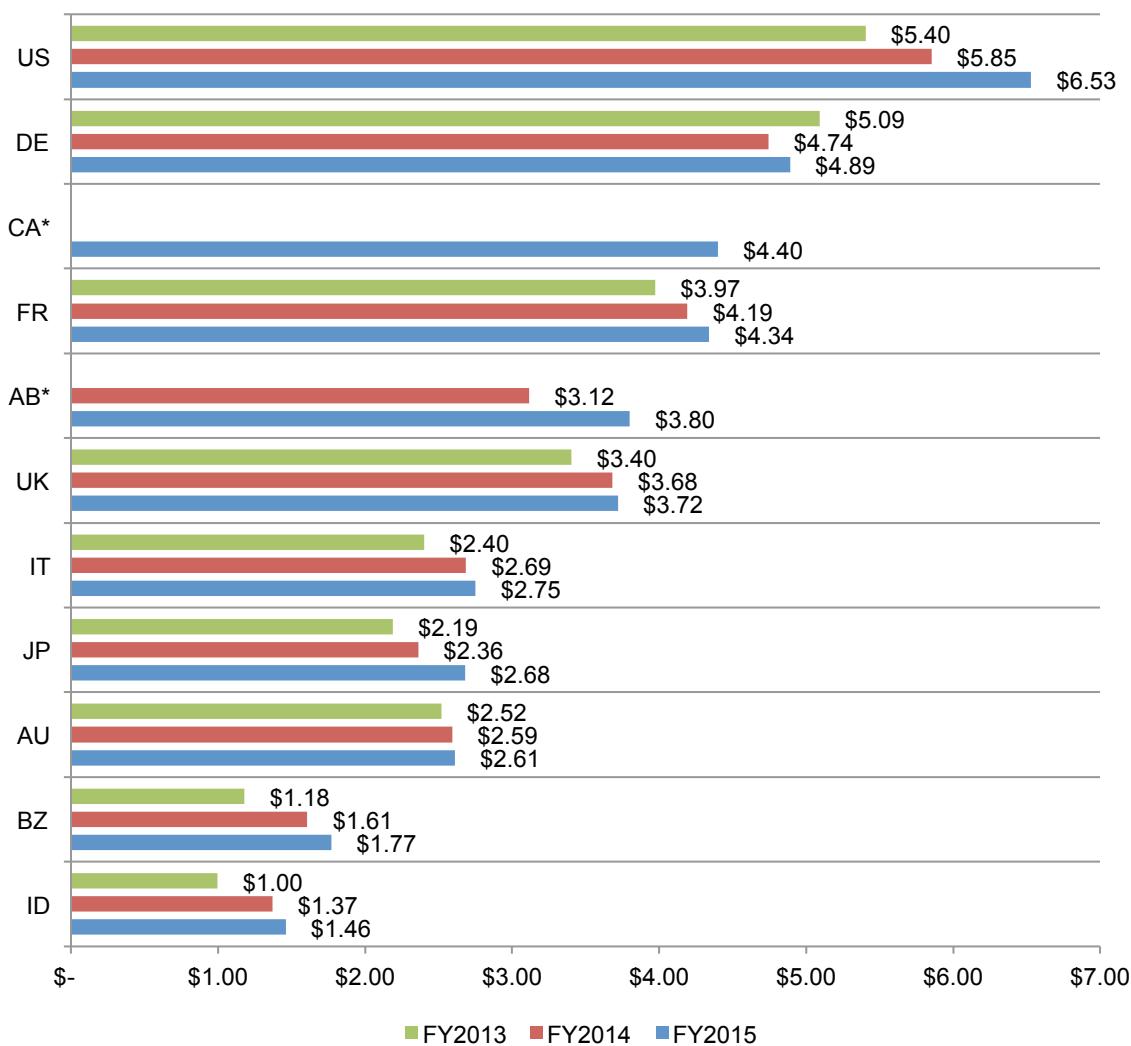
The average organizational cost of a data breach varies by country. Figure 2 presents the total average cost of a data breach for 11 countries in this year's study. As can be seen, all countries experienced an increase in the average total cost over the past year. The US sample experienced the highest total average cost at more than \$6.53 million, followed by Germany at \$4.89 million. In contrast, Brazilian and Indian companies experienced the lowest total average cost at \$1.77 million and \$1.46 million, respectively.

Figure 2. The average total organizational cost of a data breach over three years

*Historical data is not available

Consolidated view (FY 2015 = 350, FY 2014 = 315, FY 2013 = 277)

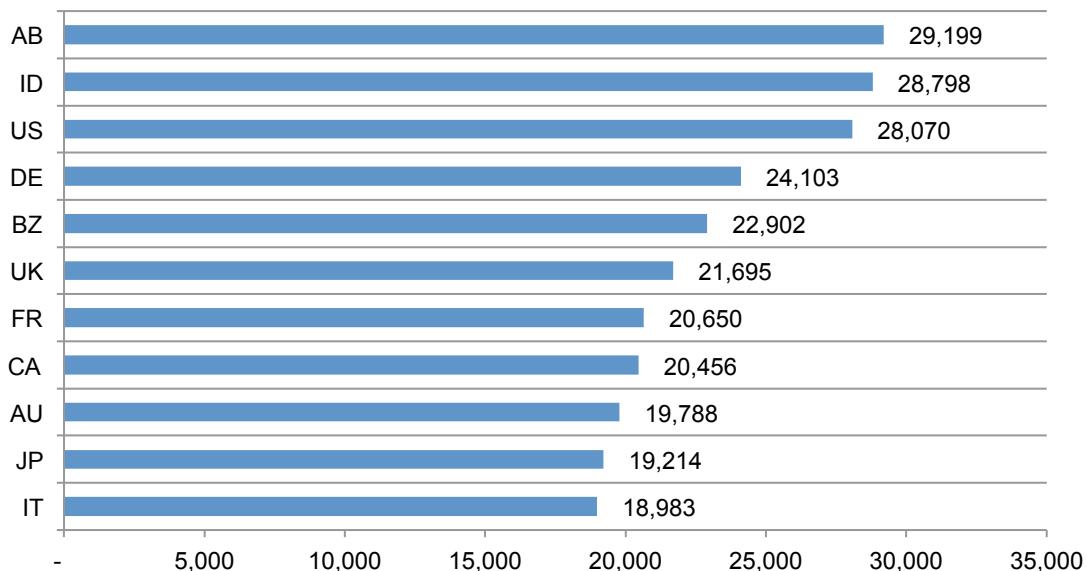
Measured in US\$ (millions)



Number of exposed or compromised records. Figure 3 reports the average size of data breaches for organizations in the 11 countries represented in this research. As shown, organizations in the Arabian region, India and US had the largest average number of records lost or stolen. In this report, we also show the relationship between the number of records lost or stolen and the cost of a data breach.

Figure 3. The average number of breached records by country

Consolidated view (n=350)

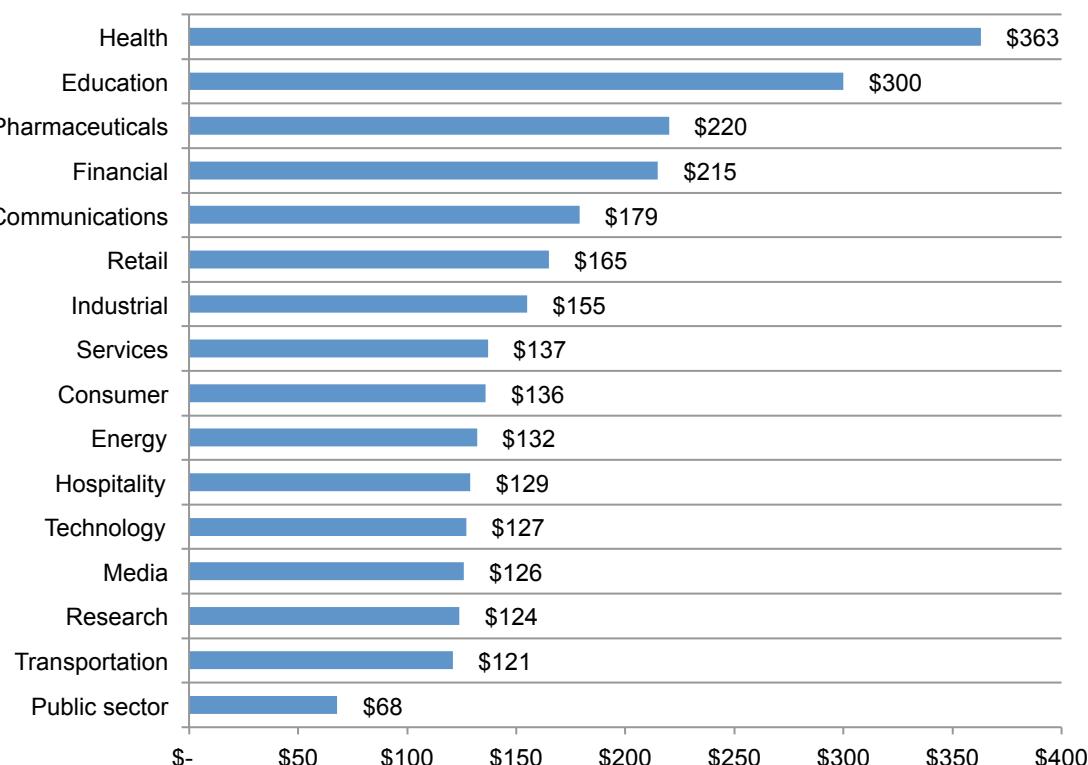


Certain industries have higher data breach costs. Figure 4 reports the per capita costs for the consolidated sample by industry classification. Heavily regulated industries such as healthcare, education, pharmaceutical and financial services have a per capita data breach cost substantially above the overall mean of \$154. Public sector, transportation, research and media organizations have a per capita cost well below the overall mean value.

While the cost of data breach stayed relatively constant for most industries, the retail sector experienced a significant increase from \$105 in 2014 to \$165 in 2015. Media reporting of these events and consumers' concerns about identity theft caused retail companies to spend more money to address the consequences of data breaches.

Figure 4. Per capita cost by industry classification

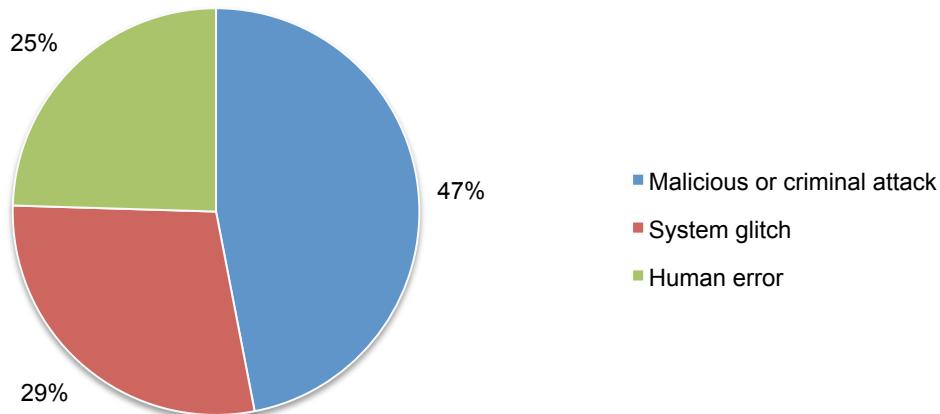
Consolidated view (n=350), measured in US\$



The root causes of data breach

Malicious or criminal attacks are most often the cause of a data breach globally.⁶ Pie Chart 2 provides a summary of the main root causes of a data breach on a consolidated basis for all 11 countries represented in the research. Forty-seven percent of incidents involve a malicious or criminal attack, 25 percent concern a negligent employee or contractor (human factor), and 29 percent involve system glitches that includes both IT and business process failures.⁷

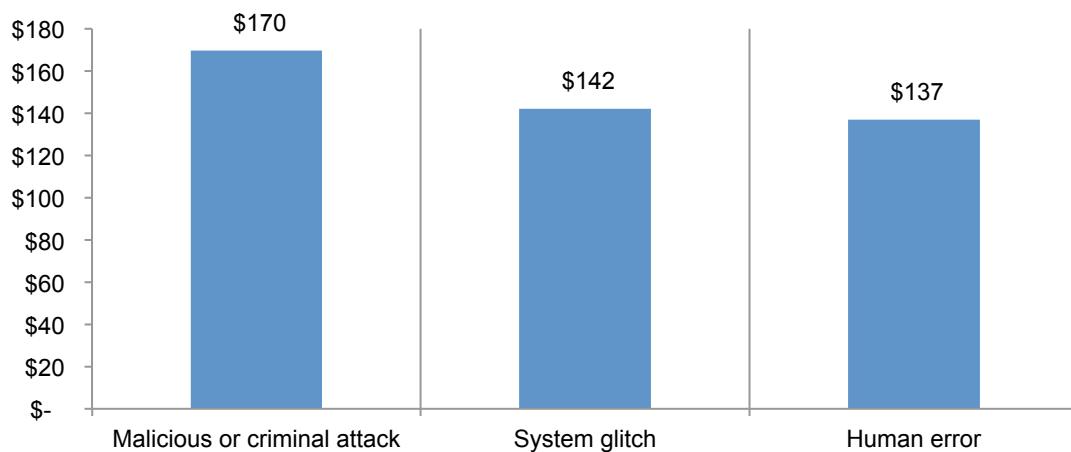
Pie Chart 2. Distribution of the benchmark sample by root cause of the data breach
Consolidated view (n=350)



Malicious attacks are more costly globally. Figure 5 reports the per capita cost of data breach for three root causes of the breach incident. In 2015, the cost of data breaches due to malicious or criminal attacks increased from an average of \$159 in last year's study to \$170 in 2015. This is significantly above the per capita cost for breaches caused by system glitch and human factors (\$142 and \$137, respectively). Last year, system glitches averaged \$126 and human error averaged \$117.

Figure 5. Per capita cost for three root causes of the data breach

Consolidated view (n=350), measured in US\$



⁶Negligent insiders are individuals who cause a data breach because of their carelessness, as determined in a post data breach investigation. Malicious attacks can be caused by hackers or criminal insiders (employees, contractors or other third parties).

⁷The most common types of malicious or criminal attacks include malware infections, criminal insiders, phishing/social engineering and SQL injection.

Figure 6 presents the main root causes of data breach for 11 country samples. At 56 percent, organizations in the Arabian region are most likely to experience a malicious or criminal attack. In contrast, Indian and Brazilian companies are least likely to experience such data breaches. Instead, Indian companies are most likely to experience a data breach caused by a system glitch or business process failure. Brazilian and Australian companies are most likely to experience a data breach caused by human error.

Figure 6. Distribution of the benchmark sample by root cause of the data breach
 Consolidated view (n=350)

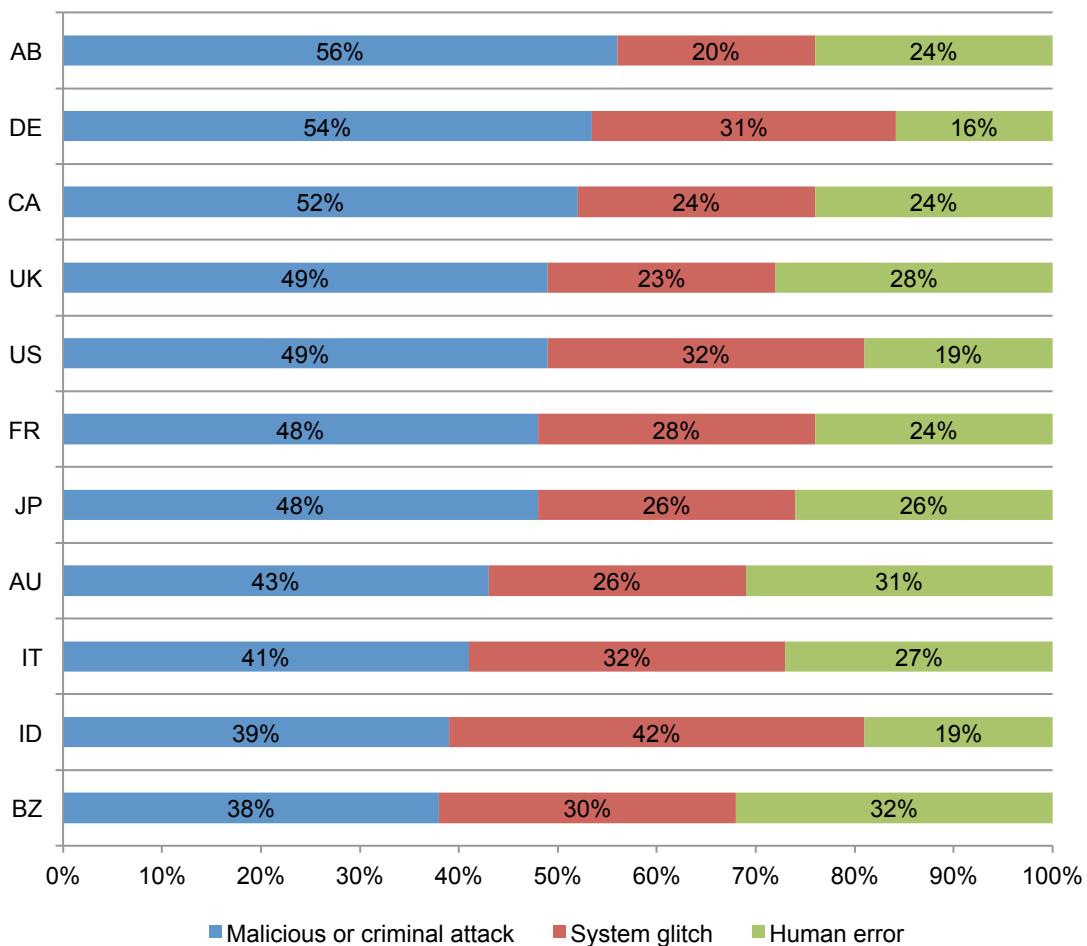
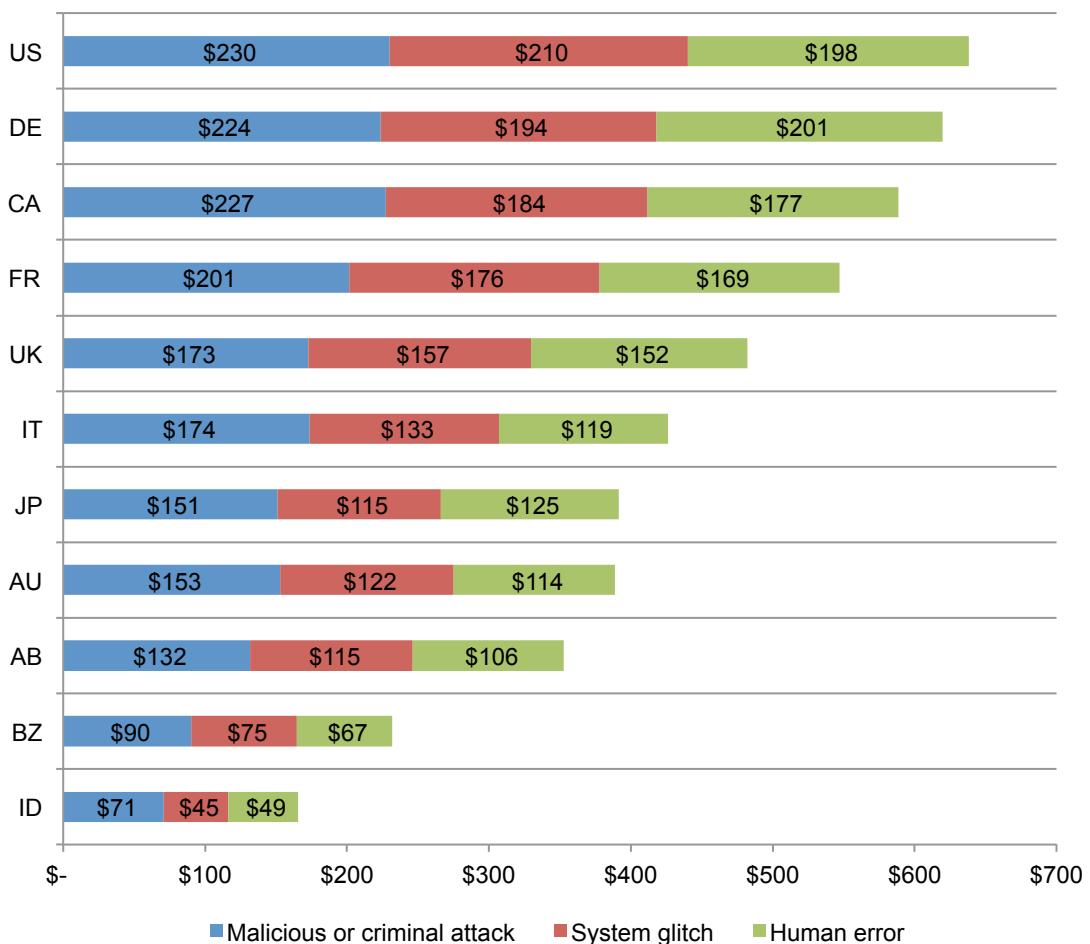


Figure 7 reports the per capita cost of data breach by country sample for three root causes. These results clearly show data breach costs resulting from malicious or criminal attacks are consistently higher than those costs resulting from system glitches or human error. This graph also shows wide variation across country samples. That is, the US cost of a malicious or criminal data breach incident is \$230 per compromised record. In India, this per capita cost is only \$71.

Figure 7. Per capita cost for three root causes of the data breach

Consolidated view (n=350), measured in US\$



Factors that influence the cost of data breach

Table 2 provides a list 11 factors that accelerate or moderate the per capita cost of data breach.

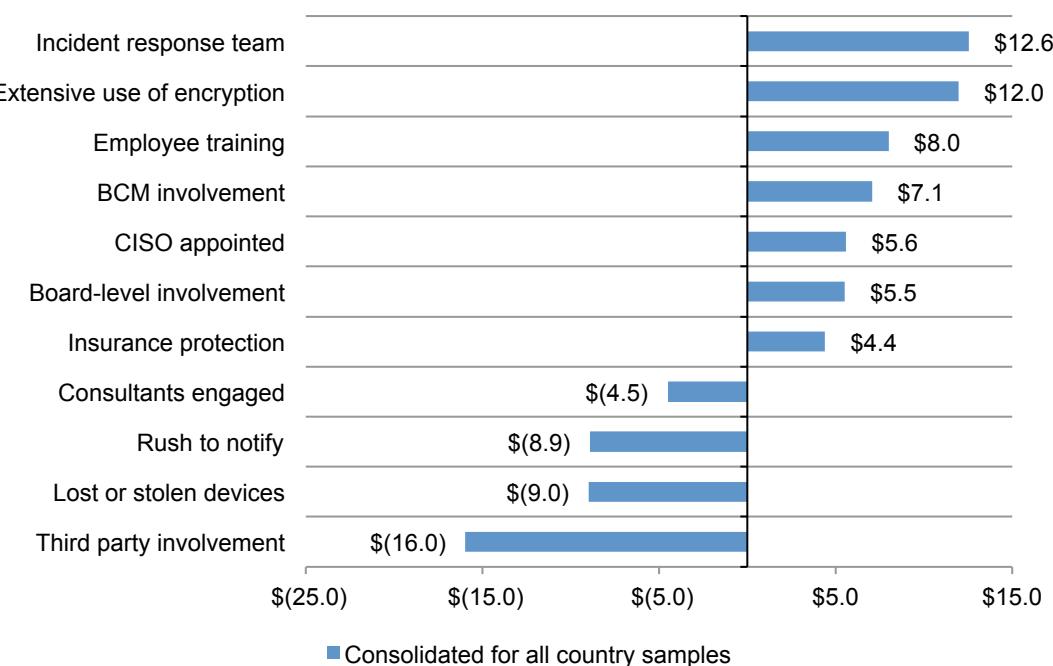
Table 2. Factors that impact the per capita cost of data breach	
Factors	Percentage of companies
Employee training	51%
BCM involvement	50%
Incident response team	48%
CISO appointed	45%
Extensive use of encryption	44%
Third party involvement	36%
Consultants engaged	35%
Lost or stolen devices	33%
Insurance protection	32%
Board-level involvement	31%
Rush to notify	29%

Using an incremental analysis method, we compile the positive or negative values for each factor. The positive dollar values in Figure 8 represent the per capita cost savings. The negative dollar values represent an increase in the average per capita cost. These dollar values are not additive.

As shown, an incident response team, extensive use of encryption, employee training, business continuity management, CISO leadership, board-level involvement and insurance protection decrease the per capita cost of data breach. Third party involvement in the incident, lost or stolen devices, rush to notify, and consulting services increase the per capita cost of data breach (shown as negative numbers). For example, an incident response team can reduce the cost of a data breach by \$12.60, from \$154 to \$141.40. In contrast, third party involvement in the cause of the data breach results in an increase of \$16.00, from \$154 to \$170.

Figure 8. Impact of 11 factors on the per capita cost of data breach

Consolidated view (n=350), measured in US\$

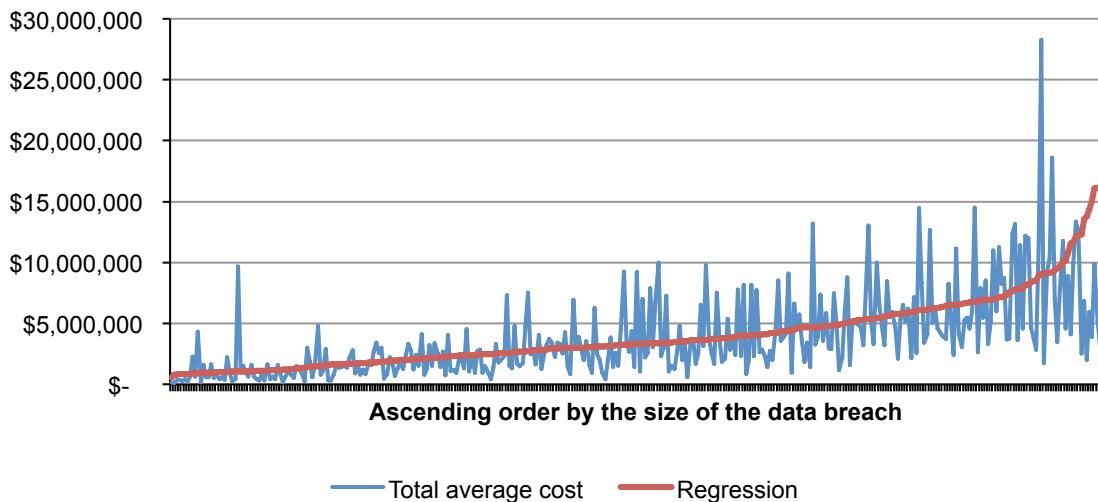


Trends in frequency of compromised records and customer turnover

The more records lost, the higher the cost of the data breach. Figure 9 shows the relationship between the total cost of data breach and the size of the incident for 350 organizations in ascending order by the size of the breach incident. The regression line clearly indicates that the size of the data breach incident and total costs are linearly related. In this year's study, the cost ranged from \$116,995 to \$28,290,631.

Figure 9. Total cost of data breach by size

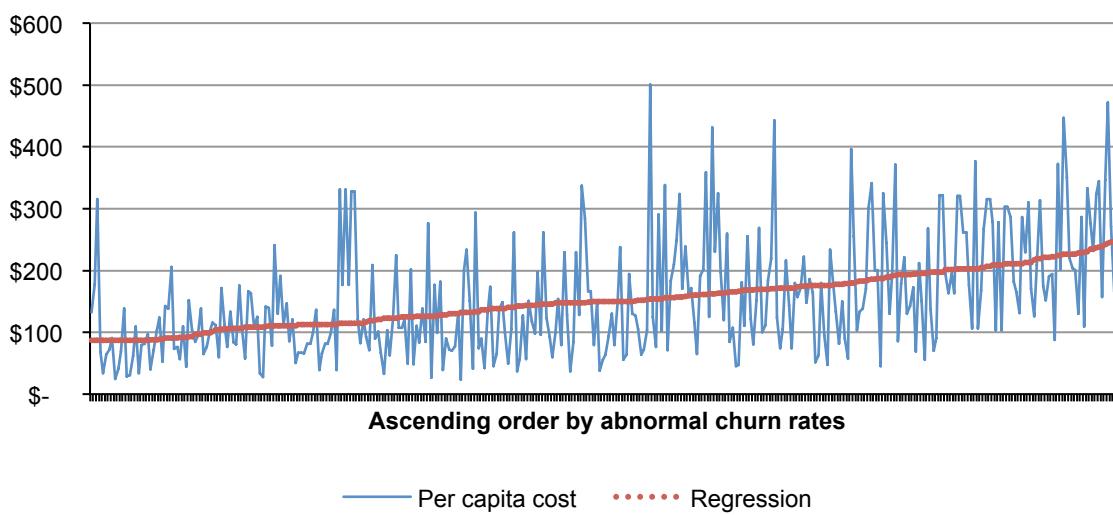
Regression = Intercept + {Size of Breach Event} x β , where β denotes the slope.
Consolidated view (n=350), measured in US\$



The more churn, the higher the per capita cost of data breach. Figure 10 reports the distribution of per capita data breach costs in ascending rate of abnormal churn for 350 organizations. The regression line is upward sloping, which suggests that abnormal churn and per capita costs are linearly related.

Figure 10. Distribution of abnormal churn rates in ascending order by per capita costs

Regression = Intercept + {abnormal churn rate} x β , where β denotes the slope.
Consolidated view (n=350), measured in US\$



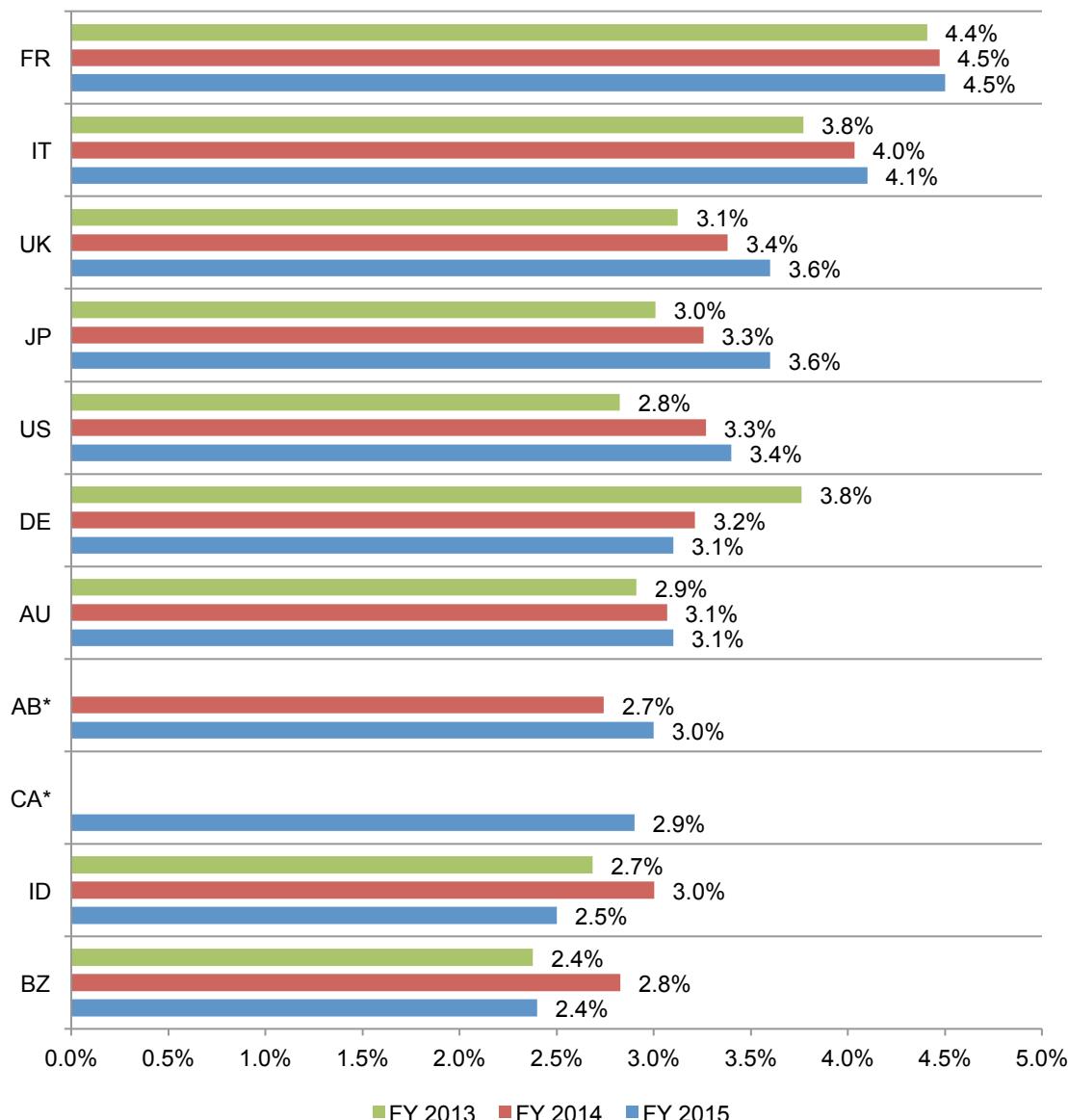
Certain countries are more vulnerable to churn. Figure 11 reports the average abnormal churn rates for the 11 countries represented in this research. Results show marked differences among countries. France continues to experience the highest rate of churn followed by Italy. India and Brazil experience the lowest abnormal churn or turnover.

The implication of this finding is that organizations in countries with high churn rates could significantly reduce the costs of data breach by putting an emphasis on customer retention activities to preserve reputation and brand value.

Figure 11. Abnormal churn rates over three years by country sample

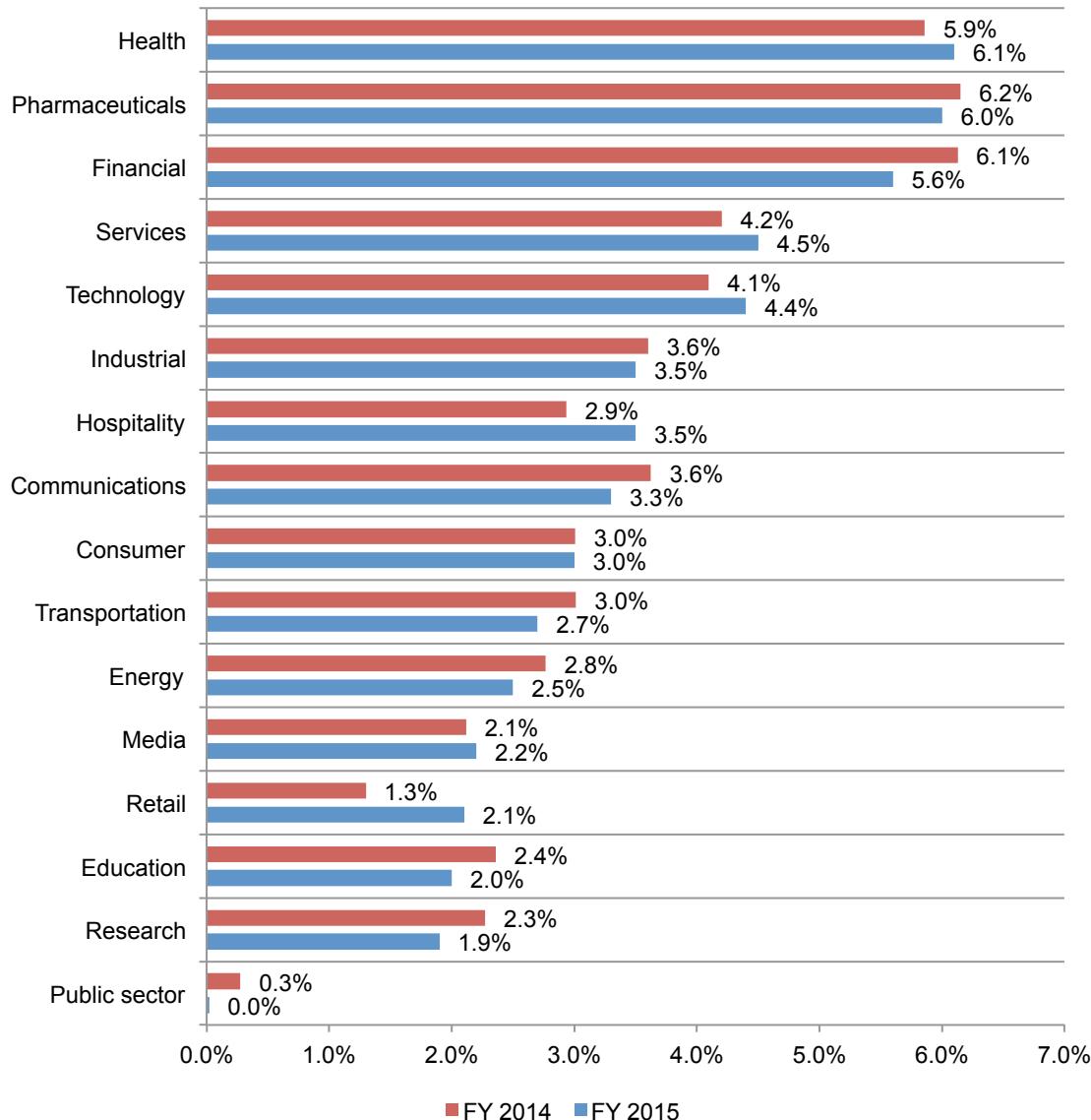
*Historical data is not available

Consolidated view (FY 2015 = 350, FY 2014 = 315, FY 2013 = 277)



Certain industries are more vulnerable to churn. Figure 12 reports the abnormal churn rate of benchmarked organizations for the 2014 and 2015 studies. While a small sample size prevents us from generalizing the affect of industry on customer churn rates, health, pharmaceutical, financial services and service organizations tend to experience relatively high abnormal churn⁸ and public sector and research companies tend to experience a relatively low abnormal churn.

Figure 12. Abnormal churn rates by industry classification of benchmarked companies
Consolidated view (FY 2015 = 350; FY 2014 = 315)



⁸Public sector organizations utilize a different churn framework given that customers of government organizations typically do not have an alternative choice.

Trends in the cost components of a data breach

Figure 13 presents four costs components associated with the data breach. As can be seen, lost business has potentially the most severe financial consequences and has steadily increased over the past three years. This cost component includes the abnormal turnover of customers, increased customer acquisition activities, reputation losses and diminished goodwill.

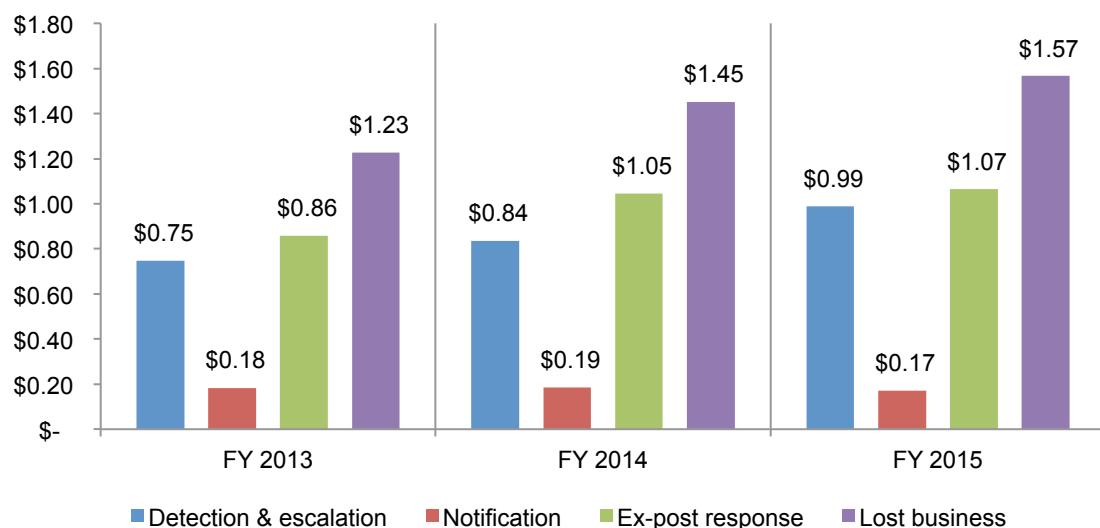
The costs associated with ex-post response and detection are also increasing over three years. Ex-post costs include help desk activities, inbound communications, special investigative activities, remediation, legal expenditures, product discounts, identity protection services and regulatory interventions. Data breach costs associated with detection and escalation typically include forensic and investigative activities, assessment and audit services, crisis team management and communications to executive management and board of directors.

Notification-related activities represent the lowest data breach cost component. These costs typically include IT activities associated with the creation of contact databases, determination of all regulatory requirements, engagement of outside experts, postal expenditures, secondary contacts to mail or email bounce-backs and inbound communication set-up.

Figure 13. Trends in four data breach cost components over three years

Consolidated view (FY 2015 = 350, FY 2014 = 315, FY 2013 = 277)

Measured in US\$ (millions)



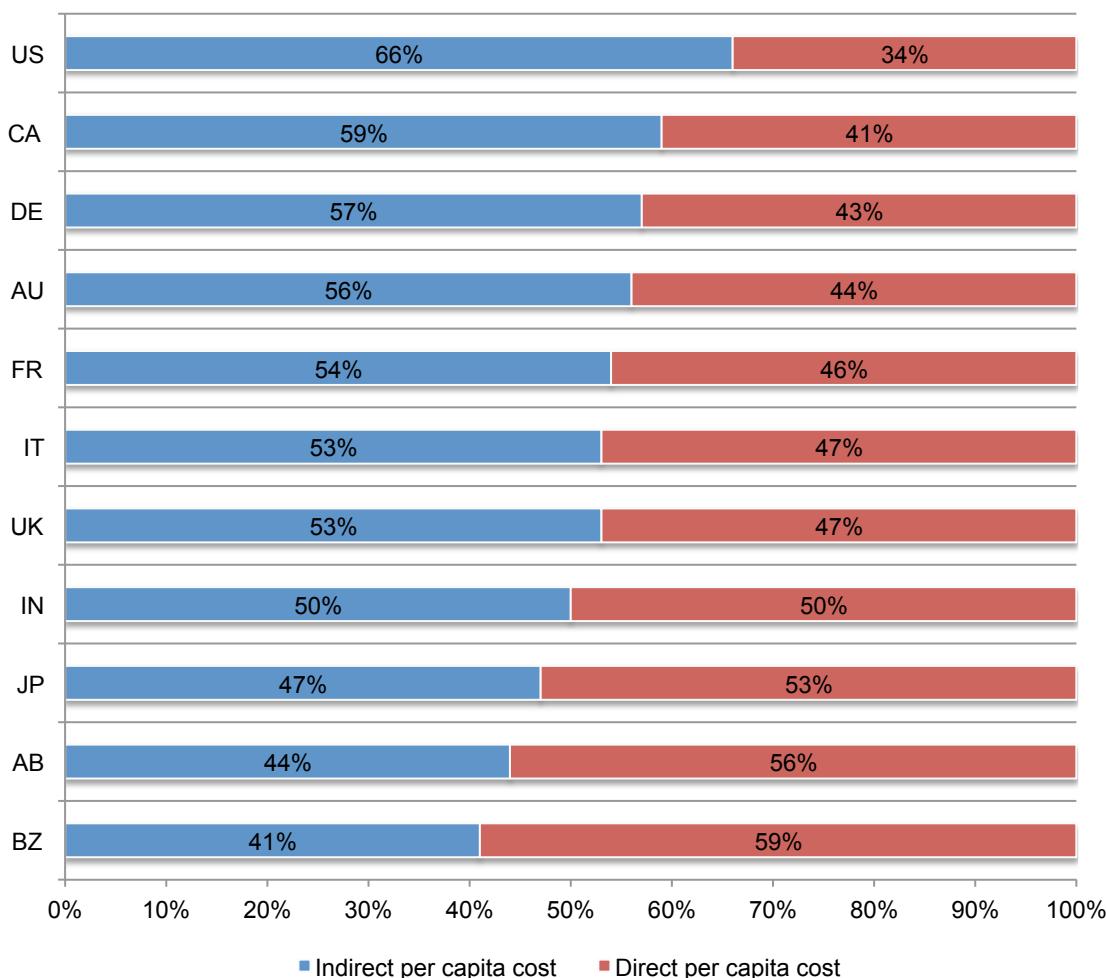
The proportion of direct and indirect costs of data breach varies by country

Direct costs refer to the direct expense outlay to accomplish a given activity such as engaging forensic experts, hiring a law firm or offering victims identity protection services. Indirect costs include the time, effort and other organizational resources spent during the data breach resolution. It includes the use of existing employees to help in the data breach notification efforts or in the investigation of the incident. Indirect costs also include the loss of goodwill and customer churn.

Figure 14 reports the indirect and direct components of a data breach on a percentage basis for 11 countries. As shown, companies in the US have the highest indirect costs. Brazil and the Arabian region have the highest direct costs.

Figure 14. Percentage direct and indirect per capita data breach costs

Consolidated view (n=350)

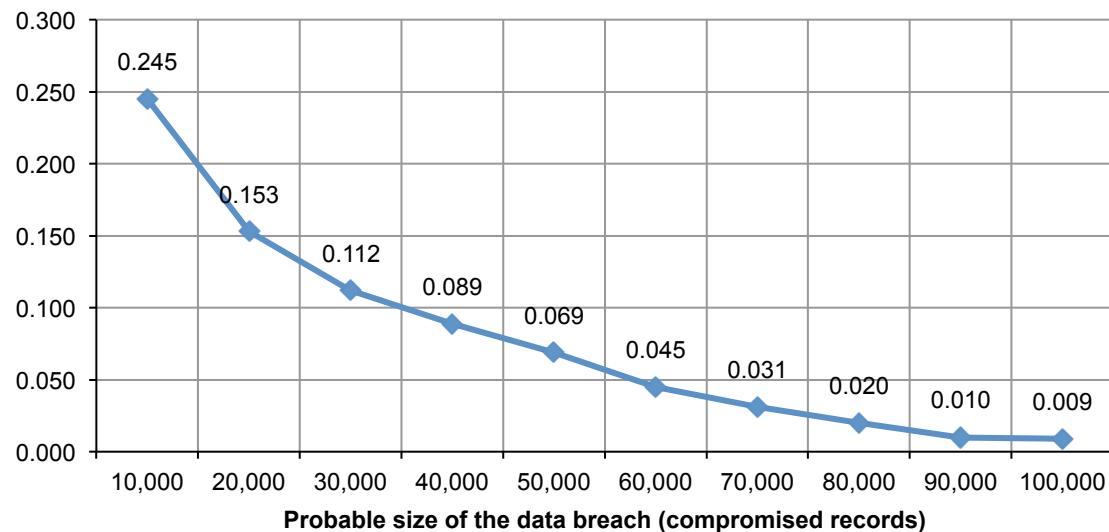


The likelihood that an organization will have a data breach

Our research provides an analysis of the likelihood of one or more data breach occurrences in the next 24 months. Based on the experiences of organizations in our research, we believe we can predict the probability of a data breach based on two factors: how many records are lost or stolen and the company's industry.

Figure 15 shows the subjective probabilities of breach incidents involving a minimum of 10,000 to 100,000 compromised records.⁹ As can be seen, the likelihood of a data breach steadily decreases as the size increases. While the likelihood of a data breach involving a minimum of 10,000 records is estimated at approximately 22 percent over a 24-month period, the chances of a data breach involving a 100,000 records is less than 1 percent.

Figure 15. Probability of a data breach involving a minimum of 10,000 to 100,000 records
Consolidated view (n=350)



⁹Estimated probabilities were captured from sample respondents using a point estimation technique. Key individuals such as the CISO or CPO who participated in cost assessment interviews provided their estimate of data breach likelihood for 10 levels of data breach incidents (ranging from 10,000 to 100,000 lost or stolen records). The time scale used in this estimation task was the forthcoming 24-month period. An aggregated probability distribution was extrapolated for each one of the 350 participating companies.

Organizations in certain countries are more likely to have a data breach. Figure 16 summarizes the probability of a data breach involving a minimum of 10,000 records for the 11 countries in this research. While a small sample size prevents us from generalizing country differences, the estimated likelihood of a material data breach varies considerably across countries.

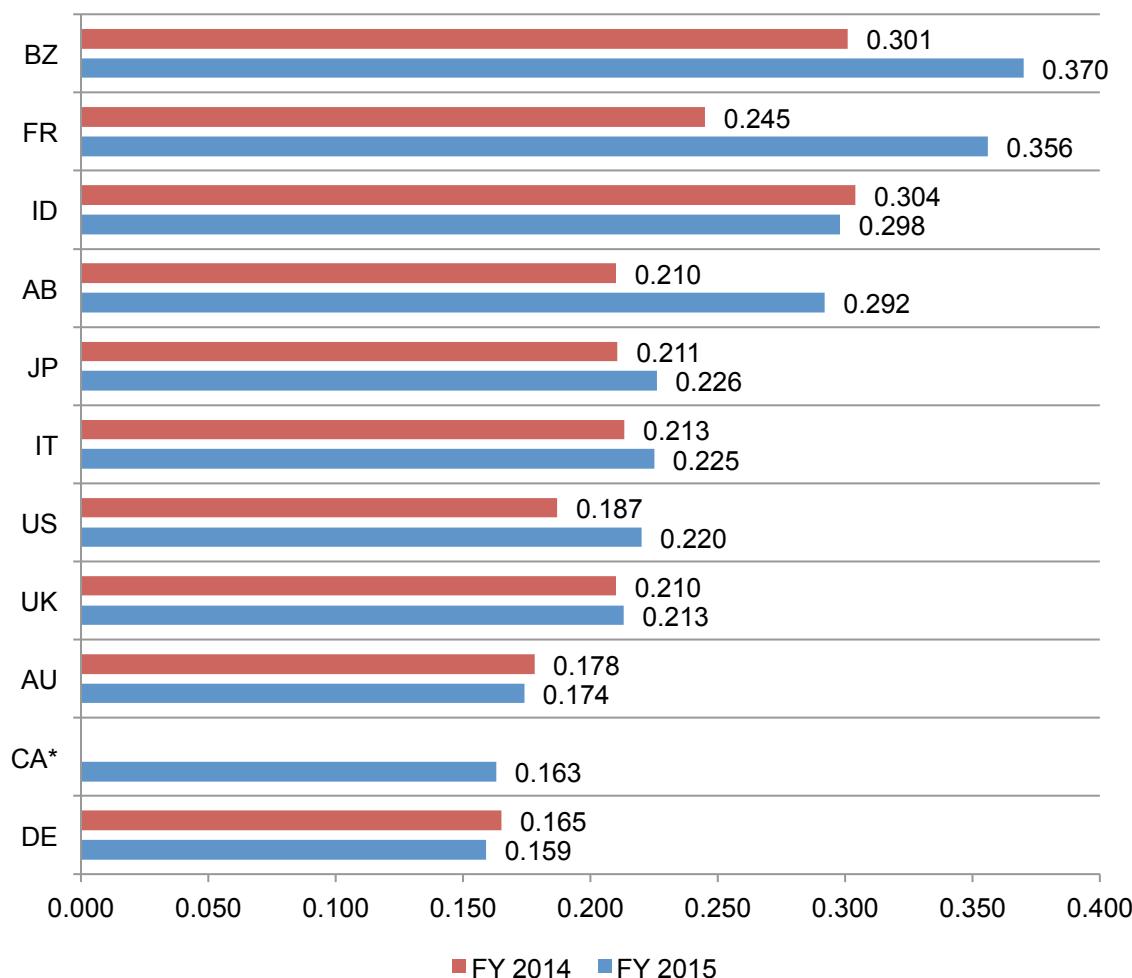
Brazil and France appear to have the highest estimated probability of occurrence. Germany and Canada have the lowest probability of data breach.

Figure 16. Probability of a data breach involving a minimum of 10,000 records by country

A minimum of 10,000 compromised records

*Historical data is not available

Consolidated view (FY 2015 = 350, FY 2014 = 315)



Time to identify and contain data breaches impact cost

Figure 17 provides data on the mean time to identify (MTTI) and mean time to contain (MTTC) the data breach. For our consolidated sample of 350 companies, we estimate a mean time to identify at 206 days with a range of 20 to 582 days. The mean time to contain is 69 days with a range of 7 to 175 days.

Figure 17. Mean time to identify and contain data breach incidents (in days)
Consolidated view (n = 350)

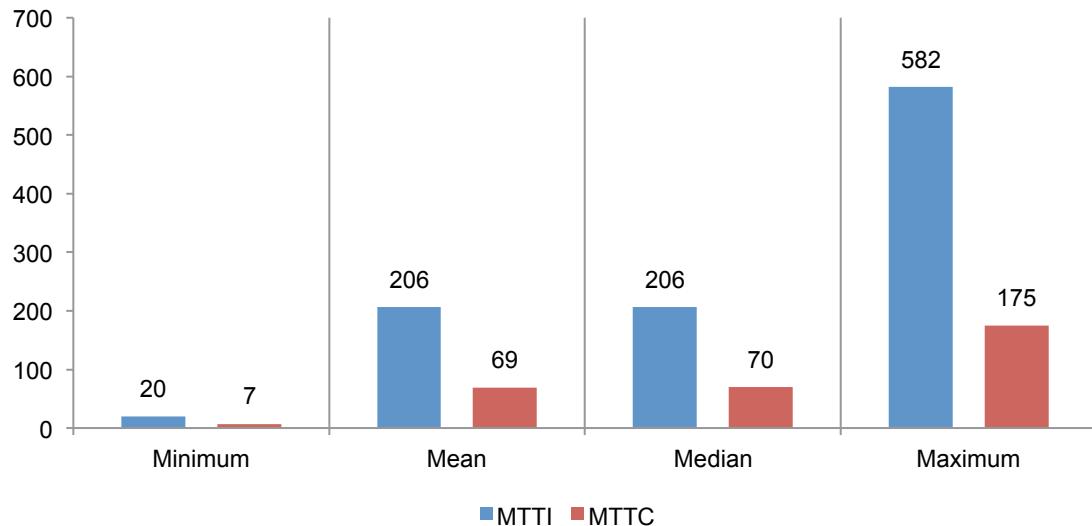


Figure 18 provides MTTI and MTTC by three root causes of the data breach incident. As shown, both the time to identify and time to contain is highest for malicious and criminal attacks (256 and 82 days, respectively) and much lower for human-caused data breaches (158 and 57 days, respectively).

Figure 18. Mean time to identify and contain data breach incidents by root cause (in days)
Consolidated view (n = 350)

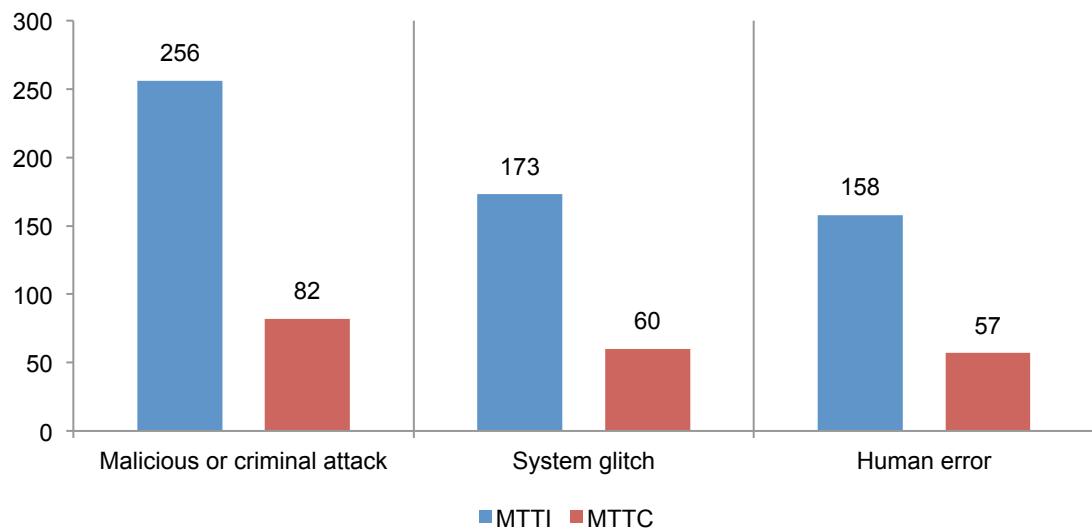


Figure 19 shows an upper-sloping linear relationship between total data breach cost and mean time for 350 companies in 11 countries. This significant relationship suggests the failure to quickly identify the data breach will lead to higher costs.

Figure 19. Relationship between mean time to identify with total average cost

Regression = Intercept + {MTTI} x β , where β denotes the slope.

Consolidated view (n=350), measured in US\$

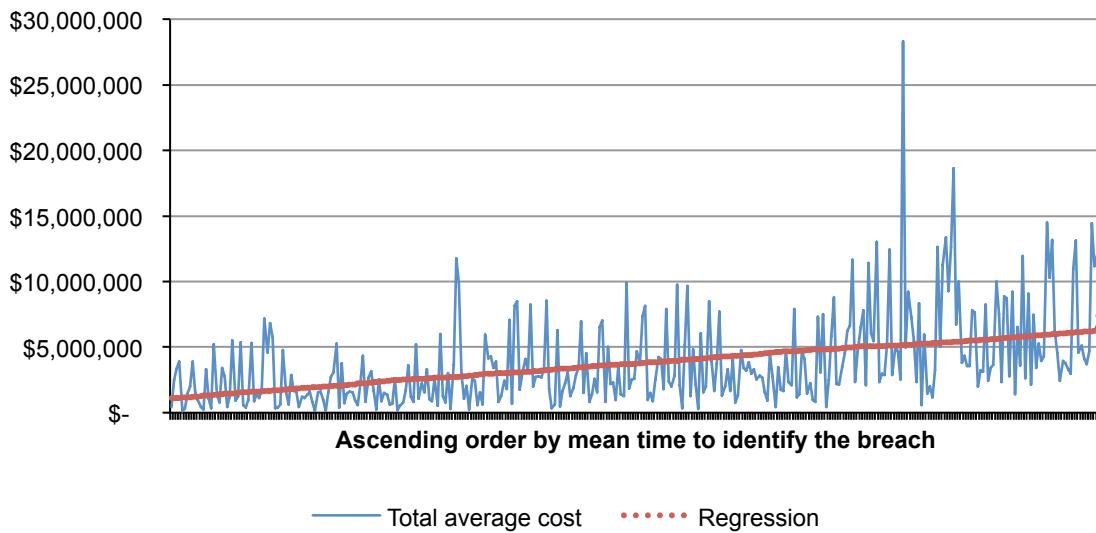
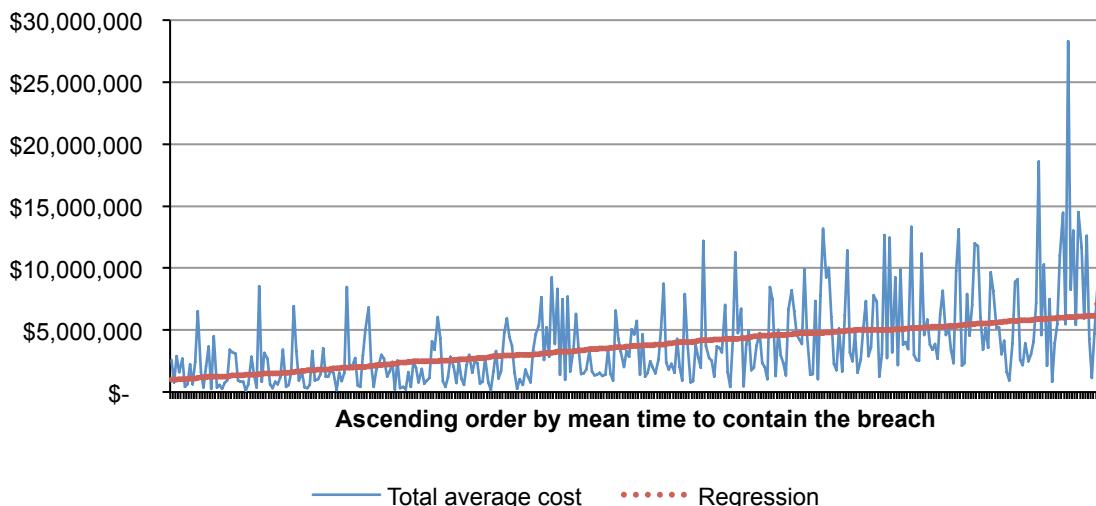


Figure 20 also shows an upper-sloping linear regression line between total data breach cost and MTTC. Similar to the above, this significant relationship suggests the failure to quickly contain the data breach will lead to higher costs.

Figure 20. Relationship between mean time to identify with total average cost

Regression = Intercept + {MTTC} x β , where β denotes the slope.

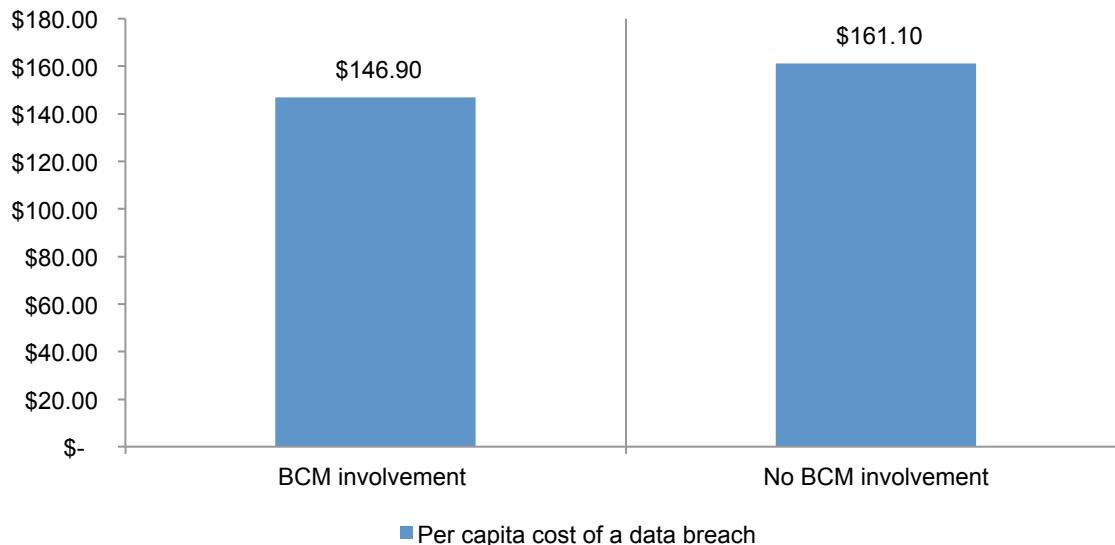
Consolidated view (n=350), measured in US\$



The impact of business continuity management on the cost of data breach

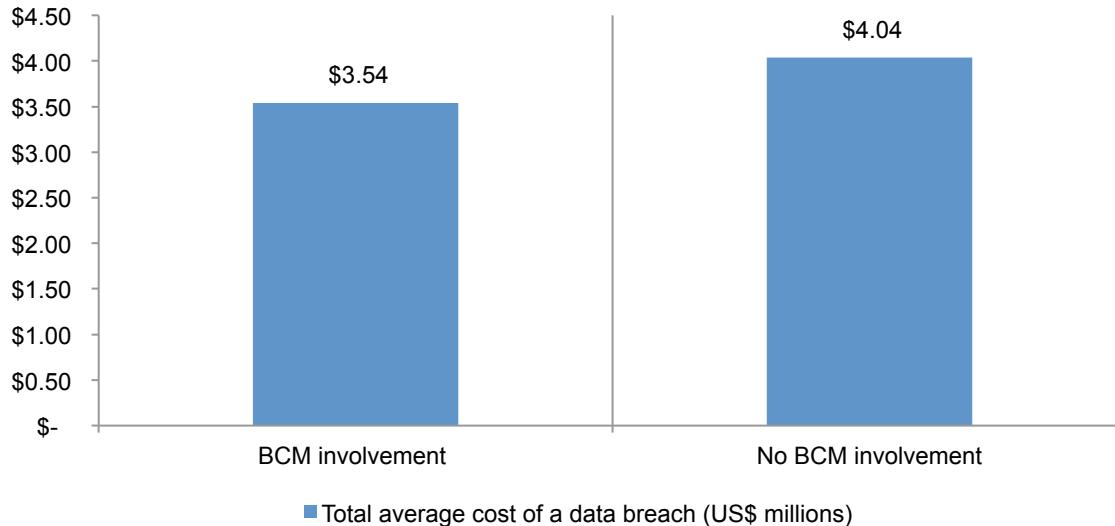
Organizations that involved their business continuity management personnel in the data breach incident response process experienced a lower per capita cost and lower total average cost. Figure 21 shows more than a \$14 difference between the BCM and non-BCM groups in the data breach cost for one compromised record. A separate report, *2015 Cost of Data Beach Study: Impact of Business Continuity Management*, focuses on the impact business continuity management has on the financial and reputational consequences of a data breach.

Figure 21. The impact of BCM involvement in the incident response process
Consolidated view (n = 350), measured in US\$



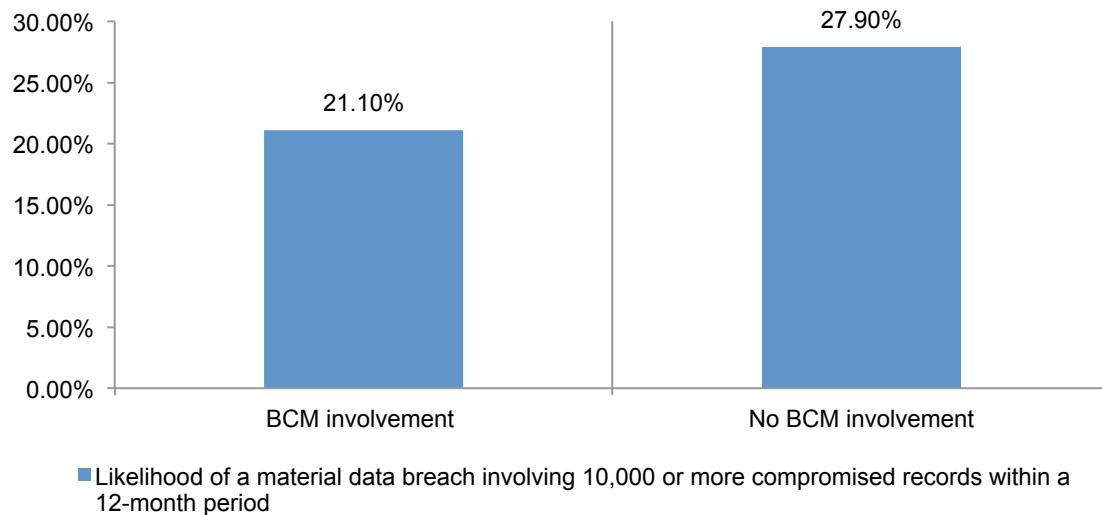
The following chart shows there is more than a \$500,000 difference between the BCM and non-BCM groups in terms of the total average cost of a material data breach incident.

Figure 22. The total average cost of data breach for organizations that involve or fail to involve BCM in the incident response process
Consolidated view (n = 350), measured in US\$ (millions)



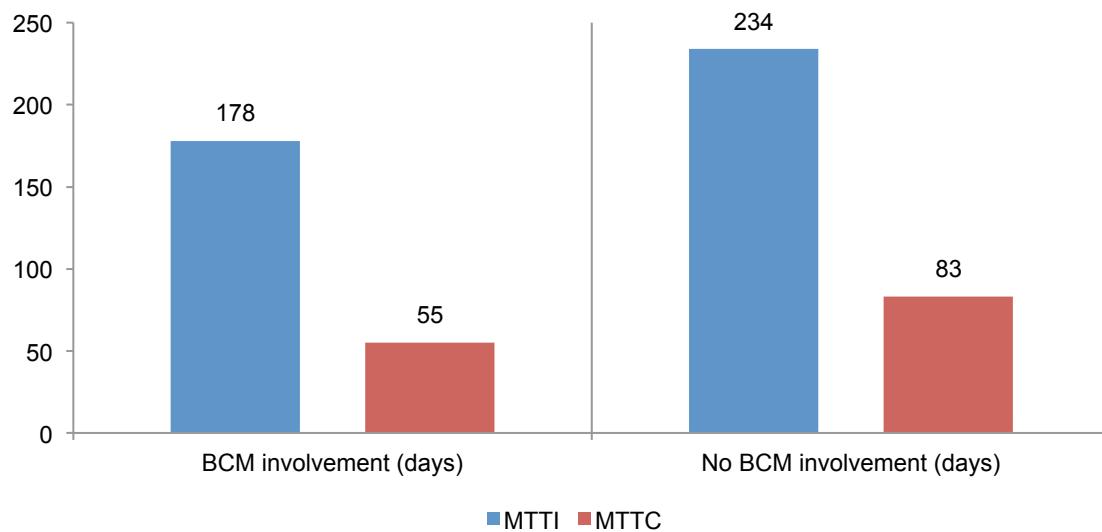
In addition to cost differences, we found organizations involving their BCM personnel in the data breach incident response process were less likely to experience a material data breach involving 10,000 or more compromised records over a one-year period. Figure 23 shows the likelihood of a material data breach for the BCM and non-BCM groups were 21.1 percent and 27.9 percent, respectively.

Figure 23. The likelihood of a data breach for organizations that involve or fail to involve BCM in the incident response process
 Consolidated view (n = 350)



Previously we showed that the mean time to identify (MTTI) and mean time to contain (MTTC) were linearly related to data breach costs. Figure 24 shows another interesting interrelationship. That is, both days to identify and days to contain the data breach incident are substantially lower for organizations that involved BCM.

Figure 24. MTTI and MTTC for organizations that involve or fail to involve BCM in the incident response process
 Consolidated view (n = 350)



Part 3. How we calculate the cost of data breach

To calculate the cost of data breach, we use a costing methodology called activity-based costing (ABC). This methodology identifies activities and assigns a cost according to actual use. Companies participating in this benchmark research are asked to estimate the cost for all the activities they engage in to resolve the data breach.

Typical activities for discovery and the immediate response to the data breach include the following:

- Conducting investigations and forensics to determine the root cause of the data breach
- Determining the probable victims of the data breach
- Organizing the incident response team
- Conducting communication and public relations outreach
- Preparing notice documents and other required disclosures to data breach victims and regulators
- Implementing call center procedures and specialized training

The following are typical activities conducted in the aftermath of discovering the data breach:

- Audit and consulting services
- Legal services for defense
- Legal services for compliance
- Free or discounted services to victims of the breach
- Identity protection services
- Lost customer business based on calculating customer churn or turnover
- Customer acquisition and loyalty program costs

Once the company estimates a cost range for these activities, we categorize the costs as direct, indirect and opportunity as defined below:

- *Direct cost* – the direct expense outlay to accomplish a given activity.
- *Indirect cost* – the amount of time, effort and other organizational resources spent, but not as a direct cash outlay.
- *Opportunity cost* – the cost resulting from lost business opportunities as a consequence of negative reputation effects after the breach has been reported to victims (and publicly revealed to the media).

Our study also looks at the core process-related activities that drive a range of expenditures associated with an organization's data breach detection, response, containment and remediation. The costs for each activity are presented in the Key Findings section (Part 2). The four cost centers are:

- Detection or discovery: Activities that enable a company to reasonably detect the breach of personal data either at risk (in storage) or in motion.
- Escalation: Activities necessary to report the breach of protected information to appropriate personnel within a specified time period.
- Notification: Activities that enable the company to notify data subjects with a letter, outbound telephone call, e-mail or general notice that personal information was lost or stolen.
- Post data breach: Activities to help victims of a breach communicate with the company to ask additional questions or obtain recommendations in order to minimize potential harms. Post data breach activities also include credit report monitoring or the reissuing of a new account (or credit card).

In addition to the above process-related activities, most companies experience opportunity costs associated with the breach incident, which results from diminished trust or confidence by present and future customers. Accordingly, our Institute's research shows that the negative publicity associated with a data breach incident causes reputation effects that may result in abnormal turnover or churn rates as well as a diminished rate for new customer acquisitions.

To extrapolate these opportunity costs, we use a cost estimation method that relies on the "lifetime value" of an average customer as defined for each participating organization.

- Turnover of existing customers: The estimated number of customers who will most likely terminate their relationship as a result of the breach incident. The incremental loss is abnormal turnover attributable to the breach incident. This number is an annual percentage, which is based on estimates provided by management during the benchmark interview process.¹⁰
- Diminished customer acquisition: The estimated number of target customers who will not have a relationship with the organization as a consequence of the breach. This number is provided as an annual percentage.

We acknowledge that the loss of non-customer data, such as employee records, may not impact an organization's churn or turnover.¹¹ In these cases, we would expect the business cost category to be lower when data breaches do not involve customer or consumer data (including payment transactional information).

¹⁰In several instances, turnover is partial, wherein breach victims still continued their relationship with the breached organization, but the volume of customer activity actually declines. This partial decline is especially salient in certain industries – such as financial services or public sector entities – where termination is costly or economically infeasible.

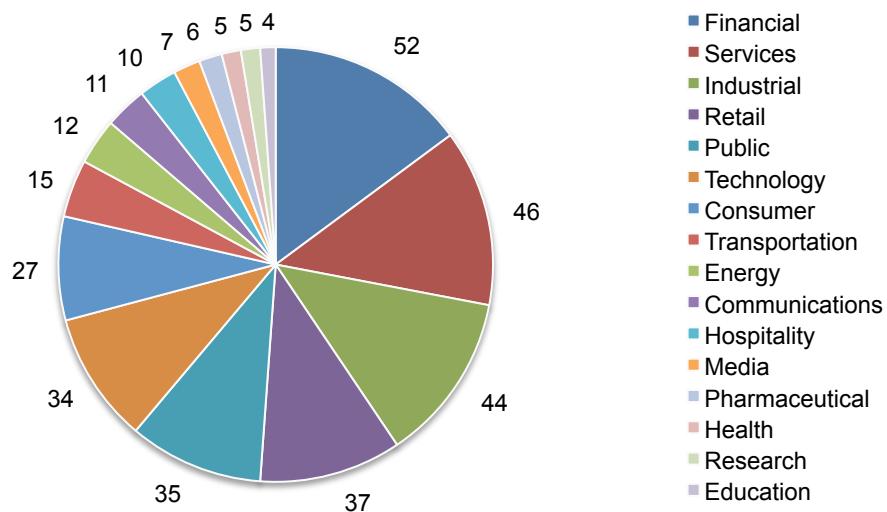
¹¹In this study, we consider citizen, patient and student information as customer data.

Part 4. Organizational characteristics and benchmark methods

Pie Chart 3 shows the distribution of benchmark organizations by their primary industry classification. In this year's study, 16 industries are represented. The largest sector is financial services, which includes banks, insurance, investment management and payment processors.

Pie Chart 3. Distribution of the benchmark sample by industry segment

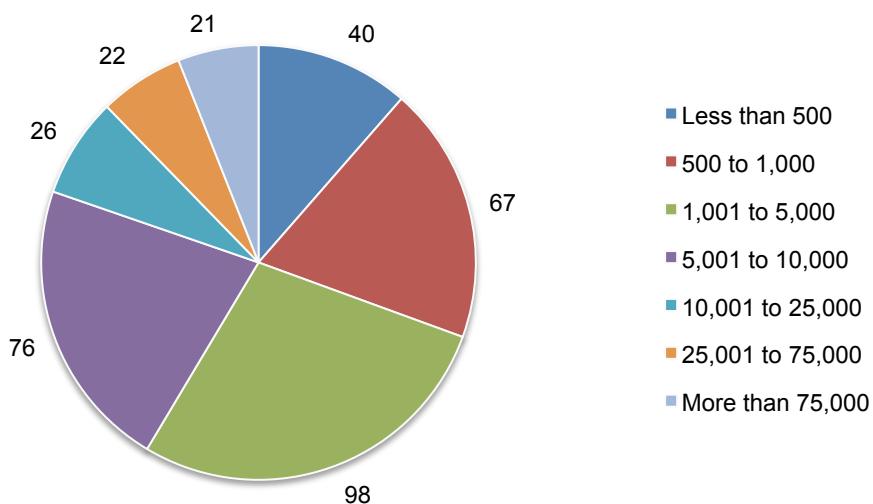
Consolidated view (n=350)



Pie Chart 4 shows the distribution of benchmark organizations by total headcount. The largest segments include companies with more than 1,000 employees.

Pie Chart 4. Global headcount of participating companies

Consolidated view (n=350)



Data collection methods did not include actual accounting information, but instead relied upon numerical estimation based on the knowledge and experience of each participant. Within each category, cost estimation was a two-stage process. First, the benchmark instrument required individuals to rate direct cost estimates for each cost category by marking a range variable defined in the following number line format.

How to use the number line: The number line provided under each data breach cost category is one way to obtain your best estimate for the sum of cash outlays, labor and overhead incurred. Please mark only one point somewhere between the lower and upper limits set above. You can reset the lower and upper limits of the number line at any time during the interview process.

Post your estimate of direct costs here for [presented cost category]

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The numerical value obtained from the number line rather than a point estimate for each presented cost category preserved confidentiality and ensured a higher response rate. The benchmark instrument also required practitioners to provide a second estimate for indirect and opportunity costs, separately.

To keep the benchmarking process to a manageable size, we carefully limited items to only those cost activity centers that we considered crucial to data breach cost measurement. Based upon discussions with learned experts, the final set of items included a fixed set of cost activities. Upon collection of the benchmark information, each instrument was re-examined carefully for consistency and completeness.

For purposes of complete confidentiality, the benchmark instrument did not capture any company-specific information. Subject materials contained no tracking codes or other methods that could link responses to participating companies.

The scope of data breach cost items contained within our benchmark instrument was limited to known cost categories that applied to a broad set of business operations that handle personal information. We believed that a study focused on business process – and not data protection or privacy compliance activities – would yield a better quality of results.

Part 5. Limitations

Our study utilizes a confidential and proprietary benchmark method that has been successfully deployed in earlier research. However, there are inherent limitations with this benchmark research that need to be carefully considered before drawing conclusions from findings.

- Non-statistical results: Our study draws upon a representative, non-statistical sample of global entities experiencing a breach involving the loss or theft of customer or consumer records during the past 12 months. Statistical inferences, margins of error and confidence intervals cannot be applied to these data given that our sampling methods are not scientific.
- Non-response: The current findings are based on a small representative sample of benchmarks. In this global study, 350 companies completed the benchmark process. Non-response bias was not tested so it is always possible companies that did not participate are substantially different in terms of underlying data breach cost.
- Sampling-frame bias: Because our sampling frame is judgmental, the quality of results is influenced by the degree to which the frame is representative of the population of companies being studied. It is our belief that the current sampling frame is biased toward companies with more mature privacy or information security programs.
- Company-specific information: The benchmark information is sensitive and confidential. Thus, the current instrument does not capture company-identifying information. It also allows individuals to use categorical response variables to disclose demographic information about the company and industry category.
- Unmeasured factors: To keep the interview script concise and focused, we decided to omit other important variables from our analyses such as leading trends and organizational characteristics. The extent to which omitted variables might explain benchmark results cannot be determined.
- Extrapolated cost results: The quality of benchmark research is based on the integrity of confidential responses provided by respondents in participating companies. While certain checks and balances can be incorporated into the benchmark process, there is always the possibility that respondents did not provide accurate or truthful responses. In addition, the use of cost extrapolation methods rather than actual cost data may inadvertently introduce bias and inaccuracies.

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