SOCIAL MEDIA AND THE INHERENT RISKS TO THE FINANCIAL SERVICES INDUSTRY

The power of the social media is mind-bogglingly massive. It has revolutionised the way people communicate and transact business. Indisputably, it has graduated from the platform that was patronized by eager teenagers whose sole aim was "catching-up" over leisure time. Today, any agile business ought to take this powerful media very seriously. Paul M. Rand was right when he said "Today’s businesses can’t just use social media; they have to become social businesses, inside and out and from top to bottom..."

Just recently, the Federal Financial Institutions Examination Council (FFIEC) in the USA released new social media compliance guidelines. These set of guidelines will help banks, financial institutions and other regulated organizations aptly manage the inherent risks that these institutions are exposed to while using the social media platforms. It is imperative that financial institutions protect their reputations and the interests of their clients while engaging the versatile media platform. According to FFIEC, social media is a form of interactive online communication in which users can generate and share content through text, images, audio, and/or video. The efforts by FFIEC are exemplary and need be commended. The role of the social media in the provision of the financial services cannot be ignored: Not in Kenya—not in any other country.

Recent figures indicate that by 2013, YouTube hit one billion monthly users with 4 billion views per day; Face Book users are estimated at 1.11 billion and Twitter had 500 million registered users. An agile risk management function in a future-leaning company must always be a step ahead. It must snoop into the market, identify the key emerging risks, and devise means to assess and manage them. In Kenya, like in many other countries, social media technologies have been exploited successfully by financial services providers to sell their brand identity, increase sales of product and services as well as augment customer satisfaction.

As we usher in year 2014, my crystal ball pronounces that social media-related risks are some of the challenges that risk managers must invest time and efforts to manage. Virtually, all banks have interactive social media platforms such as the Face book pages and Twitter handles. These interactive channels have gained a momentous prominence especially in relation to the institutional marketing strategy. Coupled with internet and
mobile banking, financial institutions will definitely dedicate sufficient time and efforts in the assessing and managing of technology related risks.

What are the main targets for the financial institutions' social media efforts?

First, banks need an interactive platform with the existing Customers. Most banks have launched social media pages that serve as the bridge that closes in the information gap between them and their customers. The ultimate goal is to ensure that the customer loyalty is nurtured to a point where that customer becomes an advocate of the banks' operations. Second, the financial institutions use the social media tools to attract new customers. If well planned it creates sufficient awareness in the local marketplace that results in new customer origination that can augment efforts to grow customer deposits, loan book, and other products and services.

Third, numerous institutions use social media as an avenue to communicate with the media regarding its ongoing activities. It is no wonder that several institutions post their press releases to their Twitter and Facebook pages before they dispatch them to the media houses. Fourth, to satisfy the regulators, social media provides a channel through which an institution can highlight compliance with regulatory requirements and lastly, the social media is used to communicate with the larger community regarding some important milestones as well as the corporate social responsibility activities.

The bottom line is with all these roles and responsibilities; every financial institution needs an elaborate risk management plan that addresses the inherent risks. The starting point is always supposed to be a social media risk assessment, which should help institutions ascertain the key intrinsic risks that, exists and identify the appropriate mitigation strategies. Dr. Michael Ong once said, “Good Risk Management fosters vigilance in times of calm and instills discipline in times of crisis.” Financial institutions must adopt an Enterprise-wide Risk Management (ERM) framework that will be flexible enough to accommodate new and emerging risks. Such a framework should assess all the risks that the institution is exposed to while using social media technologies as well.

What are some of the key risks that a financial institution should look out for if active in the social media?

Firstly, reputational risk which is the risk arising from negative public opinion emanating from activities that result in dissatisfied consumers or repulsive publicity. In the social media, anyone can post awkward comments about an institution's products, services or staff. Therefore, an institution must be on the lookout and deduce information that can affect its reputation and put in place measures to mitigate them.

Secondly, financial risks which may be perpetuated by fraudsters masquerading as the institution or where an employee could erroneously release sensitive non-public financial information, through either an institution’s social media account or the employee’s own personal account. This can culminate into litigation cases where
A financial institution can lose cash through fines or penalties especially in this highly regulated industry.

Thirdly, operational risk, which is the probability of loss resulting from inadequate or failed processes, people, or systems, becomes more inherent as an institution embraces the social media tools. Of course, the main cause of operational risk can be either internal or external events. The use of information technology whose social media forms a subset of can also aggravate the operational risks if not well managed. Some organizations have also reported decreased productivity attributable to the employees misusing the platform during productive hours in a working day.

Lastly, one of the other main risks involves the information security, which may be amplified by employees releasing or sharing sensitive work-related information through the social media.

Financial institutions must devise strategies that should help mitigate the risks that may eventually affect seamless flow of operations. The starting point should always be conducting a risk assessment or audit of the potentially negative effects of the social media. Such institutions must establish comprehensive policies that will help manage the use of the social media platforms. The guidelines issued by the Federal Financial Institutions Examination Council (FFIEC) in the USA to financial institutions can form a good starting point. The guidelines should have programs in place to identify measure, monitor and control their risks related to social media. Finally, training of employees is critical to help them appreciate and understand social media policies and the inherent risks that may result in case of noncompliance.

**The Views expressed are that of the writers and do not necessarily express those of Shelter Afrique, we believe in open debate and helpful discourse and invite all comments and remarks**

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