

SOCIAL MEDIA AN OPPORTUNITY FOR ISLAMIC FINANCE



Today, most financial institutions recognise that the biggest question about social media is not whether or not to participate, but how it can best be applied in their business. Increasingly, this applies not just to retail banking, but investments as well. In a fast-growing market such as Islamic finance, the information gained from direct interaction on social media is invaluable, as it would enable Islamic financial institutions to gauge market preferences for Shariah-compliant products and services.



Social media as a valuable resource and distribution channel for Islamic financial institutions

The proliferation of social media on a global scale is one of the most important developments of the 21st century. Today, the use of social media continues to expand, creating various opportunities and challenges for businesses. By 1Q2015, Facebook reported that it has more than 1.4 bln active monthly users (a 13% year-on-year growth); of which 1.25bln were mobile users¹. Similarly, Twitter had also recorded an 18% y-o-y growth in the same period, with 302mln active monthly users². These are just two examples of potential social media platforms for businesses to consider, as part of their marketing or outreach plans.

In the context of financial institutions (FIs), the social media channel has evolved from its early days; first, as a pure advertising

medium and then as a mechanism to interact with customers. More recently, FIs have utilised social media platforms to conduct financial services and transactions; as part of a strategy to expand mobile banking services.

The interaction between FIs and customers is particularly valuable as it provides insights into key demand drivers of financial services; such as customers' personal attitudes and needs. In a relatively new and fast-growing market such as Islamic finance, these information is particularly invaluable as it would enable FIs to better gauge consumer preferences for Shariah-compliant services. In addition, social media is relatively cost-effective, fast and flexible.

Benefits of Social Media Platforms for Financial Institutions (FIs)



Source: Adapted from "The road ahead for social bankers", KPMG (2012) and "Social Media Marketing for Financial Services", Accenture (2014)

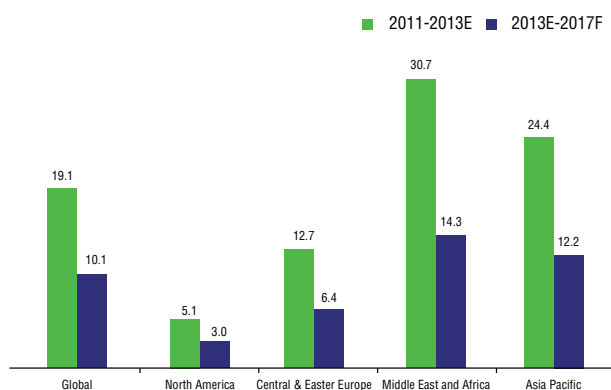
¹ Facebook company announcement (1Q2015)

² Twitter company announcement (1Q2015)

Broadly, social media includes social networking sites (Facebook, Google+), micro-blogging sites (Twitter), professional networking sites (LinkedIn) and content-sharing sites (YouTube)³. It has been estimated the growth of social media user between 2011 and 2013 increased by 19.1% globally; regions recording the most significant growth include the Middle East and Africa, as well as Asia Pacific – both are host to key Islamic finance jurisdictions. In 2014, the Middle East and North Africa (MENA) region accounted for 42.9% of Islamic banking assets, the GCC and Asian regions are 38.2% and 13.8%, respectively⁴. Going forward, these two regions are expected to register the highest growth rates in social media use compared to the global average, implying strong potential for customer-facing IFIs such as Islamic banks and takaful providers to leverage on social media.

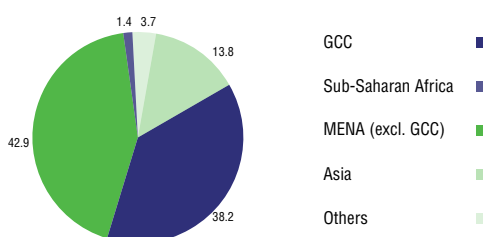
Across the globe, social media has been recognised as an important avenue for marketing and branding purposes. The central issues for FIs regarding social media include (1) how to improve outreach to gain new customers and (2) how to enhance the experience of existing customers. Of importance, social media analytics can provide insights on customer behaviour which was previously unavailable to FIs. For example, FIs can improve targeting of marketing campaigns by leveraging on customer data, while reducing overall marketing costs through traditional mediums such as television and newspaper advertising. Similarly, the product development side of FIs can leverage on customer data, which would support tailoring of products to specific segments.

Compounded Annual Growth Rate (CAGR) of Social Network User Base (2011-2017E)



Source: Capgemini (2014), ISRA

Islamic Banking Assets by Region (2014)



Source: "Islamic Financial Services Industry Financial Stability Report 2015", Islamic Financial Stability Board (IFSB), ISRA

³ "Social Banking: Leveraging Social Media to Enhance Customer Engagement", Capgemini (2014)

⁴ "Islamic Financial Services Industry Financial Stability Report 2015", Islamic Financial Stability Board (IFSB). Data includes Iran, which accounts for a significant share in the MENA region

Potential areas for Islamic financial institutions (IFIs) to leverage on social media

An encouraging development in key Islamic finance jurisdictions is the presence of most major IFIs on key social media platforms such as Facebook and Twitter⁵. Broadly, the presence of IFIs on social media serves to highlight promotional offers and new products; as well as to address customer queries or complaints in a timely manner. If a query or complaint is posted on the social media page, the IFI (usually through a representative from the headquarters) may contact the customer directly to address the issue. As such, other points of contact such as bank branches may be able to focus more on conducting transactions and services, resulting in cost savings for the IFIs.

Beyond IFIs, key bodies related to the industry have also been active on social media. The Malaysia International Islamic Financial Centre (MIFC), for example, launched its Digital Conversations in 2014. The initiative comprises a series of Twitter hashtags and MYIF mobile application. The use of the #YNotIF encourages and consolidated discussions on Islamic finance, and is based on the central question to the world of capital-raisers beyond those who are currently aware of the benefits of Islamic finance. "Islamic finance is a more sensible and sustainable method of raising funds. It is more financially grounded. So if they are not using Islamic finance (IF), why not?"

The Digital Conversations initiative also includes the MYIF mobile app which provides connections to the latest Islamic finance insights, global news, experts views and events from Malaysia's Islamic finance marketplace. In addition, the app provides users with a handy glossary of key Islamic finance terms and a directory of industry players.

Meanwhile, the utilisation of social media has

evolved further in the global financial sector, through recent initiatives to support financial transactions via social media pages. Usually, it involves the transfer of money through these pages. In India, for example, ICICI Bank launched "Pockets by ICICI Bank" in 2013⁶, an app allowing customers to access their accounts and conduct a wide variety of banking transactions directly from its Facebook page. This social media strategy targets more than 82mln Facebook users throughout India. Today, the bank has amassed more than 3.5mln "likes" on its Facebook page and continues to improve newer "Pockets" capabilities to make banking simpler and easier for its customers.

Elsewhere, the Commercial Bank of Dubai (CBD) launched online banking transactions through Facebook⁷. CBD online banking customers who have a Facebook account can manage their daily banking needs by linking their online banking accounts to their Facebook accounts. Services available via the "Facebook branch" include credit card payments, money transfers and applications for products. More recently, Barclays became the first British bank to support transactions using just their Twitter handle⁸. The service, which is supported by its Pingit mobile phone app, aims to give the UK's 13.5mln Twitter users the ability to make swift, secure payments through the social network without providing either their bank details or a phone number.

Today, most FIs recognise that the biggest question about social media is not whether or not to participate, but rather how it can best be applied and implemented to achieve the greatest benefits for the FIs, its shareholders and its customers⁹. In an increasingly competitive and globalized environment, FIs are facing more intense competition for customers. Hence, FIs need more innovative ways of connecting to customers and building brand loyalty. Interestingly, this applies not just to retail banking, but investments as well.

⁵ Source: ISRA (based on a sample of IFIs in key jurisdictions such as Malaysia, the GCC, Turkey and Indonesia)

⁶ Company announcement (September 2013)

⁷ "CBD launches region's first 'bank branch' on Facebook", Gulf News (October 2014)

⁸ "Barclays to allow payments with Twitter", The Guardian (February 2015)

⁹ "The road ahead for social bankers", KPMG (2012)

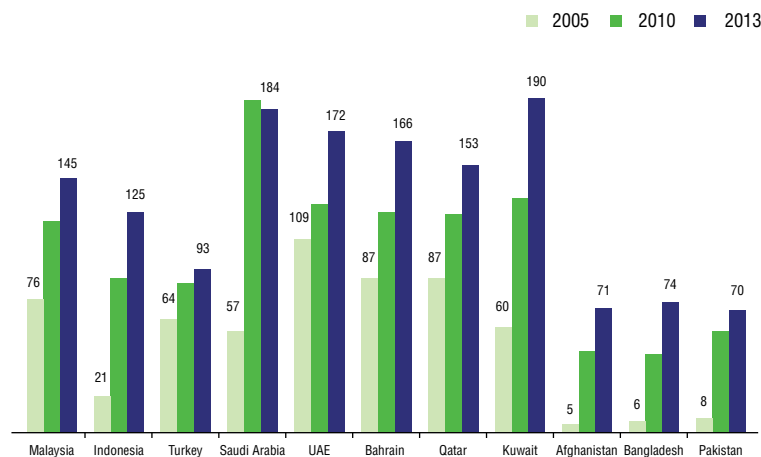
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A survey in the US¹⁰ showed that 34% of affluent investors utilised social media such as Facebook, Twitter and LinkedIn for personal finance and investing purposes. More importantly, the survey also found that nearly 70% of respondents have re-allocated investments, or began or altered relationships with investment providers based on content found through social media.

Looking ahead, there is further untapped potential for IFIs to leverage on social media. As noted by both Facebook and Twitter company announcements, mobile technology remains a key driver of social media

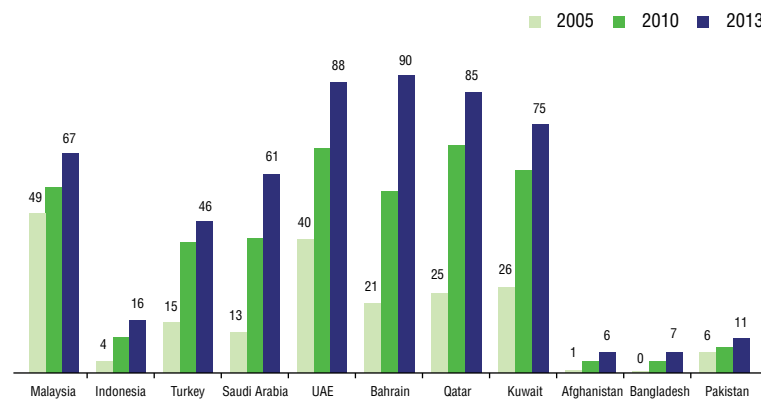
use, with some 80-90% of users accessing these sites through mobile devices. In both leading and potential Islamic finance jurisdictions, mobile cellular subscriptions (refers to voice communications) have increased significantly in the past decade. Meanwhile, the number of internet users in these jurisdictions have increased across all countries in the sample. Nevertheless, internet network infrastructure in some jurisdictions remains as a constraint for mobile users. As such, the utilisation of social media in IFIs may initially be concentrated on jurisdictions with more advanced internet infrastructure and mostly in urban areas.

Mobile Cellular Subscriptions per 100 People in Selected IF Jurisdictions



Source: World Bank, ISRA

Internet Users per 100 People in Selected IF Jurisdictions



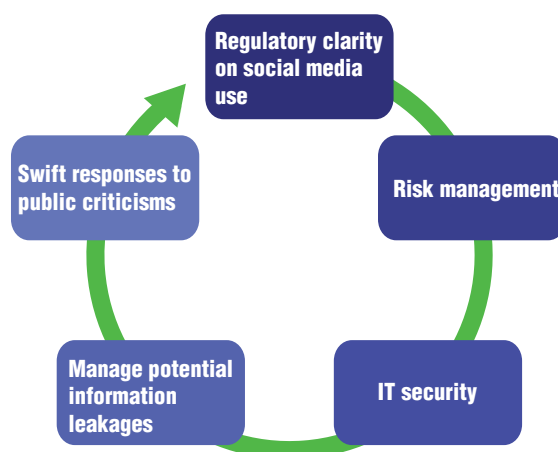
Source: World Bank, ISRA

¹⁰ "Social Media's Impact on Personal Finance and Investing", Cogent Research (February 2013). The report is based on a nationally representative survey of over 4,000 investors with more than USD100,000 in investable assets.

In addition to infrastructure challenges, IFIs need to manage several challenges involving the use of social media pages. Since social media allows for instant and public displays of comments, IFIs financial institutions may worry about the lack of control on particularly negative comments posted on their social media page. Thus, IFIs may need to allocate personnel to engage customers swiftly and manage negative publicity arising from such public posts. Other risks include the possible leakages of sensitive information through these pages, and; managing concerns on the safety and security of social media pages as a channel for financial transactions. The successful management of these risks depends mainly on the ability of IFIs to secure key personnel specializing in social media, as well as improving risk management and compliance and IT functions. On the regulators' role, more clarity is needed on the risks of engaging customers via social media.

Today, Islamic finance is an industry with around USD2tn in assets; and growth has been supported mainly by demographic factors, rising incomes and improving regulatory clarity. In countries with established Islamic finance entities in customer-facing segments such as retail banking and takaful, the continued growth of Islamic finance will depend in part on product innovation and customer satisfaction. In this regard, social media is an important channel that IFIs must leverage on to support branding efforts, to better manage customer feedback and to create an alternative avenue for transactions. The potential for improving Islamic finance outreach via social media is staggering, given the rapid and continuous growth in users. It took just one year for Facebook to reach 50 million users; by comparison, it took 13 years for commercial television reach 50 million households¹¹. To leverage on this strong growth, IFIs need to strategise on social media uses and challenges now, in order to reap the benefits in the next few years.

Key Supporting Factors to Enhance Customer Engagement via Social Media



Source: ISRA

¹¹ "Capturing business value with social technologies", McKinsey (November 2012).

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