



# Grasping the Power of Social Networking for Financial Services

Seizing the Opportunity,  
Maintaining Regulatory Compliance





## **Introduction**

This white paper explores the sea change that social media has brought about in how consumers are using social media in their day-to-day life and in their engagement with brands, and the implications for financial services companies.

The popularity and power of social media can no longer be dismissed as a youthful indulgence or a vanity medium for popular culture figures. People of all ages and socio-economic backgrounds are flocking to popular social media networks. Businesses of all sorts, and even governments, are establishing presences and communicating directly and freely with their existing customers and potential prospects. Savvy financial services organizations know there is an enormous pool of largely untapped customers chatting online about a myriad of topics, including financial matters. Inserting yourself into this forum of information and opinion trading is crucial for any firm wanting to build trust, gain ownership of its image and develop specialized generational messaging to extend its reach, relationships, and brand awareness. It is no longer a question of “Will social media affect the financial services world?” That’s already happened. The question now is: “How can I get in the game?”

Social media is the new gold standard for customer-centric marketing as customers gain more control over how they allow brands to communicate with them. Messaging can be customized and developed for significantly less than for traditional mediums, and with the right tools, companies can monitor conversations and collect information about those on the other side of the conversations.

Banks and financial advisors need to understand what customers want, help shape their opinions, and ultimately win and retain their business by becoming ingrained in their online consciousness through online chat, Twitter, Facebook, and other forums. Peer opinions—both positive and negative—have been and always will be more highly regarded than one-way advertising or announcements. Establishing an active and highly visible presence on networking sites allows your company to stay abreast of trends, wants, needs, and concerns and to promptly respond to negative remarks and target communities of prime potential customers.

Until recently, industries with compliance considerations have been seriously deterred from using the power of social media in their marketing and communications efforts.



The landscape changed with the release of the SEC and FINRA social media guidelines in the fall of 2010. The rules of online engagement for banks and financial services firms have finally been clearly spelled out and can be addressed with the right tools.

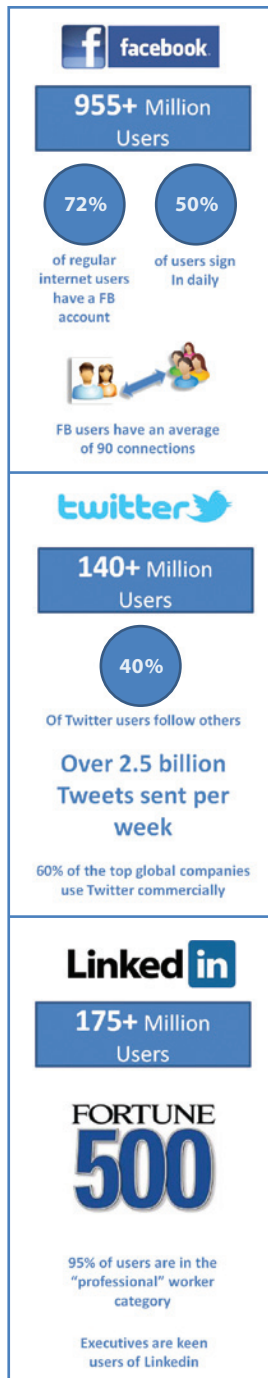
The two cases, discussed here, examine and highlight how a major investment house and a midsized regional bank have embraced social media marketing using the social media capture solution SMC4 (formerly known as SocialView). In one case, control and supervision to stay compliant was the biggest concern. In the other case, automated workflows to reduce resource requirements and flag high-priority messages were critical so they could respond quickly.

Social media is the new frontier of relationship management, and financial services firms need to transform their view of the customer and transcend the world of one-way, read-only provider-to-consumer interaction. Marketers can now demystify their company and services while tracking, analyzing, and reacting to customer behavior. The sooner financial services companies embrace the trend, the sooner they stand to benefit from it. It's time to grasp the power of social networking.

### **Financial Services: Most Grappling with Social Media**

The financial services industry has largely shied away from participating in social media for fear of losing control of its messaging, or inadvertently violating compliance regulations, or both. As a result, within firms the use of social media channels is often blocked, and tepid or less-than-timely messaging is squeezed through a bottleneck of highly controlled manual supervision. Meanwhile, other industries are eagerly embracing social networking as a marketing tool with incredible potential and relatively low investment costs.

Personal referrals have always played a crucial role in financial decision making. In today's world (and for the foreseeable future), these conversations are happening online among millions rather than among just a few individuals. As tools are introduced that provide the financial industry with a mechanism to meet compliance regulations while engaging in more spontaneous online conversation with clients and prospects, banks and financial advisors can leap—with confidence—into this virtual marketing arena to gain an edge over their competitors.



## Can Banks and Financial Services Firms Afford Not to Join the Conversation?

Our day-to-day lives now revolve around the Internet and to a large degree, social media. As testament to this change, here are some statistics compiled by Social Media Specialist, Expert, and Strategist Cara Pring, author of The Social Media Skinny blog. There are more than 2.27 billion people online. There are more devices connected to the Internet than there are people on Earth. An estimated 91% of online adults use social media regularly.

Facebook, the largest and by far the most popular social network, has 955 million active users. Each day Facebook users spend 10.5 billion minutes (almost 20,000 years) online on the social network. An average of 3.2 billion likes and comments are posted on Facebook every day.

Twitter has 140 million active users with over 340 million Tweets per day, that is, 1 billion tweets are sent every 3 days. The average Twitter user has 27 followers. More than half of active Twitter users follow companies, brands, or products on social networks. Approximately 79% of US Twitter users are more likely to recommend brands they follow, and 67% of US Twitter users are more likely to buy from brands they follow.

According to company executives at LinkedIn, as of June 30, 2012, professionals are signing up to join LinkedIn at a rate of approximately two new members per second. LinkedIn operates the world's largest professional network on the Internet with more than 175 million members in over 200 countries and territories. LinkedIn members did nearly 4.2 billion professionally oriented searches on the platform in 2011 and are on target to surpass 5.3 billion in 2012.

Social media is proving to be an invaluable tool with 5 million high-net-worth investors in the US and Canada actively using social media to help them with their financial decisions. When it comes to financial services, customers are doing more online than simply checking their account balances and paying bills. They are leveraging the web to research, compare and find the best products, rates, and deals. They are collaborating, connecting, and sharing opinions and experiences about financial services organizations and investments. They are also sharing their experiences (positive and negative) that they have with banks, brokers, and other financial



institutions. Without a doubt, consumers today connect with brands in a fundamentally new way—and in a large way through social media channels that are beyond financial institutions' control. And the viral and powerful nature of these social networks can enable a single person to trigger thousands or even millions of impressions.

Companies benefit from social media engagement by building a loyal following with real-time, authentic, rapid back-and-forth dialogue, positioning themselves as thought leaders, and sharing information in ways that would not otherwise be possible through conventional means. To attract and retain customers, and win back their roles as trusted advisors, the financial industry must not only become ingrained in their customers' online consciousness, but also understand how to leverage these interactions to create value.

By researching their customers as closely as their customers are now researching them, financial services organizations can improve their image and counter unfounded negativity with facts, as well as identify communities of targeted customers. For example, the vast majority of those who own mutual funds earn more than \$100,000 per year and are already savvy Internet users who go online to access bank and investment accounts, obtain investment information, and buy and sell investments.<sup>1</sup> In addition, the Generation Y customer base is extremely adept at using social networking to connect personally and professionally, is fast entering the business world, and is poised to control considerable power and wealth in the very near future.

In addition to prospecting, social media provides financial services entities with a channel to deliver service and support to clientele, therefore strengthening their existing relationships. Financial services organizations are beginning to leverage the game-changing opportunities that social networking delivers to earn more business and gain greater customer loyalty. In 2008, 45% of brokerages had a Facebook presence. Today, 80% are on Facebook, says Alan Maginn, senior analyst at Corporate Insight, which provides research and analysis to the financial services industry. Bank and credit card-issuer involvement on Facebook has gone from 56% to 82% in that time frame, and annuity companies' participation has jumped from 17% to 79%.

But woe to the financial services organization that leaps blindly into this arena without a full understanding of how to leverage social media strategically, and how to do so in a fully compliant manner. To accomplish this, they need a solution that provides detailed

“Focusing on the customer experience is not new per se...The reality today though, is that digital channels enable a dramatic expansion of the “surface area” by which a brand can extend the experience it delivers.”

- David Edelman,  
“Branding in the Digital Age:  
You’re Spending Your Money in  
All the Wrong Places.”  
Harvard Business Review

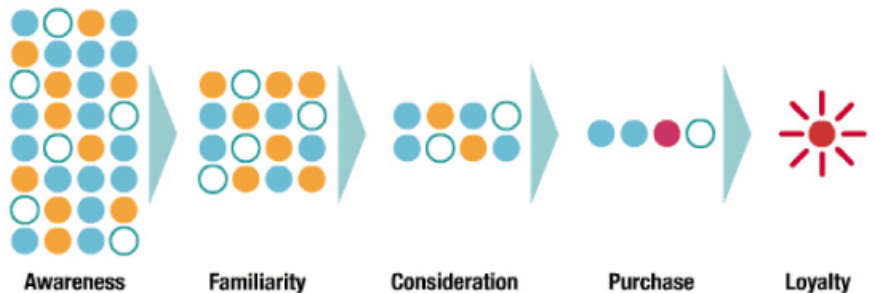
customer analytics to measure the success rate and return on investment of social media marketing initiatives and have ready access to any information that might possibly be requested by a legal or regulatory body.

Fortunately, these tools do exist.

### The New Age of Engage and Customer-centricity

Most marketers are familiar with the consumer decision journey (see figure below), which models how consumers gradually separate their brand choices to arrive at a final selection before making a purchase. Today, researchers claim that consumers are moving outside the purchasing funnel, vastly changing the way they research and buy products.

#### The Traditional Funnel



source: MCKINSEY QUARTERLY

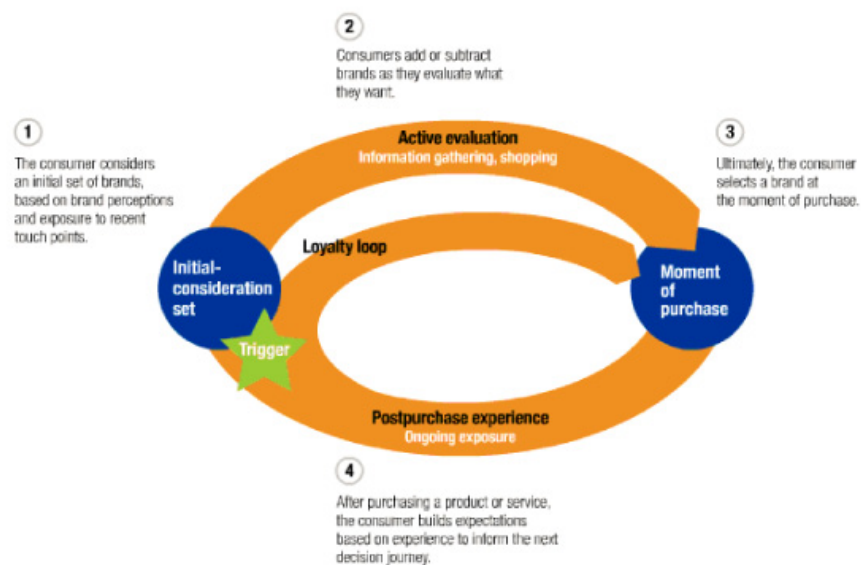
The new paradigm for the consumer decision journey is CEPEA—Consider-Evaluate-Purchase-Enjoy-Advocate—with a Loyalty Loop shortcut leading to repurchase (and skipping future consideration and evaluation) if the enjoyment experienced meets or beats expectations.

Now relying heavily on digital interactions, the consumer evaluates a shifting array of options and remains engaged with the brand through social media after a purchase. Increasingly, consumers continue evaluation right up to the moment of purchase. After purchase, if they enjoy the product, they’ll advocate it to others, thus becoming a touch point themselves—influencing further purchases, and will then enter into an Enjoy-Advocate-Repurchase loyalty loop. Social networking is the digital version of word-of-mouth and fits with the advocacy phase of the consumer decision journey—where consumers themselves become influential brand touch points.

Bottom line: Consumers are online, participating in vast, far-reaching social communities where the court of opinion is constantly in session, and brand influence (negative or positive) is at work and in flux on a minute-by-minute, day-by-day basis.

Financial services organizations cannot afford to sit this one out.

### The Consumer Decision Journey



source: MCKINSEY QUARTERLY

### Tapping into the Voice of the Customer

Social media is also playing a significant role in financial services organizations moving from simply collecting customer feedback to being true "listening organizations." Online conversation mining, sentiment analysis, ratings and reviews, web analytics, and social media monitoring allow companies to gain important insight that can enable them to be more customer-centric.

How can tapping into the Voice of the Customer (VoC) make your organization more successful? The business of banking and financial services represents a collection of people, processes, and customers. And effectiveness and efficiency are driven by how





well the people and processes are connected, managed, and focused on delivering products and services that satisfy customers. All business requires a means of marketing, communicating, and selling that drives customer awareness of the business proposition. Leveraging social networks can provide the means to identify who your customers are, and find out exactly what they want and what kind of services and products they need, so that organizations can best meet those needs.

VoC is about capturing customer thoughts, expectations, preferences, and aversions, and then organizing them into a hierarchy of needs and prioritizing them relative to particular business goals. In the final stage, VoC also involves closing the loop with corrective action based on the feedback received. VoC goes beyond just hearing what customers are saying to actually listening—deriving important insights from what is heard and using those insights to drive action and effect change. This distinction between hearing and listening is important because, all too often, organizations have missed the boat on understanding how customer behaviors and attitudes are changing. Previous assumptions and past wisdom about customers may no longer be accurate, and those companies that are able to respond best to what customers want today and in the future—as opposed to yesterday (or yesteryear)—are most likely to succeed.

### **Regulatory Compliance Guidelines Surrounding Social Media**

As social networking has become more pervasive within the financial services industry, many companies are dazed and confused when it comes to understanding the various compliance requirements and guidelines.

It's no wonder, because multiple notices and statutes are related to guidelines, recommendations, and requirements for social media use in financial services. Recognizing the risk implications for social media in the financial services industry, the SEC and FINRA recently issued new guidance for financial services organizations using social media regarding promotion and advertising, supervision and monitoring, and recordkeeping.



**Handy Reference Guide to Social Media and Compliance for Financial Services**

Topic	Where to Find Guidance on Requirements and Recommendations	Summary of Guidelines/Implications for Social Media Use
Advertising	<p>FINRA Rule 2210 Communications with the Public</p> <p>FINRA Rule 2210, Notice 10-06</p> <p>FINRA Rule 2211</p>	<p>Web 2.0 tools (social media) are deemed communications with the public, and as such publicly available websites (Twitter, for example) are considered advertisements.</p> <p>Depending on the nature of the content of the message, a FINRA disclaimer may be required (as in other types of advertising or marketing).</p> <p>Participation in an interactive electronic forum (Facebook or MySpace, for example) is considered a “public appearance” and is governed according to the rules pertaining to public appearances in NASD Rule 2210.</p>
Approval and Recordkeeping	<p>SEC Rules 17a-3 and 17a-4</p> <p>NASD Rule 3010</p>	<p>Firms must retain records of communications related to their “business as such.” Businesses communicating through social media sites must retain records of those communications and provide the necessary retention and retrieval functions.</p>
Supervision	<p>NASD Rule 3010</p>	<p>Written procedures must be put in place pertaining to the review of incoming and outgoing written (non-electronic) and electronic correspondence with the public relating to its investment banking or securities business to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of NASD.</p>



As social media use increases over time, these regulatory agencies need to ensure that investors are protected from false or misleading claims and representations, and that organizations are able to effectively and appropriately supervise their associated employees' participation in these sites. At the same time, the regulatory agencies need to provide some level of flexibility to allow organizations to leverage this new technology. Aside from needing to comply with regulatory compliance guidelines issued by external third-party agencies, other legal, privacy and security concerns surround the use of social media by financial services entities. Social media makes it incredibly easy for individuals to share confidential, sensitive, or otherwise private information (both inadvertently and maliciously), potentially violating privacy or other laws.

Additionally, without proper archiving and retention policies and systems in place, social media interaction produces business records that can be lost, leading to issues with eDiscovery, legal hold, evidence spoliation, and other problems. Additionally, an inability to link identities from social networks to a corporate identity can pose significant problems from a risk management perspective in the context of eDiscovery and regulatory compliance.

#### **About the Integritie Social Media Capture Solution SMC4**

By combining the IBM Enterprise Content Management (ECM) suite of products with the revolutionary new SMC4 solution from Integritie, financial services companies can take advantage of the game-changing marketing opportunities that social networking provides, while addressing full range of compliance requirements that this entails.

The Integritie Social Media Capture (SMC4) solution is an industry-leading application that provides the Capture, Control, Communication, and Compliance needed to support social media-led communications. SMC4 logs all social networking interaction, monitors incoming and outgoing messages, and archives all communication for further compliance review.

The solution features embedded content dictionaries tailored specifically for the financial industry, which it leverages to monitor two-way communications between financial advisors, and their customers or prospects.

**SMC4 Meets All Key Compliance and Marketing Requirements, Providing a Comprehensive Platform for Social Media Use in the Financial Services Industry**

Compliance Capabilities
✓ Outbound Compliance
✓ Search Archived Compliance
✓ eDiscovery/Legal Hold
✓ Automation of Approvals

Marketing Capabilities
✓ Engage/Respond
✓ Content Creation/Message Blast
✓ Monitoring Chat/Listening
✓ Basic Statistics/Advanced Analytics

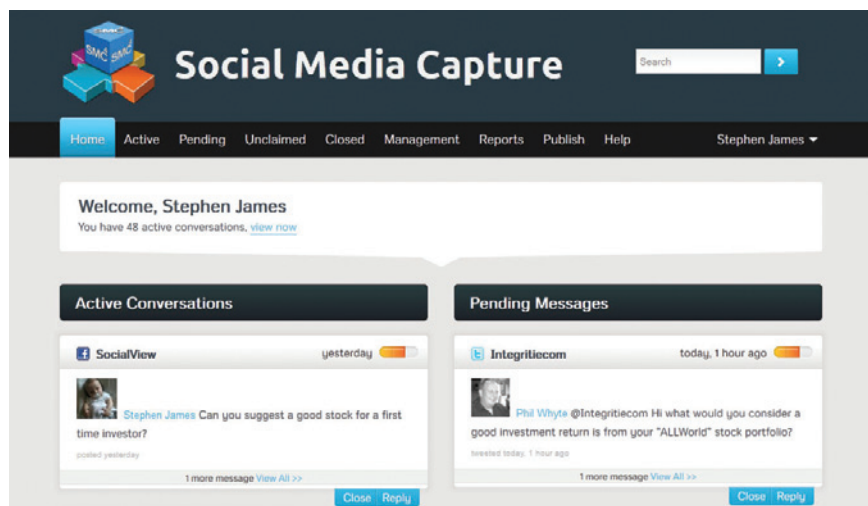
Workflows route intended, outbound information for textual analysis to determine if a user is communicating something inappropriate. If so, the message is routed to quality control for corrective action. The entire system can be searched for relevant information. The resulting items can then be locked for legal hold and therefore cannot be deleted until such time as the legal issue or compliance has been satisfied.

Additionally, by adhering to eDiscovery standards, an extract of the data and all related information can easily be copied to transfer media and presented to the appropriate authorities or opposing legal counsel for their use. Integrity also provides entity analytics tools for analyzing customers and prospect demographics, as well as analyzing the overall effectiveness and return on investment of social networking-based marketing.

**Comprehensive Functionality to Manage and Monitor Social Media and Compliance**

**Supervision**

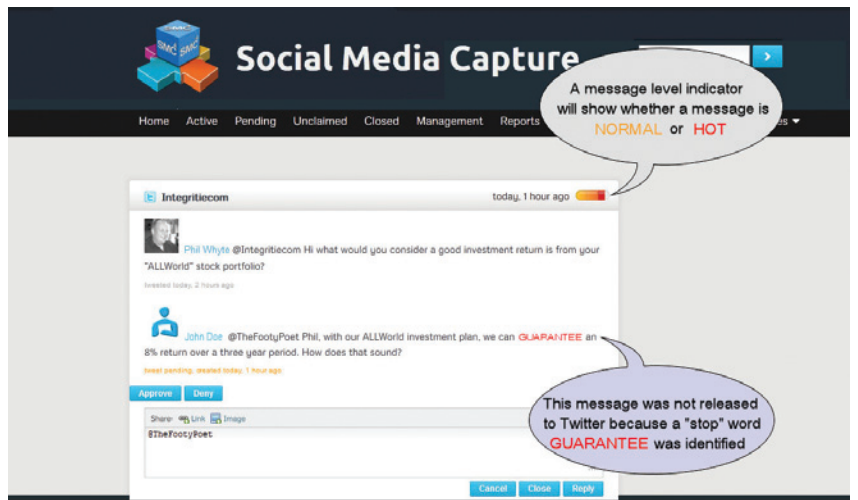
SMC4 monitors sites or channels and places incoming messages in the appropriate work queue. Channels or sites are routed and assigned to individuals or groups rather than making users responsible for going out to various social networking sites.



### Content Analytics and eDiscovery

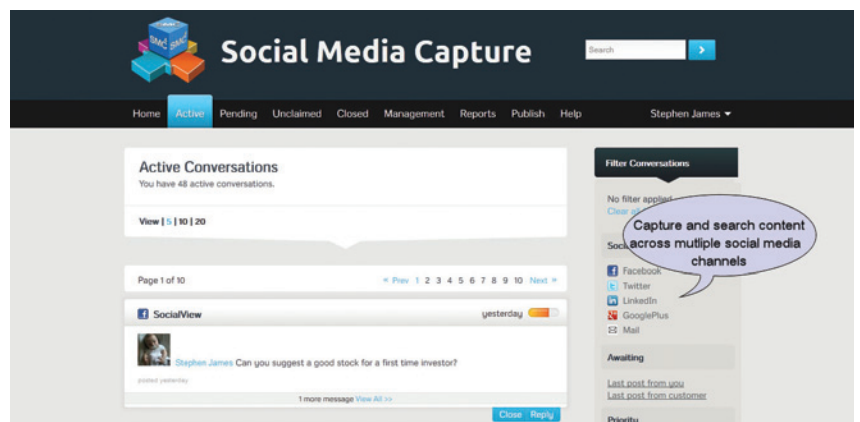
Content analytics provides textual analysis both for the content of messages as well as for all demographic information as it relates to the entire pool of messages.

The eDiscovery tool provides the ability to search for information, such as any content related to a case, presents the results in an industry-standard manner, and puts legal holds on that content as needed.



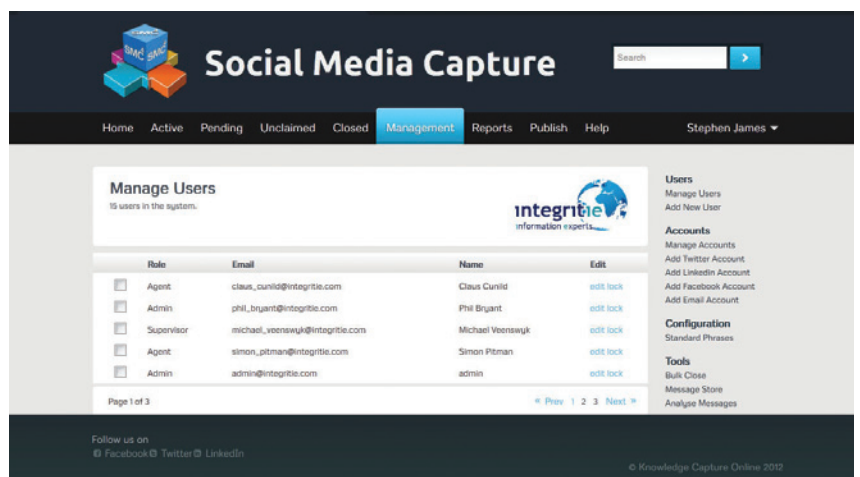
### Message Archive and Search

The solution provides the ability to capture and search any content or metadata across as many social network channels as desired. Search capabilities leverage both the metadata and the results of the analytics to provide deeper understanding, and therefore more accurate results.



### Management Capabilities

User accounts as well as social network channels can be easily managed through the SMC4 management console.



## Reporting

SMC4 provides reporting and dashboard features that enable organizations to track and measure the results of social media marketing initiatives.



## Social Media Capture Use Cases: One Solution Fits All

Social networking is too important to be ignored by any financial firm, large or small. Likewise, every firm, big or small can benefit from SMC4. Customers range from one of the world's largest providers of financial services to regional banks. Solution users find it so advantageous to their businesses that they prefer to keep their identities under wraps. However, the following use cases demonstrate how the solution meets the needs of a wide range of institution types and sizes.

### LARGE FINANCIAL SERVICES FIRM

A prominent name in the financial services industry with more than 50 years of experience, this company has both an understanding and appreciation for the benefits to be gained from social networking. However, managing and monitoring social media use across the enterprise seemed daunting. The company's interest in leveraging social media was two-fold. The company's small army of financial advisors selling financial instruments to consumers was eager to leverage social media to demonstrate



their value as trusted advisors. What's more, the company also had a full complement of funds and financial instruments to market, and wanted to leverage the viral effect of social media to enhance visibility and awareness of these products.

The company's biggest concern was to ensure proper control and supervision of social media in compliance with the various SEC and FINRA guidelines and requirements. With SMC4, the company is now able to control all outbound messaging, and is confident that all messaging is analyzed before it reaches cyberspace to ensure messaging appropriateness and compliance with all applicable regulatory requirements. Additionally, all inbound and outbound messaging can be captured, archived, and retained in a searchable database that supports eDiscovery requirements.

#### **REGIONAL BANK**

A multistate regional bank with fewer than 25 retail outlets recognized the immediate need to obtain more retail deposits, but it struggled with a lack of resources and bandwidth. It also recognized that social media might be a significant game-changer, giving the bank a big boost from a marketing perspective, at a very reasonable price. The bank also was aware that the democratic nature of social media presented a pitfall—a very visible venue for the venting of problems and customer service issues. After evaluating a number of solutions that addressed various parts of the social media equation (analytics, message review, and so on), the bank selected SMC4 and now has a comprehensive platform that enables it to use social media strategically and effectively. The solution's automated workflows drastically reduced the resource requirements surrounding social media response and compliance. These workflows enabled the bank to devote time and attention to high-priority messages—and to respond quickly.

**Want to see how SMC4 can benefit your organization?**

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### About IBM ECM

Enterprise content management solutions from IBM help companies realize the strategic value of content for better insight and outcomes. IBM ECM delivers high-value solutions that can help companies transform the way they do business by enabling them to put content in motion: capturing, activating, socializing, analyzing, and governing it throughout the lifecycle. IBM can help organizations identify critical content within large information volumes and prioritize it to gain insight to inform business decisions. We help businesses put the right content in the hands of the right people at the right time while effectively managing the cost and risk of enterprise content from capture to disposal. IBM has provided ECM solutions to more than 13,000 companies, organizations and governments around the world, helping them remain competitive through new intelligent innovation.

For more information, visit [www.ibm.com/software/ecm](http://www.ibm.com/software/ecm)



### About Integritie

Integritie is an IBM Solution Partner with substantial expertise in delivering, managing and supporting Enterprise Content Management and Business Process Management solutions. Integritie delivers end-to-end IBM FileNet services including the solution design, implementation, and helpdesk technical support of Image and Information Capture, and Content Management.

For more information, visit: [www.smcapture.com](http://www.smcapture.com)

Integritie web site: [www.integritie.com](http://www.integritie.com)

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[youtube.com/ibmecm](https://www.youtube.com/ibmecm)

<http://www-01.ibm.com/software/ecm/communities/>

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<sup>1</sup> Why You Need to Focus on Social Networking in Your Company. Osterman Research. July 2010. <http://www.ostermanresearch.com/whitepapers/download113.htm>