

# Private Banking and Social Media

## Private Social Circle: Meet the other private equity investors online

In the last couple of years, most retail banks have entered the fray of social media. They have attempted to outdo each other with innovative ideas on how to connect with clients and prospective clients, via Facebook, Twitter and YouTube. Prominent—and often successful—approaches take a community-centric focus. They engage community members in activities such as sports competitions, advertise philanthropic work and promote a 'we-are-one-of-you' sentiment. Many banks venture into domains that have little to do with banking or finance. Standard Chartered, for example, created 'Food Explorer' Facebook pages.

In private banking, opinions about the importance and role of social media differ widely. Some sources claim that the majority of high net worth individuals view social media as an important channel. Others find that social media does not have a significant influence on the satisfaction level of wealthy clients. Notably, there is a common perception that private banks are amateurs when it comes to using social media. According to a survey\* of leading providers of private banking and wealth management services, only 20% had a social media strategy in place.

There are several reasons why private banks hesitate to venture into social media:

- Many characteristics of social media are not consistent with the traditional nature of the private banking business; social media tends to be bottom-up, decentralized, chaotic and participative, to name just a few examples. These characteristics are at odds with private banking, which has traditionally been characterized by privacy, exclusivity and entry barriers.
- Strict regulatory requirements. A major challenge for private banks participating in social media activities is the recently tightened rules. The latter require banks to retain records of all communications, to check suitability, to document pre-approval of all content before posting and to supervise interactive communication. Private banks may well shy away from these responsibilities, as long as social media is not seen as a necessity.
- Reputational risk. Private banks fear exposure to negative feedback from clients. Participation in social media does indeed entail a reputational risk, particularly if it is not managed properly. However, by not engaging in social media, a bank may lose valuable feedback. Moreover, it may not be able to react to negative feedback that is published elsewhere.

In the long run, and despite their reluctance, private banks will need to utilise social media if they are to remain competitive. The challenge for them is to

retain their value propositions and to combine them with the compelling features of social media. Exclusiveness, privacy, customized services and personal contact must be combined with active participation, experience sharing and information exchange.

#### **Example: Private Social Circle**

The private social circle is an example of a virtual social network for clients and prospective clients of the bank. Membership is by invitation only, *i.e.* the circle is open to an exclusive, small group of high net worth individuals. In addition, some senior bank representatives also have access. When a client or prospective client joins the circle, the bank records that person's investment preferences. However, it never discloses the person's identity to other members within the circle. Members have aliases, except for the bank representatives, who are identified as employees of the bank. Statements made by these employees are subject to the same rules that apply to press releases. Since the circle is private, regulatory guidelines are easier to implement than they are in a public network. Members have access to information such as research reports, financial products and market data. An event board keeps everybody updated on upcoming discussions, interactive expert forums, presentations and talks. The circle offers Facebook-type features such as 'like', 'friend' and a communication 'wall'. The circle also offers selected attractions of portals such as eBay and Amazon. By participating in reviews and discussion forums, members can score points towards higher status levels. Members can benefit from other members' reviews on products, research articles and events. They can acquire information via features such as 'members who looked at this product were also interested in these other products'.

A private social circle—as described in the example above—shares its appeal with many public social networks. It differs because it is private, focused, and linked to banking services that allow members to execute ideas they generate within that private community. A few private banks including Northern Trust, Coutts and Citi have set up intranets and private social communities for their wealthy clients, which are similar to the above-described example.

#### **Conclusion**

A few niche players in the wealth management sector may be able to avoid any reliance on social media. But most private banks and wealth management firms will have to respond to their clients' demands for an online relationship. For them, our advice is not to count their followers on Facebook and to avoid competing against retail banks by organizing community events. We advise exploring the potential of private social media, by combining the value propositions of private banking with the compelling features of broader social media.