

Banking gets social

Why social business matters to your bank



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How social is your bank?

In a recent report by Ovum, analysts found that almost nine out of every 10 people actively use social media. That is probably not news. But those surveys also show only 11 percent of respondents had used social media to connect with a financial institution.¹ Perhaps that is one reason why financial institutions “rate themselves as doing only an adequate job of effectively using social media.”²

This large difference between customers using social media in general and using social media to connect with their financial institutions represents a tremendous business opportunity. To take advantage of that opportunity, your financial institution must understand the business potential, acknowledge the challenges and then actively harness the power of social media. Fortunately, US banking regulators have recognized the possibilities and have issued preliminary guidance.

FFIEC's new social business guidelines

Recognizing the increasing pervasiveness of social media, the Federal Financial Institutions Examination Council (FFIEC) published a Notice and Request for Comment in 2013 on proposed guidance for social media risk management. While acknowledging social media may “improve market activity” and “more broadly distribute information to users of financial services,” the FFIEC warns that the informal and dynamic nature of social media and their less secure environments can affect a financial institution's risk profile. In particular, the guidance highlights compliance and legal risk, reputation risk and operational risk as three risk areas that could be impacted by social business activities.

So why would a financial institution willingly accept additional legal, reputation and operational risks? The answer is very simple: bottom line results. Social business offers the potential to simultaneously reduce costs and improve profitability.

Ways social business impacts your bottom line

Risk without reward is generally not beneficial to long-term business health. For social business, however, the rewards can be high, and the benefits of each reward can make a substantive impact on your institution's net revenues.

According to the TowerGroup, social business offers value in the relationships between a financial institution and its customers. Their report identifies that social business helps:³

- Lower customer acquisition costs.
- Improve customer retention.
- Reduce marketing and servicing operation costs.
- Increase the lifetime customer value.
- Achieve positive returns on customer relationship sooner.

Beyond the customer relationship benefits of social business, financial institutions can also profit from enhanced results with suppliers and business partners, which can include:⁴

- Improved alignment of products, services and technologies with bank goals.
- Accelerated conflict resolution and error correction.
- Reduced time to market for new products and services.
- Strengthened integration between bank, customer and business partner communications.

When your financial institution successfully implements a social business strategy, the positive impacts to your bottom line can be substantial. But realizing these benefits requires that you acknowledge and address the challenges social business brings.

Challenges of social business in banking

When your financial institution implements social business practices, the organization will encounter several challenges. Responsible personnel must commit to monitoring and responding to social business channels much like any other customer service or marketing operation. Beyond staffing, you must address two major challenge areas: return on investment (ROI) and privacy protection.

Currently, financial institutions find themselves very early in the social business adoption cycle. At this stage, the variable, long-term ROI has not yet had the time to show up as a defined value in annual reports. But business value—especially for social marketing and social analytics—is intuitively obvious. After all, very few mediums are faster and cheaper at helping you connect with and listen to your customers.

“Real, knowable, and measurable return on investment in becoming a social business can be documented over time, but may defy traditional spreadsheet analysis in the short run.”

—Rodney Nelsestuen, Senior Research Director, CEB TowerGroup

To achieve any long-term ROI you must first mitigate the privacy challenges social business introduces. Banks are obligated to protect customers’ wealth and safeguard personal, confidential information. Conversely, most social business channels currently use less secure infrastructure. In addition, social media companies have data protection and privacy policies that can change overnight.

Therefore, banks that adopt social business practices must recognize that privacy and data protection are vital to customers. Your customers will look to you for privacy and data protection, not to the social business channel provider. This means the protections you implement can affect more than their data—it can affect your reputation.

Due to the speed at which information is shared through social media, the steps you take to protect your customers will drive your institution's social business reputation. A solid social business reputation allows you to take advantage of the different opportunities that social business presents.

Stages of social business success

IBM categorizes various social channels to better identify solutions to the challenges created by social business in banking. The first differentiation is between internal and external use of the various social channels. The one internal category, **social for a smarter workforce**, uses social media to:

- Quickly locate organizational expertise, regardless of where it might be located within the organization.
- Improve new employee onboarding and integration.
- Facilitate employee skill and career development.
- Capture institutional knowledge and disseminate that knowledge throughout the organization.

While these communications are conducted strictly among employees, privacy concerns can range from negligible to high depending on the content. Information such as expertise is typically non-sensitive while institutional knowledge may contain intellectual property or competitive advantage information and therefore need to be protected more strongly.

Similar to the internal social business category, the remaining five external social business categories range from lower value and lower privacy concerns to higher value and higher privacy concerns. You should also note that as you progress along the scale, communication between the financial institution and its customer becomes more targeted.

On the low-value and low-risk end of the scale is **social participation**, which involves the publication of your financial institution's words or those of its clients through public or bank-owned social channels. This impacts your institution's reputation as well as the public's awareness of your products and services. Although it imposes minimal data protection concerns, as with any public relations you must establish policies and systems to manage these communications.

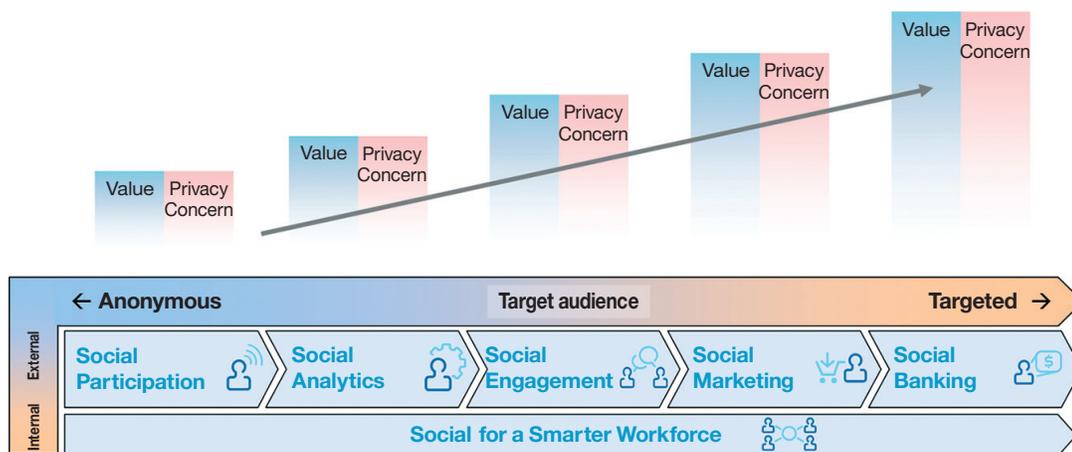


Figure 1. The IBM model for social business in banking

With slightly higher value and higher risk is **social analytics**, which delivers the “voices” of your clients as heard through social media. Social analytics provides you insight into their wants and needs along with your unfiltered reputation among those customers and potential customers. Data protection is limited to minimizing the collection and retention of personally-identifiable information.

Next is **social engagement**. This uses social media to interact with individual consumers. It is an effective way to gather customer opinions as well as understand their specific needs or complaints about your products or services. As with social analytics, social engagement provides marketing insight and knowledge of your “real world” reputation. But it also directly impacts customer satisfaction because of its interactive nature.

With social engagement, data protection is extended to allow customers to access to their own personal data along with their “right to be forgotten.” While monetizing social engagement data can add to your bottom line, you must understand—and mitigate—the potential privacy issues. This may include disclosure, opt-in and, most importantly, a policy that clearly defines what data can be used for what purposes and by whom.

Forward-thinking financial institutions use the wide-reach of social business for **social marketing**. Social business channels can disseminate your messages effectively and cheaply as well as provide an excellent platform to launch targeted, insight-driven marketing campaigns. When effectively carried out, social marketing can increase revenues and strengthen your relationship with your customers, but because of its targeted nature, social marketing carries potential data privacy concerns related to de-anonymization of data in the social channels.

At the highest level of both value and privacy concerns is **social banking**—the actual delivery of products and services to the customer through social media. Social banking provides breakthrough opportunities that offer tremendous competitive advantages, but the exchange of personal and financial data over social media can introduce significant risks. Therefore, you must carefully compare the potential benefits against potential risks such as data security, customer authentication, privacy protection and legal implications.

Determining what categories make the most sense for you to adopt depends on your institution’s organizational culture, the regulatory environment in which your institution operates, and the expectations and demands of your current and potential customers. But no matter where you choose to operate, social business in banking offers opportunities to add to your bottom line and enhance your marketplace position—all while strengthening your customer relationships.

Why IBM?

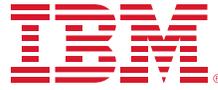
The banking industry is experiencing a transformational shift—one where success will depend on having a total view of the bank-customer relationship. To succeed in this environment requires the vision to see the opportunities hidden within that change, and the expertise and ability to capitalize on those opportunities. For over a century, IBM has been pioneering technologies that allow companies to do just that.

With over 400,000 worldwide employees, IBM is recognized as one of the largest information technology companies in the world.⁵ In addition, IBM holds more patents than any other US-based technology company and has eleven research

laboratories around the world.⁶ From these resources springs the world-class technology experience, security expertise and analytics capabilities necessary to help you realize the potential value in social business.

For more information

To learn more about how IBM can help with your bank's social business needs, please contact your IBM representative or IBM Business Partner, or visit: ibm.com/banking



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¹ Ovum, *The Impact of Social CRM on Retail Banking*, February 2011

² The Financial Brand, *Social Media In Banking: Slow And Cautious*, March 6, 2013, accessed August 5, 2013, <http://thefinancialbrand.com/27857/social-media-utilization-adoption-banks-credit-unions>

³ TowerGroup, *The Social Business Model: An Emerging Path to Competitive Differentiation in Banking*, December 2011

⁴ TowerGroup, *The Social Business Model: An Emerging Path to Competitive Differentiation in Banking*, December 2011

⁵ CNN, *Fortune 500 Annual Ranking of Top Companies 2012*, <http://money.cnn.com/magazines/fortune/fortune500/2012/performers/companies/biggest/>

⁶ WSJ Live, *What Tech Company Holds the Most Patents?*, January 2012, <http://live.wsj.com/video/what-tech-company-holds-the-most-patents/4DB2E798-A4A6-45DA-B5BE-2AB7EC3D77C7.html#4DB2E798-A4A6-45DA-B5BE-2AB7EC3D77C7>



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