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JPMorgan's $11bn fintech bazooka

Scale of bank's spending on fintech has spooked some rivals

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Laura Noonan SEPTEMBER 25, 2018

How do you sign off on an $11bn fintech budget? According to JPMorgan Chase's chief financial officer Marianne Lake, you do it one dollar at a time.

In an interview with the FT, the finance boss of the bank with the greatest technology spending power on Wall Street, said she doesn't sign off on the bumper package in one go. Instead, she said: "We sign off at the first dollar and every dollar thereafter."

The resulting $10.8bn tally for this year — which is roughly split 50/50 between "change the bank" and "run the bank" spend — has helped JPMorgan position itself at the vanguard of innovation and to instil awe and envy in many rivals.

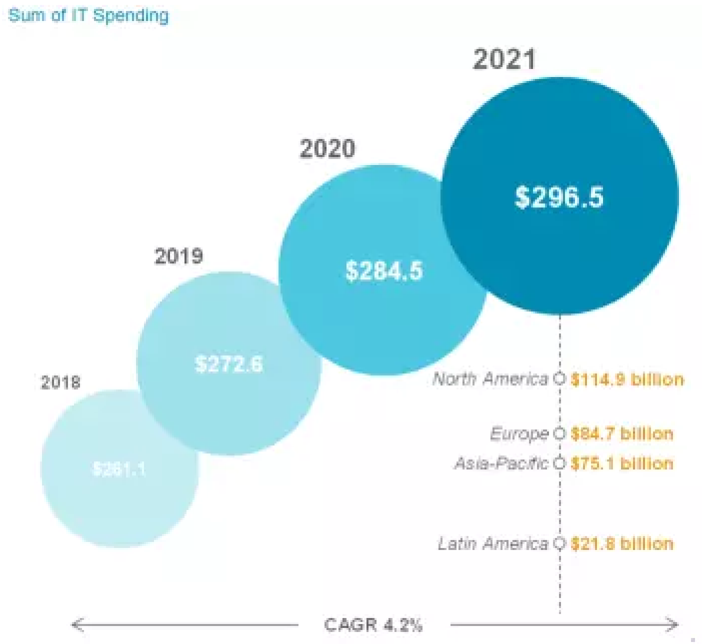
"We have never felt constrained by dollars on budgets," said Ms Lake. "Our budget is set by the opportunity to derive shareholder value."

JPMorgan's fintech spend has to, of course, be viewed in the context of its size. Only the big Chinese banks and HSBC — which recently announced plans to spend $15bn-$17bn over three years mostly on technology — can match JPMorgan's $2.6tn of assets.

"$11bn is a lot in dollar terms, but it is about 10 per cent of revenues, which is what large and complex institutions like JPMorgan are spending on technology," said Betsy Graseck, a banks analyst at Morgan Stanley. "It is table stakes in an extremely competitive market."

Still, the scale of the spending has spooked some rivals which can never hope to deploy similar resources.

Spending on technology by banks in the Americas, Europe and Asia-Pacific is forecast to increase 4.2 per cent this year to just over $261bn, of which 45 per cent is in North America and only 32 per cent in Europe, according to research group Celent (chart below).



Banks in Europe are particularly attuned to how heavily they are being outspent; Deutsche Bank's entire non interest cost base last year was less than $30bn, UBS's 2017 operating expenses were less than $25bn, Credit Suisse's were below $18.5bn, of which about $3bn is spent on technology.

Executives at Deutsche and Credit Suisse in particular, where cost cutting programmes are still in full swing, can scarcely remember a time when they were "not constrained by budget" much less imagine one in the future.

There is an argument about the value of being first — with all the costs that entails — versus being a fast follower or even a later adopter. Executives at some banks argue that novelty isn't worth the mammoth cost, and that big spends can lead to profligacy.

"People are not fast and loose with our money," said Ms Lake. "There is a lot of judgment and discipline and approval processes around these investments that serve as a decent safety net.'

JPMorgan employs 50,000 technology specialists — or a fifth of its total workforce — and has claimed some eye-catching firsts, including using artificial intelligence to execute securities trades. Ms Lake described AI as "an important part of our spend" but "not large in the context of the overall investments we're making".

Investments in technology allowed the bank to launch a low cost digital share trading platform last month, which is helping it counter the threat from online brokerages like Charles Schwab and commission-free upstarts like Robinhood.

JPMorgan is also one of the three founding members of the Interbank Information Network, a pilot that uses distributed ledger technology — aka blockchain — to facilitate more efficient payments between banks and across borders — aiming to keep pace with the onward march of payments start-ups.

David Hudson, who heads up digital transformation at JPMorgan's corporate and investment bank, said the bank wanted to deliver solutions "regardless of whether we build them internally or deliver them through partnerships" and that the key was to make sure that JPMorgan can serve clients "wherever and whenever they want to transact".

"It's not about having the biggest technology spend on Wall Street, that's not what we think about," said Ms Lake. "It's about identifying what is strategically important to our clients . . . It's never about bigger is better, it's about constantly driving our long term strategy."

Further fintech fascination

Brexit Revolutionaries The UK's fastest-growing fintech of scale is laying the groundwork to join the great Brexodus in case the UK's negotiations to leave the common market don't go smoothly. Revolut this week told the FT that it had applied for an e-money licence application in Luxembourg "just to be on the safe side" in case the banking licence it expects Lithuania to grant it next month does not cover all the bases in time. Meanwhile, new investment funds being launched by Revolut and its smaller rival Plum are designed to encourage more millennials to invest by appealing to the smartphone generation.

Paper over the cracks The president of the Financial Action Task Force, Marshall Billingslea, said he is optimistic that at its plenary, due in October, the FATF will agree a series of standards that will close the anti-money laundering "gaps" that all nations face. He said the adoption of anti-money laundering standards and regimes pertaining to digital assets and virtual currencies is "very much a patchwork quilt or spotty process," which is "creating significant vulnerabilities for both national and international financial systems".

Crypto critic Tired of being shouted down by cryptocurrency zealots at dinner tables and conference buffets? Check out these five reasons why bitcoin fails the innovation test from Huw van Steenis, now senior adviser to the Bank of England's governor Mark Carney and previously Morgan Stanley's banks' research guru, to add some oomph to your arguments. Meanwhile, hackers have stolen $60m from a Japanese digital currency exchange.

Singapore coins it For any Western or foreign cryptocurrency company looking to establish a footing in Asia, or even for any local company in any Asian country looking to establish a presence outside of their own country, Singapore should be the first stop. It has become the go-to crypto sandbox of Asia, reports TechCrunch.

Fintech views in the FT banking podcast

Bits and bobs

Young, gifted and in debt For millennials on tight budgets, the "try now, pay later" services being offered by fintechs such as Klarna instantly remove one of the biggest obstacles to online shopping — waiting for returns to be credited. But a quick search on social media suggests the ease of accessing these services at the checkout could be tempting some young consumers to spend more than they can afford to.

Trade up A report from the World Economic Forum estimates that over $1tn in new trade will be created through blockchain-based distributed ledger technologies (DLT) over the next decade. It also estimates it will reduce the global trading gap by $1.5tn. Bold claims, which if they materialise will deliver real change and benefits to the world economy, writes Chris Skinner at The Finanser.

Dutch courage ING has been splashing its cash, spending €7.5m to take a majority stake in Dutch open banking start up Cobase. The investment comes just a week after ING Ventures invested £5m in UK SME lending platform Funding Options which encourages SMEs to look at a broad range of financing options rather than only borrowing from their bank.

Luck of the Irish? Ireland is already world famous for its tech industry, thanks to the presence of massive operations spanning Intel to Facebook, and for its banking, thanks to one of the world's most infamous crashes. Now the country is trying to marry the two by becoming a world class fintech centre with a new research partnership led by Trinity College Dublin, with support from the Irish government, the sector and Columbia University.

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