

# ***What Every Financial Institution Should Know about Social Networking***

By Dr. Linda Eagle

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The aim of any business is to be successful and profitable throughout the lifetime of the organization. The evolution of communication technology in recent years has helped make this possible by improving a business's ability to network with its existing and potential customers. What once required face-to-face conversations and the physical exchange of contact information can now be done in an entirely virtual environment with just a click of a button.

Advances in communication technology, such as texting, blogging, emailing, media sharing and gaming, have created new social norms and revolutionized the way people communicate. It is no wonder, then, that the financial services industry is beginning to use various forms of Computer Mediated Communication (CMC) to enhance customer service and improve current products and services. The most popular form of CMC are social networking websites such as Twitter, Facebook, MySpace, and LinkedIn, which are used primarily to maintain or build connections among users.

Social networking sites represent a large market with tremendous growth potential that can be easily targeted by financial institutions if they know how to use these sites to their advantage. Like many organizations that have already experienced the benefits of using social networking sites to enhance their business, financial institutions are beginning to understand and embrace the power of social networking as it relates to their day-to-day business activities as well. Whether educating customers on new services, boosting customer confidence, increasing sales outreach or personally connecting with their customers to meet their banking needs – social networking is a vital communication tool that financial institutions can utilize in many of their customer business interactions.

## **Understanding Social Networking**

Social networking is a form of collaboration and networking where individuals develop groups and associations, often forming a virtual community.<sup>1</sup> While social networking is possible in a face-to-face setting, such as on a college campus, it is most often seen online in a CMC environment. The size and popularity of the “communities” created by MySpace and Facebook and other social networking websites have experienced substantial growth as more and more people invite their acquaintances, co-workers, friends and family members into these virtual communities.

The traditional roles of the sender and receiver involve delivering messages in a clear and concise way and providing feedback to achieve agreement of a particular subject. Social networking uses these same basic building blocks but accomplishes the end results in a

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<sup>1</sup> Cassinelli, Colette. “Updated Bloom’s Taxonomy,” [<http://edtechvision.org/?p=123>], April 2008.

slightly different way. The cues that help facilitate understanding in a face-to-face environment (e.g., intonation of voice, body language, facial expressions, physical distance, etc.) are often removed in a social networking environment. Though some websites offer an audio visual element, social networking is largely text-based, relying on “digital gestures” to demonstrate emotions and add emphasis to a message, such as:

- Forwarding.
- Recommending.
- Sharing.
- Tagging.<sup>2</sup>

## **Social Networking Applications for Business**

Networking has always been a key success factor in the business world. Networking involves linking together individuals who, through trust and relationship building, become walking, talking advertisements for one another.<sup>3</sup> Traditional networking often takes place face-to-face at business lunches, conferences or exhibitions, where people are able to meet and establish mutually beneficial working relationships.

Online social networking offers many of the same benefits as traditional networking, while allowing bankers to more easily network with the average consumer as well as with their colleagues in the financial industry. Used appropriately, online social networking offers businesses the opportunity to develop meaningful, long-lasting customer relationships.<sup>4</sup>

A study of the banking industry and the ways in which several banks’ board members networked with others showed that though these professionals are interested in using networking to secure new customers and to maintain and develop existing customer relationships, they also want to use networking to represent their banks in community, professional and trade organizations and to procure market trends and competitive information.<sup>5</sup>

To achieve the goals identified in this study, board members and other bank employees must first understand what social networking is and how it can be used to position their banks above others in the industry. If properly trained, these employees can use social

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<sup>2</sup> “Social Information Processing: Spring Symposium,” Association for the Advancement of Artificial Intelligence, [<http://www.isi.edu/~lerman/sss07>], March 2008.

<sup>3</sup> Speisman, Stephanie. “10 Tips for Successful Business Networking,” [<http://www.businessknowhow.com/tips/networking.htm>], April 2010.

<sup>4</sup> Microsoft Corporation. “CRM and Social Networking: Engaging the Social Customer,” [[http://crm.dynamics.com/docs/CRM\\_and\\_Social\\_Networks.pdf](http://crm.dynamics.com/docs/CRM_and_Social_Networks.pdf)], July 9, 2009.

<sup>5</sup> George, Gerard, D. Robley Wood, Jr., George W. Rimler and Philip R. Strum. “Dimensionality and Performance Effects of Social Networking in Small Businesses,” [<http://usasbe.org/knowledge/proceedings/proceedingsDocs/USASBE1997proceedings-P122George.PDF>]. April 2010.

networking to achieve their banks' organizational goals and place their banks in the top positions in the industry in the following five ways:

- Community building.
- Product research.
- Customer service.
- Marketing and promotion.
- Transparency.<sup>6</sup>

Social networking is currently being used to bolster the reputations of the financial institutions that use it, providing information both internally and externally. This type of information sharing builds consumer confidence and helps employees understand the importance of their roles within their banks and how they should strive to achieve the highest standard of customer service.

### **Challenges of Social Networking in the Workplace**

One of the first challenges of integrating social networking with the workplace is helping employees understand the importance of using this technological tool. The next challenge is in addressing the training needs of the organization to bring all employees up-to-speed on the etiquette, functionality and general norms of such a medium. This means determining who will be maintaining the websites, how end users will experience the websites, and how policies and procedures concerning social networking will be shared, and with whom inside of the organization. And finally, relationship management in a virtual environment poses a challenge. This last challenge should be a primary focus when implementing a social networking-friendly policy or procedure.

A great deal of the CMC that occurs in social networking happens through what has become known as Social Information Processing (SIP) theory. The theoretician who first introduced SIP, Joseph Walther, stated that the nature of relationships created online can be drastically different from those established in person, particularly when individuals act differently than they would in a non-virtual environment. While Walther acknowledged that the rate at which these relationships are formed may change over time as individuals become more familiar with the technology, he argued that relationships in a CMC environment would take up to four times longer to establish.<sup>7</sup>

To counter this potential limitation, banks might seek to make use of the theory of attribution, which states that individuals link observed behaviors of others with causal explanations to help them understand what type of people they are communicating with.<sup>8</sup> The time to develop relationships can be shortened using attribution theory because

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<sup>6</sup> Cohen, Lon. "5 Ways Banks Are Using Social Media," [<http://mashable.com/2009/09/11/banks-social-media>], September 2009.

<sup>7</sup> Jordan, William. "The Relevance of Social Information Processing Theory," [[http://www.associatedcontent.com/article/1346284/the\\_relevance\\_of\\_social\\_information.html?cat=4](http://www.associatedcontent.com/article/1346284/the_relevance_of_social_information.html?cat=4)], January 2009.

<sup>8</sup> Victor, Darrell. "Attribution Theory – An Overview," [<http://ezinearticles.com/?Attribution-Theory---An-Overview&id=3955713>], March 2010.

bankers can use their observations to make product or service recommendations based on needs that they have established.

### **Using Social Networking to Connect with Customers**

Though social networking poses its own challenges, it can also be used to overcome other challenges that banks may face. For example, social networking allows financial institutions to boost consumer confidence, increase sales, and strengthen customer relationships, which are all areas of concern as they can give a bank a competitive edge over others in the banking industry.

When consumer confidence is low and distrust of the banking industry is high, particularly in times of economic crisis, social networking has allowed for greater transparency and has opened up a conversation with consumers. The public forum created by websites like Facebook, Twitter, LinkedIn and MySpace provide the financial services industry an ability to address customers' banking needs by:

- Acting as a medium for customers to send their questions and concerns to a bank, with immediate feedback from a banking expert.
- Replacing one-sided information dissemination like press releases or bank-sponsored advertisements.
- Reassuring the public of safety and soundness policies and procedures.
- Eliminating skepticism through informative links, text, graphics and audio or visual elements.
- Educating customers about products and services that address specific needs.

### **Protecting Customer Information**

One of the main concerns of financial institutions is the protection of information and financial assets. As technology makes it easier to communicate with people in remote locations or to conduct financial transactions, it also enables thieves to obtain customers' confidential, nonpublic information, putting customers at risk of identity theft and other similar schemes.

Financial institutions have addressed these potential information security breaches by creating Know Your Customer (KYC) programs and prioritizing identity verification and the reporting of suspicious activity. The same precautions and care should be exercised when using social networking websites to ensure that customer information remains protected.

### **Implications for Legal Compliance and Recordkeeping**

Once a financial institution's directors and staff understand the implications and proper use of social networking websites, it is important that the institution's policies and procedures be revised to reflect the addition of these new business activities. This ensures that the institution remains in compliance with industry laws and regulations, and it demonstrates to the public that the organization is fair and respectful of customers and employees and that it works to protect its customers' information and financial assets.

The Financial Industry Regulatory Authority (FINRA) recently issued a publication that provides guidance to financial institutions regarding the use of social media in their business operations. FINRA Regulatory Notice 10-06 outlines the necessary recordkeeping requirements that financial institutions must abide by and provides guidelines for the supervision of non-static messages sent social networking websites.

Because social networking websites are fairly new and financial institutions are only just beginning to explore their potential uses, the twelve government agencies that control the financial services industry, in addition to other organizations like FINRA, are continuing to develop and amend regulations. For instance, the use of social networking affects advertising requirements for financial institutions, as stated in Regulations Z and DD. It also affects Federal Deposit Insurance Corporation (FDIC) membership, Federal Housing Administration (FHA) and non-deposit retail investment and fair lending implications. It is the responsibility of each institution to be aware of current regulations and how their use of these websites affects their compliance current law. Management should also understand the risks of noncompliance and be sure that their policies and procedures are updated to reflect these changes.

## **Final Word**

Financial institutions must consider the risks and rewards of using social networking tools in their everyday business operations, and ensure that these tools conform to policies and legislation, while meeting the needs of their customers. Because customers are the driving force for success in the financial services industry, the key to protecting them is through employee education. It is imperative that bank employees are appropriately trained before and during the use of any type of social networking tool. Understanding how this new form of communication impacts the organization in the long-term can help a financial institution plan for and attain future success, while focusing on keeping customer relationships strong and information and financial assets secure as social networking becomes a more prominent business tool.

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