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FINANCIAL SERVICES AND SOCIAL MEDIA





FOREWORD

Technology and the developments in telecommunications and the new media are reshaping the market in which financial services companies operate and ultimately how they compete. This is an irreversible process of change and industry convergence that started in the nineties during the “dot-com” boom and whose outcome is yet to be defined.

INNOVALUE Management Advisors and Locke Lord have joined forces combining top tier strategic thinking with legal and regulatory expertise for the development of three digital banking thought leadership reports. This is the first of the three and is intended to provide a snapshot into the opportunities, challenges and key success factors for financial institutions looking to leverage the social media opportunity attention to detail and energy.

Enjoy the study and may it increase the wisdom of your decisions.



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EXECUTIVE SUMMARY

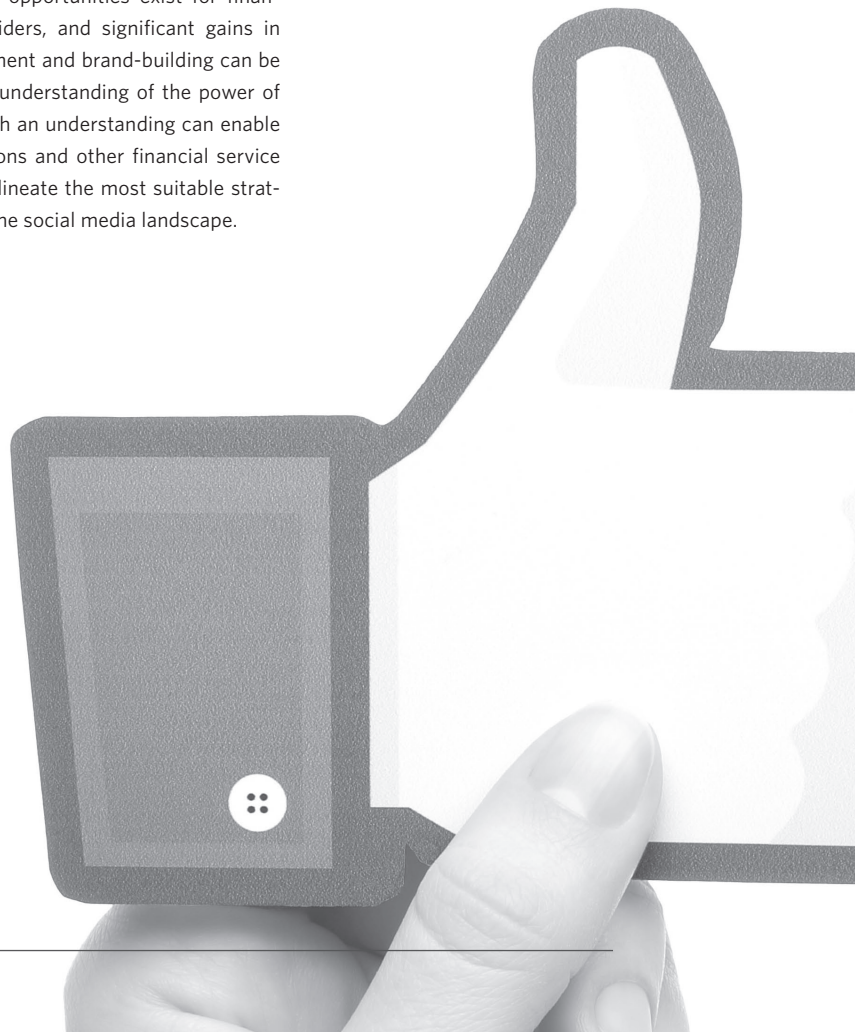
As the number of active users on Facebook has crossed the 1 billion mark, there is no doubt that social media is one of the most popular topics for business leaders.

As its growth continues to gain momentum, it is a matter of fact that enterprises have embraced the potential of social media and marketing professionals are increasingly moving toward collaborative platforms, CRM and sales tools. However, the adoption of social media for financial services institutions has been quite challenging, with many financial service providers being more cautious than organisations in other industries.

Indeed, despite the overwhelmingly positive hype surrounding social media, a number of challenges are posed to financial services institutions. For those that have adopted a social media strategy, the main concern has surrounded the issue of return on investment (ROI), and for those that are willing to engage one, the biggest barriers are the lack of efficient resources and dealing with regulatory compliance. Moreover, the lack of control over the social media content creates tensions on possible criticism, negative publicity and brand damage that can affect financial services institutions.

However, several opportunities exist for financial service providers, and significant gains in terms of engagement and brand-building can be realised from an understanding of the power of social media. Such an understanding can enable banks, credit unions and other financial service institutions to delineate the most suitable strategy for entering the social media landscape.

The growing opportunities include employee engagement and empowerment, market intelligence and product design, credit scoring, fraud prevention and analytics, marketing and consumer engagement and other applications including payments through social media interfaces.



1 INTRODUCTION: THE RISE OF SOCIAL MEDIA

In just a few years, social media has grown from a hub for university students to exerting enormous influence over large numbers of consumers. Facebook, YouTube and Twitter were respectively launched in 2004, 2005 and 2006 and are now worth more than many small countries. On average, 28% of the total time spent online is on social media¹, of which 50.7% on Facebook, 13.5% on Instagram, 7.4% of Twitter and 6.6% on Snapchat². Around 2.078 billion people now actively engage in social networking³, 100 hours of video are uploaded to YouTube every minute⁴ and an average of 6,000 tweets are tweeted every second⁵. The rise of social media has been widely reported, analysed and discussed, with commentators claiming that it will revolutionise everything, if it hasn't already; from commerce⁶ to healthcare⁷ to crime⁸.

There is no doubt that social media is a valuable engagement platform for any business. However the financial services industry has lagged behind other industries as it is only now starting to realise the potential of this modern medium.

This evolution has changed the dynamic between a business, its customer and its employees opening the opportunity for new ways to operate and deliver.

Social media is typically associated with marketing and communication and it is to be granted that never before has a conversation been so public. Which creates an empowering and formidable environment to operate in.

There are various possibilities for businesses to engage with employees and customers (existing and potential) on social media platforms and via different methods (such as computers and mobiles - with mobile applications now capturing a third of social networking time across all channels⁹). However these possibilities have to be considered within the cultural context each financial institution operates in, accommodating consumer preferences and legal and compliance regulations.

Within this context, thinking of social media as a marketing tool is extremely reductive and ultimately wrong. Social media is a platform that enables a different type of interaction in which the relationship with customers and employees has a new meaning. Social media adoption has created a cultural shift in the way business is done, changing the environment and making it essential to understand the evolution and the direction the industry is heading in.

¹ Wearesocial.net; August 2014

² Businessinsider.com; September 2014

³ Source: Pew Research Centre, INNOVALUE analysis

⁴ Source: YouTube

⁵ Source: <http://www.internetlivestats.com/twitter-statistics/>, as 4/02/2015

⁶ Guo, S., Wang, M. & Leskovec, J., 2011, 'The Role of Social Networks in Online Shopping: Information Passing, Price of Trust, and Consumer Choice'

⁷ PwC, April 2012, Social Media 'likes' healthcare: From marketing to social business

⁸ BBC, 27th December 2012, 'Huge rise in social media 'crimes''

⁹ Nielsen 2012

2 SOCIAL MEDIA EVOLUTION AND FINANCIAL SERVICES ADAPTATION

In the last decade social media has shown explosive growth in terms of reach and share of attention from consumers, and its influence is no longer underplayed by corporations.

From the early 2000's social media has adapted to the changing needs of users. The businesses that have successfully harnessed the potential of these tools and the ones that mostly succeed are the businesses that better understand the concept of Zero Moment Of Truth (ZMOT, introduced by Google in 2011); customers immediately want a clear and precise answer to what better fulfils their needs, and they search for that answer online. It is worth saying that the extent of the social media potential is reaching well beyond customer engagement.

In the last couple of years the presence of financial services institutions on social media has sensibly increased, leading to an improvement in approach. However, many institutions either are reluctant to take on social media, do not have the resources necessary to develop and

manage an effective social media strategy or find it too challenging to adapt strategy, processes and governance to a real-time pervasive social communication channel. Implementing social media strategies and combining them with the ability to interact on the spot with customers or employees requires a shift from the typical compliance driven processes and responsibilities that are common to traditional financial services organisations.

Despite consistent growth, the financial services industry is still at an early stage in the exploration of social media technologies and channels, with many organisations considering themselves as 'novice' or 'beginners' in this field¹⁰. More players are now launching their own set of social media initiatives (in response to positive assessment of the opportunity), most commonly launching an official page on social networking sites (e.g. facebook) and creating community forums, to engage directly with customers. As shown in exhibit 1, there has been a growing number of financial services related initiatives that have launched from within the financial services industry as well as from new entrants looking to leverage the informative and transactional potential of social platforms.

For most of the financial institutions that are starting to embrace this phenomenon, the use of social media channels is still anchored to the well-established functions of customer service, marketing and recruitment. Therefore, social media is mainly used by financial firms as platforms where customers can get (near) instant answers to their queries and issues (e.g. @BofA_Help from Bank of America) or where customers can easily find various aspects of new and existing products and original ways to engage with the firm (e.g. 'The Orange Ambassadors' initiative by ING¹¹). Moreover, social media channels are used to post job opportunities and share links and news about recruitment campaigns (e.g. @HSBC_UK_Careers, RBS Jobs UK on Facebook).

There are also a number of financial institutions that are exploiting social networking in different and original ways to drive growth. Fidor Bank, for instance, has implemented several initiatives, among which a current account interest rate is set according to the number of Facebook likes the bank's page receives in a given year and a crowdsourcing tool that allows customers to answer other people's financial questions and encourages word-of-mouth. Furthermore, some banks (including, in particular, Australian NAB

¹⁰ Source: Oracle, 2011, 'Social Media at the Starting Blocks: A Look at Financial Institutions in Europe and the United States'

¹¹ ING Direct Canada selected its most enthusiastic customers – those who showed an active engagement with ING and other customers through Facebook, Twitter and interviews with media –, who then became Brand Ambassadors

¹² <http://service.commbank.com.au/images/content/commbank/signals/index.html> and <http://peoplelikeu.com.au/>

Exhibit 1: Social media and financial services – Key milestones

and Commonwealth Bank of Australia) have launched websites that pool transactional data, not only to give consumers insight into spending patterns and lifestyle tendencies, but also to provide to the financial institution the possibility to analyse latest financial trends, enrich risk profiles, and market segmentation; making the institution more inclined to take better informed financial decisions¹².

In order to clearly understand how financial institutions have successfully adopted social media, it is crucial to analyse why they have embraced it.



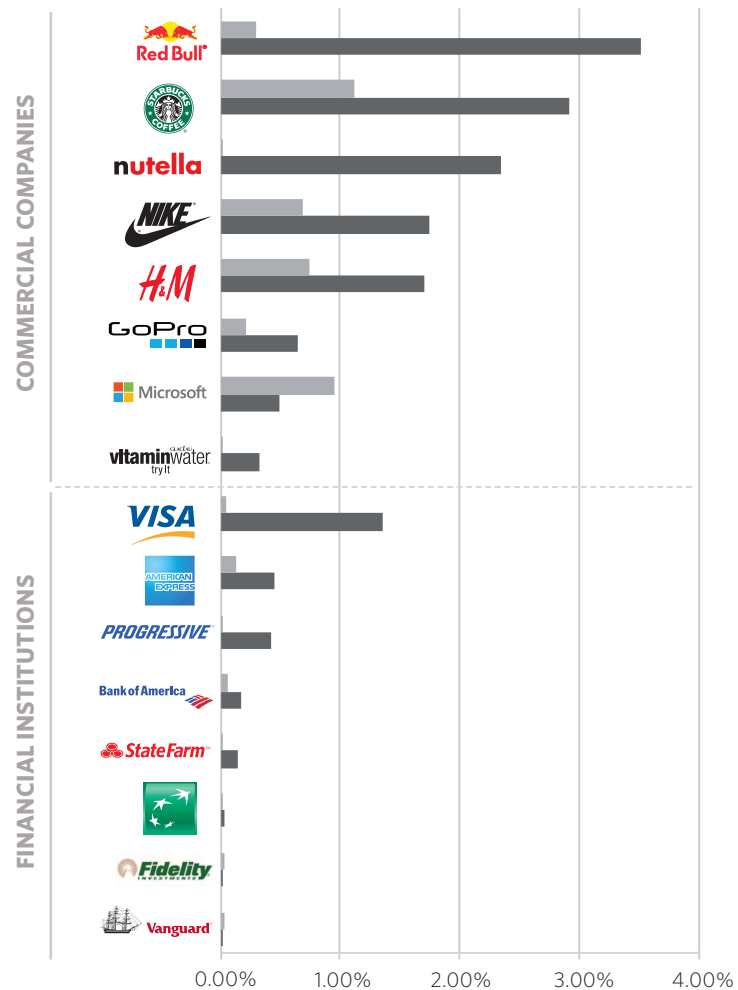
3 EFFECTIVE INCLUSION OF FINANCIAL INSTITUTIONS IN SOCIAL NETWORKS

The Guardian¹³ stated that ‘marketing in the financial services industry has rarely been ahead of the curve’ and the adoption and leverage of social media by the financial services industry appears to support this view. Exhibit 2 illustrates the degree of inclusion of financial institutions within social networks.

As companies from other regulated sectors appear to have gained a bigger audience compared to financial institutions, this particular gap can be attributed to two main causes: Firstly, the gap can be interpreted as a consequence of structural barriers to entry, preventing financial institutions from fully exploiting social networks and limiting the size of their web audience and brand awareness. Secondly, negative press received by the industry, due to scandals¹⁴ and public criticism, restricts the popularity of the financial institutions sector.

Even though the financial services industry adapted slowly to the social media phenomenon, the potential benefits of interacting with customers through social media is a shared view. However, such optimism is held back by numerous challenges that need to be addressed by the financial institutions that are aiming to exploit the opportunity offered by social media.

Commercial Companies’ vs. Financial Institutions’ Facebook & Twitter inclusion (% of total users)



Twitter inclusion ■
 FB inclusion ■

Exhibit 2: Which percentage of Facebook (FB) and Twitter users respectively ‘Like’ or ‘Follow’ different financial institutions vs. companies from other sectors. Source: companies’ official pages (Facebook and Twitter).

¹³ TheGuardian.com, ‘Financial services brands on social media risk getting left behind - again’, Ben Mott, 26 February 2014

¹⁴ E.g. http://www.huffingtonpost.com/2014/10/07/currency-bank-scandal_n_5948448.html ; http://en.wikipedia.org/wiki/Libor_scandal;

4 THE SOCIAL MEDIA OPPORTUNITY

There are several ways to implement a social media strategy with either tangible or intangible implications. Exhibit 3 provides an illustration of nine categories of strategic applications, and examples of how financial institutions are exploiting the underlying power of social media.

4.1 TALENT RECRUITMENT

Historically, students have used social media the most extensively and taking this into account financial institutions can use social media for talent recruitment to advertise jobs, answer questions related to positions and direct potential candidates towards online screening tests.

4.2 EMPLOYEE ENGAGEMENT AND EMPOWERMENT

Social media is a powerful tool to generate interest or improve information sharing and dissemination - especially as it can be used top down, horizontally and even bottom up enabling better cross-departmental connections, collaboration and better defining the organisational culture. The advantages of social media over traditional communication channels include its universal reach, its 'non-corporate' atmosphere and the speed at which discussion can take place.

Efforts can be public (e.g. a CEO's Twitter feed) or internal (e.g. a user-friendly chat service for work-related discussions). For example, social media can be used internally to publish regular guidelines and instructions to keep employees updated on the requirements when it comes to financial promotions on social media and by so not only empowering employees in better engaging customers through social media channels but also helping to address the compliance challenge that social media represents for financial services organisations.

In 2010 Farm Bureau Bank, the online banking arm of the American Farm Bureau Federation, implemented its ThoughtFarmer intranet, the 'Insider', which has since then outperformed expectations in terms of fostering employee engagement, both on a personal and on an organisational level.

The 'Barnyard' is the social heart of the Insider and represents a space where employees can:

- Post news
- Share pictures and videos
- Advertise articles for sale
- Launch discussions
- Use the calendar to announce milestones and plan social events



Barnyard is not just a social tool to drive employee engagement, since much of the information on the Intranet is business-related: policies and procedures, project updates, schedules, reports and updates on the bank's key performance indicators (KPIs). And every department within the bank uses the Intranet for a variety of particular applications that help save time and money.

	Explanation	Examples	Where
<p>1</p> <p>Talent Recruitment</p>	<ul style="list-style-type: none"> Posting job opportunities by sharing links and news about recruitment campaigns 	<p>Bank of America - Bank of America Careers: BoA's Twitter Page is constantly updated and is dedicated to list job postings for those looking for jobs at Bank of America.</p> <p>HSBC - HSBC UK Careers: This Page is entirely dedicated to UK customers and shares opportunities, careers advice, updates and news from HSBC world.</p> <p>RBS - RBS Jobs: RBS Jobs offers support to people who are looking for a job at RBS Group and also the opportunity to help take careers further.</p>	   
<p>2</p> <p>Employee engagement and empowerment</p>	<ul style="list-style-type: none"> Defining the organisational culture Internal communication Enabling cross-departmental connections 	<p>ThoughtFamer - ThoughtFamer Intranet: Farm Bureau Bank's Intranet, called 'the Insider', was created in mid-2010 and has since then outperformed expectations. The Barnyard is the social heart of the Insider and it is a space where employees can post news, pictures and videos, advertise articles, launch discussions and use the calendar to announce milestones or plan social events. But it is not just the social side that drives engagement, as much of the information on the Intranet is business-related (policies and procedures, project updates and reports), and every department uses the Intranet for a range of critical applications that save time and money.</p>	
<p>3</p> <p>Market Intelligence and Product Design</p>	<ul style="list-style-type: none"> Extract data from social media in order to make more appropriate market decision and understand trends 	<p>Knowsis - Knowsis is a web intelligence company that extracts the information from 'non-traditional online source' (such as Facebook and Twitter), and, through sophisticated algorithms, it extracts helpful information for capital markets.</p> <p>Cayman Atlantic - Paul Hawtin, readapting and developing the technology applied to operate the first hedge fund that leveraged social media information, launched in 2013 Cayman Atlantic Investment Management. Cayman Atlantic analyses real-time data from social media to discover market trends</p>	 
<p>4</p> <p>Credit Scoring, Fraud Preventing and Analytics</p>	<ul style="list-style-type: none"> Using the data collected through social media to assess client's credit risk 	<p>Lenddo - Lenddo is a company that provides customers' credit rating through the analysis of social media pages. It is a cloud-based application that can be used by any financial institution. It calculates the credit worthiness of individual collecting information on Facebook.</p> <p>Social Intelligence - Social Intelligence provides a risk scoring service for insurances. The risk score is calculated by matching the information of the applicant with what is present on a variety of social media platforms.</p>	   
<p>5</p> <p>Product Awareness, Marketing and Promotion</p>	<ul style="list-style-type: none"> Social media can be a powerful instrument to increase brand awareness and the portfolio of clients Social media can also be used to target specific marketing messages 	<p>PROGRESSIVE - One of the most relevant cases of increasing the brand awareness with the aid of social media is the one of Progressive Corporation, one of the largest providers of car insurance in the US, that in 2008 introduced 'Flo the Progressive Girl'. Flo is Progressive's mascot, and quickly became viral on Facebook, Twitter and Youtube, massively increasing the brand awareness throughout the American population.</p> <p>BARCLAYS - Barclays has launched Barclays Wealth on Twitter tailoring its feed for different client segmentation.</p>	   
<p>6</p> <p>Consumer Engagement / Loyalty Building</p>	<ul style="list-style-type: none"> Creating a social media environment in which the customer feels like part of brand 	<p>MasterCard - MasterCard: On its official Facebook and Twitter Pages, MasterCard runs many imaginative contests, and also promotes its best initiatives and services.</p> <p>AMERICAN EXPRESS - American Express developed a strategy for which takes what you "like" on Facebook and gives you offers you may like, and more suitable to the person you are.</p> <p>ING - The Orange Ambassadors (Facebook): ING Direct Canada recently selected its most enthusiastic customers - those who showed an active engagement with ING and other customers -, who then became Brand Ambassadors</p>	   
<p>7</p> <p>Customer Service / Consumer Education</p>	<ul style="list-style-type: none"> Provision of customer support, in case of issues/questions about financial services and/or products Educate customers and businesses on money management and in deep the knowledge of the industry 	<p>WELLS FARGO - Wells Fargo Bank: Wells Fargo provides real-time assistance and helpful tips to its customers on its Twitter Page.</p> <p>AMERICAN EXPRESS - Official America Express OPEN Twitter Page is a forum where, idea, business insights and latest headlines are shared.</p> <p>NatWest - NatWest Help (Twitter): Experts are available Mon-Sun from morning to evening to help on any issue/question/problem a NatWest's client may have.</p>	  
<p>8</p> <p>Social Responsibility</p>	<ul style="list-style-type: none"> Showing various aspects of Corporate Social Responsibility (CSR) 	<p>RBC - RBC Blue Water Project: It consists of a ten-year donations program supporting initiatives that help protect and preserve water.</p> <p>CHASE - Chase Community Giving: This Facebook Page lets fans decide the cause and charity to which the Chase donations are made.</p> <p>UBS - UBS promotes its engagement in social project with the aid of Facebook.</p>	   
<p>9</p> <p>Payment Initiation</p>	<ul style="list-style-type: none"> Social media are introducing quicker and more simple ways of paying and purchasing goods online 	<p>Facebook - Facebook Payment Implementation gives you complete flexibility to price goods in any local currency, at arbitrary price-points. The purchase is concluded buy a simple click on the 'Buy Button'.</p> <p>Twitter - Twitter introduces 'Buy Button' in order to directly purchase advertised items.</p> <p>Snapchat and Square Cash launched SnapCash; an app that allows you to send little amount of money to friend and other users with a simple Snap.</p>	    

Exhibit 3: Examples of how FS firms are using social media

4.3 MARKET INTELLIGENCE AND PRODUCT DESIGN

The large client base for Facebook and Twitter produces a potential recruiting point for market research (e.g. online testing or focus groups), providing the views of those not on social media remain included (as they are still the majority of the world's population and around half of the developed economies populations¹⁵).

For example although Derwent Capital Markets, a £25m Twitter sentiment-based hedge fund, failed after a month¹⁶, companies such as Knowsis¹⁷ are leveraging the amount of information shared on social media to inform traders about market trends and as a base to manage portfolios and improve their offering.



“There are several ways to implement a social media strategy with either tangible or intangible implications”

¹⁵ Pew Research Centre

¹⁶ Financial Times, May 2012, 'Last tweet for Derwent's Absolute Return'

¹⁷ Finextra, November 2012, 'Start-up pitches social media analysis tool to traders'

4.4 CREDIT SCORING, FRAUD PREVENTION AND ANALYTICS

Several American banks are leveraging social media to gather information and complement credit scoring and fraud prevention activities in a similar fashion as that used to check suitability and truthfulness of candidates for recruitment purposes. For example:

- / LendUp, a payday loan provider, investigates the number of Twitter followers as a large online network is considered as a sign of economic stability. Similarly Neo, an alternative lender scores borrowers on income and behavioural indicators (rather than credit scoring), and gathers LinkedIn relationship data.
- / Lenddo, a lender operating in US, Mexico, Colombia and the Philippines, combines microfinance techniques with social media data to verify identity and credit score applicants using their online reputation.
- / German Kreditech collects account activity from Amazon and eBay, in addition to the behavioural information about the way a loan application is filled and submitted, to evaluate the potential of a client in a complex matrix of data that enrich the traditional credit score profiles.



Kreditech Holding SSL GmbH, also known as Kreditech, was founded in 2012 by Alexander Graubner-Müller and Sebastian Diemer as an online lender.

Although Kreditech is not the only online lender, what makes it one of a kind is its way of elaborating the creditworthiness of the customers. Instead of using a traditional approach to the problem, the company has developed software that analyses the online data of individuals.

The programmers of Kreditech developed a self-learning algorithm that is able to calculate the customers' credit score in a fraction of a minute, by processing thousands of data.

The algorithm takes into consideration all the information deriving from social networks, such as likes, locations, friends and posts; and other customer related information of the web.

The company has headquarters in Hamburg, Germany, and operates also in Spain, Russia, Mexico, Poland, the Czech Republic, Peru and Australia.

4.5 PRODUCT AWARENESS, MARKETING AND PROMOTION

Social media provides a new platform through which marketing messages can be customised based upon the audience. Barclays Wealth, for example, has its own Twitter feed to inform High Net Worth individuals about relevant market news and implicitly the expertise of Barclays itself. Although customer segmentation is nothing new, the granularity of information that people supply through engagement with social media may allow messages to be even more tailored in the future.

Fidor Bank leverages its clients' Facebook connections as a channel to market by incentivising customers to "link" and "like" the bank. Increasing connections provide Fidor with a stream of prospects as well as engagement that lowers the cost of acquisition to an average of \$20 per customer, compared with \$1,500 for the average US bank. "The \$1,500 is the cost to push products through channels at customers that don't trust you. \$20 is the cost to gain relationships through conversations with communities that do trust you" to put it in the words of industry insider Chris Skinner on his blog. This positions social media not only as a channel to market but also as a qualifying engagement network with customers. Fidor Bank has become famous for its attempt to

grow through the leveraging of social media. Launched in 2009 as a start-up based on the principals of transparency, dialogue, openness and authenticity, the bank has implemented several headline-grabbing initiatives:

- An aggregated accounts page that includes virtual currencies such as World of Warcraft 'gold' (a popular currency used in an online role playing game)
- The option for customers to gain access to some non-critical account functions using their Facebook sign in details
- A crowdsourcing tool that allows customers to answer other customers' financial questions
- A crowd-funding tool for social projects
- Peer-to-peer lending
- An online betting platform that allows customers to bet on practically any measurable event
- A current account interest rate that is set according to the number of Facebook likes the bank's Facebook page receives in a given year



To undertake such a wide range of initiatives Fidor Bank has partnered with numerous third party organisations. Although 'top line' user registrations (i.e. using Facebook credentials) amounted to 75,000 in 2011, only 6,000 of these had been converted into 'full' customers. However, Fidor Bank has been named one of the 'Banks to watch in 2013' by financial industry publication 'The Banker' underlying its innovative social media strategy.

It is unlikely that more established financial institutions would be able to successfully implement similar services with the same degree of success, given their customer base is already substantial (so unlikely to grow as strongly) and many of these customers appreciate communications through more traditional channels (unlike Fidor, which has targeted very specific consumer segments).

4.6 CONSUMER ENGAGEMENT/ LOYALTY BUILDING

ICICI Bank provides a Facebook-based customer service where employees engage with customers on a 24*7 basis regardless of the customer's attitude or request - paying more attention to negative views that represent a potential threat to the brand. This approach has been instrumental in turning around ICICI Bank's reputation from a net negative to a net positive image within just 15 months of the launch of its Facebook-based customer service.

Similar engagement is used by many other organisations - e.g. Metro Bank in the UK - to engage customers in discussions that are, de-facto public and provide a significant amount of qualified customer exposure whenever handled properly.

4.7 CUSTOMER SERVICE/ CONSUMER EDUCATION

Mobile Network Operator Telefónica launched Giffgaff in 2009, which differs from traditional operators by allowing users to participate in sales, marketing and customer service in return for remuneration. Financial institutions could use this approach to reduce customer service costs (provided that sufficient oversight is supplied for the sensitivity of the topics under discussion). In addition, social media can be used for product education as well as to help customers understand and prevent becoming victims of cyber threats. This is the case of Bank of the West that frequently uses Facebook and Twitter to post alerts about recent fraud trends and share insights from fraud and security experts within the bank.

4.8 PUBLIC RELATIONSHIP AND SOCIAL RESPONSIBILITY

Social media is a useful engagement channel for PR and social responsibility. For example, Royal Bank of Canada leverages Facebook, Twitter and YouTube to amplify its RBC Blue Water Project and RBC Green initiatives. In this case social media provides a cost effective channel to release information about the initiative, and to gain visibility and relevance through the "likes" and support of customers.

Overall, together with the use of social media for product awareness, marketing and promotion purposes, this is one of the most popular uses that financial service organisations have used Web 2.0 channels for.

4.9 PAYMENT INITIATION

Social media has been leveraged by numerous companies for marketing and customer engagement purposes. However, the person-to-person relationship and the information sharing that constitute the core of these channels have been considered as a way to initiate payments processes. Twitter and Facebook are competing with other technology companies like Apple, Google, PayPal and the leading credit card companies to own the emerging payment sectors and channels.

More specifically, banks and new entrants alike are seeking to exploit the peer-to-peer payments opportunity with social media potentially providing a convenient interface within a mobile channel.

In October 2014, the Financial Times reported that Twitter allowed users in France to tweet payments to others in their social network. In late April 2015, news leaked that Facebook will soon enable payments via the social network from debit cards. Although details of the payment by tweet function are scarce so far, S-Money, a payment division of Groupe BPCE, one of the largest banks in France, is reportedly behind the deal¹⁹.

At almost the same time, Twitter rolled out a "buy" button for a select group of users, which will enable the purchase of products and services, such as Burberry and Home Depot, directly from their Twitter feeds.

In the last quarter of 2014 Facebook released its ecommerce solution with a dedicated 'buy' button for products advertised on its platform. Moreover, at the beginning of 2015 it announced the possibility of a peer-to-peer payment system enabled through the Messenger app.

Whatever the payment initiation channel this is a significant opportunity for financial services organisations both as a back-bone payment enabler as well as a provider of payment services through the social media channel.

It should be noted, however, that the need to be authorised in the EU to carry out payment services and the reporting and capital requirements accompanying such authorisation form a very high bar for organisations to enter. Many partner with regulated institutions to provide financial services but we are yet to see any real traction in the financial services arena by a social media business.

¹⁹ Inc.com 13th Oct 2014

5 SEEING THROUGH THE HYPE: ABILITY AND DEMAND

Commentators on financial services and social media are almost universally optimistic regarding the potential benefits it can bring to banks and customers. However, such optimism makes two underlying assumptions that need to be validated before the social media potential can be realised: firstly, that financial service providers have the ability to engage in social media activities effectively and, secondly, that consumers will welcome this engagement.

5.1 ABILITY AND OTHER CHALLENGES

Leveraging social media is looked as a high value opportunity by many financial services organisations but there are a number of challenges that need to be considered.

5.1.1 BRAND AND IMAGE CHALLENGE

Although social media can generate 'buzz' around a company, the risk of brand damage in an uncontrolled and unmoderated communication channel is significant. Use of the platform for uncontrolled and unaddressed complaints is frequent and spikes in social media activity are typically the result of negative press. Since financial institutions do not own and are not able to filter the content on these channels, it is very difficult to control such conversations.

For example JPMorgan's disaster with their "#AskJPM" Twitter session in November 2013²⁰ illustrates how financial services companies are finding it challenging to adapt to the new connected world. In May 2014 PayPal experienced a Twitter accident illustrating the difficulty of controlling conversations in which former PayPal director of strategy Rakesh "Rocky" Agrawal stepped up his war of words with the company's senior management, threatening to share personal text messages of the president David Marcus²¹.

Therefore, social media requires thorough strategies to ensure customer issues are addressed and converted into opportunities as well as updates to employment contractual terms and conditions to ensure that all employees understand the risk related to social media communication, albeit made on a personal basis, for their employers.

From a legal perspective tight control of brands and all IP stored as social media needs to be regularly protected and updated. In addition, where the users are uploading, there needs to be strict rules of ownership and responsibility for illegal/criminal content. Finally full disclaimers are required against damage from downloads/use of content etc.

5.1.2 BUSINESS CASE CHALLENGE

Banks have thus far failed to monetise their investments in social media. This is because financial institutions lack appropriate return on investment (ROI) data, which makes it hard not only to evaluate the overall effectiveness of the programme, but also to justify to senior management any substantial investment. Financial services providers usually measure quantitative metrics such as follower numbers, 'likes', the amount of mentions and comments and the number of posts that provide very little insight beyond

estimating basic engagement. Companies need to improve the measurement of successful social media activity and directly relate it to sales; however, by its very nature, social media activity cannot always be quantified: evaluating intangible metrics such as goodwill, brand recognition and awareness is never an easy task to accomplish.

According to Financial Brand, 94% of US Credit Unions are on Facebook but one in fourteen is planning to quit²². For example, Foster Bank abandoned its Twitter account in March 2012 after twelve months of Twitter silence.

Engaging in social media does not always provide a satisfactory ROI for financial services companies. Often simple metrics such as number of fans or followers, or comments recorded, fail to provide a justification for the investment and effort required to play in the social media space.

5.1.3 CULTURAL, ORGANISATIONAL, PROCEDURAL AND OPERATIONAL CHALLENGES

With conversations and threads being created on a real time basis in a forum that is quite different to the more traditional, well-trodden paths, it is key to ensure that those at the coalface, or rather,

²⁰ <http://www.bankersumbrella.com/blog/jp-morgans-askjpm-disaster>

²¹ <http://www.finextra.com/news/fullstory.aspx?newsitemid=26035>

²² <http://thefinancialbrand.com/26191/most-credit-unions-using-facebook-but-some-say-theyll-quit/>

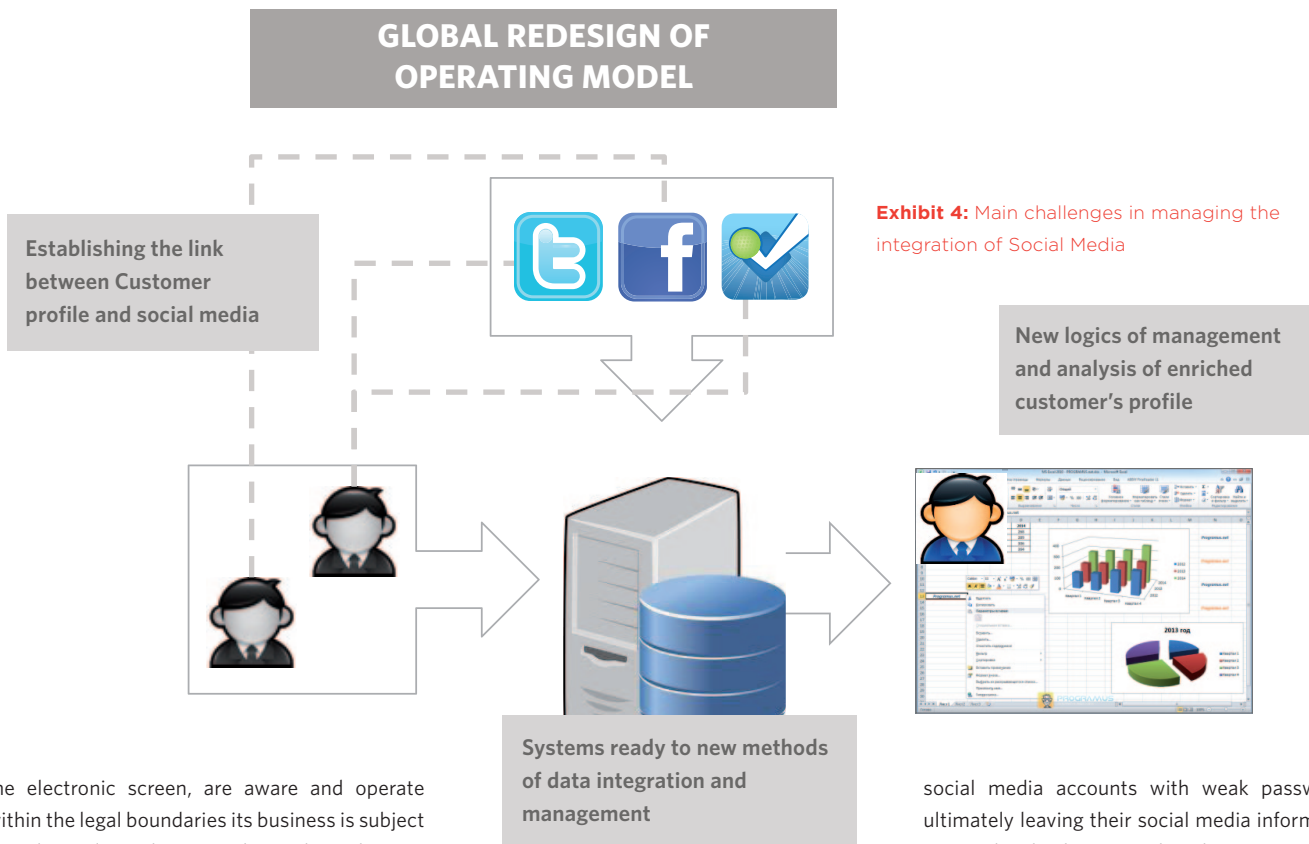


Exhibit 4: Main challenges in managing the integration of Social Media

the electronic screen, are aware and operate within the legal boundaries its business is subject to. These laws haven't changed, and most weren't drafted with the social media environment in mind so thought has to be given as to how a business can make good use of these tools and not get tripped up or caught out. The starting point for any business is to remember that whatever compliance regime it operates within, the same rules will continue to apply - no matter what form the "shopping window" is.

The interaction through social media is expected to take place in real time; this requires a material change in the way banks operate in terms of employee empowerment and training. Communications that are typically routed through marketing and legal departments for time-taking reviews and approvals, are expected by customers to take place within a real time dialogue, requiring banks to re-think their processes and roles in order to be able play credibly in social media.

This goes on top of the added compliance requirements necessary for these new channels. For example a firm advertising a financial product on social media should ensure that their employees who create the advert are fully aware of the regulations and compliance rules.

Similarly, regulators would expect a person or organisation running a social networking site or online forum to have policies in place that are sufficient to deal with complaints from people who believe that their personal data may have been processed unfairly or unlawfully because they have been the subject of derogatory, threatening or abusive online postings by third parties. Additionally, disputes between individuals about the factual accuracy of posts and complaints about how the person or organisation running the site processes any personal data (such as contact details) given to it by its users or subscribers have to be in compliance with the law. Handling all of this without having the time necessary for a legal department to review and approve any single customer interaction implies a significant change in the way a financial services institution operates.

In addition to the process and organisation compliance related challenges, financial services firms themselves have raised concerns about the risk of data leakage and viruses that could proliferate through popular Web 2.0 channels. While the social media sites can ensure robust encryption on their end, customers usually secure their

social media accounts with weak passwords, ultimately leaving their social media information exposed to hackers' attacks. This is an example of a weaker link that is often outside the control of the financial services organisation that can constitute a significant risk for a financial institution and that needs to be taken into account whenever implementing social media strategies.

Some of the opportunities offered by social media do not require relevant investments in technology; however, a more complex participation in social media (see Credit Scoring or Fraud Prevention) would mean significant investments in both technology and internal process redesign. Integration of third party applications or redirecting some of the data flows towards them increases the probability of potential security breaches. Applying innovative practices, strong financial, technological and operational efforts in integrating the social media data in internal processes still might not guarantee a certain positive output in terms of profitability, risks or efficiency.

5.2 REGULATORY

There are significant regulatory issues regarding data security in financial services that restrict, in particular, how financial institutions can engage with their customers through social media. The Financial Industry Regulatory Authority (FINRA), the Federal Financial Institutions Examination Council and the Securities and Exchange Commission (SEC) in the USA, the Investment Industry Regulatory Organization of Canada (IIROC), the UK's Financial Conduct Authority (FCA), and the Securities and Exchange Board of India (SEBI) impose strict guidelines and rules on the use of all electronic communications, including social media for financial services, demanding careful oversight of online communications and activities to ensure that advisors and brokers are not using social media channels inappropriately or in an unrecorded manner. This can create difficulties with regards to the approval of content, the delegation of responsibility and the ultimate sign off for social media updates.

The US financial regulatory body (FFIEC) recently issued a new supervisory guidance for controlling the use of social media by financial services providers. According to the document²³, financial institutions must have formal written social media strategies that are aligned with the global goals and objectives of the organisation; moreover, social media channels must be constantly monitored, and financial institutions must have appropriate processes for selecting third-party vendors to ensure that customers are protected and have to provide employees with training programmes.

However, an increasingly favorable regulatory climate has made possible the launch of a growing number of financial services organisations to social media. Vanguard, a mutual fund company, has exploited this opportunity, and by providing guidelines on retirement and investing has gained 175k followers on its official Twitter page.

The engagement in social media requires compliance with a number of different regulations ranging from data security to process compliance to communication standards. For example, in the UK, where the marketing communications of financial services companies are subject to the "Financial Services and Markets Act 2000" (FSMA), the firms' texts, tweets, blogs and commentary are likely to be subject to it as well. The Financial Conduct Authority (FCA)²⁴, who supervises financial services firms alongside the Prudential Regulation Authority (PRA) published its guidance as to how FSMA should be applied by firms using social media.

²³ Federal Financial Institutions Examination Council (FFIEC), 2013, 'Social Media: Consumer Compliance Risk Management Guidance',

²⁴ See guidance at <http://www.fca.org.uk/static/documents/guidance-consultations/gc14-06.pdf>

The FCA confirms ‘any form of communication is capable of being a financial promotion, depending on whether it includes an invitation or inducement to engage in financial activity’²⁵. Under the terms of FSMA, a person must not, in the course of business communicate an invitation or inducement to engage in an investment activity (that is, make or issue a financial promotion) unless the person is authorised under FSMA (this means that such persons have been authorised by the FCA or PRA), the content of the communication has been approved by an authorised person in accordance with the FCA rules or the communication is covered by an exemption²⁶.

Similarly the UK’s Advertising Standards Authority has produced a set of rules for financial products where the rules for social media promotion are the same as those for advertising and fair trading. These cover the need for offers of financial products to be set out in a way that allows them to be understood easily by the audience being addressed²⁷. Marketing communications should state the nature of the contract being offered²⁸, the basis used to calculate any rate of interest, forecast or projection, and include all relevant terms and conditions²⁹.

If an organisation in the UK decides to use social networking sites for customer engagement then it must ensure that it complies with the Data Protection Act (DPA). According to the Information Commissioner’s Office (ICO), organisations, including financial services organisations that use social media are subject to the DPA in the normal way. When an organisation, or individual acting for business or ‘non-domestic’ purposes, posts personal data on a social networking site, message board or blog, they will need to ensure that they have complied with the DPA. When an organisation, or individual acting for non-domestic purposes, runs an online forum they may also have responsibilities as data controllers under the DPA. This would include a duty to take reasonable steps to check the accuracy of any personal data that is posted on their site by third parties.



“an increasingly favorable regulatory climate has made possible the launch of a growing number of financial services organisations to social media”

²⁵ A financial activity is defined in FSMA - section 21

²⁶ Exemptions from the financial promotion restriction are available under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (FPO).

²⁷ Marketers must ensure that they do not take advantage of consumers’ inexperience or credulity.

²⁸ This includes any limitation, expense, penalty or charge and the terms of withdrawal. Alternatively, if a marketing communication is short or general in its content, free material explaining the offer must be made readily available to consumers before a binding contract is entered into.

²⁹ E.g. Marketing communications must make clear that the value of investments is variable and, unless guaranteed, can go down as well as up. If the value of the investment is guaranteed, the marketing communication must explain the guarantee. Marketing communications should make clear that past performance or experience does not necessarily give a guide for the future; if they are used in marketing communications, examples of past performance or experience should not be unrepresentative.

5.3 DEMAND CONSTRAINTS

While many commentators still claim that the power of social media will have a significant impact on the way financial services conduct business and on people’s perception of financial institutions, it is unlikely that there will be widespread convergence, beyond nice topical areas or beyond single organisations that are managing to set themselves up as a social media best practice, between social media and financial services in the foreseeable future.

A number of consumers are simply not interested in discussing financial issues, interests and practices in the public domain, creating a challenge for financial service providers hoping to generate positive ‘buzz’ around their brand through a social media presence.

According to a survey carried out by Forrester aimed at tracking consumer attitudes towards customer services and technology in retail banking, the vast majority of people do not consider engaging or sharing information with banks via social media channels a priority, mainly suggesting concerns around security. In fact, a very low percentage of consumers consider their banks giving tailored advice or information that is personalised to them via social media as a priority, with the number being slightly higher in Spain (21%) and Hong Kong (25%) (Breakdown is shown in exhibit 6).



Exhibit 5: Consumers’ financial services through social media expectations (% of US social networking users who want to interact with financial firms by service type)³⁰

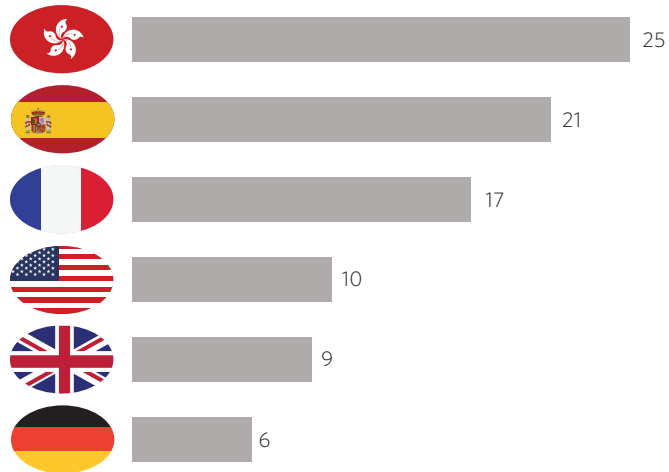


Exhibit 6: % of respondents who think communication with banks via social media is central

³⁰ Forrester

WELLS FARGO

WELLS FARGO'S SOCIAL MEDIA STRATEGY HAS BROUGHT THE COMPANY TO A REMARKABLE PRESENCE ON THE WEB EVALUATE



- // Main social media platform used to provide news, financial tips and enhance brand awareness
- // 773k 'likes'



- // Twitter accounts have a dual aim:
 - // Public relation & CSR
 - // Customer service



- // Mainly used as a social recruitment platform:
 - // Marketing Wells Fargo as an employer
 - // Advertising open positions



- // YouTube channels are used for consumer engagement, education and recruitment marketing
- // Wells Fargo's flash mob, published in 2011, reached 2.6m views



- // Seven active blogs focused on different subjects mainly used for educational purposes



- // Developed an online community called Stagecoach Island aimed to improve money management skills of the participants

Wells Fargo extended its presence to multiple social media platforms. This allows the company to cover the spectrum of available opportunities and target different segments of customers.

The business case for their social media platforms is assessed internally using proprietary tools to measure and evaluate changes on: incident resolution, customer satisfaction, and word-of-mouth marketing.

6 CONCLUSIONS

The financial sector has recently experienced scandals and has seen the market going through an economic crisis, with consumers consequently losing some of their trust in financial institutions: social media can give financial services providers new means of engaging with customers in an appealing manner that could help to restore lost confidence.

However, banks, credit unions and other financial services firms need to be careful not to just 'jump on the social media bandwagon' and let themselves get carried away by the overwhelmingly positive discussions on the potential of social media. To effectively address what is undoubtedly a significant market opportunity they need a good social media strategy with well-defined goals.

A social media strategy is necessary to connect and engage with those customers active in these channels. Certainly, social media makes it possible not only to communicate with hundreds of thousands of people at once, but also to combine the benefits of immediacy and the potential for the 'viral' transmission of information³¹. Yet an overly-ambitious social media presence cannot be considered the new 'gold-standard' for financial services providers and it is highly unlikely that it will revolutionise the sector. A key reason for this is the fact that financial institutions are competing with very attractive entertainment brands. Consumers will continue to visit corporate websites, not social networking pages, when looking for financial answers online.

Given this situation financial services providers need to ask themselves some of the following questions:

- To what extent should they involve themselves in social media?
- Where can they gain the most value from a social media presence?
- What regulatory, security and privacy dangers are there when getting involved in a very public communication channel?
- Do they have the prerequisite capabilities? If not, are they willing to make the sustained investment required to acquire these?
- How will they monitor their social media activity?
- What level of autonomy will employees have over the implementation of social media initiatives?
- What is the end goal of any social media involvement, aside from the acquisition of 'likes' and 'followers'?
- How will they measure the success of any social media-focused initiative?

³¹ Actiance, 2012, 'The Six Essential Principles for Social Media Success in Financial Service Firms'

Ultimately, financial institutions must realise that social media is now embedded in everyday life: it is here to stay and, in reality, has become an important aspect of some firms' marketing strategy. There is no clear best practice for them to follow in this channel and financial services providers should thus be prepared to act cautiously, listen patiently and react positively to consumers in the social media environment. This is where financial services brands could use some help in order to stand out from their competitors and make their message more memorable, their propositions more relevant, their customer and employees relationships closer as well as to learn how to embrace and use social media to their advantage when marketing new products and services.



Exhibit 7: Building an efficient social media strategy.



ABOUT LOCKE LORD

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Locke Lord is a full service, international law firm with offices in London, Hong Kong and 11 U.S. cities, and a full range of practice and industry areas that serve international and domestic clients worldwide.

Our London Office is a gateway for the Firm's international work in the UK, Europe, the Middle East and Asia, and is home to a world-class team of lawyers dedicated to providing the best service possible to clients around the world.

Having established a presence in London more than 25 years ago, Locke Lord opened a much larger, full-service office in early 2012, and as part of the Firm's strategic plan, assembled a team of leading lawyers with many years of experience. From major corporations and financial institutions to individuals and overseas-based investors, our clients trust the Firm's strong capabilities and excellent representation in the areas of, banking and finance, cards & payments, capital markets, corporate M&A, dispute resolution, employment, energy, insurance & reinsurance, real estate and restructuring & insolvency.

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Strong leadership and deep roots in the UK are the essence of Locke Lord's London office. Our London lawyers are consistently recognised by well-regarded law firm ranking organisations, including Chambers UK 2013, and the Legal 500 2012, which list them among leaders in their fields. Along with our many London and U.S. clients, Locke Lord's London office also serves clients throughout Europe and Asia.

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ABOUT INNOVALUE MANAGEMENT ADVISORS

INNOVALUE is a leading strategic management advisory firm dedicated to the financial services industry. INNOVALUE's clients are global or national market leaders, regional specialists, innovators and entrepreneurs that have trusted INNOVALUE for over a decade as their preferred advisors. In the three practices - Payments, Banking and Insurance - INNOVALUE has a distinctive industry know-how based on years of experience, deep and tested insights and established methodologies. The industry practices are complemented by two cross-functional service lines: Corporate Finance and INNOVALUE Solutions.

What makes INNOVALUE unique is our value proposition that is based on:

- # **Excellent industry knowledge:** INNOVALUE's expertise is a result of deep and unrivalled knowledge of the financial services industries Payments, Banking and Insurance. Since our founding, we have consistently focused on those industries strengthening our comprehensive and deep topical knowledge.
- # **Collaborative advisory:** the best advice is never developed in isolation, behind closed doors, but in partnership with the client. Hence INNOVALUE's team work as "one team" through a collaborative approach with the clients' team. This partnership not only makes a difference in terms of quality and value of our advice, but also contributes to a positive impact at a personal level through mutual trust. These factors provide the foundation for recommendations and conclusions that are endorsed, shared and supported, and ultimately implemented, within the client's organisation.

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FUNCTIONAL EXPERTISE		OPERATIONS	
STRATEGY <ul style="list-style-type: none"> # Market Entry Strategy # Product And Pricing Strategy # Regulation # Sales And Marketing 		<ul style="list-style-type: none"> # Operating Model # Restructuring # Cost Reduction # Post Merger Integration 	
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▀ **Actionable strategies:** the value of a good strategic analysis which does not stand a chance of being implemented for whatever reason is none. This is why INNOVALUE's consultants take particular care that recommendations are realistic, feasible, endorsed, shared and supported, and ultimately implemented. At INNOVALUE, this one of our core principles – as INNOVALUE delivers "high-value consulting, down to earth".

▀ **Tangible results:** feedback that INNOVALUE receives at the completion of each project shows that INNOVALUE's work provides genuine added value. INNOVALUE strives to create an extraordinarily high "return on consulting investment" – and practically all of INNOVALUE's clients would unreservedly recommend us. These are values which bring back to INNOVALUE's fourth, and perhaps most important principle: INNOVALUE always makes a tangible and relevant contribution to the competitiveness of its clients.

INNOVALUE supports its clients internationally from the offices in Hamburg, Frankfurt and London.

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