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Social Media in Financial Services – A Theoretical Perspective

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Abstract

Social media steps over traditional outlets to offer faster news delivery sprinkled with opinions, commentary and perspectives on business activity. It has become the need of the hour for financial services organizations to set a policy concerning social media. Getting it wrong could mean significant reputational damage, ignoring it could mean being left behind. Those financial services institutions embracing social media are better able to pick up on customer complaints circulating in the online world, and respond before reputational damage occurs. Clearly social media is about socializing in communities online. Social media is collective rather than monologue. Many people talking to many and being able to do so when they want, where they want, and how they want. Connecting through emails, blogs, wikis, web, video and photo sites, social media isn't necessarily about going to a particular place. It's more about coming together and networking and connecting in a new, more equal and progressive way. To be 'best able to connect' means to move toward a sophisticated, responsive distribution mindset. To be where people are and to participate in a way that speaks to them directly. To do that means to be in people's personal environments – Facebook, MySpace, Linkedin, Twitter, etc. Ignoring the power of online word-of-mouth is no longer an option in today's interconnected world. The ability of consumers to influence corporate behavior and impact business planning in unanticipated and, at times, unwelcome ways has grown exponentially. One 'entertaining' complaint from an irate customer going viral can escalate into a full-blown crisis in less than 24 hours. In this environment, understanding what customers feel, think and say about company – in real time – is ever more critical. Financial services companies need to harness the great power of social media in order to enhance customer service, manage their reputation and obtain a competitive advantage. Social media humanizes customer service, brings businesses closer to their stakeholders, and makes information more accessible.

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1. Introduction

Social media usage had definitely increased over a period of time. Social media is the undisputed king of the Internet especially in India. The financial services industry has trailed behind other sectors in social media, but in 2013 the industry is poised to make a leap forward. A recent report by KPMG on the impact of social media on financial services, reveals that banks (like other industries) have an immense untapped opportunity to monitor social networks, analyze trends, and engage with customers to create relationships.

Social media is a great way for customers to learn more about financial institutions and deepen relationships.Social media has emerged as the platform that will decide many of the winners of tomorrow's connected enterprise. In the area of financial services, initial initiatives saw banks seeking to understand customer opinions about bank products and service experiences. Later it evolved to a more proactive role of responding to customer feedback quickly. Today, financial institutions around the world are working overtime to develop the Connected Customer Strategy.

With India having a strong base of young (below the age of 35) social media users, this is clearly a segment that represents in many ways the customer of the future. Financial institutions who want to remain relevant will have to develop a channel and interaction strategy that is able to address the needs of a diverse set of customers with their own set of preferences and demands. By understanding the forces underlying social networking interaction, financial institutions will be able to craft their interaction strategy with both their current and future customers.

Social media describes the customers preferences, be it Facebook, Twitter, Linkedin – the endless amount of available data allows the crafting of customer profiles with a level of detail that would have been unthinkable even a couple of years ago. The availability of advanced analytics, abundance compute power and cheap storage, advanced search and scanning capabilities will allow a bank to offer not generalized but truly customized offers to their customers. Successful financial institutions will be able to take customer delight and satisfaction to new levels provided their underlying operating models can keep pace.

Financial institutions need to foresee the usage of social media as an important tool. Financial institutions will have to address the diverse needs of their employees and customers from an experience, innovation, and delight perspective in order to provide various financial services, while preserving the trust and security of the customers.

2. Literature Review

Social networks are often made up of people who share the same interests. This can be both social and consumer specific interests. Communicating through these social networks can fulfill consumer interests, relationship building and transactions (Berger and Messerschmidt, 2009). It is argued that one of the reasons user-generated-media is so popular, is the fact that it is easy to use, and as the term states, controlled by the users (Shao, 2008). It is also a fast way to interact with others, and consume information. Consumers get access to vast amounts of information without participating, or having to involve themselves in a high degree (Shao, 2008).

Foster, Francescucci and West (2010) argue that different types of social media exist, and that they can be classified according to how much social presence, media richness, and self disclosure they contain (Foster, Francescucci and West, 2010). Wikipedia is an example of a social media channel that is low on social presence and media richness. It is an open and editable page, and the content is written collaboratively by a large amount of anonymous Internet volunteers. Articles are written in more than 270 languages, and anyone with an Internet access can contribute (Wikipedia, 2011). A blog is somewhere in the middle, as it shares both text and photos, and people have the ability to make their own comments to the content (Foster, Francescucci and West, 2010). Blogs are the most popular online personal publishing platform. Permalinks and trackbacks (allowing for linking between blogs) and commenting opportunities are unique features with blogs (Brady, 2005). Among those with the highest media richness and social presence are YouTube and Facebook. These social media channels attempt to replicate a three-dimensional interaction, like live chat, picture, video and text sharing (Foster, Francescucci and West, 2010).

Researchers have categorized levels of engagement that people display in social networks. Some consumers “lurk” in social networks, meaning that they observe others, but do not generate any content themselves. “Newbys” are those who have just started to comment in a social network and do not display signs of commitment. The term “celebrities” are characterized as members with an extensive knowledge of the discussion topic. Then there are “minglers”, referring to those that do not participate regularly, “devotees” are enthusiastic members, while the “insider” possesses expert knowledge. Both “devotees” and “insiders” exhibit strong social and emotional ties to the network (Quinton and Harridge-March, 2010). According to Kozinet (2010), far more people are willing to join a community than contribute to it. About 1/10 of 1 per cent will write on the wall, and tiny fractions of this will post photos or videos, or reply to discussion topics. Kozinet calls such communities “semiquasi- not quite- communities” (Kozinet, 2010).

Word-of-mouth being an important tool of communication, social media can access and benefit from it. Electronically word-of-mouth occurs when people discuss products, brands and services among each other on the Internet. Some consumers might have tried a product before, and can thus recommend it, or not recommend it to other consumers. Positive word-of-mouth can be viewed as a customer’s willingness to recommend a product to others (Gruen, Osmenbekov and Czaplewski, 2006). WOM of this nature is motivated by the desire to spread knowledge, help others, or even warn them against poor service and products (Kozinets, de Valck, Wojnicki and

Wilner, 2010). Word-of-mouth is viewed as a social force that has a huge impact on consumer's purchase decisions. Some scholars have even argued that WOM is more influential than traditional marketing tools (Kozinets, de Valck, Wojnicki and Wilner, 2010).

Research also shows that marketers should not panic by negative word of mouth. A little negative WOM together with positive adds credibility. Other researchers argue that it is the volume of WOM, and not their negative and positive valence that matters (Kozinets, de Valck, Wojnicki and Wilner, 2010). Agresta and Bonin Bough (2011) suggest that if inappropriate comments from a customer occur in a business-sponsored community, the advice is to not respond, or respond offline. The reason for not responding is that a business does not want its social media space to be crowded with information of no value. If the complaint or negative comment is based on inaccurate information, the business should answer immediately and try to correct the misinformation. If someone is just looking to steer up trouble, a business should not respond. This is because a response might just encourage the person to a negative discussion that will color the social media room. A suggestion from practitioners is to encourage the customers to make contact with the company through a more private line, where the problem can be dealt with away from the public sphere (Agresta and Bonin Bough, 2011). Even if online discussions can generate some unfavorable comments for all to see, such forums provide marketers with the opportunity to follow a discussion about their brand. They can see the initial post, who has commented on what, and in general what response it has generated. This is not possible for word-of-mouth that happen offline (Quinton and Harridge- March, 2010).

Lately, researchers have been giving more attention to organization-sponsored communities and their potential (Berger and Messerschmidt, 2009). These are communities that are started up, or sponsored by companies. The fact that consumers use these communities to research new products and form relationships is a major argument for organizations to sponsor online communities that facilitates word-of-mouth about their product (Berger and Messerschmidt, 2009). It is also argued that since the relationships, which are formed in these networks, are grounded in social bonds, they are hard to copy by competitors. Social networks can be powerful and create a competitive advantage (Quinton and Harridge-March, 2010). However, a social network is not built up around information sharing alone, but also around trust, friendship and alliances. One should therefore be careful to insert too much marketing in a social community, as it will undermine its integrity (Kozinets, de Valck, Wojnicki and Wilner, 2010). As an example, a page can be viewed as company sponsored community.

According to Agresta and Bonin Bough (2011), a company should not produce too much content on a Facebook wall. This might be viewed as spam and be annoying to the followers. They rather suggest putting up real valuable content to give the customers something to talk about (Agresta and Bonin Bough, 2011). As mentioned by Berger and Messerschmidt (2009), more and more consumers have less trust toward information coming from commercial sources. Instead, they go online and search for product reviews created by other consumers, and ask them questions directly. Online communities often attract like-minded users, and are therefore a perfect platform to search for this kind of product information (Berger and Messerschmidt, 2009).

When investigating online communities, Quinton and Harridge-March (2010) found that the most useful product and service information came from regular posters in the community (Quinton and Harridge-March, 2010). It also happens that other community users and customers know the answer to something better than a sales assistance that is employed to answer customer enquiries (Berger and Messerschmidt, 2009). E- Bay is a leader in this field.

Many consumers view financial services as complex, thus a service that needs pre-purchase information and evaluation. Because financial products are viewed as being complex, they are also high-involvement products (Berger and Messerschmidt, 2009). For the financial services marketer it may be difficult to identify true versus not so true, loyal customers. This might be because even if a customer experiences dissatisfying service, many financial service customers stay with their financial service provider simply because switching is too much stress (Licata and Goutam, 2009).

3. Penetration of Social Media in India

India now has close to 80 million Internet users, adding nearly 17 million users every year. The number of social network users in India is expected to cross 100 million users and reach more than 127 million users by the end of 2013. The total number of social media users will be more than double and reach close to 283 million users by the end of 2017. 75% of the users who are under the age of 35, who are active internet users use social networking sites like Facebook, Twitter, YouTube, LinkedIn etc. and interaction with friends, relatives, colleagues and community, live chat, status updates, image as well as video sharing are some of the major activities by Indians that spend close to half an hour everyday online on the different social networks.

4. Social Media- Aid to financial institutions

- **Communication:** Social media like Facebook, Twitter, LinkedIn etc. provides thousands of investors inter-connected. Social media provides the opportunity to educate and connect with consumers. The financial institutions need to communicate to people in the language they understand. Clear communication on social will help institution build trust.

- **Content:** Financial institutions need to create the right content for their target investors. The content need to match the way the conversation goes among the investors in order to provide financial services. The content need to be tailor made for various classes of investors.

- **Knowing the Customers:** Social media is all about learning about the customers. Social media helps in communicating with the customers – knowing their needs and wants. Financial institutions must be aware of customers' perceptions.

- **Publish customer feedback:** The financial institutions need to create a blog or a forum. One of the best ways to utilize the concept of social media is to invite and publish customer feedback on the website.
- **Solving customer's problem:** Customers can post complain or problem, if any and the financial institutions can solve the same through social media. This will help the financial institutions in retaining the business and creating a brand for themselves.
- **Influencing customers:** Now-a-days most of the customers use social media to buy organizations offerings and at the same time they try to comment and seek recommendations on company products and services.

5. Social Media – Risks involved

Risk-related activities like posting wrong information, revealing unauthorized information, or even using social media in an unethical and manipulative way for one's own benefit, can lead to consequences like regulatory penalties and reputational damage.

Financial institutions therefore must be concerned about social media. It is from this point of view that financial institutions need to study issues such as the security of social media, confidentiality of information, and IT compliance regulations to determine how they can influence the policies. This is why regulatory bodies like the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), and Insurance Regulatory Development Authority (IRDA), as well as financial organizations, need to work together, and frame effective measures and mandates to address social media risks. Financial institutions also need to consider implementing a strong governance system that does not allow any information to go un-scrutinized and unapproved on any social media forum.

6. Social Media strategy

In order to adopt social media strategy financial institutions must consider the following factors to reduce social media risks:

- Defining the purpose of using social media – is it for brand recognition, reputation management, or connecting with consumers?
- Approve business-related content before it is posted on social media, and provide social media compliance training to employees.
- Identify user groups who are authorized to post, and define approved channels.
- Involve various departments – Sales and Marketing, IT, or HR – to contribute to policies, and ensure that the use of social media is within boundaries but at the same time not hampering the personal freedom of employees.
- Create and define a compliance framework within the organization, and consistently revise it based on evolving trends and the growing maturity of social media.

- Implement policies, and ensure that the right controls and systems are in place within the organization.
- Deploy automated social media compliance solutions and tools, wherever possible, to achieve operational efficiency.

In India, for monitoring the social media activities SEBI has already taken important measures to ensure smooth delivery of financial services by the financial institutions. However, it will take some more time for these requirements to become full-fledged mandates.

7. Conclusion

Financial services companies are focused on increasing the integration of their products with established social networks. The ever-growing influence of social media on consumer behavior presents companies with opportunities and risks while the massive amount of content enables the identification of previously unknown patterns, preferences and trends. To put it simply, using social media analytics to inform business strategy is just good business.
Most of the users of social media are close to the age of 35 years therefore financial institutions should align their social media initiatives to the characteristics and requirements of this age group. Social media offers significant upside in terms of customer/employee engagement and feedback and can be utilized to reinforce relationships with internal and external stakeholders.

In India, social media is a recent phenomenon and gauging the return on investment in social media can be challenging. The risks involved in social media can be reduced by implementing a carefully drafted plan identifying performance parameters and monitoring the same. A continuing challenge will be identifying appropriate uses of social media that go beyond traditional advertising and branding.

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