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How Social Media will Change the Future of Banking Services

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Abstract. Parallel with the growth of importance of social media there is the growing interest of banks in ways of applying creative and productive abilities of internet users. Social media is a huge opportunity for brands if they learn to influence the collective wisdom of the crowd to be able to build a significant and defensible market position based on solid social acceptance. The purpose of this paper is sorting out the concept of mass media and pointing to the role that social media play in the process of long-term and beneficial bank - customer relationships as well as improving the effectiveness of the organizational structure. Special attention will be paid to possible applications of Web 2.0 as a form of looking new the banking sector.

Keywords: Web 2.0, Social Media, Banking Sector.

1. Introduction

Around 90 per cent of daily transactions are executed electronically today. Institutions that hold on to the belief that physical branches remain at the core of what the brand does, will not adapt easily to the customer of tomorrow who rarely visits a branch. There are two major factors at work here in creating a behavioral change, namely, the psychological impact of the information age and the process of diffusion of innovations. Each of these factors contributes to creating a paradigm shift in the way banks need to think about the service and engagement of customers. Internet, ATM and iPhone applications have become more and more popular channels. This is where Web 2.0 and bank 2.0 can be joined. Also due to the rise of WEB 2.0, it can be observed how the traditional role of banks is slowly changing.

In the world of social media, customer preferences for products or services are influenced by ideas, perspectives, insights and experiences provided by other users. This is achieved through peer reviews, referrals, blogs, tagging, social networks, online forums and other forms of user-generated content. This paper aims at sorting out the concept of mass media and pointing to the role that social media play in the process of long-term and beneficial bank - customer relationships as well as improving the effectiveness of the organizational structure.

2. The Concept of Web 2.0

2.1. Web 2.0 and Social Media

The term 'Web 2.0' was officially coined in 2004 by Dale Dougherty, a vice-president of O'Reilly Media Inc., during a team discussion on a potential future conference about the Web[1]. Web 2.0 can be defined as the second generation of WWW which, compared to Web 1.0, places greater emphasis on active participation, collaboration, sharing ideas and knowledge. The most popular categories of Web 2.0 applications include blogs, wikis, social networking, tagging and social bookmarking, multimedia sharing, podcasting, RSS, etc. The literature features functioning lists of six key ideas whose implementation has resulted in the thriving growth of popularity of Web 2.0 applications: individual production and user generated content, harnessing the power of the crowd, data on an epic scale, the architecture of participation, network effects and openness.[2]

The relationship between Web 2.0 applications/services and financial institutions can be analyzed through the prism of new ways of gathering and displaying financial organizations' external and internal information. Social Media is a term commonly used to describe a group of individual web based services that have grown beyond the provisioning of the capability to connect, network or blog. Social media has proven

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to be an effective tool for building relationships with individuals and communities (called generation C), both locally and globally, by providing an open communication platform. Not only does this open communication increase customer satisfaction and establish banks as community players, but it also allows banks to gain a specific insight into their customers' needs.

The global financial crisis of 2008 changed the conditions of competition in the banking sector. Regaining bank profitability required increasing the effectiveness of activity through finding new sources of income and improving the efficiency leading to cost reductions. The concept of Web 2.0 has become an intrinsic part of this trend.

2.2. The Development of Internet Banking as the Main Determinant of the Development of the Web 2.0 Concept

It is estimated that in 2010 averagely 30% of Europeans will be using internet banking, with forecasts of its growth to 60% by 2020. This estimation is varied dependent on the part of Europe, the largest share of society using Internet banking being recorded in Scandinavian countries: 62-77%, the second position being held by Germany, France and the UK ranging from 35 to 54%, followed by south and east Europeans at 32%. By comparison, this index amounted to as little as 21% for Poland whereas for the USA – to 41%.[3] The above data can be confirmed by an extrapolation of expected changes in retail payments as shown in Fig.1, according to which there will be a considerable decrease in cash transactions and their replacement by non-cash ones, mobile transactions included.[4]

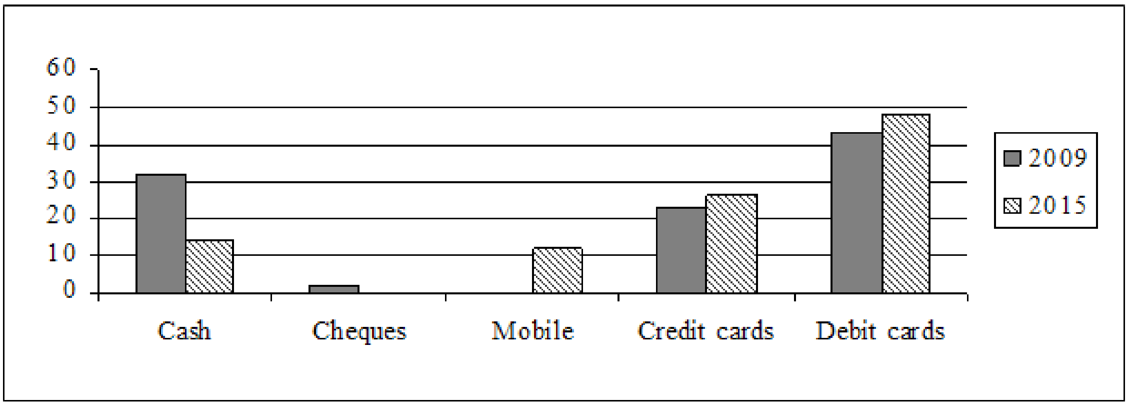

Fig. 1: Changes expected in retail payments (in %)

As another study proves, the Internet plays the most important role in search of financial topics. Over 60% of Internet users do so.[5] They usually visit banks' sites (30%), make use of Google (20%) and, less frequently, click on financial sites (16%). The above data should be a clue for banks to place the crucial financial information for customers on their internet sites.

3. Social Media in the Banking Sector

3.1. Customers' Expectations from social Media in Banking Sector

The banks which do not use the social web might be missing their biggest opportunity to connect directly with customers before their competitors do. Social media marketing can not only increase the reach of a bank but also have a positive influence on how customers perceive the bank's brand value. Customers do not use social media to buy products or services but to build relationships. In consequence, banks should focus on building a relationship based on mutual trust through real involvement in providing precious resources and information. This type of activities contributes to improving the perception of a brand by means of positive social marketing. The properly chosen strategy of using social media in banking requires understanding customers' expectations. There has been conducted research on Internet platform content. The content suggested by users is included in Fig. 2.[6]

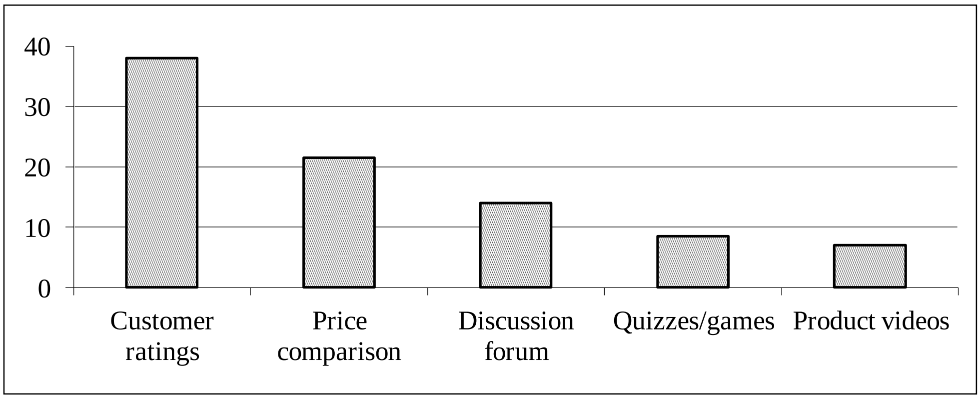

Fig. 2: Content and functionality that US customers expect from bank sites

Taking into consideration users' expectations, Web 2.0 applications should comprise varied content besides publishing tasks to be performed and offering space for ideas of how to improve or create banking products. It should come as no surprise that consumers have this long list of expectations as interaction via social media is what they have come to expect from other brands.

3.2. The Range of Social Media use in Banking

A recent report claims that roughly one out of every 6 people on our planet will be using social media in 5 years' time. At present, approximately more than 400 million people use social media[7]. Two-thirds of adult internet users (65%) now say they use a social networking site (up from 61% in 2010). That is more than double the percentage of social networking site usage in 2008 (29%)[8]. By the end of 2012, 90 percent of financial service organizations will dedicate funds to social media initiatives, 40 percent of financial service firms expect to invest between 2 and 10 percent of their overall marketing budget in social media[9].

Financial institutions like using Web 2.0 respect privacy rights and the regulatory standards they are liable to. Special popularity is enjoyed by social services, without which banks find it more and more difficult to reach potential customers. Common social platforms for the banking industry are Facebook, Twitter, LinkedIn, MySpace and blogs. Social platforms allow banks to create an online communication channel, through which they can share new information and events as well as engage in conversation with their customers. Blogs provide a wide range of information, direct communication with the bank and a forum for questions and concerns, heard and addressed. Wells Fargo & Co. was the first U.S. bank to launch a corporate blog in March 2006. There are a significant number of excellent blogs that provide industry news and analysis, for example, NetBanker (www.netbanker.com), Payments News (www.paymentsnews.com/), The Bankwatch (thebankwatch.com/), Bankervision (bankervision.typepad.com), Banknet360 (www.banknet360.com), Private Banking Innovation (privatebankinginnovation.com/en/). The range of social media use by financial institutions is varied. It is illustrated by Figure 3.[10]

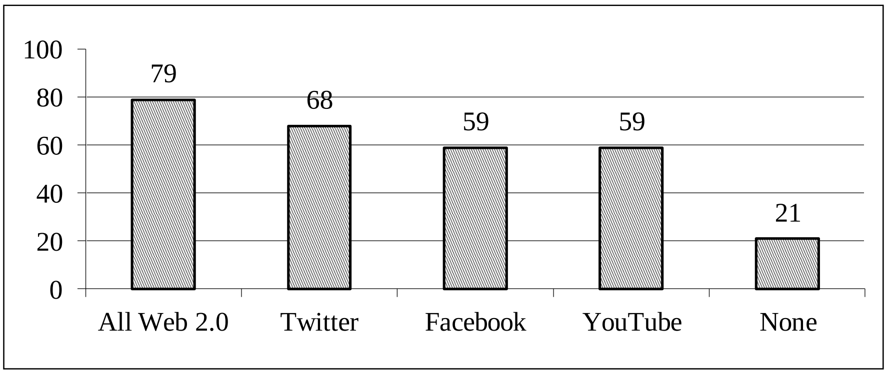

Fig. 3: Financial institution form of Web 2.0 (w %)

Many financial institutions use social media to connect with their customers. The most popular social platforms are Twitter and Facebook. According to the statistics, Twitter is a micro-blogging site and it gets

300,000 new users a day. Facebook is growing by 700,000 users a day, the fastest-growing age group being that over 35, and it has over 300 million active users. Some 750 million consumers spend nearly 4 hours a week on Facebook. YouTube is the world's largest and most popular online video community. The social media services have many components. They which can be categorized dependent on the functionalities shown in Table 1.[11]

Table. 1:. Mapping social media service characteristics with social media functionalities

	Twitter	Facebook	YouTube
Identity	account name, design with logo/colours	account name, design with logo/colours	channel name, design with logo/colours
Groups	lists	different types	none
Relationships	following, followers	friends, fans	subscribers
Sharing	retweets, tweets, @mentions	links, video, photo, wall posts	uploads, video, views
Conversation	retweets, tweets, @mentions	discussion comments	subscribers & viewers comments
Reputation	amount of details on "home page", contact information	amount of details on profile page, contact information	channel design, channel views

Each of social platforms offers a relatively similar form of communication with customers. Banks should consider a strategy that includes more than one social media service to maximize the benefits stemming from all social media functionalities and achieve the business outcomes expected from social media.

3.3. Benefits and Challenges Generated by Social Media

Social media can play an important role in differentiating brands and making them more relevant to consumers. This kind of activity can be exemplified by the initiative of American Express which has created OPEN Forum. It is an online community dedicated to connecting businesses with each other and providing valuable content to customers with whom the company wants to have relationships. Currently, OPEN Forum has more than 10,000 businesses involved monthly and the traffic has reached as many as 1.5 million visits.

What is more, social media can be used to reduce the service, sale and marketing costs. The cost per interaction in customer support averages $12 via the contact center versus $ 0.25 via self-service options. Banks can use social media as a low-cost channel to distribute messages, host conversations, provide a customer service, identify dissatisfied customers, and increase the impact and reach of traditional media efforts. The first and biggest bank to use the social media platform of Twitter was Bank of America. It focused on offering its customers help in solving their problems connected with reducing the costs. Ticking by internet users the icon 'like' by the name of their bank has become a popular form of marketing. Another way of using social media is treating the Internet as a channel to create and develop banking services better adapted to customers' needs. This type of activity is called crowdsourcing. Crowdsourcing is commonly applied in promotion and marketing. Many organizations commission working out marketing schemes and commercials to Internet communities. The second area of using crowdsourcing is the development and improvement of available products and ranking new ideas. And finally, treating crowdsourcing as a research method consists in its use as a way of receiving answers from a considerable number of consumers within a specified time period and with limited financial expenditure.

Apart from a range of benefits and possibilities generated by the use of social media certain challenges must be emphasized. Social media is a vast, dynamic, and confusing area of competence and poorly conceived initiatives squander valuable time, resources, and leadership support if not executed effectively. Thus, before banks set out on any major social media initiatives, they must first align social media with concrete business goals, think about social media in terms of organization, take careful stock of industry-specific challenges, and bear in mind that mastery of social media requires a long-term commitment. The fact is that social media can result in a considerable return of committed resources, yet only in a long-term commitment, as they are used to build long-term relationships.

It should be remembered that banks must observe strict rules regarding consumers' personal data and data security. Banks using social media lose a certain part of control over the way their brand is perceived and further created for the sake of the Internet community. As the last thing, some banks will need to improve technology and overcome the lack of organizational structures.

4. Summary

Banks have noticed possible benefits from using Web 2.0 technology. Interactive Web 2.0 applications have altered the way financial service users gather information about services and providing institutions . This has transformed users from passive consumers of information created by professional editors into active creators and users of word-of-mouth information.

Banks use Web 2.0 applications with a view to differentiating themselves from their competitors and to winning over the largest possible market share. They use social media as a tool of building relationships with their customers and gathering precious information from the current and potential customers. The popularity of social media and awareness of using it can be exemplified by the forecasts that by the end of 2012 as many as 75% of financial institutions will be using various applications of Web 2.0.

The popularization of the concept of Web 2.0 is inevitably linked with the development of the Internet and the increase in access of people excluded from mobile technologies. With the growing amount of time consumers spend online and the increasing number of social networks and social site features, banks are regaining an opportunity to make up for the lost personal interactions traditionally conducted in the branch.

It is necessary, however, to remember that it is not enough to be present on the sites of Facebook, Twitter or LinkedIn. In order to really get customers to emotionally connect with the brand, banks should work out a clear social media strategy. The right social media strategy can help banks build a more direct and positive relationship with their customers, which will in turn lead to their increased engagement and loyalty.

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