

Undressing in public

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Web 2.0 to rebuild trust
in banking

Banking



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Harnessing the power of Web 2.0 to rebuild trust in banking

By Wendy Feller and Cormac Petit

Banks have historically been trusted, valued members of the community, but globalization and new-age communications have combined to put distance between institution and customer. Rebuilding trust requires listening to customers and complete transparency. In a time of global financial turmoil, banks intent upon reconnecting with an increasingly diverse, fragmented and suspicious customer base should "bare all" and use the varied and powerful tools of Web 2.0 at their disposal.

In years past, the bank was a central focus in the community. Bank managers held positions of privilege and authority based on trust, and the strength of banks was founded upon the relationships they built with customers.

Today, however, globalization, and the speed of information are rapidly transforming traditional banking. The world is becoming smaller. But, in a period where margins have been steadily decreasing – or vanishing – strong customer relationships and trust have become more important than ever.¹ The transparent, open dialogue available through Web 2.0, visible to all customers, is a method we believe banks can use to help rebuild these relationships and engender trust.

Many people today are beginning to use Web 2.0 tools – social networking, blogging, wikis, mashups and the like – to build relationships and help them with decisions about virtually every facet of their daily lives, from whom to date, to what to buy, to, even, where to bank.

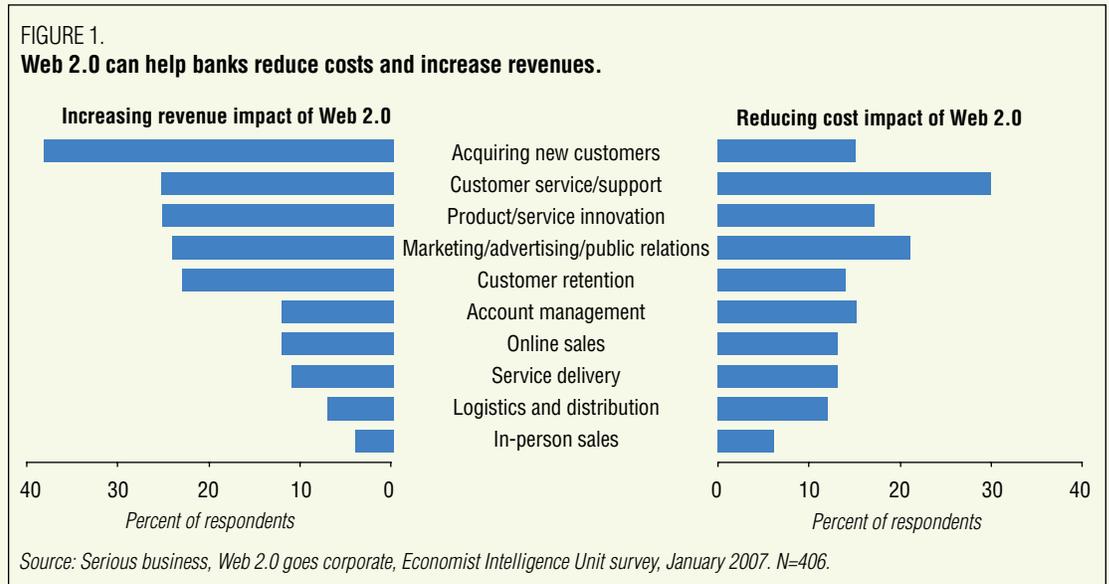
As a result, banks today are likely to find many of their customers online. And they're not content with just checking their account balances and paying their monthly accounts. They are soaking up information – researching, comparing and finding the best products, rates and deals. They are collaborating, connecting, and sharing opinions and experiences about banks and other suppliers – and, as they evaluate the advice they receive, about each

other – with numerous others throughout the world. They are blogging about their experiences with banks, brokers and other financial institutions. Social networking site Facebook, for example, attracted nearly 124 million unique users in May of 2008, compared to MySpace's 114.6 million, and users spent an average of more than two hours per month interacting.² In fact, about 60 percent of the world's online population visit some form of social network or blogging site.³ If you are a banker, do you know what these online consumers are saying about you and your institution? Are you even on their radar?

Web 2.0 allows customers to interact the way they want to – by leveraging the social aspect of the Internet to make connections and

decisions. To compete in this environment, banks should become a part of their customers' online social networks and understand how to harness their power to create value.

Based on discussions with more than 100 bankers with responsibility for Internet banking channels, as well as observations and study of Internet banking sites and their functionality, we believe social computing can have a positive effect on the top line, driving increased access to new customers, improved customer service and greater levels of product and service innovation. We believe, as well, that use of an increasingly cost-effective and interconnected Web 2.0 infrastructure can also result in bottom-line improvement (see Figure 1).



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Customers are now using Web 2.0 tools to simplify, speed and increase the value of personal financial management.

Beyond the basics

About 16 percent of U.S. households used an online personal finance feature at least once as early as 2006.⁴ That percentage is expected to climb to an estimated 33 percent by 2016, with nearly three-quarters of those households using personal-finance tools offered by their financial institution online.⁵ Most banks have the table stakes of online presence in hand. Their customers can find information, view and manage their accounts and pay bills online. Some have moved beyond the typical, offering more convenience and adding value through budgeting and cash flow applications, providing customers a total view of their accounts (even those with other institutions) through a portal or enabling online chat with customer service representatives.

While many banks aspire to deliver a full spectrum personal finance management suite online, only a few major banks have ventured full force into this space in the last few years. For example, in 2006 Bank of America debuted its MoneyCenter suite with a My Portfolio offering that includes basic personal finance functionality, including budgeting, categorizing and an array of preformatted reports including: cash flow analysis, expense analysis, budget versus actual, credit card utilization, get transaction reports and the ability to set budget goals.⁶

Many other institutions are entering the arena to deliver online investment and cash management tools in the wealth management

and retirement space as well – in particular, to benefit from the estimated hundreds of billions of dollars in baby boomer assets expected to transfer annually from employer-sponsored retirement plans as they leave their jobs. Brokerage institutions are invading banks' turf by delivering cash management and investment vehicles combined with automated payment and spend alerts, online bill payment, automatic cash sweep of investment into spend accounts and increasingly sophisticated online wealth management tools.

Once, offering these services online may have seemed extraneous – service strategies focused on the branch and face-to-face interactions with customers; online banking was for accessing account balances or simply finding the nearest branch. Wealth management was something to be discussed in an office, face-to-face with a trusted advisor.

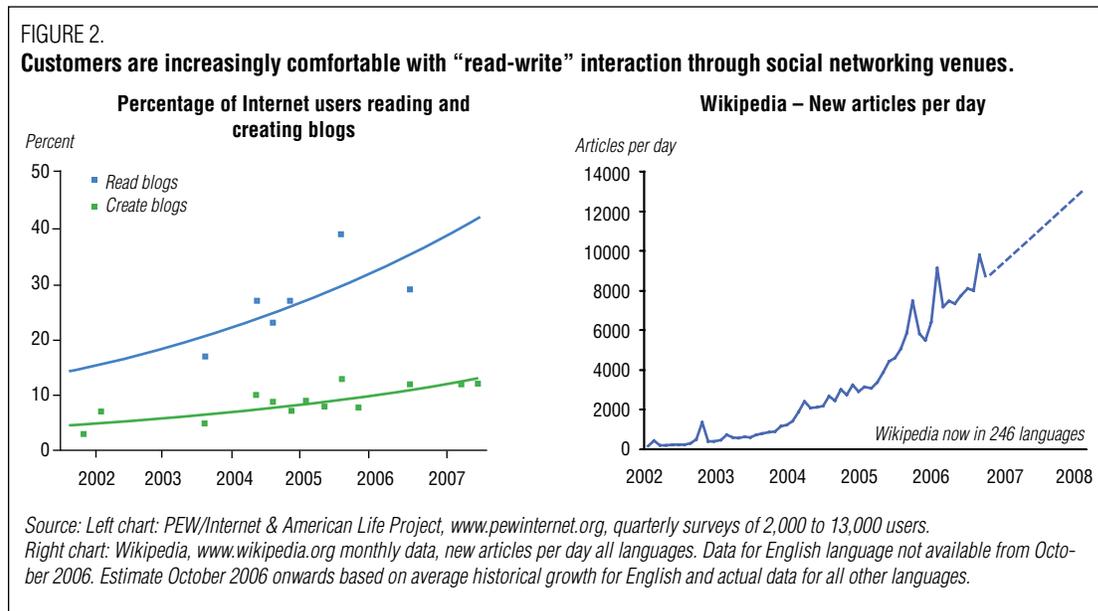
But now, Web 2.0 customers are becoming a new breed. They have moved quickly from being a source to drive low-cost deposits *en masse* to a savvy group of connoisseurs looking for ways to use technology to simplify, speed and increase the value of personal financial management. They are more involved and more self-directed. They research, shop and make financial decisions on their own more often than traditional customers. They want more from a relationship, crave connection and demand transparency. With a constant flow of information to process,

they require more proof to purchase. Recent research revealed that a staggering one in four Facebook users would consider leaving their bank to be able to obtain online banking through Web 2.0 gadgets.⁷

To provide what online customers are looking for, banks must embrace the transparency to which their online users have become accustomed. Online customers' top concerns remain centered around data privacy and security.⁸ However, the ability to ask questions, inspect quality of products and research price advantages also weighs in on consumers' minds. It is still about trust, value and convenience, but in the subjective world of Web 2.0, those words have a radically different meaning.

Social “net worth”

Social networks have always played a crucial role in financial decision-making. Traditional banking and financial services were built on referral models. For online bankers, who you know is still important. But the advent of Internet-enabled social networks and online banking has drastically changed the banker to customer ratio. Instead of one to several individuals, as has historically been the case, the ratio can now be one banker to millions of customers. Two intersecting trends – consumers' growing confidence in their ability to manage their own financial affairs and a burgeoning user interest in “read-write” interactions through social networking venues – present new challenges and opportunities for today's banks (see Figure 2).



Companies are using social networking to build brands, enhance trust and communicate to a diversified and dispersed audience.

MySpace, Facebook and LinkedIn have proved the popularity, if not yet the profitability, of connecting to an ever-widening social network online.⁹ These sites are the new forums where opinions are formed, and they are growing at a breakneck rate. Facebook is the fastest growing – with membership doubling every six months.¹⁰ MySpace logs an impressive 300,000 new members every day.¹¹ One in four Americans is on MySpace, and in the United Kingdom, it's as common to have a MySpace page as it is to own a dog.¹²

Each site serves a different demographic. Whereas MySpace is largely a media site, primarily aimed at youth, giving them the opportunity to relate to brands and bands, as well as self-express, Facebook is more of a “lifestyle” play, targeting a different demographic with different tools, such as widgets, that let users personalize their pages and experience.¹³ LinkedIn targets executive professionals and has become a formidable professional networking site. Each company listed in the Fortune 500 is represented in LinkedIn.¹⁴ In fact, 499 of them are represented by director-level and above employees. Harvard graduates who use the site average 58 connections each.¹⁵

Companies across the globe are harnessing the power of these sites, and others like them, to strengthen their brands and build customer trust. There are group pages dedicated to employees, or special interests or causes, pages for advisement and local pages for customers. These contend with customer-created pages dedicated to the discussion of less positive customer experiences. Whatever

the message, the clear difference is the content – people online are baring all, love and hate, about themselves and the companies they patronize. And those in their networks are joining the conversation.

Web 2.0 banking sites like Wesabe marry the benefits of social networking and convenient, one-stop financial management to create added value and convenience for customers.¹⁶ Wesabe is an online site that allows users to upload information from banks and credit card accounts to monitor their spending and network with other people with the same financial goals. By adding and sharing tags concerning their financial goals, customers can get tips from other members on how to save money and spend more efficiently. Sites like Wesabe that have a community focus are proving to be highly responsive to individual needs. For example, within days of the start of the current world credit crisis, Wesabe users were sharing their “top five concrete things you can do to prepare for harder times.”¹⁷

Taking trust, value and convenience a step further, new Web 2.0 sites circumvent the traditional bricks and mortar loan experience entirely. Prosper.com is a social lending site, the self-named “eBay for loans.”¹⁸ Instead of having to borrow at whatever rate is available from mainstream institutions, users can assess the risk of borrowing from individuals who visit the site and enter into loan agreements. Virgin Money, with the tag line of “lending from people you know,” acts as an intermediary, formalizing loans made among friends and family, and even sets up direct draws from the borrower’s bank account to repay the loan.¹⁹

An interesting aspect of these sites is the creation of communities among their users (e.g. firefighters, school teachers, car renovation enthusiasts) and the impact the type of community has on a borrower's ability to get a loan. Some lenders actually choose borrowers based on their interests, a radical departure from the way traditional banks dole out capital. For instance, a lender may want to support a renovator of classic cars based on the fact of a shared hobby or interest.

These sites not only signal the advent of new banking business models, but banks' increasing need to understand what it takes to be the intermediary of choice in the online marketplace. Web 2.0 provides numerous opportunities to attract customers. Whether they choose to play or not, banks are being rated and ranked, and no doubt ridiculed, in social networks online. Web 2.0 requires banks to make a name for themselves among these intermediaries that rate, rank, opine and amalgamate based on customer interests and needs. To understand what customers want, play a part in shaping their opinions and, ultimately, win and retain their business, banks must "get in the game." For many institutions, however, doing so will require a wholesale change in how and where they deal with customers.

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Just as banks once strategized about where to build the next branch, they now must identify the prime online real estate on which to hang a virtual shingle. More and more, these are places other than their corporate domain. To attract and retain customers, and win back their roles as trusted advisors, banks must become not only ingrained in their customers' communities, but also understand how to use these interactions to create value.

To become a part of the community, banks must embrace the foundational purpose of the communities themselves and reach out. There are several steps banks can take to immediately to gain entrance into customers' online consciousness. No strategy would be complete without considering all channels. This requires a greater transparency of information, or to borrow a phrase from Web 2.0, *nakedness*.

Take a look in the mirror

Banks should begin monitoring blogs and other chatter online. Customers often say things online that are less than flattering about services, products, treatment of employees or, even, social-political affiliations. Ignoring this fact will not serve banks, or their customers, needs. No matter what information is discovered, banks can benefit by using online commentary to improve brand image and counter unfounded negativity with facts. This information can also be used to identify communities of targeted customers that can be accessed easily.

Show some skin

If they haven't already, banks should develop their presence on the most popular social networks, such as Facebook, MySpace or LinkedIn. Leveraging what they learn from customers who join these forums – target demographics, trends, wants, needs and concerns – banks can then create special interest groups that leverage such existing social networks. Or, they may choose to use a platform such as Ning, which enables companies to build a tailored social network from scratch, to begin networking with target customers.²⁰

Many institutions are experimenting with tools to deliver a seamless cross-channel customer experience.

Though it may seem altogether too futuristic to some, banks would also do well to develop their presence in online virtual worlds such as Second Life.²¹ Many banks already have a presence in this space. While it may be too soon for many to consider offering financial services in a virtual environment, it is an ideal forum in which to monitor customer behavior and buying habits, as well as stay abreast of new online trends.

Where to bare all

Banks' best customers may be their employees. If they're not, banks are missing out on a powerful Web 2.0 marketing tool: employee evangelism. Generation Y employees, especially, are extremely adept at using Web 2.0 networking to connect personally and professionally, find and analyze data, shop, find jobs and, even, start companies. Why should a bank wait to read an employee's thoughts and ideas about what it could do better or a potential marketing innovation on an external social network when it can encourage the same type of information sharing internally? Adopting and embracing internal collaboration tools eases communication, encourages innovation, and enables employees to learn, execute and raise the quality bar faster.

Institutions are using a variety of tools aimed at exploiting social networking, grass-roots innovation and empowering idea sharing across organizational silos and boundaries. This trend began with knowledge networks and is progressing to vehicles like innovation jams, blogs, wikis and social networking. Some banks already adopt the "if you can't beat 'em, join 'em" approach: they have designed communities on Facebook for their employees to get together and share common interests.

Last but not least, a well-conceived Web 2.0 strategy should consider how all channels will need to evolve to provide the transparency, ease and speed that customers will come to demand – and technology will enable – in the next few years. To make the most of the opportunities next-generation developments will create, many banks will need to radically transform their views of the customer, the way they store and track customer data and the speed at which they are able to analyze and react to customer behavior.

Some institutions are already experimenting with a number of tools and techniques to create a cross-channel customer experience. Contrary to the traditional online model, which has largely been a transactional extension of the bank, the new online model will leverage all available technologies to nurture the customer experience. Banks and online providers are using blogs, RSS feeds and podcasts for educational and promotional purposes. Some are moving toward full financial dashboards for expenditure analysis and wealth planning, as well as using alerts to proactively communicate banking product opportunities to the customer. And some banks are using co-browsing, net meetings and chat applications to directly interact with the customer online.

But banks will start to move even further, thinking beyond channel and device to envision an environment and culture defined and driven by the flexibility of the "anywhere, anytime" mobile experience, which reaches across customer segments, industries and geography. In the not-so-distant future, display and touch technologies and wireless electricity are likely to enable network interfaces on any surface, of any size, in any place. GPS,

real-world aware networks and sensors akin to today's RFID will provide connectivity that knows where customers are, enables mobile payments, and tracks buying behavior. Advanced analytics of transactions will help companies better understand what customers want. Biometrics and advanced encryption capabilities will make transactions safer, and consumer trust and adoption will follow. In this future, we can imagine a scenario where storefronts "know" customers and can beam a tailored advertisement to them as they walk by. Consumers, in turn, will be able to beam back a payment and be on their way in seconds.

Get skin in the game

The question is not will Web 2.0 affect banks. Banks are already being affected, whether they choose to play or not. We recently searched blogs naming a major U.S. bank, for example, and returned over 1.5 million hits. The questions are what types of information did those blogs contain and how can banks use that information to drive value?

How should banks react? As the number of social network participants and allure of collaborative models continue to accelerate and unfold, financial services providers will aggressively redefine their online experience. First and foremost, providers must understand why customers access social networks. Research indicates the top drivers center on the ability to meet people (78 percent), find entertainment (47 percent), learn something

new (38 percent) and influence others (23 percent).²² Online users benefit from access to social networks that expose them to information and opinions they can use to compare and contrast the virtues of numerous capabilities – including personal financial management. Banks must research their customers as much as consumers are now researching their financial services provider. The operative words are listen, learn and leverage.

It is very important that banks transcend beyond a world of one-way, "read only" provider-to-consumer interaction. Sixty percent of large companies plan to invite customers to contribute content that explains, supports, promotes or enhances their products.²³ Even more striking is that 47 percent of companies plan to treat customers as co-developers of products.²⁴

Web 2.0 is the next frontier of customer relationship management. Whether developing a presence on a popular social network, tapping into the virtual world, launching a new social network, or some combination thereof, demystify it for your company. Embrace the trend. It is a world of which you are already a part. The invasion of new, innovative business models delivering on these promises means no bank – large or small – should opt out. The sooner you join the conversation, the sooner you stand to benefit.

About the authors

Cormac Petit is a Chartered Accountant (South Africa) and Managing Consultant in the IBM Global Business Services Strategy and Change practice. He has over 20 years of experience worldwide and across a wide range of industries, with primary expertise in the Finance Sector. In the IBM Institute for Business Value, Cormac is joint global Banking leader. He has published many research studies and articles in a variety of journals, and speaks regularly at conferences. Cormac can be reached at cormac-petit@nl.ibm.com.

Wendy Feller leads the Financial Services Sector practice across the Financial Markets, Banking and Insurance industries for the IBM Institute for Business Value. She spearheads the team's strategy-oriented research, exploring pressing issues facing today's financial services organizations. Ms. Feller has over ten years of experience in the financial services industry, having previously worked as a strategy consultant advising many of today's leading organizations. She has authored multiple studies and has been cited by a broad range of media outlets. She is a frequent speaker at conferences across the globe on topics such as the future of financial markets, as well as the globalization and specialization of the industry. Wendy can be reached at wefeller@us.ibm.com.

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Somers, NY 10589
U.S.A.

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