Editorial

Opportunities of Social Media in the Financial Market

Philipp Sommer

Philipp Sommer
Account Executive Financial Services
salesforce.com Germany GmbH

With approximately two billion active users, Social Media platforms provide new opportunities and challenges for the financial market. Users increasingly change their perspective away from a strict deference of their private rights towards the more engagement-oriented expectation that companies listen and respond to their concerns through Social Media. For example, the inbound consumer engagement with companies grows over eight times faster than social networks themselves.

The pervasiveness of Social Media platforms and the large amount of shared information causes promising emerging markets for financial institutions. A prominent case is the field of social trading networks (e.g., eToro or Wikifolio) where traders can interact and duplicate others' trades. On Wikifolio, users can trade certificates of portfolios which represent the investment strategy of a particular social trader. Since its launch in 2012, around EUR 290 million have been invested based on 1,900 Wikifolio certificates. These Wikifolio transactions account for a total trading volume of EUR 4.6 billion in stocks, ETFs, and certificates with a EUR 400 million turnover in October alone at the Stuttgart stock exchange. Consequently, several large direct banks offer some of the Wikifolio certificates for a savings plan. This demonstrates the incremental interest of and economic potential for financial institutions through Social Media platforms.

Apart from the more striving market of social trading, financial institutions are currently struggling to fully exploit other potentials of Social Media platforms like a successful customer relationship management or a sophisticated social credit scoring. Simply establishing a Social Media presence does not satisfy complex consumer interests spanning from feedback on banking products and services, over information on regulations, up to customized financial advice. While, e.g., over half of the online users expect a response to a complaint the same day they send it, the average response time amounts to ten hours while over two-thirds of questions remain unanswered. An internal allocation of customer complaints and alignment of company accounts would help to address user requests more satisfactorily.

Lastly, big financial institutions hold back on the opportunity of social credit scoring where credit companies use personal data from social networking sites (e.g., location, social graph, e-commerce behavior, and device data) to assess a consumer's credit risk. This approach follows the assertion of John Pierpont "J.P." Morgan that character is more important in assessing one's creditworthiness than money or property.

However, a common reciprocation is the reservation of banks to violate a customer's privacy. Social scoring providers address this issue by asking applicants to voluntarily provide a limited-time access to their Social Media account or by following applicants on Social Media with their permission. Considering a person's social standing and professional connections is especially interesting for people who might otherwise have trouble getting a loan due to a scant or spotty credit history or for people in developing countries where it is difficult to obtain financial data about the applicant. Clearly, the identification and extraction of useful data points requires profound databases and analytical techniques in the realm of Social Media.

In general, it can be seen that the pervasiveness of social platform usage provides financial institutions with promising business opportunities which are partially already recognized (social trading). However, to exploit the financial market potential of other areas of Social Media (customer relationship management and social credit scoring), the use of more advanced engagement and analytical tools is required.