Media Contact:
Eva Tong
+86 21 8036 9313
eva.tong@oliverwyman.com

Who Will Close the Customer Value Gap in Financial Services and Reap the Rewards?

Oliver Wyman SOFS 2018 Report Says Big Tech Offers Important Lessons for Financial Services Incumbents in the Race to Create New Value for Customers and Drive Growth

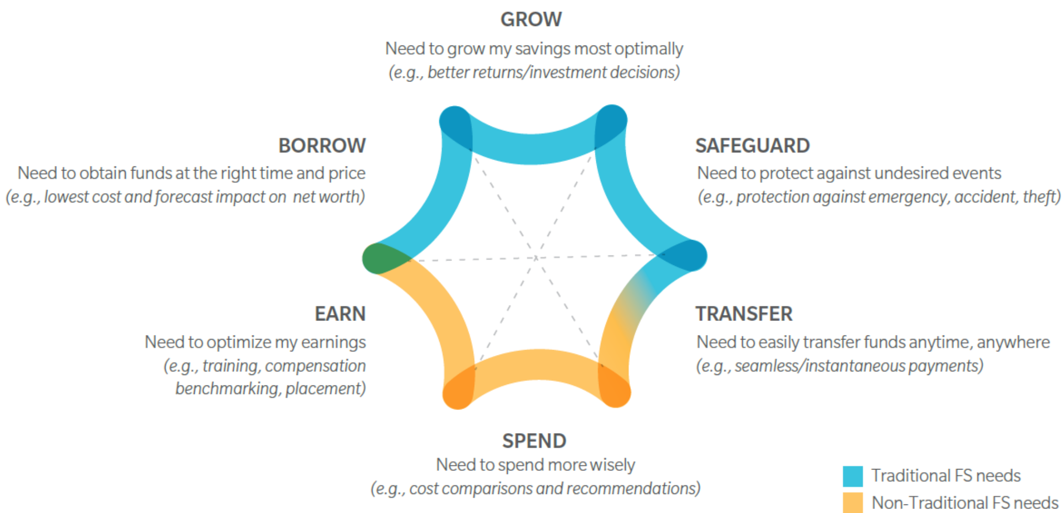
SHANGHAI AND DAVOS, SWITZERLAND, January 23, 2018 – According to global management consultancy Oliver Wyman, traditional financial services firms will need to accelerate customer value creation or risk conceding an increasing share of customer attention and wallet to other firms, primarily to big technology firms. Although the largest financial services firms in the world trace their histories back, on average, nearly 150 years, the largest ten consumer tech leaders have reached an average market capitalization 2.3x that of global financial leaders in just 1/5th of the time.

The Oliver Wyman State of the Financial Services Industry 2018 report titled, *The Customer Value Gap: Re-calculating Route*, finds that while financial services incumbents have largely recovered towards relative health ten years on from the financial crisis and conditions have improved significantly, there is a gnawing sense of concern regarding the prospects for future underlying industry growth.

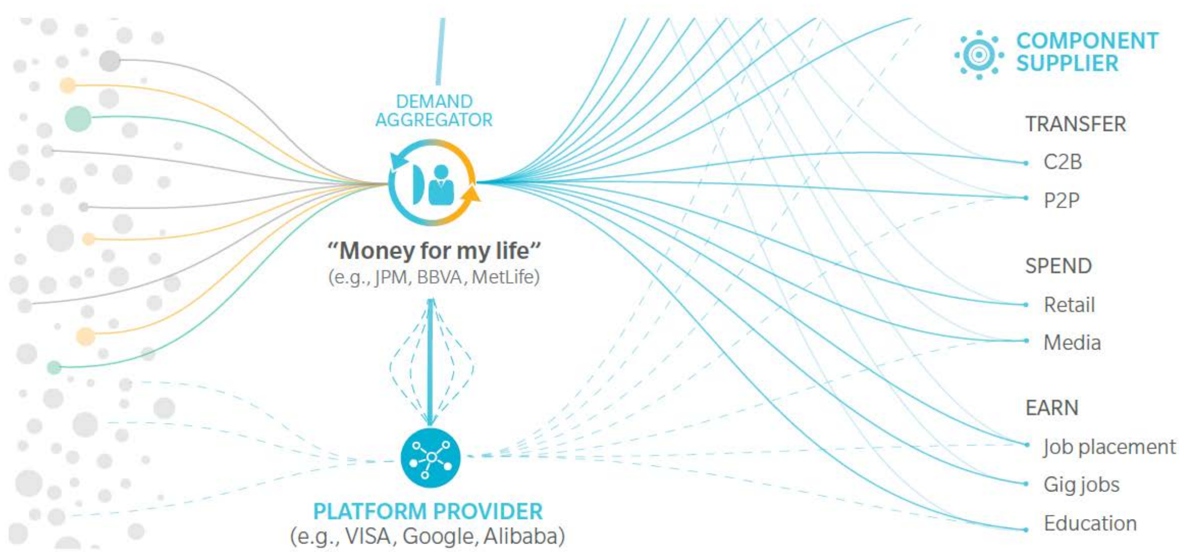
The most prominent concern pointed to is that a group of highly successful big techs are generating new customer value at a much higher rate than financial services firms. "In Asia, where markets for traditional consumer financial services were less developed to begin with, firms like Ant Financial, Tencent and JD Finance have had dramatic success across multiple sectors, capturing customer numbers that rival those of well-established traditional players," said Cliff Sheng, partner and Head of Greater China Financial Services at Oliver Wyman.

The 21st annual Oliver Wyman report looks at the global mass market as a case study to demonstrate the customer value gap in financial services, and utilized extensive primary and secondary research.

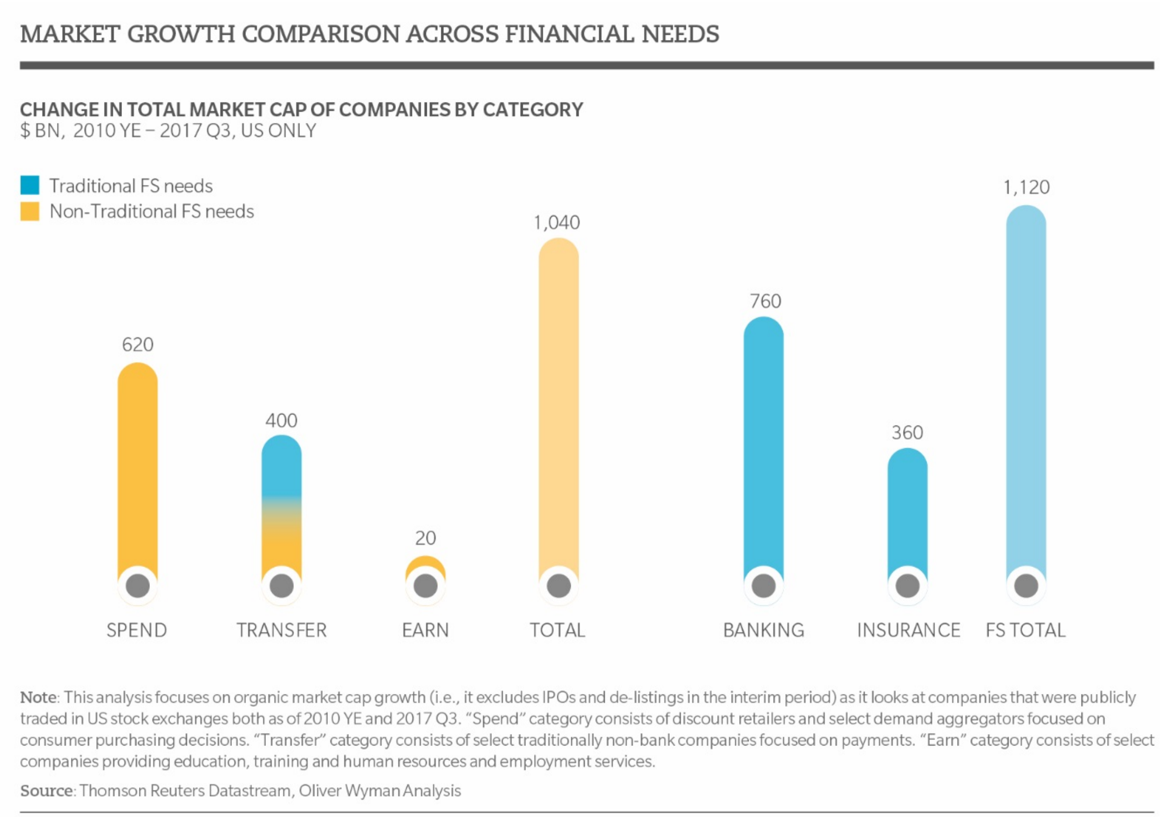
"The twin challenges of digital transformation and closing the customer value gap are critical for the financial services sector – whether its global players in multiple markets or local banks in Hong Kong or China's mainland," said Peter Reynolds, partner at Oliver Wyman. "Incumbents have traditionally focused on three categories of financial needs: Borrow, Safeguard and Grow. However, there are actually three others: Earn, Spend and Transfer. These are outside the traditional scope of financial institutions, but are major priorities in the financial lives of customers. That creates an opportunity for companies to evaluate how they can better address the reality of their customers' needs".



Addressing these needs effectively can be achieved through designing active solutions. Taking cues from technology solutions, the report envisions the LifeMap – a navigation tool for financial life. Solving for functional needs will not be enough to succeed in the future. Winners will combine functional products with experiential capabilities, and these solutions will be dynamic over time, learning, improving the solution with richer data and algorithms, and combining in new and productive ways with other members of the ecosystem.



In fact the report finds that it is in these additional categories that new value is being created by new companies already. The report calculates for example that in the US since 2010, $1trn of new value has been created in the borrow, save, secure businesses – largely by incumbent banks, asset managers and insurers. But an additional $1trn of new value has been created in businesses focused on spend, earn, transfer and this has largely been created by new firms such as Big Tech firms.



Six plays are outlined in the 2018 State of the Financial Services Industry report to provide practical orientation on what financial services firms can do to move forward and combat the gnawing sense of concern originating from the erosion of structural advantages, such as risk-free returns on deposits, lagging industry growth, and the competitive forces emerging primarily from big tech.

Oliver Wyman's Managing Partner for Financial Services Ted Moynihan said, "Over the last 10 years the financial services industry has fought its way back to relative health. But in the meantime the techniques used to create new customer value have dramatically changed and the Big Tech industry are dominating customer mindshare and reaping the rewards. It's time for Financial Services to learn and react, or continue to watch value shift to other parts of the economy."

The Oliver Wyman State of the Financial Services Industry 2018 report is available here.
http://www.oliverwyman.com/our-expertise/hubs/the-state-of-the-financial-services-industry.html

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