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Dimon says growing competition is weakening banks' financial roles

Article

The news: In his annual letter to shareholders, JPMorgan Chase CEO Jamie Dimon warned that **incumbent banks are grappling with a "diminishing role" in the global financial system,** largely due to outside competition.

Competitive threats overview: Dimon argued that the relative influence of **big US banks has tumbled**, comparing 2010 data with 2021 data.

- **The collective market capitalization of the US biggest incumbents**—defined as those labeled as US Globally Systemically Important Banks (GSIBs)—**grew from $800 billion to $1.5 trillion**.
- The combined market capitalization of four big US tech companies—**Apple**, **Google**, **Amazon**, and **Facebook**—grew by much more, **surging from $500 billion to $6.9 trillion**.
- **Banks' share of mortgages originated crashed**, dropping from 91% to only 32%. Meanwhile, nonbanks' share surged from 9% to 68%.
- **Private and public fintechs** had no market capitalization data available for 2010, but **in 2021, combined for $1.2 trillion.**
- **Neobanks** also lacked available user stats for 2010, but held a collective 50 million accounts in 2021.
- Assets under management (AUM) of **shadow banks**, including hedge funds and private equity, skyrocketed over the period, from $3.1 trillion to $9.7 trillion. The private credit market also grew from $14 trillion to $20.4 trillion.

Dimon called out some competitors by name.

- **Walmart:** Dimon noted that over 200 million people use its stores weekly and that it's able to roll out financial products. It's backing a nascent fintech, **Hazel**, which will include neobanking and be broadly available to customers.
- **Apple:** He pointed out it already offers Apple Pay and Apple Card and plans new offerings ranging from buy now, pay later (BNPL) to credit risk determinations.
- **Vanguard**, **Fidelity**, and **Charles Schwab** all offer banking products.

Dimon also **blamed regulations for hampering banks' competitiveness**. For example, he noted that neobanks have avoided the Durbin Amendment in the US while garnering fees from debit card transactions.

Tech spending rationale: Dimon defended the banking giant's tech spending, which some investors have privately criticized while seeking more details.

- He said JPMorgan will have almost $2 billion in "incremental expenses" this year related to tech—and he previously said it plans to spend as much as $12 billion in 2022. Our new forecast shows the bank allocating $10.10 billion for this year, excluding salaries.

- He said the spending should be assessed according to its impact and how it affects competitive standing, customer satisfaction, and adding market share.
- He also noted that tech investments can, in turn, generate investment opportunities.

Dimon also gave examples of recent expenditures:

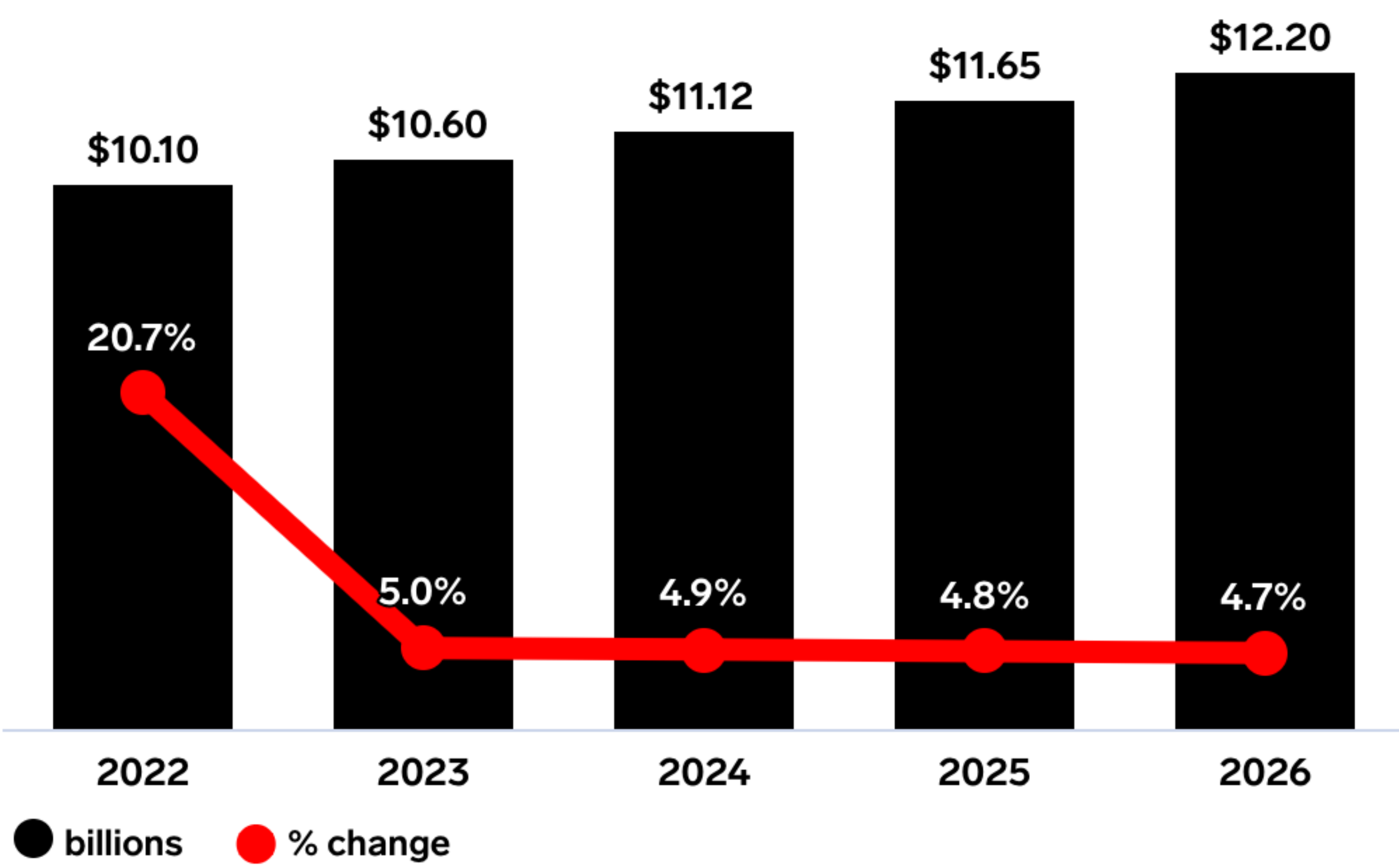
- Data center spending increased, with an outlay of $2.2 billion to build new ones, but Dimon noted the bump is mainly driven by the "**duplicative expense**" of having both old and new data centers.
- Payments modernization has accounted for **over $1.5 billion of expenses, including technology, since 2016.** However, Dimon pointed out **this led to $4 billion in new annual revenue** and boosted the bank's Treasury Services market share from 4.5% to 7.2%.
- JPMorgan developed more than 1,000 application programming interfaces (APIs), which Dimon noted that business customers can use "to automate our banking systems into their enterprise systems."

The big takeaway: Dimon's case for JPMorgan's tech spend is reasonable and provides greater context than initially reported cash outflows.

- Shareholders need to consider the savings and revenue that tech generates as well as upfront costs. A less short-sighted view helps investors understand longer-term payoffs.
- Well-received products and customer experiences help JPMorgan's reputation with consumers who can, if dissatisfied, take their business to neobanks—or eventually, to Walmart and Apple.
- The tech section of the CEO's letter also shows the power of shareholders, who have prompted Dimon to offer a greater disclosure and may have inadvertently helped foster greater buy-in for future tech initiatives.

JPMorgan Chase IT/Technology Expenses

US, 2022-2026



Source: eMarketer, March 2022

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