Manage Your Social Media Risk

risk management social media

Summary: Social media and self-service tools that let customers access and move money both played a role in recent bank failures. While these types of technology are important parts of any CFI's toolkit, they also add risk for organizations. We provide five tips to help manage these risks.

Remember the children's game called Telephone? Players sit in a circle and one thinks of a phrase. Players then whisper that phrase to each other around the circle, and the last person in the chain says what they've heard out loud. Hilarity usually ensues, because what the last player says is so different from what the first player said.

If there's a point to this game, it's that rumors spread quickly, but not very accurately. The same thing happens on social media sites, and that can be a big problem for community financial institutions (CFIs).

Social media can speed up a bank's path to failure.

Social media can be a breeding ground for rumors. That's precisely how sites like Twitter, Slack, and other social media apps expedited the recent failure of Silicon Valley Bank (SVB). Past bank failures, such as Continental Illinois in the 1980s and Washington Mutual in 2008, had days or weeks of serious problems before a bank run happened and regulators got involved. SVB, by contrast, had all of two days between announcing a plan to raise fresh capital and being declared insolvent.

"It was a bank sprint, not a bank run, and social media played a central role in that," says Michael Imerman, a professor at the Paul Merage School of Business at the University of California, Irvine.

Online, self-serve banking also played a role in SVB's failure. According to an estimate from the FDIC, SVB customers withdrew one-fifth of the bank's deposits, or about $40B, in just a few hours. That's why the FDIC shut down the financial institution before 12 p.m. ET, rather than waiting for the standard close of business.

How can CFIs protect themselves?

Many may wonder whether SVB might have lasted longer in a world without social media, where customers can only move money by standing in line to talk with a bank teller. Social media risk guidelines from the Federal Reserve were issued in 2013. However, the internet and social media have undergone so much growth since then that industry experts are anticipating the SVB situation could bring regulators to revisit and enhance social media risk guidelines.

Though those changes may be months or years in the future, there are **steps your CFI can take right now to manage social media risk at your institution:**

1. **Make social media a priority in your risk management.** As a tool that has revolutionized the internet and how people interact, social media's ability to impact finance by perpetuating false information will continue to play a key part in upcoming generations' financial habits. Even Citigroup's CEO, Jane Fraser, noticed how big of an impact social media can have on the financial world, stating, *"There were a couple of*

tweets and then this thing went down much faster than has happened in history." Social media strategy should be a part of the conversation any time your risk management practices are on the table.

2. **Learn your customers' social media habits.** SVB was popular with companies in the tech industry, as well as startups and venture capital businesses. This tight-knit community of financial customers used digital means to talk to each other, including Twitter and WhatsApp. If your customers tend to be in the same industry, they might have local conferences or organizations where they meet up and network, or belong to the same LinkedIn groups.
3. **Monitor messages about your organization on public forums.** You may not always know what customers say in private conversations or emails, but you can use technology to monitor public social media posts for mentions of your financial institution, the financial industry, and even your competitors. This is called social listening, a service that is often available through social media management tools.
4. **Have a response plan ready.** It can save your organization a lot of time and confusion to have a written plan that spells out who is responsible for monitoring and responding to praise or criticism about your CFI. The people in charge of those tasks should move quickly and communicate clearly to correct mistaken information in posts.
5. **Get alerts about uninsured deposits or big customers leaving.** Consider implementing a system that warns you when deposit accounts are close to the $250K limit for FDIC insurance or when large deposit sums leave your financial institution. These are the customers whose accounts will impact you the most, in the event of any public relations concerns.

Fears spread quickly through social media, and money moves almost as fast through self-service web portals. These two factors helped create the two recent bank failures. Future regulation changes could include new rules and practices to target both problems, effectively slowing a bank run. In the meantime, the best course of action is to monitor social media for misinformation about your organization, build a solid plan to combat potential fallout from such rumors, and prepare for greater regulatory scrutiny in this area.

STATE-OF-THE-ART ANALYTICS WITH EXPERT INSIGHT

ECONOMY & RATES

Rates As Of: 05/11/2023 05:30AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.24	0.14	0.82
6M	5.13	0.07	0.37
1Y	4.65	-0.08	-0.05
2Y	3.85	-0.16	-0.58
5Y	3.33	-0.15	-0.67
10Y	3.38	-0.04	-0.49
30Y	3.75	0.07	-0.22

FF Market	FF Disc	IORB
5.08	5.25	5.15

SOFR	Prime	OBFR
5.06	8.25	5.07