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Social Personal Finance:

Will social networking revolutionize personal finance?

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Abstract:

The rise of social networking could have a profound effect on banking and personal finance. As companies combine massive databases of financial transactions with the "collective intelligence" of a networked customer base, interesting things can happen.

How might this play out? Let's start with a look back. Nine years ago we published a report at the beginning of the irrational exuberance phase of the Net called, *Building the Amazon.com of Financial Services (OBR 38/39*). In that report, we outlined how a Web-based company might be able to ride on top of the financial services infrastructure and eventually "own" the customer relationship without needing to deal with the heavy lifting that goes with being a regulated depository institution. We published an update in late 2000, right at the end of the bubble (*OBR 64/65*).

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While many of the component parts are now common, no one has yet put it all together. For example, we predicted consumers would track their finances via desktop "gadgets," putting much of their finances on auto-pilot tracking anomalies via email alerts. Unfortunately, the email channel has devolved considerably since 1998, but the migration of alerts from desktop-based email to mobile phone-based banking should solve that problem (*see OBR 139/140*).

But something bigger has happened during the past few years that we failed to foresee nine years ago, the rise of the so-called "social network." As interesting as the social network phenomena has been, it didn't seem like it would have a large impact on banking, other than to provide an advertising and promotional venue. But our thinking on that has changed.

Why? Money and spending are topics that weigh on peoples' minds every day. So money issues are likely to become important topics at existing social networks, and/or new ones that crop up to serve the needs of the 30- and 40-year-olds rather than teens and twenty-somethings. What if these new social networks functioned as financial co-ops, pooling their assets to negotiate favorable terms from financial providers? They'd behave much like credit unions, but without the messy details of providing actual financial services, a *Virtual Credit Union* of sorts. We call this version *transactional* personal finance networks.

What might those networks look like? This report looks at how social finance networks may evolve and how they compare to typical financial institutions today. We also recommendations on the more pressing need: how to incorporate social finance features into your own Web-based delivery. Finally, we analyze the key startups in the space: **Wesabe**, **Buxfer**, and several others.

Sample Page

SOCIAL MONEY

Personal Finance Networks: The New Credit Union?

Could a virtual credit union rise out of social networks?

Could the Net bring a "utopian" financial world with no fees, no predatory lending, no price gouging, and loan and deposit rates set by market forces with negligible friction? Maybe, but not in our lifetime. More realistically, could the ease of online information sharing cause a profound shift in the power of the consumer vs. the financial institution? Absolutely.

How might this play out? Let's start with a look back. Nine years ago, in the summer of 1998 (*OBR 38/39*), we published a report at the beginning of the irrational exuberance phase of the Net; it was called, *Building the Amazon.com of Financial Services*. In that report, we outlined how a Web-based company might be able to ride on top of the financial services infrastructure and eventually "own" the customer relationship without needing to deal with the heavy lifting that goes with being a regulated depository institution. We published an update in late 2000, right at the end of the bubble (*OBR 64/65*).

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Why? Money and spending are topics that weigh on peoples' heads every day, especially after they move from the dating days on MySpace to the family-raising, business-building phase that occupies their time beginning in the late 20s and early 30s. New networks are bound to crop up to serve those needs as the MySpace generation gets older.

Perhaps social networks will end up being just another way to reach a mass market via advertising and sponsorships, much like broadcast television. For those with a personal finance specialty, we call them *non-transactional* personal finance networks.

But an alternative future is possible. What if social networks functioned as financial co-ops, pooling their assets to negotiate favorable terms from financial providers? They'd behave much like credit unions, but without the messy details of providing actual financial services, a *Virtual Credit Union* of sorts. We call this version *transactional* personal finance networks.

What might those networks look like? Table 3 summarizes the differences between today's typical financial institution and personal finance networks. Table 4 looks at how they would meet the needs of financial consumers. Finally, we updated the table of online financial services (*see Table 5, p. 5*), which originally appeared in our 1998 report, *Creating the Amazon.com of Financial Services* (*OBR 38/39, revised OBR 64/65*).

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Company Examples Cited

Bank of America, Buxfer, Circle Lending (Virgin USA), Compete Inc., Co-operative Bank (UK), Digital Insight (Intuit), Facebook, First American Credit Union, Geezeo, Lending Club, Linked:In, Loanio, Mint, MySpace, National Australia Bank, Piedmont Credit Union, Prosper, Schwab, Twitter, Verity Credit Union, Wells Fargo Bank, Wesabe, Yodlee, Zecco