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Tech costs that help ward off competition could also crimp US banks' Q3 earnings

Article

The news: The largest US banks' spending on technology has been flagged as potentially detrimental to their Q3 2021 earnings, per the Financial Times. The big incumbents will release their earnings in the coming days, and two of them—**Bank of America** and **JPMorgan Chase** —have repeatedly raised their cost outlooks within the past year, the FT reported.

Technology expenditures, plus compensation increases, were cited as notable cost drivers for big banks.

At the same time, trends that have contributed favorably to large players' bottom lines—trading revenue and releases of loan-loss reserves built up due to the pandemic—are expected to abate.

The bigger picture: Big banks' technology operations are now closely coupled with their customer-focused digital teams, per Insider Intelligence's 2021 Banking Heads of Digital Report.

The report shows that user experience in digital banking relies on two aspects that technology is responsible for: core technology and account processing. These dependencies lead to tight organizational relationships between a digital head and the CIO. Examples among our interview subjects include:

- At JPMorgan, the people in the two roles are "joined at the hip," said **Allison Beer**, who was the bank's **chief product officer and head of customer experience and digital** at the time of her interview with Insider Intelligence.
- At digital-only **Ally**, **Sathish Muthukrishnan** is both the bank's CIO and digital leader.

US banks' overall technology and IT spending will continue to grow from **$79.49 billion** in 2021 to **$113.71 billion** in 2025, according to Insider Intelligence forecasts. However, the percentage rate of growth acceleration will decline over the same period, falling from **13.2% year over year (YoY)** to **9.7% YoY**.

Meanwhile, the overall proportion of US adult digital-banking users—those who use services at least monthly—is expected to increase from **75.4%** in 2021 to **80.4%** in 2025.

The big takeaway: While technology spending may drag on earnings in the short term, these expenditures are necessary over the longer term for banks to remain competitive with digital-only players such as neobanks.

- The competitive threats are borne out by Insider Intelligence forecasts: Digital-only banks in the US are projected to expand from **11.4%** penetration of the adult US population in 2021 to **almost 20%** in 2025.

- **Four out of five US adult consumers** will use digital banking channels monthly by 2025, with the customer base **hitting 216.8 million.** Investment in these channels is critical for long-term customer satisfaction.