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The New Inconvenient Truth

Social media: Too big for wealth managers to ignore?

The lines between 'real world' and 'virtual world' are blurring. Social media adoption is affecting everything we do as individuals, from staying in touch with friends to impacting how we do business in general. Clearly, social media is driving sustained and irreversible disruption in how customers stay informed, how they make decisions and how they interact with businesses. Wealth managers, as in other industries, must quickly adapt or face obsolescence.

Now is the time to act. We are witnessing shifts in demographics, wealth and location that, in turn, are changing the nature and the scope of the industry. For wealth managers, the opportunities – and the risks – are real and immediate, requiring the industry to rethink how it can provide clients with services they can't already get online.

Wealth managers must embrace these changes. This requires stepping outside their usual comfort zones and employing social media in ways that might run contrary to their traditional client-side behaviours. Changes in client expectations require real-time responsiveness from wealth managers. Through social media, the industry faces a rare opportunity to up their game by building stronger one-on-one client relationships in the very crowded wealth management marketplace.

In the pages that follow, we take you on the wealth management journey, focusing on present-day and future applications of social media, including the evolution of the client relationship, how to manage social media disruption, social risks and regulations, and the steps wealth managers should be taking right now.

As inconvenient as the adoption of social media might seem to wealth managers today, the future of the industry could very well be at stake.

Mitigating the social media shift

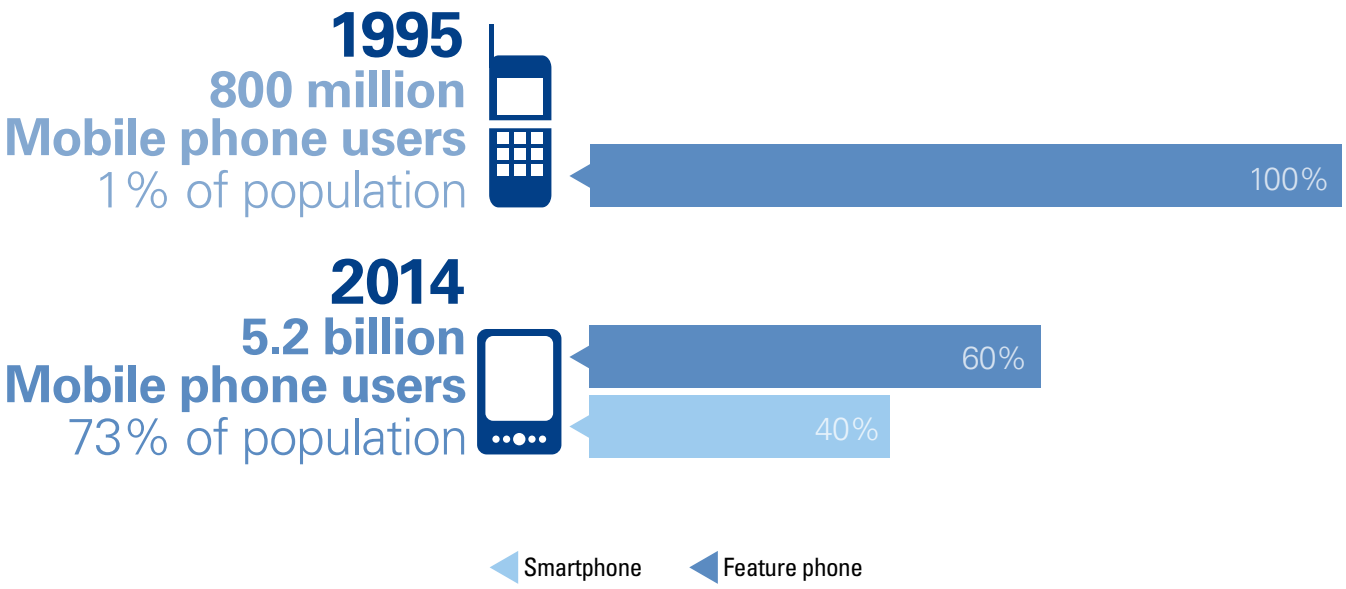
Running rampant on rumour

Effective wealth management advisors must help clients sift through all the information out there to make the best possible decisions and avoid unnecessary risk. Forming good digital and social habits today can yield significant payoffs in the future. While it might be too soon to expect a shift industry-wide, wealth managers can move quickly to position themselves to showcase their abilities, knowledge, products and teams, and better communicate with clients on their terms.

The core question remains: What can wealth management advisors do to provide strategic and tactical value to clients? In particular, what is their emerging role, as they face rising competition from so-called social media 'experts,' who don't answer to any regulatory authority, and can do and say what they want?

With all the unfiltered information out there, the trick is to remind clients that you can help them make sense of it all. The vast information in social media, particularly on social media sites like Twitter, moves so quickly that it is often difficult to follow – let alone digest – for investment purposes. Mobile social apps, such as Buffer, Hootsuite, Sprout Social and Everypost are effective ways to reach customers 24/7 on their always handy mobile phones and tablets.

Mobile phone users have increased from 1995 to 2014



Source: Informa, World Cellular Information Service (WCIS)

In this age of advancing technology, wealth managers offer something that others can't: old-school (read: real) experience and the distinctive ability to isolate and then shield clients from following bad advice. Digitally savvy wealth advisors with good social media presence can position themselves as trustworthy and knowledgeable and help:

- Pull the right data
- Help clients distill this data
- Map out effective insights
- Serve as a buffer against bad advice and unfounded rumours

In the end, good advice and sound guidance transcend the shift from real world to online world, though such guidance now spreads faster and further than ever before. Simply put: Wealth managers can help turn value from risk.

'New' versus 'old': Understanding your clients

The 'new power' versus 'old power' struggle noted in HBR is just the tip of the proverbial iceberg. The need to 'get with it' in terms of social media outreach is vital to maintaining and even improving competitive advantage in the wealth management industry of tomorrow. Cursory attempts at social media outreach generally aren't enough when it comes to affecting online inertia – either for you or against you. Strategic engagement through social channels is crucial. Is anybody out there really listening to you and, more importantly, are they talking back to you in a meaningful way?

Organisations might not always like the way people talk back to or what they say about them online. But in the social media realm, companies must be prepared for the good, the bad and the downright ugly when it comes to their reputations. It is vital to recognise emerging trends early on, before they reach critical mass online. Clearly, views expressed via social media can be highly influential. In wealth management, social media analytics can help uncover customer attitudes from a range of online sources and help put your social media data to work for you to better understand your markets, manage your brand, and improve the experience of your clients.

Third-party software that merely monitors social media isn't enough. So-called 'vanity metrics,' such as counting 'likes' and 'tweets,' are based predominantly on online volume around topics. Such *quantitative* analysis does nothing to interpret the qualitative aspects. Addressing complex issues raised online can't be boiled down merely by the numbers. In social media, the context matters. Understanding the nuances of who is saying what, and how they are engaged leads to more actionable intelligence for wealth managers.

Case in point:

BEPS

In October 2014, a tax avoidance issue relating to base erosion and profit sharing (BEPS) blew up in the mainstream press. Traditional media 'broke' the news that BEPS could have adverse impacts on Australian economic activity, tax revenues and the potential to diminish the status of Australia as a regional investment hub. Front-page newspaper articles touted the seriousness of the implications. However, this was old news. The BEPS conversation had been brewing in social media for months, but had only just surfaced in traditional media.

Allergy pathways

Allergy Pathways Pty Ltd customers' had made bold claims about what benefits its products could deliver in testimonials posted to the company's social media assets. In Australian Federal Court in 2011, a judge ruled that as the claims were false and knowingly left on the site, the company was responsible for their publication of the third-party postings. The company director was found in contempt, as the company was aware of the false testimonials but chose not to remove them from their site.

Questions for wealth managers to consider:

- Are you building a client base through social media?
- Do you know enough about your clients and potential clients?
- Are you aware of your clients' needs?
- Have you engaged in client dialogue in a meaningful way and on their terms?
- Are you listening to the 'word on the street?'
- What do people think of you and your organisation?
- Is your reputation online intact or under fire?

These practices in the face of disruptive technology, yield the best results:

1. Focus on client.
2. Partner with external experts.
3. Invest in new capabilities and business brands.
4. Become fast and agile.
5. Build up internal experts and invest in talent.

The future of social media analytics

For wealth managers, the remedy for the social-inspired power shift could very well be found in social media analytics. It is crucial to understand which way the wind is blowing within the wealth management industry. Social media analytics take a uniform and robust approach to capture non-linear consumer data, analyse its meaning, identify influencers, predict potential problems, and help preempt them from becoming business obstacles.

Social media is an instant indicator of sentiment that has the potential to merely dissipate over time or explode into the latest crisis. As such, social media analytics provide deep insights into the interplay between social and traditional media, and are vital tools for handling risk in wealth management – all while connecting with consumers.

However, merely realising that a consumer shift is underway simply isn't enough. Understanding these shifts – in terms of why, what, and with whom – can be the real game changer. Social media provides an unfiltered opportunity to understand how customers engage via social channels, and, in turn, find out what they really want. This effectively mutes the 'vanity' argument from elder statesmen of the wealth management industry, which is slowing progress toward embracing the benefits of social media.

Wealth management organisations need to dig deeper to harvest more specific (read: useful) demographic data to ultimately help target specific segments. The scatter-shot cold-call approach of yesteryear likely won't survive the social media age. Now, client profiling via social media can arm investment managers with real-time analytics through which they can target, approach and ultimately interact with customers. In short, social media can give wealth managers a fresh advantage in new client outreach.

Clearly for the industry at large, if wealth management organisations aren't already engaged with large-scale social media analytics, they risk becoming obsolete in the face of smarter, more tech-savvy competitors. Or as one CEO recently suggested: "If you haven't got a big project going on which leverages advanced data analytics with a mobile front end, you are likely to become extinct."

Social risk and regulation

Social media activism

A rise in social media activism is adding pressure on wealth managers and investment funds, particularly when it comes to the areas in which they invest. Social media activists employ social media and communications technologies to affect social and political campaigns for change by posting to social sites, creating video, blogging, and reporting information (right or wrong) to personal and professional groups.

The highly interactive nature of social media creates fast-moving messages that reach wide audiences. Twitter, Facebook, LinkedIn, YouTube and other social channels are the virtual soapboxes of the twenty-first century, reaching thousands – if not millions – of people with a few keystrokes and a zero cost of entry. The first rule of social media activism? There are no rules. The enforced standards of traditional media do not apply. There is no fact-checking and no approval process in the modern equivalent of "I heard it through the grapevine," which can be dangerous. In the world of wealth management, social activists target customers to help dissuade investment in what they perceive as immoral or unethical assets, or encourage investments in more virtuous funds.

Clearly, organisational reputation is at stake here. Companies often fail to read signals about predictable future trends that could be emerging on social media. For example, in Australia future mining of new coal seam gas (CSG) deposits became the target of social media activists. The big CSG companies failed to detect a rise in anxiety over the issue in social activism circles. By the time the companies tried to react, the battle already was over. They lost millions of dollars because social media impacted the debate, and ultimately reached government levels. Early warning apparatuses were not in place to detect the undercurrent, and the CSG companies had no capacity to react effectively or in a timely manner.

Regulating the shift

Where is the regulatory point of view on the advent of this new social media convergence? Until recently, regulators took a muted view in wealth management – either because it was so new or simply because new regulations simply hadn't caught up with real-world applications. Either way, regulators are starting to weigh in. Previously scattered attempts at regulation are beginning to gel into a more concerted effort. For example, the US Securities and Exchange Commission is clarifying its guidelines on advertising and communications, and now includes specific industry regulations for social media[1], as well as specific guidance for investors on social media fraud.

Like traditional communications and industry conduct, social media outreach and standards will fall squarely under the purview of regulatory bodies. Whether regulations currently are in place or not, wealth managers must still adhere to existing norms, no matter what the medium. A crop of online social media compliance tools for regulated companies already exist. These include:

- Actiance (provides security, compliance, ediscovery, archiving and governance services)
- Gremln (social archiving tool that filters phrases that violate regulations)

1 http://www.sec.gov/investment/im-guidance-2014-04.pdf

- Hootesuite (its social compliance tool simulates social media emergencies to help develop policy guidelines)
- RedEd Arkovi (archiving, monitoring and analysing content to improve social media marketing)[2]

As the regulatory environment evolves, the industry should strive to anticipate future regulatory challenges. However, looming regulations, added to the pressures from customers for higher yields and lower fees, could present some difficulties for wealth managers going forward. And as the digital revolution continues to transfer more power to the buy side with greater levels of electronic or self-directed trading, the sustainability of intermediation must, at some point, come into question.[3]

The industry shifts – or does it?

Corporate boards throughout the industry should be holding strategy sessions addressing the use of technology in their consumers' hands. Yet many are still at a loss for how to handle this level of disruption. There is often confusion over who is responsible for brand reputation, particularly online. Is it the chief marketing officer or the chief information officer or the chief risk officer or a combination of all three? Is effective use of social media an issue of better public relations, or more information technology capabilities? Is managing social media effectively a so-called 'news spin,' or is it a data-driven technical effort?

Wealth management leadership is compelled to ask these broad questions, and set aside their instinct from the 'old power' era of the recent past. Times also require a need to look for new angles globally. After all, their competitors are implementing tactics to leverage digital consumer behaviour and leveraging new emerging technology models to address those behaviours.

Social media risk is already established, and proactive social media programs have been lacking across financial institutions. Businesses that prioritise best practices in the management of ethical investment will stand to strengthen their brand, make gains in the long term, and conversely, those that don't will suffer losses. As the demographic shift in active investors changes to include a majority of those who consume and use social media on a daily basis, the importance of managing and understanding the medium only increases.

The purposeful questions to debate center on the understanding of digital and social trends and how they could disrupt business inputs. What impacts will digital and social trends have on the supply and demand of people resources, such as skills and ways of working, as well as systems and processes? And what are the potential longer-term social and economic implications of a 'second machine age,' and how will this affect the financial services industry and our business?

2 https://blog.kurtosys.com/excellent-social-media-compliance-tools/

3 http://www.sec.gov/investor/alerts socialmediaandfraud

Where can social media go wrong…and right?

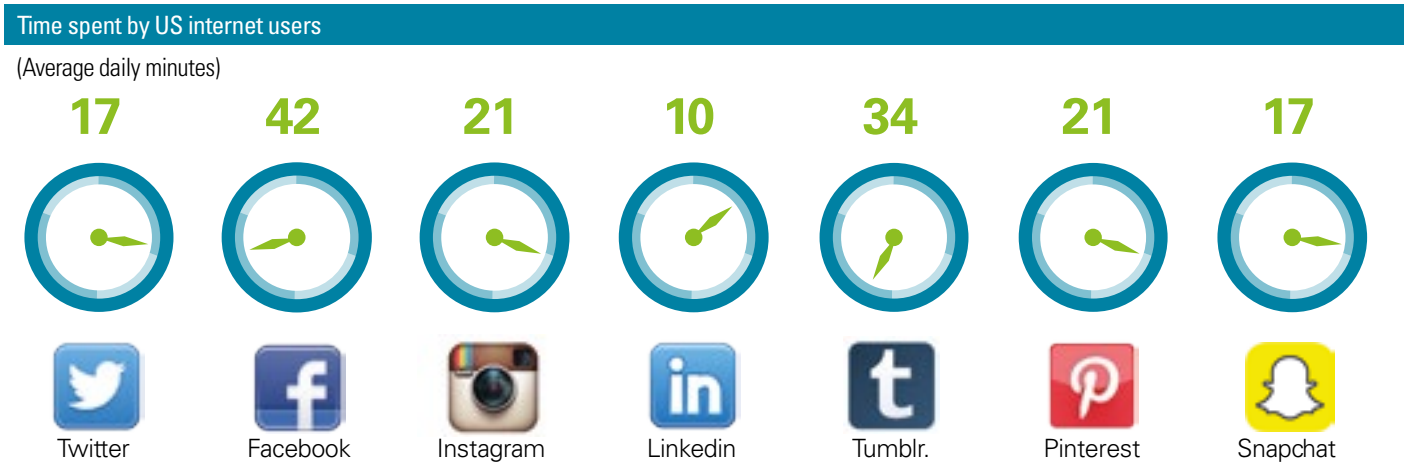
It is far too easy to lose control of a firm's reputation. In today's marketplace, wealth management firms no longer fully control their reputations via traditional channels. Recently, online ad spending exceeded print advertising for the first time. Managing client expectations and delivering what you promise are the keys to success. In the insurance industry, for example, social media offers companies an unprecedented opportunity to interact with customers during natural disasters or other crises. Done correctly, this can lead to improved service levels and the retaining of customers at a lower cost and at scale.

Social media is often perceived to be beyond the range of wealth management companies, though they are helping to shift client perspectives on whether they want to do business with you or not. The battle for new customers might already be won or lost before you are even aware.

Fear is often a great driver of change, but in wealth management, it has often obstructed social media entry. Examples abound of professional reputations being damaged because organisations didn't actively react or manage feedback on social media. Companies might launch social media channels only to abandon them for any variety of reasons. Such 'placeholder accounts' become afterthoughts but remain active, leaving clients frustrated by a lack of response. Result? Reputation damage. Marketing experts say social media is fraught with risk, and suggest that large companies need to develop social media risk strategies.

Wealth management organisations must also come to a new understanding about who is responsible for handling social media risk. Social media is not strictly a function of marketing. The chief risk officer and head of public affairs must be fully engaged to ensure a productive outcome from the corporate social media footprint. Even with proper oversight and the best intentions, there are still very real reputational risks in social media. Some examples:

- At Advance Micro Devices (AMD), a client group of social activist investors took 1 percent stake to shake up the company. Their goal: To have a voice. The group succeeded by building the campaign through social media.



Source: eMarketer.com, November 10, 2014

- Another common example: Someone takes to his social media page to boast of winning a triathlon or other athletic competition. All is good until the company paying the winner's workplace disability claims comes calling.

The potential downsides are quite real, but the vastly expanded ability to access current and potential clients one-on-one helps overshadow these risks. Some organisations are embracing the potential of social media.

- CBA, the largest wealth management firm in Australia, is at the cutting edge when it comes to engaging clients via social media channels. CBA is taking advantage of such potentially disruptive trends as social media and thrives in the virtual rise of online communities.
- In the context of social media, 'sentiment' has become both measurable and meaningful (and potentially profitable). In the US, a Boston hedge fund will take this a step further and launch a new fund that tracks consumer sentiment in social media to make investment decisions.[4]
- In China, Alibaba (and many other companies) waged a virtual 'red envelope' gift campaign to ring in the Chinese lunar new year, opening the virtual wallets of hundreds of millions of revelers (read: potential clients) in the process.[5]

4 Sabrina Willmer, "Hedge Fund Mines Twitter for Stock," Bloomberg, April 1, 2015, http://www.bloomberg.com/news/articles/2015-04-01/hedge-fund-mines-twitter-information-overload-for-trading

5 Liyan Chen, "Red Envelope War: How Alibaba and Tencent Fight Over Chinese New Year," Forbes, February 19, 2015 http://www.forbes.com/sites/liyanchen/2015/02/19/red-envelope-war-how-alibaba-and-tencent-fight-over-chinese-new-year/

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This is an extract from the *Social media: Too big for wealth managers to ignore* report. Download the full report from kpmg.com/au/socialmediawealth

August 2015. CRT045261A. N13183LOB.