

Social media and
networking drive
**changes in financial
services.**

What do Internet users
expect of social lending
and banking services?



tieto



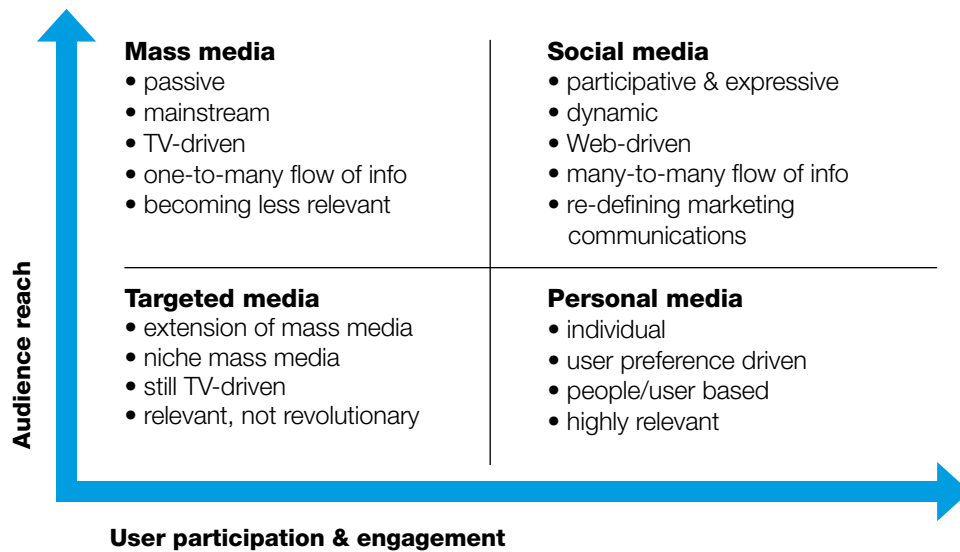
Introduction

Social media business is just about brand & advertising, right? Well, here at Tieto, we think there's a whole lot more to it. It's about a profound change in customer behaviour driven by digital communication – and we think financial services firms should be taking a close look at what social media services can do for them.

Tieto views collaborative social media as an opportunity for financial services firms. And although the banks' traditional role as infrastructure providers is not about to change, we see two ways in which social media will have an impact on them:

- Social media needs a financial infrastructure;
 - Some of the financial services will be based on collaborative technologies.
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Datamonitor: social media



Picture 1.

Internet users as banking customers

As the social networking phenomenon evolves, individuals are becoming active contributors in a multidimensional environment. The public is spending more time online, connecting with peers and using tools, such as mashups, widgets, and other applications, with which they are becoming increasingly familiar.

This white paper analyses the phenomenon and looks in depth at social lending to understand the behaviour of active Internet users. It also addresses the question: how should the banking industry respond?

Although social networking has seen phenomenal growth, it is possible that this will grind to a halt as people tire of the continual hype. Therefore it would be dangerous to look at it from too narrow a perspective. But understanding social networking by analysing customer behaviour provides a much more sustainable basis for business development. The Internet is certainly having a major influence on ever increasing number of clients. But what does this mean for banking services, when customers want to have the ability to fully interact with their bank in the age of participation?

How did we get to where we are today?

Internet banking was initially provided as a simple add-on service to existing channels, but it has now become a significant sales channel in its own right. Today's consumers are also becoming increasingly net-savvy. With the continuing growth in social networking sites, blogs and interactive web forums, the Internet has gone from a medium where content is passively read, to being something to which people actively contribute. Furthermore, as business analyst Datamonitor points out in its research on the future of social networking: "Some social networking services are offering their users the opportunity to aggregate content from multiple sources."



The need for 'make it work for you' banking services is born

Tieto has conducted a study of the strategic competencies needed in the general banking business as well as for developing a network model. We found the most significant change in banking culture relates to client interaction. Account switching costs have declined and reduced exit barriers, so clients no longer consider themselves tied to any one bank.

When we asked Swedish and Finnish bank managers what they thought about banking in the country, we discovered that some believed customer-centricity was maturing. One issue that was regarded as strengthening the client-bank relationship was the provision of social financial services.

Customer behaviour will lead the way

Customers' perceptions of online social banking are generally positive and this is having an impact on their behaviour. Customers are calling for more tailored and targeted services that are available wherever and whenever they need them.

They want interactive, customisable and real-time online banking, and they want to be able to upload their own content and customise their own experience. They want to access the information they need regularly through tools such as iGoogle, which sit permanently on their home page.

The introduction of collaborative web applications has played a big role in driving these changes. These web applications let people share and analyze information online. It has been described as an architecture of participation, with blogs, forums and content based sites allowing users to be both the creators and the critics.

Financial services for social media

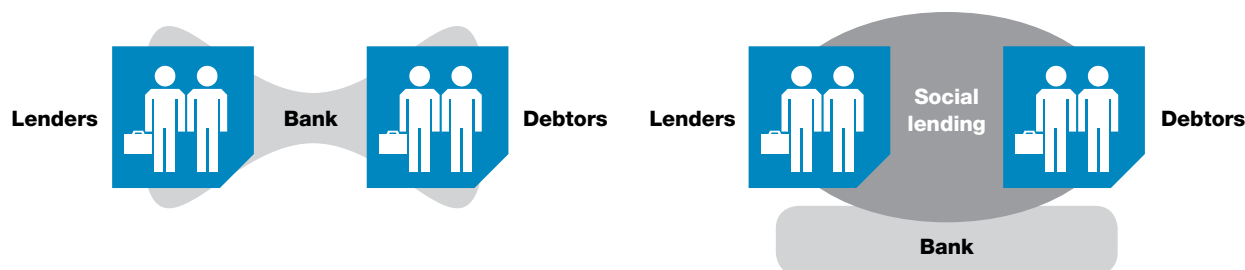
An obvious extension of consumer demand for social media products is the provision of financial services. By taking care of the payment and economic transaction infrastructure and providing flexible and secure processes for payments in social media, banks can facilitate the growth of a digital society.

Opportunities...

There are several openings in the social finance marketplace. The most immediate is facilitating online advertising payments. Digital advertising has passed the hype phase and is a growing phenomenon, giving consumers control over the information they want to receive. According to market research firm Research and Markets, this type of advertising will be highly personal and interactive, and it reckons that by 2015, 65% of all new media revenues will be based on permission-based marketing. In fact, another research firm Outsell states that companies intend to spend \$119.6 billion on their online and digital efforts in 2010 compared with just \$111.5 billion on newspaper and magazine campaigns.

The next phase will be the growth of social lending, investment services and micropayments, a venture that often has a social welfare element. However, IT research firm Gartner says banks should not attempt to replicate a social banking platform unless they can clearly establish a strategic intent centred on this aim as opposed to a solely commercial return.

Structure of social lending



Picture 2.

...and risks

While there are undoubtedly numerous opportunities for banks to enter the new markets being created by the digital revolution, there are also associated risks. We are already witnessing fierce competition in web payments as card issuers and specialised payment services providers such as PayPal build scale online. Recently Twitter has become the platform for rapidly developing tools for making payments. However, twitter-based services are US-centric and it remains to be seen if they can build scale in the near future.

Social lending – collaborative financial services

There is nothing particularly new about social lending – it has been available in some form or other for many centuries, such as through savings associations and co-operatives as well as social capital and philanthropy. It has traditionally taken a number of forms, such as loans and charitable donations to underprivileged individuals and groups, and peer-to-peer (P2P) lending from one individual to another – that does not involve the use of a bank. (Picture 2.)

The Internet has enabled social lending to really take off. Because so many people around the world have ready access to the Internet, it has allowed charities to widen the distribution of their giving and lending, and has also helped individuals to broaden their P2P lending. Non-bank groups are also getting involved with this type of lending, which is having an impact on how it works. Gartner says a trend is emerging whereby charitable Financial Social Networks (FSNs) are linking up with more commercially focused ones.

One of the challenges that banks face is that consumers are increasingly aware that their needs are not being served by the standardised products and inflexible credit terms they offer. So instead consumers are turning to less traditional means of obtaining finance, such as social lending. The rise of the Internet has enabled social lending to grow through websites such as Zopa and Virgin Money. Because this type of lending is community oriented, in turn it leads to community based wealth management.

In fact, the collaborative investment services are spreading despite the financial crisis and market uncertainty. Interested traders can trade and follow currencies in Currensee and equities in Kaching. However, it is worth noting that these more sophisticated services are taking off in the United States but not so much in Europe.

In contrast, the Internet banking services provided by most banks are still essentially the same as the ones they offer in their traditional bricks-and-mortar outlets, and do not always meet 21st century customer needs. As a result, they can only offer standard products using traditional methods. Banks sell to existing customers using the same methods as for new customers. And their services and processes reflect their outlooks and attitudes and use their style of language rather than that of their customers. Social media is used for marketing and brand management at best. According to research firm Datamonitor advanced banks use social media for rebuilding customer trust, boosting customer retention and meeting new product needs.

Gartner: representative FSNs, end 2010

	Prosper	Lending club	Virgin money	Zopa	Kiva
Loan volume	32068	10235	N/A*	N/A	178,339
Loan originated	\$ 192,578,026	\$ 97,861,400	\$ 450 000 000	N/A	\$ 127,470,885
Average loan size	\$ 4570	N/A	N/A	N/A	\$ 396
Users	940 000	N/A	N/A	N/A	690,116
Year launched	2006	2007	2001	2005	2005

*N/A stands for not available

Source: various sources

(Picture 3.)

Social lending complements banking

The growth in social networking and online social lending and investment services could have important repercussions for banks. As the Gartner report highlights, the Internet is making the way in which financial services are supplied more democratic and undermining the traditional relationship banks have with customers.

Social lending facilities operate face-to-face inside the online community. And, because no intermediary such as a bank is involved, the process is more cost efficient. However, this way of doing business does have some downsides. Banks guarantee customer deposits and pay small amounts of interest. They also lend money at higher interest rates for longer periods of time. In addition, as the middlemen, banks carry out various regulatory duties on behalf of depositors. In social lending these activities are not a core part of the system. The financial stability of each bank is also connected to each other and a country's central bank, and forms the financial system's backbone. Although social lending is becoming more popular, it will not threaten this structure. Instead, it will mainly complement the established system by financing projects that fall outside current lending practices.

Opportunities for banks

The question for banks then, is what is the best way to get involved in social lending? Although a growing number of consumers are being attracted to social lending because of the moral concepts that underly it, mainstream customers are still not being enticed away from banks. Because of this, there are partnership opportunities for financial institutions that can offer transaction processing, risk management services and securitisation for networked society lending operators.

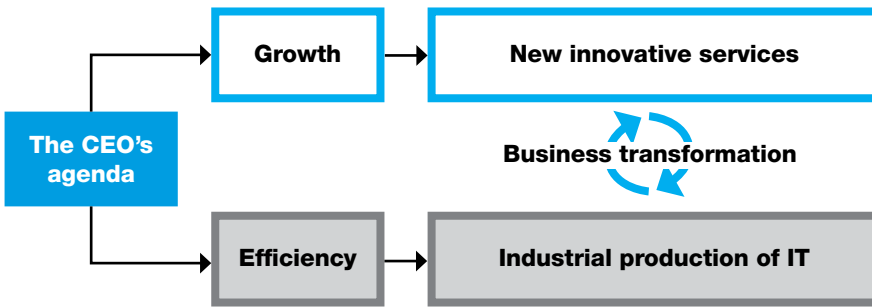
Working in partnership with other organisations, banks can offer hybrid P2P/bank loans. However, in this market it is becoming increasingly important to differentiate products and brands among target customers, particularly young consumers who are the least likely to be loyal to any one bank. Banks can also provide payment services for connected networks, such as supporting P2P remittances.

Any financial institution considering entering the social lending marketplace must develop a clear strategy aimed at the sector's specific needs. It must reflect networked society lending with its own culture, capabilities and customers. Furthermore, it should take into account marketing, communications and branding, both on the bank's own net bank and on social sites. (Picture 3.)

Challenges for banks

In spite of the opportunities that exist for banks that select the right partner, there are inevitably challenges. For a start, the global nature of Internet-based social lending opens up the market to even more competitors. It also means that banks must play a role in creating a new market that is transparent and accessible and whose practices are different from the usual one-size-fits-all approach. Furthermore, the Internet is undermining the meaning of customer relationships, as it is easy for customers to move around and search for better deals. And, because consumers are increasingly accustomed to sophisticated segmentation tools, such as the personal recommendations based on previous purchases offered by Amazon, they expect specially tailored financial products that meet their needs.

Tieto as a business service integrator



(Picture 4.)

Banks also need to consider their reputation as well as their financial status. In the past, banks were seen as pillars of the local community that could be trusted and were convenient. However, everything is changing and consumer trust in banking is being eroded not the least due to the financial crisis. For example, the 2006 report on Internet-based social lending by UK think tank Social Futures Observatory found: "Social lending schemes represent a more authentic and transparent financial service guided by the experience of lending and borrowing directly from people... 54% of Zopa lenders and 85% of Zopa borrowers described Zopa as 'exceptionally transparent', while 73% of people who completed our survey on general banking felt that mainstream financial services should be more transparent about the organisations they invest in."

Tieto as a business service integrator

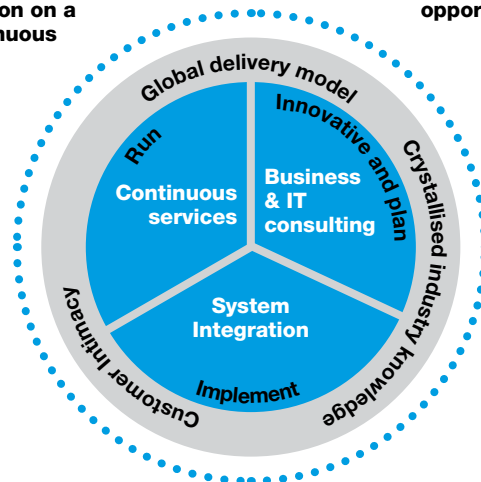
Tieto has been working with its clients to build services to help them deliver collaborative financial services. Through our business consulting, process consulting and system development expertise, we are helping banks to enter the new content-rich financial services marketplace. Moreover, we provide business integration services including expertise in new business concepts, in technical standardisation and in facilitating partnerships with social lending platforms and traditional banking business. These services are based on an in-depth understanding of banking business trends and developments in the Nordic countries over many decades.

(Picture 4.)

Service offering

We run, support and develop the IT solution on a continuous basis

We help you to exploit your business opportunities



We turn business needs to IT solution requirements and build the solution

Tieto Financial Services offers value added IT services to banks, insurance companies and financial services providers. We are the leading IT services partner for the financial industry in the Nordics and one of the leading experts in capital markets, transaction banking and front end transformation areas. Our home market is the Nordic and Baltic countries, Russia and the UK.

We have 40 years track record of partnering with major Nordic financial institutions and helping them to meet the challenges of the market. We help our customers to run their business more efficiently, manage risks and boost growth opportunities. With 2400 dedicated employees we currently serve more than 400 customers within the financial industry. Those customers have chosen us for our deep industry knowledge and capabilities to deliver innovative solutions with a solid return on investment.

Tieto is an IT service company providing IT, R&D and consulting services. With approximately 16 000 experts, we are among the leading IT service companies in Northern Europe and the global leader in selected segments. We specialize in areas where we have the deepest understanding of our customers' businesses and needs. Our superior customer centricity and Nordic expertise set us apart from our competitors.

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