

Importance Of Social Media In Financial Service Industry

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Abstract

Social media has taken the world by storm over the past decade. Social media plays a significant role in the financial services industry, influencing various aspects such as communication, customer engagement, marketing, and even decision-making. Here are several key roles that social media plays in the financial service industry: Social media marketing for financial services has evolved to help companies grow their business. Social media marketing for financial services provides the opportunity for financial advisors, accountants, bankers, and insurance agents to reach their customers. Our agency has worked with several financial services companies and has implemented foolproof controls to ensure regulatory compliance while maximizing social media results.

Keywords: *Social media, financial services, Insurance agents, Customer service.*

Introduction

The integration of social media in the financial service industry has transformed how institutions operate, communicate with customers, and market their products. Here's an overview of the role of social media in the financial service industry. (Jha, B. 2019) The proliferation of social media platforms has fundamentally altered the dynamics of communication and interaction across industries, including the financial services sector. With billions of users worldwide, platforms like Facebook, Twitter, LinkedIn, and Instagram have become indispensable channels for financial institutions to connect with customers, promote their services, and gather valuable insights. (Kuchciak, I., & Wiktorowicz 2021) This paper examines the pivotal role of social media in shaping the modern financial services industry, highlighting its profound impact on customer engagement, brand management, and regulatory compliance. (Anagnostopoulos, I. 2018) As of my last knowledge update in September 2021, social media penetration in India has been substantial and continues to grow rapidly. India is one of the largest markets for social media platforms globally. (Modgil, S., Dwivedi, Y. K., Rana, N. P., Gupta, S., & Kamble, S. 2022)

Penetration of social media in India

According to Nielsen's India Internet Report 2023, as of December 2022, India boasts over 700 million active internet users aged 2 years and above. (Vijay, M. P. 2023) Among them,

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rural India accounted for 425 million users, representing a nearly 44% increase compared to urban areas, which had 295 million users.

The influence of social media is evident across five key business domains:

1. **Marketing:** The influence of social media on marketing is substantial, fundamentally altering how businesses engage with their audience, establish brand recognition, and advertise products and services. (Tsimonis, G., & Dimitriadis, S. 2014) Here are some key facets of how social media impacts marketing: social media serves as a potent platform for brand establishment and promotional efforts. Financial institutions use platforms like Facebook, Twitter, LinkedIn, and Instagram to promote their services, share educational content, and raise awareness about their brand. Campaigns on social media can reach a wide audience, helping financial institutions showcase their products and services to potential customers. (Ehrlich, E., & Fanelli, D. 2012)

2. **Customer service:** Financial institutions use social media platforms to engage with their customers. This includes addressing customer inquiries, providing support, and responding to feedback. Real-time communication through social media allows financial institutions to offer quick solutions to customer issues and build stronger relationships. (Mitic, M., & Kapoulas, A. 2012)

3. **Development of new products/services:** social media plays a major role in the development of new financial products and services in several ways.
 - Social media platforms provide a vast amount of data on user preferences, behaviors, and trends. Financial institutions can leverage social media analytics to gather valuable insights into what customers are looking for in financial products and services. (Ganis, M., & Kohirkar, A. 2015)
 - Financial institutions can use social media to engage with their audience in innovative ways, seeking input and ideas for new products. Crowdsourcing ideas and feedback from a diverse user base can lead to the development of more customer-centric financial solutions.
 - Before officially launching a new financial product or service, companies can use social media to conduct beta tests or pilot programs. This allows them to gather real-time feedback from a select group of users, helping in refining the product before a wider release.

4. **Cost reduction and efficiency enhancement:** Compared to traditional forms of advertising, social media marketing can be cost-effective. Businesses can allocate budgets efficiently, and many organic marketing strategies, such as content creation and engagement, can be done with minimal cost. (Opreana, A., & Vinerean, S. 2015)

5. **Create new business models:** social media is pivotal in shaping and advancing emerging financial business models. The dynamic and interactive nature of social platforms can influence the way financial services are delivered, accessed, and experienced. (Lai, L. S., & Turban, E. 2008) Here are several ways in which social media contributes to the development of new financial business models: Perhaps in the near future, all fundamental banking operations, including deposits, payments, remittances, and investments, will be conducted via social networks.

Leveraging customer Insights

Social media platforms generate vast amounts of data that can provide invaluable insights into customer preferences, behaviors, and sentiments. By monitoring social media conversations and sentiment analysis, financial institutions can gain a deeper understanding of their target audience and market trends. (Riikkinen, M., Saarijärvi, H., Sarlin, P., & Lähteenmäki, I. 2018) This data-driven approach allows banks and insurance companies to tailor their products and services to better meet customer needs, ultimately enhancing customer satisfaction and loyalty. Moreover, social media analytics tools enable financial firms to track key performance metrics, measure the effectiveness of their marketing campaigns, and identify areas for improvement. (Sivarajah, U., Irani, Z., Gupta, S., & Mahroof, K. 2020)

Social media – Risks involved

Social media platforms manage extensive volumes of personal data. Financial institutions must exercise caution regarding the information they disclose on social media and ensure the secure handling of customer data to mitigate the risk of data breaches. (Weiss, N. E., & Miller, R. S. 2015, February)

- Given the extensive personal data managed by social media platforms, financial institutions must exercise prudence in sharing information on social media and guarantee the secure handling of customer data to avert data breaches.
- Social media presents a dual nature. While it offers a platform for constructive engagement, adverse comments, reviews, or misinformation can disseminate rapidly and tarnish the reputation of a financial institution. Therefore, effective reputation management is imperative.
- Financial services are heavily regulated, and there are specific guidelines regarding communication and marketing. Inaccurate or misleading information on social media can lead to regulatory non-compliance and legal consequences.
- Social media can be a breeding ground for financial scams and fraud. Impersonation of financial institutions, phishing attacks, and fraudulent investment schemes may proliferate on social platforms, putting customers at risk.
- Social media provides a public space for customers to air their grievances. Negative comments or complaints that are not addressed promptly can escalate and damage a financial institution's reputation.
- Dependence on social media for customer communication can pose operational risks. Outages, technical glitches, or disruptions on social platforms can affect a financial institution's ability to engage with customers and manage their online presence.
- Social media is susceptible to the spread of misinformation and fake news. False information about financial products or market trends can lead to misguided decisions by customers and investors.

- Information shared on social media may inadvertently reveal strategic plans, intellectual property, or sensitive business information. Competitors or malicious actors may exploit this information, posing a risk to the institution's competitive advantage.

Methods to overcome these challenges and Risks

Despite its myriad benefits, social media presents several challenges and risks for financial institutions. These include managing reputational risks, protecting sensitive customer data, and addressing cybersecurity threats. To mitigate these risks, financial firms must adopt a proactive approach to social media management, focusing on transparency, authenticity, and ethical conduct. (Lyon, T. P., & Montgomery, A. W. 2013) Investing in social media monitoring tools and cybersecurity measures can help financial institutions safeguard their reputation and mitigate potential risks associated with social media use. (Uddin, M. H., Ali, M. H., & Hassan, M. K. 2020).

Conclusion

The role of social media in the financial service industry is multi-faceted, influencing various aspects of communication, customer engagement, marketing, and innovation. Social media has emerged as a game-changer in the financial services industry, offering unparalleled opportunities for customer engagement, brand building, and marketing. By leveraging social media strategically and responsibly, financial institutions can enhance their competitive advantage, drive business growth, and foster stronger relationships with customers. However, it is essential for financial firms to address the associated challenges and risks proactively, ensuring compliance with regulatory requirements and maintaining trust and credibility in the digital age. While social media brings numerous opportunities, it also introduces risks related to privacy, security, reputational damage, and regulatory compliance. Financial institutions must address these challenges through strategic planning, resilient policies, and a dedication to ethical and accountable social media conduct. The continued evolution of social media will likely shape the future landscape of the financial service industry, emphasizing the need for agility and innovation.

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