



cutting through complexity

FINANCIAL SERVICES

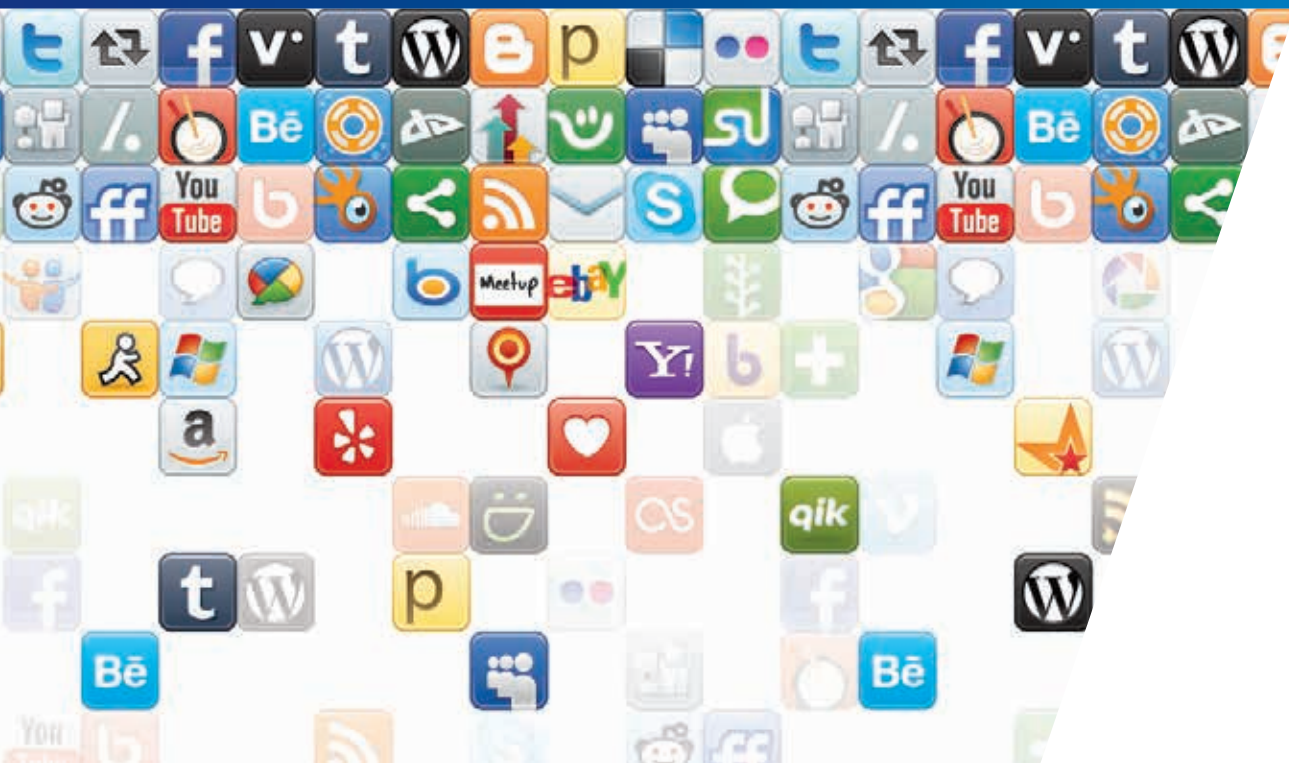
The Social Banker v2.0

Social media lessons from banking insiders

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Contents



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02	Foreword
04	Executive summary
06	Out of Africa: Social media lessons from the developing world <i>By Bisi Lamikanra</i> , Partner and Head Management Consulting, KPMG in Nigeria
08	Crowdfunding: Will peers-funding-peers hurt banks' bottom lines? <i>By Edwin Herrie</i> , Head of Banking, KPMG in the Netherlands
10	Building trust and relationships <i>By Mark Nicholson</i> , Head of Digital, Creative & Communications, ING DIRECT Canada
12	Harnessing internal collaboration to drive results <i>By Alex Chapel</i> , KPMG's Internal Collaboration Lead, KPMG in the UK
14	Where business finds business <i>By Alastair Grier</i> , Chief Operating Officer, Business and Commercial Banking, RBS and NatWest
16	Game on: Using social media to secure a new generation of customers <i>By Vineet Arora</i> , Executive Vice President, ICICI Securities
18	@Regulator: How do we ensure compliance? #Needguidance <i>By Giles Williams</i> , Partner, Regulatory Center of Excellence, KPMG in the UK
20	The power of a crowd: Using social to drive culture change in banks <i>By Klaus Woeste</i> , Director, KPMG in the UK and <i>Matt Sevenoaks</i> , Manager, KPMG in the UK
22	The social executive: Using social to amplify the executive voice <i>By John Hair</i> , Director, KPMG in the US and <i>Wolfgang Goebel</i> , Board member, McDonald's Germany
24	Money 2.0: Virtual currencies and the banking sector <i>By Mitch Siegel</i> , Partner, KPMG in the US
26	The road ahead for social bankers <i>By Vincent Piron</i> , Partner, KPMG in Belgium
29	KPMG International's value proposition in social media

Foreword

“This year, the *Social Banker v2.0* took a deeper look at how social is being adopted within the banking sector and explored some of the new approaches that are emerging from the social sphere.”

The return of the social banker

These are not easy times for today's bankers. On the one hand, increased regulatory pressure and public scrutiny is pushing the issue of trust to the front of the business agenda. At the same time, new technologies and customer preferences are forcing banks to adapt their business models and evolve at an unprecedented pace.

Some would argue that – in the midst of all of this change – banks have no time to ‘play’ around on social media, let alone pour much-needed capital into it. Better the banks stick to their knitting and focus on getting the basics right, they say. Besides, this is not the time for banks to be taking on new risks (both financial and reputational) for the sake of social engagement.

But, as this article series clearly demonstrates, nothing could be further from the truth. In fact, one could argue that social media – when properly harnessed – could be the solution to almost all of the problems that banks currently face. From customer loyalty and the re-establishment of trust through to new product development and more efficient approaches to customer service, social media offers innovative banks with a fairly straightforward and cost-effective approach to transformation.

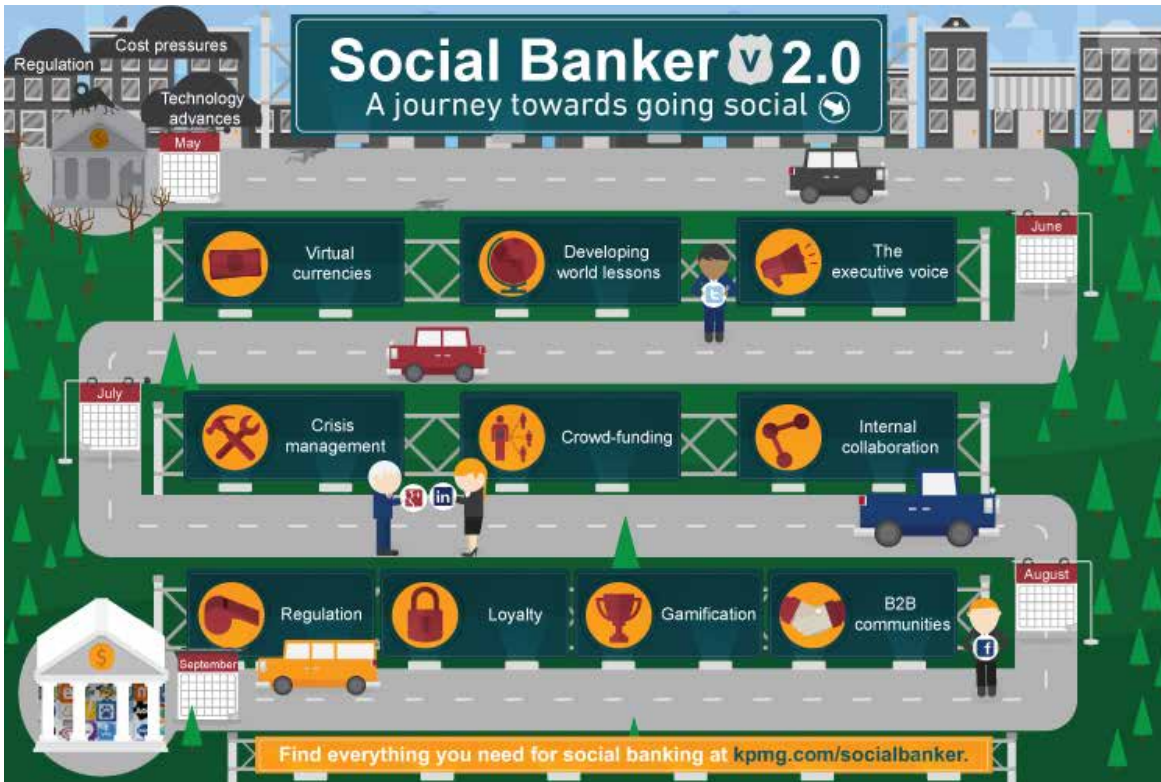
Social Banker v2.0

Last year, KPMG's Global Financial Services practice launched the Social Banker series, an initiative that not only explored some of the biggest social media questions facing banks at the time, but also introduced new ideas and – proudly – laid the ground work for cross-industry collaboration between banks, telecoms and IT providers.

This year, the *Social Banker v2.0* took a deeper look at how social is being adopted within the banking sector and explored some of the new approaches that are emerging from the social sphere. We learned about new concepts such as ‘gamification’ and social currencies; we demystified new strategies that leverage location-based services or business-to-business networking; and we heard about the new and emerging platforms that promise to revolutionize the sector.

From insiders, for insiders

The lessons and take-aways that this series offers are uniquely valuable. Once again, we recruited some of the world's leading experts on social media to share their experiences and insights into how banks are taking advantage of social and collaborative platforms. And, once again, we heard from some of the pioneering banks around the world who are overcoming complex challenges to develop their own innovative programs.



This report delivers all of these insights, lessons and advice in one comprehensive document which – when taken together – serves as a handy guide for banking executives and board members, and is an invaluable resource for those tasked with leading their bank’s social media programs. Those interested in discussing their own bank’s social media challenges in a more confidential setting are encouraged to contact their local KPMG member firm or any of the contacts listed at the back of this publication.

On behalf of KPMG International and our member firms, we would like to take this opportunity to thank each of the authors that participated in this worthy endeavor. Your insights and viewpoints will be key to helping the banking sector identify and take full advantage of the benefits that social can offer.



David Sayer
Global Head of Banking,
KPMG in the UK



Vincent Piron
Partner, Financial Services,
KPMG in Belgium

Executive summary

There is little time to waste. Already, many of the world's most innovative banks are leveraging social media to create competitive advantages. Indeed, the real question for banks is no longer whether they should invest in social or not, but rather how they can use social to improve everything from the customer experience through to culture change.

This report represents the views, the experiences and insights of some of the industry's social media leaders, including retail banking executives, social media experts and KPMG's own industry insiders.

Interestingly, a number of key themes flow across many of the articles and show that banks are largely focusing their social media attention and investment into the following four main areas.

Building trust and engaging with stakeholders

Given the current 'trust deficit' between banks and their stakeholders, many banks are looking to social media to help shore up their relationships and re-engage their customers. According to **Mark Nicholson** at **ING DIRECT Canada** (page 10), social media can be a valuable tool for improving customer service and identifying and responding to customer complaints. Others are taking a more creative approach: in his article on page 16, **Vineet Arora** of **ICICI Securities** explains how his bank is using social media 'gamification' to engage their customers and improve financial literacy.

But banks will need to rebuild trust and engage with other key stakeholders too. Financial regulators, in particular, will be keeping a watchful eye on how banks are using social media in their client interactions, as **Giles Williams** of **KPMG's Global Regulatory Center of Excellence** discusses on page 18, so bank executives will need to ensure that the realities of social media are being embedded into their compliance strategies and change programs.

Catalyzing transformation and driving culture change

Recognizing the nexus between employee engagement and social media, many banks are starting to explore how social platforms can be harnessed internally to help support behavioral and cultural change. Indeed, as **KPMG in the UK's Alex Chapel** points out on page 12, using social platforms to drive internal collaboration not only delivers great returns, but also provides a roadmap for transforming the business into a more client-centric and innovative organization.

One area that has been gaining particular attention, according to **Klaus Woeste** and **Matt Sevenoaks** with **KPMG in the UK** (page 20), is crowdsourcing (where organizations use social media tools to build a collaborative 'crowd' of employees that can be tapped into at any time to help solve problems, evaluate ideas or take the pulse of the employee community).

Using the term 'social'

As the lines between 'social' and 'traditional' approaches to banking become increasingly blurred, so too have the boundaries between tools, platforms, environments and approaches. Throughout this report, we use the term 'social' to broadly refer to any activities where electronic media are used to connect entities, people, communities and activities.



Testing new approaches and creating opportunities

The rapid adoption of social media hasn't just created a new channel for banks, it has also spawned new business models and – maybe – new revenue opportunities. On page 14, for example, **Alistair Grier of RBS and NatWest** discusses his banks' development and participation in BizCrowd, a free online business supplier community, and how that community has helped the banks to build their profile in the UK's small to medium-sized enterprise (SME) market.

Some of the more innovative banks are also looking at emerging social trends to see if they might offer a new competitive advantage, or access to an untapped market. Virtual currencies – such as Bitcoins and Ripples – likely fall into the latter category, but according to an article on page 24 by **Mitch Siegel with KPMG in the US**, few banks are willing to take on the risk or complexity of dealing with an unregulated currency. The growth in popularity of crowdfunding may also create new opportunities and challenges for traditional lenders, notes **Edwin Herrie with KPMG in the Netherlands** in his article on page 8, particularly for those operating in the developing and emerging markets.

Learning from others

Clearly, the banking sector has a lot to learn about social media from its non-traditional competitors. In some cases, the sector should be looking to social-leading categories such as retailers, restaurants and record labels for new approaches and ideas that can be adapted to the banking sector. Take, for example, the experience of **Wolfgang Goebel, a Board member at McDonald's Germany**, who – as **John Hair with KPMG in the US** discovers on page 22 – has used his personal blog to advocate for key issues impacting not only his company, but also his employees and customers.

In other cases, we should be looking to those banks operating in regions where social media penetration dwarfs that of banks. Indeed, the success of Nigeria's GTBank in the social sphere, according to **Bisi Lamikanra with KPMG in Nigeria**, should have Western banks looking to Africa for best practices in social media, rather than the other way around.

The big question, of course, is how all of this is going to impact banks over the medium to long term. Will branches disappear as customers flock to social media sites to do their banking and investing? Will new entrants use social media to outflank today's banking behemoths? What hurdles will banks need to overcome in order to reap the full benefits of social?

To answer these questions and many more, **Vincent Piron of KPMG in Belgium** looks to the future in his article on page 26. What he discovers is that it is what banks do with social in the short to medium term that may well separate those banks with the innovation to survive from those that do not.



Out of Africa: Social media lessons from the developing world

By **Bisi Lamikanra**, Partner and Head Management Consulting, KPMG in Nigeria

■ Highlights

- Africa is emerging as a hothouse of innovation for social media in the banking sector.
- Banks in the developing markets are using Facebook applications to improve access to services.
- GTBank is maximizing their investment by integrating social media into other customer channels.

While much is often said of the West's ability to innovate – particularly in banking – few banks have embraced social media as fully or as successfully as Nigeria's GTBank. Today, the bank is one of Africa's most 'liked' brands on Facebook, with a digital footprint that extends to Twitter, LinkedIn, Google+, YouTube, Instagram and, most recently, Pinterest.

Retaining customers and gaining new ones

So how has Nigeria's biggest and most profitable bank transformed into a social media leader? The bank initially became interested in social media in 2009, when it recognized that a fan page had sprung up on Facebook. It knew that surrendering part of its brand to outsiders – some of whom may not even be customers – could be harmful to its reputation.

In the beginning, the bank focused its social media strategy on customer service and engagement. Even today, the bank sees social media as an opportunity to ask itself a simple question: what do customers – and prospective customers – really want from their bank? The results have helped the to define strategies and make decisions such as where to place new ATMs, the roll-out of e-branches and even the placement of a full-service branch.

In a country where communicating important messages to a wide audience is often difficult, social media has also helped the bank identify and communicate enhancements and problems with its products and services. In 2012, when part of the bank's internet functionality was down (due to security system upgrades) customers flooded social media with questions and comments. In short order, the social media team was able to monitor the issue, alert executives to the problem and then work with stakeholders across the organization to communicate the issue – and proposed resolutions – to customers.

Going beyond

Recognizing the unique needs and demographics of their customers, GTBank's executives encouraged the bank to go further in leveraging social media to identify ways to make banking easier and more accessible for current and potential customers.

As a result, the bank now boasts a fully functional online social media customer care team (available 24 hours a day, seven days a week) and has launched a banking application which allows people to open GTBank accounts on Facebook. Future



“ In early 2013, GTBank cracked the one million fan mark, making it Africa’s most ‘liked’ bank. ”

enhancements will allow customers to securely transfer money, purchase mobile air time, pay bills and confirm their account balances, all through their Facebook accounts.

In this, GTBank ranks among just a handful of banks around the world that plan to offer this feature; not surprisingly, most are in the developing world (such as India’s ICICI and Brazil’s Bradesco) where traditional bank account opening processes are often considered cumbersome or inaccessible.

More than just banking

GTBank also sees social media as a unique opportunity to interact with customers and prospective customers, while strengthening their brand in key markets. The bank recently re-invented their quarterly digital magazine (called Ndani, which means ‘inside’ in Swahili) as a major social media presence replete with NdaniTV, the Ndani blog and Ndani Facebook pages.

With an eye towards further expansion into Africa (GTBank already operates in five other African countries), the bank also ensured that Ndani would promote not just the bank, but the entire continent. Recent features have spotlighted many of Africa’s success stories: Kenya’s version of Silicon Valley, Nigeria’s Nollywood film industry, fashion designers, entrepreneurs and musical artists.

While the platform may still be nascent, GTBank aims to deliver content that appeals to as wide an audience as possible. Just recently, Ndani featured live video streaming of the 2013 Lagos International Polo Tournament (an

event that largely appeals to an older and more affluent customer segment).

Banks in the mature markets and the West should take note: in early 2013, GTBank cracked the one million fan mark, making it Africa’s most ‘liked’ bank. And it enjoys more ‘thumbs-up’ than almost any of the largest North American and European banking brands online today.

With GTBank’s success growing by the day, we believe that – in the not-too-distant-future – Western banks will be looking to Africa for best practices in social media, not the other way around.

Key questions

- Are you using social to truly understand what customers want from their bank?
- Where are you looking for best practices and new innovations?
- Is your social media strategy properly and fully integrated into your other customer channels?



Crowdfunding: Will peers-funding-peers hurt banks' bottom lines?

By **Edwin Herrie**, Head of Banking, KPMG in the Netherlands

■ Highlights

- Crowdfunding and peer-to-peer lending are seeing significant growth, particularly in under-served markets.
- Growth of crowdfunding platforms are expected to explode once US regulators provide guidance.
- Nimble banks may find opportunities to become part of the crowdfunding value chain.

When Eric Migicovsky, founder of Pebble Technology, was looking for a second round of funding to market his internet-enabled watch, he hit a roadblock: no one wanted to kick in the cash.

But where, traditionally, entrepreneurs had few options for raising capital besides going to a bank for credit, Migicovsky turned to crowdfunding website Kickstarter with a modest fundraising target of USD100,000. Within two hours, he had met his goal. Just over a month later, funding was closed after some 69,000 backers pledged more than USD10 million to be among the first owners of Pebble.

Everyone a banker?

Clearly, crowdfunding is changing the way individuals, businesses, charities and even soccer teams and fledgling rock bands raise cash. But is it a threat to the bottom line of traditional banks? Or does it uncover new business models, particularly in developing markets or high-risk sectors?

Equity-based crowdfunding – where investors receive an ownership stake in a company – has tended to be the fastest growing sector of crowdfunding in the developed world (up 114 percent in 2012). What is more, there is every indication that the trend should accelerate rapidly once US regulators legalize the approach, likely in 2013 or 2014. Until then, Seedrs in the UK reigns as the leading equity-based platform, enabling individuals to invest anything from 10 Great Britain pounds (GBP) to GBP150,000 in start-ups they choose online.

But the risk to investors – who are often left to their own devices to separate a good investment from a bad one – is certainly real and presents investors with a strong motivation for remaining with traditional investment advisors. And while a robust vetting process by the crowdfunding platforms and real regulation around equity crowdfunding could help mitigate this, it may also lead to costs rising to a point where equity-based crowdfunding becomes just as expensive as traditional borrowing.

Skipping the middle-man

Another potential disruptor to traditional banking models is peer-to-peer lending where lenders are connected directly to borrowers looking to finance anything from debt consolidation to an engagement ring. Lending Club, one of the leading peer-to-peer lending platforms in the US, boasts former US Treasury Secretary Lawrence Summers and ex-Morgan Stanley CEO John Mack as directors and expects to lend around USD1.5 billion this year.

And while those numbers may pale in comparison to those put on the board by the likes of Bank of America or Chase, there are indications that the pot may keep growing. Prosper, another US platform, is also growing quickly, as is Zopa in the UK.



“Lending Club’s personal income requirement means that only 10 percent of the US population would qualify to use the service.”

One inhibitor to growth for most of these platforms, however, is their stringent borrowing criteria. Lending Club’s personal income requirement means that only 10 percent of the US population would qualify to use the service. This creates a conundrum: broadening the criteria would drive growth for the platform, but it would also threaten investors’ high rates of return (typically 6 to 18 percent for over 90 percent of their investors) as less credit-worthy borrowers default or renegotiate their terms.

A greater flight-risk for traditional banks might be small businesses. While the US banks may have loaned more than USD282 billion to small businesses in 2011 (versus the USD1.47 billion that was loaned via crowdfunding platforms), most traditional loans went to businesses with USD3 million to USD50 million in annual revenues, leaving the bulk of American small business owners looking for other – more accessible – funding options.

If you can’t beat ‘em...

So, should traditional banks be afraid of increasingly democratized financial markets? The jury is still out. While there are certainly underserved market segments that may abandon traditional institutions in favor of crowdfunding, there are few signs that equity investors are currently in the mood to take on more risk.

That is not to say that crowdfunding and peer-to-peer lending won’t disrupt the growth of the banking sector in countries and regions where banking infrastructure is sparse. Experiments in crowdfunding in Africa and Asia have delivered strong results, particularly in areas where mobile phone penetration outstrips that of banking. For now, however, most

of the larger platforms are based in the UK and the US and require participants to be residents.

If traditional banks do start to feel the heat, they could always borrow from the strategy of tiny upstart WebBank, a chartered industrial bank based in Salt Lake City, Utah. WebBank funds all of Prosper’s and Lending Marketplace’s personal loans and, in doing so, suggests that there are certainly opportunities for traditional banks to take a role in the crowdfunding value chain.

Key questions

- What impact would crowdfunding have on your business if growth of the platform were to increase exponentially?
- What role can your bank play in the crowdfunding value chain in order to remain relevant and retain revenues?
- What approaches and strategies can be adapted from crowdfunding models into the traditional banking sector to improve customer service?



Building trust and relationships

By **Mark Nicholson**, Head of Digital, Creative & Communications ING DIRECT Canada

■ Highlights

- Remain focused on what makes social media so valuable in the first place: relationships.
- The risk of not being involved in social often outweighs the risk of doing it.
- An effective social media program requires banks to rethink their current ways of working.

At ING DIRECT Canada, we believe that social media will be a key component of our growth strategy, a critical enabler of our reputation and a vital channel in our efforts to build trust with our customers. That is why we were one of the first banks to develop a social media policy and presence and – today – remain one of the most active social media bank participants in the world.

And while we are clearly evolving rapidly up the social media ‘maturity’ scale, we also remain highly focused on what made social media important in the first place: relationships.

Viewpoint from **Daniel Knoll, Partner, KPMG in Australia**

Mark Nicholson’s article is a great example of what banks can do with social media if they have the right approach, the right processes and the right management buy-in. ING DIRECT Canada also shows what many already intrinsically know: that social can be a powerful tool for enhancing customer service and building customer relationships.

But customer complaint handling and response is just the tip of the iceberg for social media. With a strong social presence and growing trust within their specific audience groups, banks could quickly parlay their social media strategies and customer relationships into opportunities for co-innovation which, in turn, can help build stronger links between customers and their banks.

A focus on social engagement

We understand the growing role that social is playing in the lives of our customers and the influence that it has on our markets. As such, we are constantly monitoring social media channels to identify new trends, capture shifting customer preferences and respond to feedback (regardless of whether it comes from our customers or not). And, as a result, we have become much more proactive in the way we communicate with our customers and much more responsive when issues do arise.

Take, for example, our recent experience with an ad campaign that launched earlier this year. The campaign – which was intended to draw upon research insights around stress, anxiety and a general sense of worry as it relates to money – in order to help promote retirement savings products – was seen by some viewers as being insensitive to those suffering from mental health issues. Within days, our social channels started to see some chatter. Some came to our Facebook and Twitter pages to complain directly, others simply vented their frustration on friend and family networks.

Within minutes of the first mention, our social media team was on it. All conversations involving our bank and the ad

Other banks (as illustrated in the article on RBS on page 14) are using their customer relationships to create, curate and foster new communities by linking customers (and even non-customers) together around specific issues and demographics. In return, they are seeing their social credibility soar.

We believe that banks must engage in social media if they hope to rebuild trust and enhance relationships; even if activity is limited to supporting key social issues or communicating key information to audiences.

But we believe that it is those innovative banks – like ING DIRECT Canada – that are able to truly harness social media to build stronger relationships with their customers that will truly succeed in the longer term.



“Followers and clients can expect to see a range of new products and services come to market based on social platforms.”

campaign were monitored and assessed; hours later, our CEO was tweeting his comments on the campaign and – once we made the quick decision to stop the campaign – our team took to social media to communicate the decision to the public and offer our sincere apologies.

The feedback on our response has been fantastic. “I don’t like what ING DIRECT did, but I do like how they handled it,” noted one influential blogger, approvingly. “This incident and the conduct of ING Canada is an exceptional example of good social engagement,” suggested another. Clearly, our use of social media to respond quickly and effectively to consumer feedback was a success.

The ‘social’ CEO

Of course, our ability to respond effectively to this fast-moving issue would not have been possible without the support and buy-in of our board and our CEO. For our leadership, social media not only offers opportunity for innovation and improved customer service, it also allows them to directly monitor what people are saying about the bank – unfettered and uncut. Simply put, our executives understand that the risk of not being involved in social media is far greater than the risk of doing it.

Our CEO, Peter Aceto (@CEO_INGDIRECT), has been active on social media for years and frequently hears from – and responds to – customers directly over social media. Indeed, I firmly believe that our success in using social media to interact effectively to our communities is directly related to the support and buy-in of our leadership.

Unlocking the value

While executive support is certainly key, developing an effective and responsive social media program also required our bank to rethink the way we work together internally to achieve the full benefits of social media. Internal silos needed to be broken down, information needed to be shared across divisions and a single brand needed to reflect all of our different service offerings in the market.

Likely the most illustrative change happened within our physical office. Rather than creating a ‘social team’ that worked between divisions and functions, we brought together all of our key internal stakeholders into one ‘open office’ plan.

The results of this one simple, yet non-traditional, move have been amazing: issues are elevated and managed in real-time with input from across the organization, new ideas gestating in one division are quickly and easily adapted into another and social media strategies are aligned and integrated to maximize reach and our return on investment (ROI).

Forward-looking banking

Based on these early successes – and the passion and encouragement of our bank’s leadership – I am confident that social media will play an increasingly important role in our future growth. Followers and clients can expect to see a range of new products and services come to market based on social platforms.

Simply put, our highly-successful experiences using social media for customer service and complaint response today has opened the door to a world of innovation tomorrow. Clearly, this is a thrilling time to be in banking.

Key questions

- How are you using social media to reduce reputational risk and respond to customer feedback?
- What role can your CEO play in driving transparency and trust through social media participation?
- How is your bank breaking down internal silos to ensure that information is being shared across divisions to deliver a single brand on social media?



Harnessing internal collaboration to drive results

By **Alex Chapel**, KPMG's Internal Collaboration Lead, KPMG in the UK

■ Highlights

- Internal collaboration allows banks to transform into more client-centric and innovative organizations.
- It is not just technology that drives internal collaboration, it is also people and processes.
- Enlisting the support of internal advocates will deliver higher levels of adoption, utilization and value from internal collaboration platforms.

Over the past few years, more and more banks have recognized the intrinsic value of internal collaboration. Faster customer service and complaint resolution, lower operating and resource costs, greater product and service innovation and more effective risk management are just some of the massive benefits banks are enjoying by using internal collaboration platforms.

Not just another IT problem

But encouraging people to collaborate isn't always easy, particularly for those operating in highly-siloed and risk-averse industries like financial services. Indeed, we have seen a number of banks sprint out of the 'internal social network' gate, only to find that nobody was on the horse. Essentially, they seem to have forgotten that internal collaboration can only occur with a change of culture, not just technology.

In fact, in our experience – both with clients and with our own internal collaboration platform pilots – the question of

technology seems to be overblown. Sure, significant work will be required to ensure legacy systems integrate effectively with the selected technology. But, ultimately, it's not the technology that enables internal collaboration, it's the people and the processes.

Supercharging collaboration

Like many of today's more innovative banks, KPMG International's Internal Collaboration team was keen to remove some of the silos in the business to help drive cross-functional and cross-divisional cooperation. And while – at one level – this could be approached as a technology problem (rolling out a globally-consistent platform across multiple legacy systems, IT environments and devices) the greater challenge often comes from breaking down internal power politics to allow information to flow freely between and within business units.

The benefits we saw in our pilot were massive. Ideas from one part of the organization flew across the world in real-time and – with the support and input of peers and experts across our network – quickly become opportunities for competitive advantage. Efficiencies and best practices that, traditionally, had remained within business units were now shared and emulated. And, across the board, employees are reporting higher levels of engagement and a stronger sense of purpose from the immediate benefits of connecting and collaborating within the network.

Getting those head-nods

Moving from idea through to reality, however, is rarely easy and every initiative will have its naysayers. In many cases, banks will find that by identifying potential internal advocates – people at every level of the organization that



“ Risk is also a key concern for many organizations embarking on an internal collaboration strategy. ”

display a passion for technology-enablement – and engaging them in the development and roll-out of the platform, they can achieve higher levels of adoption, utilization and, ultimately, value from their internal collaboration strategy. Securing their continued feedback will also allow banks to fine-tune their approach as the project progresses and will often prove to be a powerful source of advice and consent going forward.

Risk is also a key concern for many organizations embarking on an internal collaboration strategy. And rightfully so; regardless of whether you are a bank dealing with customer data or a KPMG team working on a client’s financial report, caution must always be the default position when it comes to risk. It is critical, therefore, to enlist the legal and risk teams in the planning and development of any internal system from day one. Moreover, once they are fully on-board and comfortable with the concept, risk and legal partners can often become active partners in the initiative, identifying potential risks and developing a set of rules and behaviors that must be followed in order to minimize risks.

Of course, given the high cost of capital these days, securing the necessary investment from the board can often be a challenge for initiatives that do not have a clear ROI. And since internal social networks are still relatively new, there’s a dearth of empirical data to prove that it’s a solid investment. However, we found that by focusing on anecdotal evidence – identifying real situations where we’ve been able to serve a client better or execute a process more efficiently – we were able to demonstrate qualified benefits to leadership and secure the buy-in and budget that was needed to ensure success.

It’s all about the client

While these platforms may be internally focused, we firmly believe that any internal collaboration initiative should, ultimately, help deliver better value to our clients in a way that’s more efficient for us. This customer-centric approach has also led to the development of a strong framework that helps prioritize initiatives and highlight any needed course corrections.

Our experience with our clients’ (and our own) internal collaboration initiatives has clearly demonstrated that, for banks looking to gain competitive advantage, internal collaboration not only delivers great returns, but also provides a roadmap for transforming the business into a more client-centric and innovative organization. And that’s something all banks should be aiming for.

Key questions

- How can internal collaboration platforms be leveraged to improve customer focus and innovation?
- What role should regulatory, risk and legal play in developing and overseeing an internal social media strategy?
- How does internal collaboration tie back to the customer and what processes are in place to measure and monitor improvements?



Where business finds business

By **Alastair Grier**, Chief Operating Officer, Business and Commercial Banking, RBS and NatWest

■ Highlights

- Banks can leverage social principles to create their own online communities.
- The ability to take calculated risks is vital to creating a valuable social presence.
- Data gathered from social and online communities can deliver benefits across the organization.

Banks have always been an important cog in the engine of SMEs. From financing to ongoing money management, banks have perpetually forged strong relationships with entrepreneurs.

At Royal Bank of Scotland (RBS) and NatWest, we believe that banks must do more to help SMEs succeed in today's business environment. So in early 2013, we unveiled BizCrowd, a free online business supplier community that enables companies to pitch for new business or invite offers for goods or services they need themselves.

Creating a community

But the difference between this and any other B2B sourcing platform is that BizCrowd is also a community – a place where RBS, NatWest and other participating business people can share insights on how to run a successful enterprise.

The site includes sector-specific noticeboards where companies can rate suppliers based on their experience, just like sharing a hotel rating on TripAdvisor. We have also integrated many of the most popular social media tools like Facebook, YouTube and Twitter to encourage greater interaction among members.

Making it happen

While RBS and NatWest, like most banks in the UK, were already active users of social media within the retail division and internally, moving forward with a supplier community was new territory for these financial institutions. This, of course, brought

about great opportunities and risks for the different functions within our Business and Commercial Banking business.

The finance group, for example, quizzed us about the potential financial returns from the idea. Risk management identified some notable risks – to our brand, our customer relationships and, of course, our customers' security and privacy.

At the same time, colleagues in our business units quickly became excited about the data we could gather to help us better serve SME customers. And our marketing department felt that putting RBS and NatWest at the forefront of a movement to help entrepreneurs succeed would be fantastic for our brand.

In the end we all agreed that, if we could effectively manage the risk, it was the right thing to do. Yes, it was like placing a bet. But we were confident enough in our approach and the potential for benefits that it was a bet worth making. And so we set our minds towards building a thriving community – one that puts RBS and NatWest at the center of the SME conversation in the UK.

Taking it to the streets

It's tempting to look at the potential of social media technology and assume that if it offers something useful, people will flock to it. But the reality is that the social aspect – doing something that helps the community – is what matters most. So we recruited the support of RBS 8,000 relationship managers across the UK – those who have the closest relationships with our SME clients – to help us define the initiative and then communicate the program directly to our core audience.

We also recognized that the traditional branch network would need to play a role in promoting BizCrowd and so we developed and launched an outreach campaign aimed at our front-line bankers. It's not a one-size-fits-all approach, because we have people with a wide variety of experience – from those who 'get' the potential of social media right away, to traditionalists who haven't spent more than a minute of their lives on Twitter. We need them all to become digital advocates.

To ensure that the program achieved the greatest impact at launch, we even turned to 'old school' communications strategies such as conducting a physical 'road show' aimed



at communicating the benefits of the program to our internal employees across the country. We essentially traveled from town to town telling our story and sharing client testimonials about how BizCrowd has helped uncover new clients for their own businesses.

More loyal customers – and new prospects

We believe that BizCrowd is helping our Business and Commercial Banking business get back to the basics of what it means to be a community banker – that reliable partner who helps local businesses succeed. The only difference is that we are now leveraging new digital tools to connect people to people, rather than pacing up and down the old high street.

We debated whether or not to keep BizCrowd a 'closed' community for RBS and NatWest clients only. Our customers answered that question for us: they don't care if their new trading partner is our customer or not. Keeping it 'open' works to our advantage too, because we reach a whole new set of prospects.

Ultimately, we firmly believe that BizCrowd provides a valuable service to our business customers while giving our front-line bankers the opportunity to have more vivid, less transactional

conversations with their clients. In turn, this will enable us to understand our SME clients' needs better and fine-tune our services accordingly.

And ultimately, that's what building a community is all about: helping everyone reach their potential.

Key questions

- Have you considered how social could be used to enrich relationships within key customer segments?
- How are employees being leveraged and trained to help accelerate your organization's social strategy?
- Have you explored all of the benefits that social may deliver across the organization – from finance through to sales and marketing?

Viewpoint from Alison McDowell, Principal Advisor, KPMG in the UK

What underwrites much of RBS and NatWest's successes in social media is the recognition that it's the front-line employees that make the greatest advocates for social strategies. Social media thrives on relationships so it's critical that the people who hold the strongest client relationships are engaged as early as possible in the social strategy.

Banks can also take a lesson from the way that popular consumer brands use social media to interact with their customers. Banks have a great opportunity to incentivize employees to use various channels to better understand customer needs and outcomes, potentially even linking performance measures to the way that employees work with customer groups.

It is also important that staff understand what role they play in the social initiative. Simply put, they need to know what is expected of them and have the confidence and accountability to make reasonable decisions on behalf of the bank. By the same token, banks will need to empower their staff to not only make improvements in the social strategy where needed, but also to escalate issues when things go wrong.

Of course, as Alistair notes in his article, different members of staff will respond differently to social media. In particular, banks will want to focus on providing training and communications to help employees - especially those who joined the bank before 'social' was invented - to understand that social actually returns the bank to the 'good old days' where bankers built strong relationships with their customers rather than a way to automate yet another customer channel.



Game on: Using social media to secure a new generation of customers

By **Vineet Arora**, Executive Vice President, ICICI Securities

■ Highlights

- Social media ‘gamification’ can be an innovative tool for driving financial literacy and brand awareness in younger or unbanked market segments.
- Success can be exponentially increased by integrating multiple forms of social media into a single strategy.
- Social media ‘personification’ can help customers identify with their bank and build stronger relationships.

For the past decade, ICICI Securities has been empowering 2.6 million Indians to seamlessly access the capital markets through icicidirect.com, an award winning and pioneering online brokerage platform. We are committed to spreading capital market literacy across segments and, as such, have been avidly exploring various mediums that may help us reach out to different strata of investors.

Viewpoint from Jan de Boer, Partner, KPMG in the Netherlands

Using games or applying gaming elements to solve traditional organizational challenges is not a new concept; military organizations have used war games to train strategic skills for decades and there are a multitude of games available focused on policy and management issues.

But, by combining the power of social media with the principles of gamification, organizations are now able to achieve far greater objectives, reach a far wider audience and gain far more value than ever before.

Consider, for example, what would happen if ICICI Securities were to mine the data from their game (regulatory or privacy issues aside) to develop behavioral insights based on what decisions

Social media has been a key element of this strategy. Our ICICIdirect social media campaign, for example, not only allows us to engage with our customers, but also to educate ‘netizens’ on ways to attain their financial goals through a fun and interactive platform.

Targeting a specific audience

One of the key pillars of our growth strategy in the Indian marketplace is to attract younger customers. We want to connect with them at the beginning of their earning years and then build a lifelong relationship.

Social media is central to our efforts to reach 20-30 year olds. But to really connect with this audience, we took our social media strategy one step further by creating a ‘gamification’ strategy that is perfectly suited to those younger customers who have grown up with social media and online gaming.

School’s in session

A few years ago, we created the ICICIdirect Centre for Financial Learning to help improve financial literacy for anyone interested in investing, regardless of their age or level of expertise.

players made. Then consider how those insights could be used to improve everything from marketing and sales through to process management and product development.

Many banks are starting to pay attention. In fact, I believe that – within five years – these types of ‘applied games’ will be as ubiquitous in our everyday lives as social media is today. That is why KPMG in the Netherlands has developed a Game Maturity Model that helps organizations quickly determine their main objectives from their gaming strategy and outlines a roadmap to help them get there efficiently.

So while the use of applied games may still be new for many organizations – particularly in the financial services sector – we believe that gaming will soon become a key component of banks’ social media strategies.



“Our Virtual Stocks games allow users to experiment, experience and learn the stock market in a safe environment.”

Our social media extension – Hangout – which launched in early 2013 (using Twitter, Facebook and YouTube) is a natural extension of this. Although it’s available to anyone, it’s primarily a way for us to engage with younger people who are just starting to think seriously about their financial futures.

We use each channel to its respective advantage. On Twitter and Facebook, we share “Tip of the Day” messages and inspirational quotes from famous investors, and feature quick-burst quizzes. On Facebook and YouTube, we run short educational videos about topics ranging from the basics of mutual funds to primers on futures and options.

Playing games

But it is on Facebook and YouTube that our gamification strategy really comes to life.

Hangout features two animated characters, Gyaano the genie and MoBo the money boss. Each represents a different type of investor: Gyaano is impetuous and thinks financial success just happens ‘magically’, while MoBo is the voice of reason and experience.

On Facebook and YouTube, MoBo and Gyaano take visitors through games involving various investment scenarios. Visitors can play around with the scenarios and choose the various pop-up options that the characters offer.

In addition, Facebook features our Virtual Stocks game, where users can sign up and use a virtual pot of money to buy stocks during live trading hours. It enables them to experiment, experience and learn the stock market in a safe environment.

Personification

Using characters like Gyaano and MoBo within our social media strategy isn’t just a gimmick. Each represents a type of investor who might visit our site – from the inexperienced to the more deliberate, conservative investor.

Using personas helps our visitors identify with the scenarios they’re playing in the games, while aligning our advice with the real-life choices they face, for example, is that dream home easily within reach, as the perpetual optimist Gyaano

thinks? Or will it require the kind of careful financial planning that MoBo suggests?

Of course, MoBo’s advice is invariably the sensible option and represents the kind of person we want to educate our customers to become. Armed with MoBo’s sage advice, we then direct visitors to our website at icicidirect.com, where they can learn more about the products that will help them achieve their financial goals.

Gaining customers for life

We firmly believe that by using gamification and personas like MoBo and Gyaano, we can engage customers and provide a financial learning experience that is both fun and friendly. We’re introducing young people to financial concepts while avoiding jargon and helping them to understand complex scenarios.

Evidence to date shows that our strategy is working. In just the first few months, ICICIdirect Hangout has become the most viewed site in the Indian financial space, with 600,000 views on YouTube (data as on 6 May 2013) and the highest fan interaction on Facebook. By positioning ICICIdirect as a trusted partner in our newfound friends’ financial futures, we hope to become their institution of choice.

Key questions

- How could you be using social media to create a more valuable and more compelling customer relationship?
- Have you considered how different customer segments use social media and developed your plans accordingly?
- Are there opportunities to integrate new media and gamification into your social media strategies?



@Regulator: How do we ensure compliance? #Needguidance

By **Giles Williams**, Partner, Regulatory Center of Excellence, KPMG in the UK

■ Highlights

- While there is a lack of specific regulation related to social media in banking, regulators are keenly watching banks' approaches and activities.
- A code of conduct (industry-wide or by organization) would help ensure compliance and set expectations.
- Banks would be best advised to apply the current regulatory framework to their social media activities until more guidance emerges.

There was never any doubt that – sooner or later – the regulators would recognize the need for better guidance on the use of social media in banks. The risks are, frankly, considerable. Mis-selling, poor investment advice and financial scams are already becoming more commonplace on social media channels, while errant tweets and poorly-advised disclosures on Facebook have shifted stocks and threatened market volatility.

And while many of these risks have always been present for banks – mis-selling and bad investment advice were industry challenges long before social media – the issue has been greatly accentuated by the speed, accessibility and lack of formal process that social brings.

Adding the regulator

Not surprising, then, that the regulators are perking up on the topic. In the UK, the Financial Conduct Authority (FCA) reinforced that their rules remain the same regardless of the communication channel. They have also suggested that

they will monitor financial organizations' use of social media channels as part of their regular market surveillance exercises.

And while the US regulators have been somewhat slower to offer guidance to regulate the use of social media by banks and the investment industry, the Securities and Exchange Commission (SEC) did say in April that it would accept the use of social media for earnings announcements and other material disclosure as long as investors were aware that the channel represented an authorized source.

Taking a more proactive approach

With little specific guidance available, many banks and a growing number of industry bodies are now looking at developing their own approach to helping ensure that the channel complies with relevant regulation. In the US, for example, the Federal Financial Institutions Examination Council released a set of draft guidelines on the risks of using social media in client/customer interactions.

This is a prudent strategy. For one, banks would be wise to get out ahead of the regulators by creating a code of conduct (universal if possible; bank by bank at the very least) that not only ensures compliance with existing regulation, but also helps employees across the bank to understand their individual obligations and group expectations. The current lack of specific regulation on social media also creates new risks that banks should be working to mitigate through a thorough review of their compliance policies.

Will Big Data bring Big Regulation?

Likely one of the most challenging areas that banks and regulators will need to face will stem from banks' prospective use of Big Data and information collected from social media. Regulators will no doubt be keen to ensure that any information the banks collect is properly secured and managed within the current data privacy and security



“The reality is that – in most jurisdictions – financial services regulatory oversight already extends over social media.”

guidelines. And given that most Big Data is unstructured and often user supplied, regulators will also want to ensure that any information being used is receiving proper due diligence.

However, as the banks start to delve further into the world of social media and Big Data by – let’s say – harvesting data to develop individualized service offerings to commercial clients, regulation will likely become increasingly complex. As such, banking executives will want to build stronger relationships between their IT, compliance and risk departments and the core business.

Applying a social media lens to compliance

The reality is that – in most jurisdictions – financial services regulatory oversight already extends over social media. Indeed, in the EU, the notion of ‘durable mediums’ is fairly clear that its requirements apply to all digital media, current or future. Many other regulators around the world have also suggested that – unless other regulation is promulgated – banks had best apply the current regulatory framework to their social media activities.

This means that CEOs and other senior executives will need to find a keen balance between supporting innovation and ensuring that their regulatory and compliance controls remain tight. In particular, banking executives will want to focus on ensuring that all of the inputs, regardless of channel, are being captured from the sales and marketing phase through to any post-sales interactions so that the sales process can be reconstructed.

No change required

It is also important to recognize, however, that banks – particularly in Europe and the US – are already dealing with a mounting regulatory burden and, as such, social media ranks rather low on the list of priorities.

However, rather than create a new ‘social media workstream’ to grapple with the issue, banking executives may simply need to reinforce that the current rules apply to all channels, social or not. Just to be sure, they may also want to task their compliance departments with working within the bank to ensure that controls are being appropriately applied and that any new policy change within the bank reflects the potential future use of social media.

By embedding the realities of social media – both present and future – into compliance strategy and change programs, we believe banks can more easily get ahead of regulatory change and – in the meantime – do their best to minimize their regulatory risk.

Key questions

- What roles are compliance and risk playing in reviewing your social media policies and strategies?
- Are you confident that all of your employees are conducting social media interactions with customers appropriately?
- Is your compliance department incorporating social media considerations into new policies and standard operating procedures?



The power of a crowd: Using social to drive culture change in banks

By **Klaus Woeste** Director, KPMG in the UK and **Matt Sevenoaks**, Manager, KPMG in the UK

■ Highlights

- Building a more responsive, transparent and trustworthy bank requires a culture that reflects, reinforces and encourages those attributes.
- Internal 'crowdsourcing' strategies help organizations engage employees in culture change initiatives.
- Crowdsourcing – either internally or externally – requires clear parameters on who should be participating, what will be asked and how results will be used.

The change imperatives facing today's banks are fairly well known: regulatory change, operational change, competitive change and technological change all loom large on the industry's change agenda. Yet, surprisingly, few seem to be as focused on the one change that will underpin all others: cultural change. Fewer still seem to be tapping into their employees by using social networks to help create the new culture.

Putting culture first

Indeed, we believe that – in this time of disruptive change – banks need to be more focused than ever on their internal culture. In part, this is because none of the new changes, processes or policies will ever achieve their stated objectives if employees do not understand, support and abide by them. Building a more responsive, transparent and trustworthy bank requires a culture that reflects, reinforces and encourages those attributes.

But culture change is also critical for the banks' employees who – for the past four years or more – have been kicked around by the regulators, the public and even their own leadership and, as a result, are sorely lacking in engagement and tend to feel undervalued or unrecognized. For these key stakeholders, culture change cannot come soon enough.

Looking for a new approach

Changing the culture of today's banks will certainly not be easy. For some, it will require wholesale change from the conservative 'blame' culture that dominated the industry in the past, and towards a more collaborative and transparent culture where employees are encouraged to contribute to the organization, share their ideas and even 'blow whistles' when necessary.

For others, the biggest challenge will be in developing a culture that meets the needs of the employees while balancing those of the business, the regulators and the stakeholders. Newer employees, in particular, will expect to be more involved in the organization's decision-making and will want to share their ideas with their peers.

Enter crowdsourcing

Crowdsourcing is a relatively new concept for banks, but very well accepted in other consumer-focused sectors like retail, telecoms and healthcare. Essentially, crowdsourcing is where organizations use social media tools to build a collaborative 'crowd' that they can tap into for any number of reasons. Some, like the Commonwealth Bank of Australia or Sberbank of Russia, already use crowdsourcing approaches to encourage their customers to propose new ideas and products, exchange opinions and vote on other customers' new ideas.

But few – if any – banks have yet to apply the awesome power of the crowd to their own internal culture challenges. And in this, we believe that banks are missing a trick.

Your most valuable resource

The reality is that banks' employees are – by far – in the best position to help drive culture change. For one, each of them should be banking experts and well-aware of the bank's priorities and challenges and can therefore be expected to act in the best interest of the bank. But at the same time, they are also banking customers, meaning that they are able to offer their organization some unique and valuable insights from a customer's perspective.



“The real question is whether banks are ready to find out what their employees actually think.”



And since it will ultimately be the employees themselves that will need to roll-out, reinforce and embody the new culture within the bank, it seems intuitive that they should also be involved in shaping and implementing the cultural change as well.

New approach, new value

We believe that crowdsourcing offers banks a valuable and effective way to engage their employees in the culture change that must now occur. The benefits are clear: crowdsourcing allows banks to be resource-savvy (crowdsourcing is less costly than focus groups or surveys); gain greater reach (social platforms can reach even the most remote employee or branch); act with greater speed (results of crowdsourcing can be monitored and acted upon in real-time); and foster greater engagement (by holding fluid two-way dialogue with employees on key issues).

However, applying crowdsourcing approaches to cultural change programs is not as simple as posting a question on Facebook and waiting for responses to flood in. Indeed, change leaders and business executives will need to be very clear about who should participate in the crowd, what they want to learn or discuss, and how they will use that information to create positive change.

Banking executives will also want to clearly think through how employees will be kept informed on how their ideas are being used, how results will be reported and how employees will be incentivized for good ideas or constructive contributions.

From idea to reality

Recently, we've been working with our crowdsourcing partner (Chaordix) to develop a system tailor-made for capturing the voices in the crowd. The platform (known as Crowd Connection) allows organizations to engage key stakeholder groups (using Chaordix's technology platform and KPMG International's insight into the design, interpretation and monitoring of the program) to create ongoing conversations about an organization's strategic objectives.

What we have found in showcasing Crowd Connection to banking leaders around the world is that banks are eager to discover new approaches that can help them design, implement and sustain cultural change and employee engagement. They are keen to explore how new social platforms will help them achieve greater efficiency and flexibility. And they are impatient to start using the system to allow them to gain competitive advantages over their peers.

Simply put, we don't need a crowd to tell us that the time has come for crowdsourcing. The real question is whether banks are ready to find out what their employees actually think.

Key questions

- Are your employees engaged in changing the culture of your bank?
- What are the big questions that could potentially be answered by your employees?
- What social media strategies could you adapt from other sectors to help drive your objectives?



The social executive: Using social to amplify the executive voice

By **John Hair**, Director, KPMG in the US and **Wolfgang Goebel**, Board member, McDonald's Germany

■ Highlights

- Social media offers executives an opportunity to advocate on key issues and communicate directly with stakeholders.
- Authenticity is key to creating and sustaining a successful and transparent social media presence.
- 'Social' executives must be willing (even encouraged) to acknowledge mistakes and explain how they will be resolved.

As banks look to rebuild their reputations and regain the market's trust, some executives are starting to explore whether social media may provide a useful and more personal vehicle for communicating their viewpoints on key topics. For this edition of the *Social Banker v2.0*, **John Hair** (a director with KPMG in the US) sat down with **Wolfgang Goebel**, a board member at McDonald's Germany and – for more than two and a half years – the author of a highly-successful blog that advances issues of interest to both Mr. Goebel and McDonald's Germany.

John Hair (JH): What prompted you to start this blog? Did McDonald's ask you to write it?

Wolfgang Goebel (WG): The blog actually started because I wanted to find a better vehicle to communicate some of the things I was seeing in the field of human resources, both at McDonald's and outside. I consulted with our communications department and – after looking at a few options – decided that a blog offered the best opportunity to really discuss the topics while still allowing me to remain authentic to who I am and who we are as a company.

JH: As you know, many banks are currently struggling to rebuild trust with their stakeholders following the financial crisis. Will a blog help rebuild that trust?

WG: Let me be honest; around the time that I started the blog, McDonald's Germany was coming out of a period of intense

scrutiny about our restaurants, our menu and our hiring and employment activities. So one of my personal objectives for this blog is to build up trust and enhance transparency about the work that we do here, about the problems and challenges that we face, but also about the successes that we have achieved. So I think that if the objective is to build trust and transparency, then certainly a blog is one avenue that bank executives should be considering.

JH: One of the challenges we hear from banking executives, though, is that communicating your personal views as a board member creates unnecessary risk. How do you manage that balance between transparency and risk with your blog?

WG: For me, it's all about being authentic. Readers of the blog need to trust that I'm being honest in everything I write; both in the positive stories and when we tackle some of the harder topics. When I see something going wrong, I need to be clear, acknowledge the mistake and say how we are going to fix it. Ultimately, if you are writing from a transparent standpoint, then authenticity shouldn't be a problem. But if you are not willing or able to be open, then a blog is probably not the right strategy.

JH: Have you seen any positive results from the blog from the wider business sector or policy makers?

WG: While we don't really have any data linking the blog postings to changes in sentiment within any core audience group, I can say that we are making significant progress with our reputation as an employer. Our employee engagement surveys are up and – when I go to conferences to talk about human resource (HR) topics – I'm frequently asked about things that people read in my blog. And when I attend government policy meetings in Berlin, I end up talking to a lot of governmental policy makers and stakeholders that have seen one or more of my blog posts and want to discuss some of these ideas further.

JH: What roles do the McDonald's corporate functions play in developing and approving your blog?

WG: I certainly consult with other board members about topics and issues and my corporate communications team



“It’s really a mixture of clear people messages from McDonalds and my own experience.”

is always available to review drafts or offer constructive feedback. But I write around 85 percent of the articles completely on my own. I’m passionate about the topics and so it’s easy for me to write them.

But I would make a clear differentiation between consultation and approval. At the end of the day, I’m responsible for what I put onto my blog. So I am careful to consult with communications or the legal team if I think a topic may be controversial.

JH: And where do you get the ideas from? Do you struggle to put out a new blog on a new topic regularly?

WG: Most of what I’m talking about are issues that I’m experiencing as an HR board member or trends that I’m seeing in official meetings, HR conferences, even things that I’m seeing when I work with our franchisees and my own department. It’s really a mixture of clear people messages from McDonalds and my own experience.

JH: You receive a lot of feedback and comments on your blog, how do you handle those?

WG: I try to answer all posts that are looking for more information or further debate. My goal is to respond to each comment within 48 hours which, I believe, demonstrates that I’m being authentic and listening to feedback and comments. To be honest, I wish we had more comments.

JH: And what has the feedback been from your fellow executives and board members?

WG: I think they appreciate that I’m being a bit innovative to get our message out. I’m not sure whether they read all of the articles all of the time, but I think it’s helped some of them rethink their external communications strategies and how we can use our personal voices to help advance positive ideas and change.

Key questions

- Have you considered the potential benefits of using social to amplify your executives’ voices?
- How will you support and train executives that are willing to use social to advance corporate issues?
- How will you balance risk mitigation against the desire to deliver compelling messages and strong opinions?

Viewpoint from John Hair, Director, KPMG in the US

What my conversation with Mr. Goebel shows is that – by leveraging social tools – executives can personalize specific company positions and, in doing so, catalyze a more collaborative and informed debate on important issues.

Indeed, by taking issues head on and inviting market commentary, banking executives should find that they can not only increase transparency and trust, but also strengthen their position by directly resolving market criticisms or misconceptions.

The power of social media to form consensus and improve transparency on key issues is well demonstrated by Ron Shevlin’s award-winning blog. As a senior analyst from the Aite Group,

Mr. Shevlin uses his blog to discuss key banking issues and – in encouraging debate on the topic – essentially crowdsourcing an industry position on the trends and challenges facing the sector.

Of course, this strategy is not without risk, particularly if the blogger takes a flawed position on an issue. As Mr. Goebel pointed out in our conversation, taking a collaborative approach that includes counsel from within the organization and some governance is key to reducing risk and creating consensus on an issue.

We couldn’t agree more. At KPMG International, we are strong proponents of organizational governance covering all social media interactions for banks and see strong governance as the most effective way for banks to demonstrate that these powerful tools are, in fact, being used responsibly.



Money 2.0: Virtual currencies and the banking sector

By Mitch Siegel, Partner, KPMG in the US

■ Highlights

- Virtual currencies are gaining some traction and notoriety but are not mainstream.
- Lack of regulation, potential for fraud, money laundering and ongoing 'bubbles' threaten the success of virtual currencies.
- Banks will want to watch and wait to see how regulators, particularly in the US, react.

Spare a Ripple? Got change for a Bitcoin? Want to buy a PPCoin?

Like it or not, it seems that digital and virtual currencies are starting to gain traction. Already, more than 1,000 websites accept Bitcoins as legal tender and, in April, US-based Ripple closed a round of angel investment that brought together major players such as Andreessen Horowitz, FF Angel IV, Lightspeed Venture Partners and Vast Ventures.

But not everyone is jumping in with two virtual feet; most banks have valid concerns and are waiting to see how the upstart currencies will fare and what opportunities they create for banks operating in the 'real' banking sector.

Meeting the new kid

First, it's important to note that there are major differences between most of the more popular digital – or virtual – currencies now in circulation. Bitcoins, for example, are generated (or 'mined') by individuals who are rewarded with the currency in return for use of their spare computing capacity, which is used to run the algorithms that underpin the system. Others – like the now defunct Facebook Credit system – exchange traditional currencies into virtual ones that can be traded for games, services or online products.

But in many ways, it is digital currencies' differentiating factors that will create the greatest challenges to the fledgling system; in particular, the current lack of regulatory oversight. In fact, many regulators have been watching the evolution of the sector with concern, citing not only lack of control should the system fail, but also that the systems may be vulnerable to money laundering, terrorism financing and fraud.

Not surprisingly, the US regulators were the first to move. In March, the Financial Crimes Enforcement Network (FinCen) published guidance that attempted to clarify how digital currencies would be governed. Since US regulators often set the precedent for other regulators around the world, it seems likely that many virtual currencies will soon be forced to align to the same rules that apply to their traditional competitors.

Building virtual trust

The virtual nature of the currencies also creates unique opportunities and challenges. A virtual exchange system – if properly managed – could greatly speed up transactions, particularly in markets where payment processing is a complex process. But virtual exchanges are also more likely to experience catastrophic failures should the system go down or, worse, be hacked.

Users are also concerned about the safety and security of their personal and private data, since many of these currencies operate on a peer-to-peer level and are therefore perceived (rightly or wrongly) as being less secure. Bitcoin servers have already been subject to the dreaded distributed denial of service (DDoS) attacks, as have many of their peers across the sector.

Likely the biggest hurdle for banks, however, is the anonymous nature of most of these new currencies, which make standard anti-fraud processes – such as KYC and AML – impossible to carry out. Few (if any) traditional banks would be willing to take on the risk that would come from issuing,



“That is not to say that the [virtual currencies] sector can be blithely ignored for the next few years.”

trading or transacting in these new currencies, particularly in today's risk-averse climate.

Bubbles and troubles

Those virtual currencies that essentially operate as 'floating currencies' have also come under pressure recently with many pundits claiming that – without being backed by government debt or equity – these currencies are prone to market 'bubbles' and volatility.

Some of these concerns are well founded. In April, the value of a Bitcoin plunged from USD\$260 to just USD\$130 before regaining some of its strength. At one point, a (now infamous) Bitcoin user paid 10,000 Bitcoins for two pizzas which – at USD\$260 per Bitcoin – must go down as the world's most expensive fast food purchase (of course, the value of the Bitcoin was a mere one-quarter of one cent at the time of purchase).

However, we also believe that the strength and popularity of virtual currencies are directly correlated to the strength and perceived value of the US dollar. What this means is that if inflation remains low and the dollar stays strong, virtual currencies will likely fade away into the book of failed experiments. If, however, inflation starts to rise, we will likely see much more interest in alternative currencies.

Take it to the bank

So how should the traditional banking and payments sectors respond to these new kids on the block? So far, banks have broken into three camps. The first camp is reactive: accounts belonging to Bitcoin server operators have allegedly been unceremoniously closed due – we assume – to the risk of fraud and regulatory scrutiny. Another camp, characterized by a Malta asset manager that recently created a Bitcoin Hedge Fund, is looking at virtual currencies to see how they can win from partnering with the new sector.

The third, and vastly larger, camp is firmly in 'wait-and-see' mode. In our opinion, this is likely the most prudent camp for the traditional banking sector; much must still be clarified with respect to the new currencies and few (if any) have developed viable or secure business models that warrant defensive movement from the traditional banking sector just yet.

In particular, banks taking a 'wait-and-see' approach will want to pay close attention to how the currencies are treated by US regulators over the coming year; study any new business models that may emerge from some of the more 'innovative' banks; and monitor the extent to which the currencies are buffeted by volatility.

That is not to say that the sector can be blithely ignored for the next few years. Virtual currencies have come a long way in a very short time and should therefore be kept on the horizon for those banks considering how their business model might change in the not-so-distant future.

Key questions

- Are there opportunities for new service or product offerings if virtual currencies become mainstream?
- What is your bank's current risk threshold for exposure to virtual currencies or those operating in the sector?
- Who is responsible for tracking new trends, emerging applications and potential competitors in the social media space?



The road ahead for social bankers

By **Vincent Piron**, Partner, KPMG in Belgium

■ Highlights

- Banks now clearly recognize the need to participate in social media.
- Social media will eventually become enmeshed into banks' organizational fabric.
- Those that adapt and innovate quickly could gain significant competitive advantage.

It seems everyone is banking on social media. Whether it is investors pushing up valuations for shares in social media sites; financial institutions investing in new social platforms; or the launch and use of new social currencies, what is clear is that social media has gone from being seen as a disruptive technology to become a tool for innovation in financial services.

Pioneers emerging

Throughout this article series, we have heard from banking insiders and executives who are not just integrating social media into their businesses – they are pioneering how it will be used in the future. The evidence can be found right across the globe. Some, like [ICICIdirect in India](#), are investing in social media 'games' to drive customer loyalty and financial literacy. Others, such as [GTBank in Nigeria](#), have launched social media banking applications allowing customers to complete a range of core banking functions through their Facebook account.

But it is not just emerging market banks or small start-ups looking for a competitive edge that are banking on social media (though, truth be told, many of the most notable innovations in this space are happening in the emerging markets). Traditional incumbents and global market leaders are also moving quickly to use social as a tool to reconnect with customers and rebuild trust with stakeholders (as evidenced by the innovative approaches articulated by [RBS](#) and [ING](#) in their articles within this series).

Somewhat ominously for banks, many of the fiercest competitors may not be from the ranks of their peers at all. Some of the biggest social media sites themselves are rumored to be considering providing their own financial applications, and many industry observers expect the technology titans (Apple, chief among them) to be eyeing the sector as well.

Going mainstream?

The truth is that – whether they like it or not – most bank executives and boards now recognize that the biggest question about social media is not whether or not to participate, but rather how it can best be applied and implemented to achieve the greatest benefits for the bank, its shareholders and its customers.

Certainly there is ample evidence that social media is already redefining the way banks interact with, sell to and serve their customers. Few banks today don't, at the very least, have a Facebook page and Twitter account; most have likely already used some form of social media to support the sales cycle or gain a clearer understanding of the customer experience. Indeed, where banks are using social media, the vast majority are doing so in a way that allows them to reconnect with their customers and keep their 'offline' conversations alive.

Where things start to get competitive, however, is when banks start to think about how social can be integrated into their operations to improve service delivery, generate new ideas and drive employee engagement. Banks are crowdsourcing ideas from their employees and their customers; they are proactively using social feeds to warn of service interruptions at ATMs and branches; and they are using internal platforms to drive collaboration and innovation.

Potholes in the road

Clearly there are still some hurdles that social will need to clear before it becomes truly mainstream in the banking sector. Regulation is a big one; banks are concerned that – with little official guidance on the use of social coming from the regulators – their social activities might run afoul of future regulation or draw the scrutiny of customer protection authorities.



“Another ongoing challenge is banks’ instinctual desire to see everything in terms of ROI.”

Another ongoing challenge is banks’ instinctual desire to see everything in terms of ROI. The simple truth is that no bank has yet – with any degree of success – found a way to monetize social. Some have certainly shown success at using social to reduce operational costs and increase efficiencies within the enterprise but, to date, nobody has turned social into a sustainable revenue stream (not even Facebook, it seems). Indeed, the move towards social will require bank executives and their shareholders to move beyond the traditional view of ROI in order to value the more intrinsic benefits that social can deliver.

Another key hurdle is related to technology. On one hand, banks are wary of investing in platforms that, frankly, didn’t even exist a decade ago and whose fortunes largely rise and fall on the whims of society in general. Banks are also struggling to achieve the type of ‘single customer view’ from their current IT systems in a way that would truly enable social to be integrated into banking operations.

Those banks that are investing in social are also quickly finding themselves facing a significant capability gap. From identifying the right leaders to run social media initiatives through to retaining social-savvy customer service representatives and marketing managers, many banks are struggling to develop, recruit and retain the right talent to help them make the most of the social media opportunity.

The long-term view

So what does the future hold for social media in the banking sector? Will branches disappear as customers flock to social media sites to do their banking and investing? Will Bitcoins overcome the mighty greenback to become the de facto currency of global commerce? Will banking CEOs become Twitter superstars attracting millions of followers?

Likely not. The reality is that, over the long term, social media will simply become enmeshed into the organizational fabric in much the same way that the telephone, the internet and email did before them. Each, in their time, was seen as disruptive, then innovative, then mainstream.

In the long term, social media will be no different; it’s what happens in the meantime that will truly be exciting and may

separate those banks with the innovation to survive from those that do not.

A parting gift

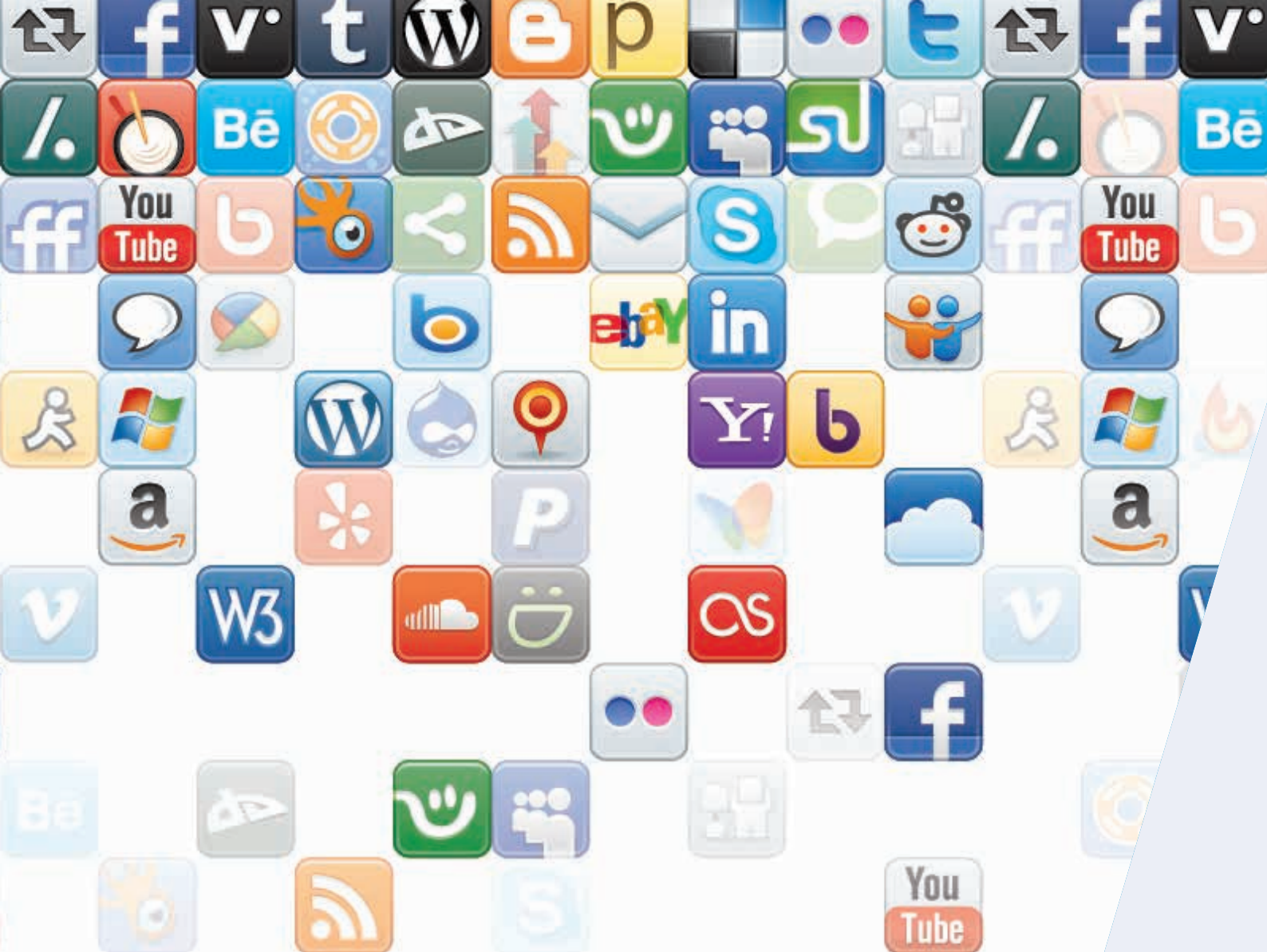
With this, the final article in the *Social Banker v2.0 series*, I would like to personally – and on behalf of KPMG International – thank all of those that participated, either by contributing articles or by engaging in the lively debate that has surrounded many of our posts.

Within the next few weeks, subscribers to the series will receive a complimentary copy of these articles in a hardcopy report. If you are interested in receiving a copy, please take a moment to subscribe [here](#), or contact your local KPMG member firm.

We hope that, through the series, we have provided banks, regulators, technology firms and customers with some interesting insights and ideas for using social media in the banking sector. We look forward – with much anticipation – to seeing how the market progresses.

Key questions

- Do you have a long-term strategy for integrating social media into your organization and operations?
- Have you identified and articulated the non-financial benefits that social could provide?
- Who is responsible for the organization’s social media strategy and development?



Related Publications

The Social Banker

Take a look at last year's series and read articles on the management of risk, the need to integrate IT, the creation of a social culture and the demands of data.

Banking Perspectives

Offering insights and opinions on emerging customer trends and channel development in the banking sector.

Leading Insurance Insights

Articles to help understand how insurance customers' needs are changing and how technology, regulation and new entrants are impacting the landscape.



KPMG's value proposition in social media

KPMG member firms help financial services organizations turn social media into business opportunities. We understand the impact of social media across the entire enterprise – from IT and business re-organization, to tax and audit implications. We leverage the experience and insight of our 32,000 dedicated financial service professionals around the world to create valuable social media advice for our clients.

Whether your organization is just starting out or well-advanced in your social media strategy, our global network of professionals consistently strive to bring a business-centric and 'hype-free' approach that is tailored to your organization's unique needs. We combine our comprehensive social media methodology with deep experience across many industries to deliver in-depth knowledge and practical advice gleaned from our work with leading global organizations and our alliances with our technology and social media partners.

And with a global network that includes more than 155,000 professionals operating across more than 155 countries, we know what it takes to deliver leading global practices within a local context.

Contact us

David Sayer
Global Head of Banking
KPMG in the UK
T: +44 20 7311 5404
E: david.sayer@kpmg.co.uk

Vincent Piron
Partner
KPMG in Belgium
T: +49 30 2068 2813
E: vpiron@kpmg.com

Americas

Mitch Siegel
Partner
KPMG in the US
T: +1 678 592 3471
E: msiegel@kpmg.com

John H Hair
Director
KPMG in the US
T: +1 312 665 3606
E: hhair@kpmg.com

Europe and Africa

Mark Guinibert
Partner
KPMG in the UK
T: +44 20 7311 5574
E: mark.guinibert@kpmg.co.uk

Edwin Herrie
Partner
KPMG in the Netherlands
T: +31 20656 7696
E: herrie.edwin@kpmg.nl

Bisi Lamikanra
Partner
KPMG in Nigeria
T: +234 1271 8962
E: blamikanra@kpmg.com

Asia Pacific

Daniel Knoll
Partner
KPMG in Australia
T: +61 3 9288 6820
E: danielknoll@kpmg.com.au

James McKeogh
Director
KPMG China
T: +852 2847 5018
E: james.g.mckeogh@kpmg.com

kpmg.com
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