

P E R S P E C T I V E

New Age Banking in the Digitized and Networked World of Social Media



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Abstract

Social media/networking sites such as Facebook and Twitter are changing people's lives across the world. Their adoption and usage have increased by leaps and bounds in the recent past. Latest reports suggest that Facebook has more than 700 million users; it is estimated that over half of them are active users. In fact, social media is considered the biggest innovation in the Internet world after search advertising and e-commerce. Google's recent service offering is a testimony to this growing trend.

Though this phenomenon originated and began to flourish when the global financial crisis was in full swing, it is only now that the financial community has realised that this platform presents an opportunity that they cannot afford to ignore. As banks and financial institutions recover from the crisis and look towards all round growth, social media is starting to be a part of their overall strategy.

Banks should particularly look at Facebook and leverage its reach and connectivity. Although they have made a beginning, they need to look beyond the mere networking capabilities of social media and use the analytics in the background to understand the customer better. This will allow them to offer more personalised products and relevant services to the customer in an integrated manner.

This white paper attempts to do the following:

- Analyze the current state of social media adoption by banks
- Examine the future of banking and study how banks can leverage social media to do business differently
- Identify the various factors for growth and adoption of social media
- List various steps that banks must take in this digitised and networked world

Overview

Social media/networking sites such as Facebook and Twitter are changing people's lives across the world. Their adoption and usage have increased in leaps and bounds in the recent

past. Latest reports suggest that Facebook has more than 700 million users, of which more than half engage actively on a daily basis.

Social networking services that were primarily accessed over the web are now available over smart phones and tablet devices, making sign-up effortless and resulting in an explosive growth in the user base. In addition, new services like Facebook deals, coupons and credits revolve around the fulfilment of stated and unstated customer needs. Facebook also helps to create social experiences to drive growth and engagement by allowing development of applications such as games and utilities. On the other hand, sites like Twitter, MySpace, LinkedIn, Orkut, Ning and Tagged provide services that target specific needs or specific categories of users. By targeting customers who have GPS enabled mobile devices, relatively new players like Foursquare, have opened up a new wave of services in the area of social media and networking. These services are considered the biggest innovations in the internet world after search advertising and e-commerce. Google's recent offering is a testimony to this growing trend.

Though this phenomenon originated and began to flourish when the global financial crisis was in full swing, it is only now that the financial community has realised that this platform presents an opportunity that they cannot afford to ignore. As banks and financial institutions recover from the crisis and look towards all round growth, social media is starting to be a part of their overall strategy.

Looking at the various developments in social media, one can see that these sites do more than just connect people and allow them to socialize virtually. The focus on better usability, customer experience and accessibility over a multitude of devices with geo-location capability, make social media a digitalised platform that could revolutionize the provision of banking and financial services to diverse customer segments.

If one studies the market share of various social networking sites across the world in the last 2 years, one can clearly see that Facebook occupies a dominant position. It garners more than 60% of the market share of visits to social media websites and forums. The explosive growth of Facebook across the world, rumours about

its interest in acquiring Twitter, the recent news about Goldman Sachs' investment and Facebook's steep valuation clearly propel it to the leadership position, where it is likely to remain for the foreseeable future.

Banks should particularly look at Facebook and leverage its reach and connectivity. Although they have made a beginning, they need to look beyond the mere networking capabilities of social media and use the analytics in the background to understand the customer better. This will allow them to offer more personalised products and relevant services in an integrated manner.

Trends in Social Media Adoption by Banks

• Current State

Social media adoption by banks and financial institutions is still in a nascent stage. While acceptance has increased in the last couple of years in absolute terms, when compared to the size of the population, it is still small. A brief analysis of the various initiatives taken by banks in the social media arena shows that the primary drivers are direct and indirect customer engagement, and building of brand awareness and customer affinity. To a lesser extent, banks are adopting social media to improve customer retention and service, for new client acquisition, and marketing. Some banks have got on the bandwagon with the primary objective of improving their search engine ranking, as social media presence moves them up the result pages.

However, the financial services industry has been unable to create a formal strategy or generic approach due to lack of consensus on the effectiveness of social media and the absence of a measuring mechanism. In many cases, the absence of a business case/ way to evaluate return on investment (ROI) hinders social media uptake.

• Instances of Adoption

The following are a few instances of banks that have embraced this new channel.

- Way back in 2007, American Express initiated an online community for small businesses - the OPEN Forum Pulse - on

Twitter, with an extended presence on Facebook, to help businesses share their insights and experiences. It launched a dedicated website with the main purpose of spreading the message 'Join the movement on Facebook' by linking their 'Small Business Saturday' page. In just a few weeks, this web page had more than a million fans. Even though the objective appealed to small business owners, American Express still had to convince them of the benefits of participating and spreading the word. It distributed \$100 worth of Facebook advertising to the first 10,000 small business owners who signed up.

This initiative showcases the importance of leveraging social media to increase a company's reach and connect with the target market. In this case, American Express got a list of prospects that it could mine and try to convert into customers.

- Recently, ASB, one of the largest banks in New Zealand, owned by the Commonwealth Bank of Australia, became the first bank or financial services company in the world to offer banking services on Facebook. The bank has created a "virtual branch" on the social networking website that allows its customers to discuss their account related matters with the ASB staff. It has assured that these discussions will be as secure as its own Internet banking site. Around 13,000 people had downloaded this application within a month of the launch and started using it.
- More recently, Citibank gave a push to its social media strategy by combining functional elements from the existing Citibank site, Facebook, Twitter and the Financial Times, to create an exclusive service for the children of their ultra-rich clients. Apart from discussing financial issues such as spending, investment and donation, the site also provides a facility for the children to rate restaurants and comment on the food, service and ambience.
- North Shore Bank, a community bank in Brookfield, Wisconsin, was the first bank in

the world to launch special offers for 'majors' of their branches with the Foursquare mobile application. One could win a 'Subway' voucher, by checking-in a certain number of times to become the Mayor of one of their physical bank branches.

Future of Social Media in Banking

In the retail banking industry, the current Holy Grail is "Customer Centricity" and "Customer One View". The recent growth in social media adoption appears to have taken it into the mainstream, making it attractive to the banking industry. Banks realize that these networking sites provide target market information and enable them to offer tailor-made services, which results in greater client loyalty and wallet share. Given this backdrop, the following are a few areas where change is anticipated:

- **Better Customer Relationships – Centered on Customer and Context**

In the past, bankers believed that one could not build relationships in the digital space, and only face-to-face or human interaction could consistently provide better service experiences. But the success of social media shows that banks cannot afford to ignore this channel.

Online interactions do not destroy relationships, nor do they replace physical bonds. However, online media can definitely enhance the relationship between the customer and the brand and this paradigm is applicable to banks as well. Social media cannot substitute existing online or offline customer delivery channels and ideally, should complement them.

If a bank can anticipate the needs of the customer in advance and present simple and targeted offers, its brand strength and customer loyalty can increase manifold. Banks can collaborate with social media sites to provide products and services to their customers, and hope to garner valuable referrals and positive word of mouth. They could also develop an application that scans online conversations and suitably incentivise prospective customers to sign up. They can also follow the context of various discussions

to offer personalised products to prospects and existing customers.

- **Multi-Channel Marketing Campaigns – Don't Ignore Social Media**

Every bank portal has two faces. One is the functional or transactional face, where a customer logs in and performs routine banking transactions. The other contains brochures and information related to marketing, sales and so on. This bifurcation probably occurred because vendors of different Internet solutions took a silo-based approach towards a bank's website.

This approach does not make much sense for an existing customer, as most of his day-to-day interactions are transactional in nature. Unfortunately, many of the online banking services are unable to mine the context in which the transactions are done, and hence fail to offer suitably tailored products or services.

Most of the portals' marketing spend is unconsciously directed towards new customers. The bank can instead collaborate with social media sites and become aware of the context of a transaction or have contextual information on the customer's current state. This information can be used to create effective campaigns for existing as well as new customers. Also, when existing customers sign up for a new offer, they can be managed efficiently, without repeating "Know Your Customer" formalities, thereby reducing the turn-around time in servicing the opportunity.

- **Tomorrow's banking could be very different**

If we assume that the current trend of adoption will continue to grow, social media interaction will soon be a regular feature of daily life. In addition to social activities, such as making friends and communicating with them, a person will also use this platform for performing basic banking activities - like viewing account balances, recent payments, upcoming payments and pending bills - not just in one bank but across all banks with whom he has a relationship. In some cases, these activities will go beyond banking to include investment, insurance, and mortgage, to name a few.

For day-to-day basic transactions, one may not be required to undergo a sophisticated two-factor authentication. This data could be shown contextually in the banking tab of such social media sites based on simple cookies or using the sites' 'remember me' authentication model or even through collaborative authentication between the sites and the banks. Financial transactions on the other hand, could necessitate two-factor authentication. Also, given that these social media services can be accessed from multiple devices such as PCs, mobile phones, tablets, kiosks, ATMs and other interfaces, the ability to service the customer from such social media sites prepares banks for participating in future growth opportunities.

As social media expand beyond the realm of social networking, they can provide other services. They can collaborate with banks and provide an aggregated view of a customer's financial relationship across multiple institutions. Subsequently, social media sites can add to this convenience by including personal financial management support with the sole purpose of allowing customers to leverage the network to share information, seek advice and get to know their friends' activities. They could host features such as spending statistics from the overall network base, which can be used to compare one's spending on food, entertainment or any other category with that of other people in the network. In addition to facilitating life style comparison in financial terms for the user, this provides a convenient platform for banks to discuss potential investments, new products, product feedback, service capability and so on.

Social media sites and banks could mine the available information - the customer's profile and the products he owns with various banks - to offer bundled products and get a bigger share of wallet. For example, if a bank has a targeted offer for a mortgage product, it could bundle up mortgage insurance as well, compelling the customer to sign up.

- **Geo-location Banking Services**

Geo-location is one of those concepts that banks continue to experiment with. Most of

the current solutions offer basic location services to detect ATMs, branches and kiosks, for example. They could overlay this basic data with other information of interest to customers, pertaining to Wealth Management, Foreign Exchange, Mortgage or Insurance services, for example.

As part of their ongoing marketing effort, banks can undertake promotional activities in collaboration with their partners to offer discounted prices on products or services, or one-off offers. Many social media sites are now able to geographically locate a person with the help of his mobile device, enabling banks to make an offer when a customer is in the vicinity of a partner's outlet. If the customer finds this value added service interesting, he can inform his friends using the social media network.

- **Person to Person Lending / Social Lending**

Social networks provide a great platform to foster initiatives such as Person-to-Person lending. While one may not be willing to directly lend to strangers in part or full, the fact that they may be connected through common friends could provide an opportunity to determine their creditworthiness. This does not mean that the organizations providing such services do not offer any rating of prospective borrowers themselves; however, a social media platform could provide an alternative source of information. In addition, if banks start offering such services, they could play the role of a credit rating agency and facilitate the lending process, thereby adding value to the overall service. The fact that it is a bank-led initiative would surely encourage participation in such activities.

- **Social Banking**

Branchless banking and high-interest savings accounts that have been in existence for some time now, can be taken to the next level by harnessing the social media platform. Networking sites can provide a facility where one can create a savings goal and share the same with friends and relatives who could contribute as well as track one's progress. The goal need not be personal and could be for

social causes such as charity. West Bank in Des Moines, Iowa, US and ANZ (through their SmartyPig initiative) in Australia have already tied up with social media to offer such services.

- **Group Banking**

Group-buying websites across the world are emerging as major players in the online shopping business, offering products and services at significantly reduced prices on the condition that a minimum number of buyers purchase. Their popularity has grown rapidly and companies such as Groupon.com are planning to file for an IPO. People who have similar interests and see the benefit of a particular offer normally do collective buying. As most of these group-buying sites are present on social media platforms, like-minded people can connect with each other and discuss the deal. Banks could partner with these sites to offer such services based on customer profile, targeting those who are most likely to take up an offer. When one customer accepts, this can be communicated to his online friends with similar profiles. Banks can also leverage this network of customers and prospects to create niche, closed-user groups. There could be specific webinars and campaigns to impart educational information based on customer profile and banks' focus areas. The main purpose here is not revenue generation but building customer relationship and engagement. Gradually, banks can start offering more profitable products.

Factors Influencing Growth and Adoption

- **Online and Collaborative Security**

The initial response to Internet banking was poor because of people's perception and concern about online security. But multiple forms of security have been introduced since then and online banking usage has significantly increased with customers becoming more confident. Recent studies in the US show that the number of reported data breaches has dropped significantly: 404 in 2010 with 26 million records exposed, compared to 604 in 2009 with 221 million records exposed.

Customers will use social media sites for banking activities only if they are convinced about its security and privacy aspects and confident about transaction authenticity. Many banks and financial institutions are unsure of how to use social media effectively in their businesses. They are grappling with issues like balancing privacy requirements of customers against use of new forms of marketing. While there are no readymade solutions available today, technology and collaborative processes will surely evolve over a period of time, allaying these fears and making banking via social media highly secure and reliable.

- **Increasing Online Population**

Broadband and mobile penetration has increased manifold in the recent past and the number of social media users has improved tremendously. Also, new services such as gaming and downloadable applications are all interwoven to provide a complete experience for the customer. Networking sites therefore, are expected to grab a higher share of the time spent by customers on the Internet.

- **Widening Social Media Services**

Social media services were introduced with the primary objective of providing a simple tool to network and communicate with friends. However, they have gradually expanded to offer other kinds of services to keep the user hooked and glued. Alongside this, an increasing number of Gen Y members have entered the workforce and banking customer base with multiple banking relationships. Banks are trying to make consolidated viewing possible, a facility already provided by some independent service providers. But customers want more than just consolidated information, which can be made possible by partnering with social media.

Requirements for Operating in a Networked World

Social media is now a mainstream channel and banks need to capitalize on this. They should keep themselves abreast of what is happening in this space, and align with the changing

behaviour of the customer. Various banks are in different stages of preparedness to utilize social media's power and reach. Given below are some of the actions that a bank must take to face the digitized networked world.

- **Well-defined Objective**

The objectives and purpose of adopting social media as part of a bank's growth strategy should be clearly defined. The goals could be customer engagement, customer retention, building of brand awareness and affinity, revenue generation, reduction in customer service costs or improved ROI on marketing spend. The initiatives could be short term, long term, or a mix of the two, depending on the objective.

- **Social Media Strategy**

The next step would be to formulate a social media strategy to achieve the objectives. Following are some important areas that need focus:

- The bank should decide on the desired return on investment (ROI), allocate budgets (expressed as a percentage of the existing marketing budget or a fixed amount), define the governance model, create internal and external policies and guidelines for social media initiatives, and finally execute them.
- Social media strategy should align with the branding, positioning and overall strategy of the bank. A centralized team should be formed with senior management support, consisting of representatives of various bank divisions. A senior executive who is a subject matter expert in social media and aware of the power of this domain should lead the social media initiative of the bank and strategize how it can leverage this phenomenon.
- Social media activity in the bank, such as communicating, monitoring responses from customers, responding to customer queries and so on should happen on a daily basis and in alignment with the bank's customer relationship management practices.

- The strategy must emphasize strict governance norms. It should focus on specific customer privacy policies and guidelines and educate the customer about the same. These internal policies must align with the Central Bank policies and other applicable regulations.

- **Framework for Measurement**

The bank will need to develop a framework for defining and measuring key performance indicators that will monitor the initiative's progress and determine its success or failure. Financial indicators such as variation in revenue generated or cost savings could be used in cases where social media adoption does not affect customer service. In situations where such service is impacted, marketing-related indicators such as measurement of change in brand visibility would be appropriate.

- **Risk Management**

The overall risk management structure of the bank must be geared to manage risks posed by fake sites and defend against possible social engineering attacks on existing or potential customers. The process to be adopted is similar to the procedure of monitoring fake sites or phishing attacks on existing customers. Banks should reserve their brands on social media sites even if they are undecided on the timing of their entry, and monitor the media to discover and remove fake pages.

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