View previous results:

Year: 2019 2018 2017 2016 2015 2014 2013 2012 2011 2010 2009 2008
2007 2006 2005 2004 2003 2002 2001 2000 1999 1998 1997 1996

Awards for Excellence 2019: This is the era of JPMorgan

Peter Lee
Wednesday, July 10, 2019

JPMorgan today dominates the global corporate and investment banking landscape. The key to success? A long-term strategy led by group co-president and CIB chief Daniel Pinto, and a management team that keeps the business in a constant state of reinvention.

World's best investment bank

Illustration: Kevin February

JPMorgan leads across capital markets and FICC. It is a powerful force in equities and advisory. It has built impressive franchises in areas such as transaction services. All the parts are there, but the

sum of them makes JPMorgan the clear number one firm in the industry, perhaps to an extent that no bank has been before.

JPMorgan began 2019 celebrating its 10th consecutive year as the world's number-one ranked investment bank by revenue, after bringing in $6.9 billion in 2018 from arranging M&A transactions, equity and debt capital markets deals, syndicated loans and leveraged finance.

World's best investment bank
View full 2019 results

That equated to an 8.7% full-year market share, according to Dealogic, putting JPMorgan comfortably ahead of second-placed Goldman Sachs, which had a 7.8% market share and $6.2 billion of revenue for 2018, and far ahead of third-placed Morgan Stanley, with a 6.4% share and $5.1 billion of revenue.

Slice it by region and for 2018 JPMorgan ranked top in classic investment banking revenue in the US, Latin America and EMEA, coming second only in Asia Pacific to a resurgent Goldman Sachs.

By business, for 2018 JPMorgan ranked top globally in revenue from equity capital markets, debt capital markets and syndicated loans, while also leading in US leveraged finance and coming third in European leveraged finance. In global M&A revenue for 2018 it ranked a lowly – by its own standards – second, behind Goldman but ahead of Morgan Stanley, according to Dealogic.

This is not quite complete dominance, but it is unquestioned leadership that has been built and sustained over many years and through different phases of crisis, recovery, coordinated global growth and, more recently, returning macro uncertainty.

The different investment banking revenue pools have waxed and waned, but JPMorgan's overall share has remained market-leading and recently has been growing faster than at any of its rivals.

For the first half of 2019, JPMorgan retained its lead in this global investment banking revenue ranking with a market share of 9.2%, 120 basis points ahead of second-placed Goldman Sachs with 8%.

"The difference between JPMorgan and everyone else is our scale and how balanced we are," says Daniel Pinto, chief executive of the corporate and investment bank and co-president and chief operating officer of JPMorgan Chase.

Daniel Pinto

JPMorgan ranks number two in M&A, where the other leading firms are Goldman and Morgan Stanley, which it also competes with in ECM, where JPMorgan ranks first. It is also number one in DCM and syndicated loans, but in that business the other leading firms are Bank of America and Citi.

You can extend the analysis through the secondary markets businesses, using Coalition rankings for full year 2018. Look across fixed income, currencies and commodities (FICC) and JPMorgan ranks top overall. Go down into underlying businesses and JPMorgan ranks joint first in credit trading, along with Deutsche Bank. It ranks first in securitization in which Bank of America comes second.

JPMorgan ranks first in equity derivatives, where this time the nearest rivals are Goldman Sachs and Société Générale. It ranks first in G10 rates, where Goldman and Citi are the next two firms.

JPMorgan also tops the Euromoney client survey for overall FX market share ahead of Deutsche and puts HSBC and Citi joint second in the G10 category. Coalition compiles rankings on seven secondary market categories in FICC and four in equities. JPMorgan ranks first in six of these 11 categories and is not outside the top three in any of them. There are five in which Goldman Sachs does not appear among the top three; seven in which Morgan Stanley is outside the top three; and four in which Citi misses out.

Everywhere you look there's a tough competitor. But there is only one bank at or challenging close to the top in every single category. It's a remarkable, perhaps unprecedented, position to be in.

Stable business

JPMorgan is the global investment bank that sidestepped the pressure that fell on every other firm to give up the dream of delivering every product to every type of client in every region and to concentrate instead only on those services where they were best-in-class or on particular geographies where they had strong customer franchises.

While most firms specialized, JPMorgan diversified. While some chose to be regional champions, it built itself into a global one.

That sounds like a risky strategy, especially with regulators training their sights on the too-big-to-fail banks. But maybe it's quite the opposite.

"What this means is that over time and through the cycle, we have a more stable business," says Pinto. "In the era of post-crisis regulation, scale is essential. These businesses are expensive machines to run, and without scale, it is hard to be profitable."

Take FICC, he says, one of the lower return businesses: "The more flow you can internalize, the better the prices you can offer. That lets you put more business through the machine at attractive marginal profitability. Scale allows for the profitability to invest in talent and technology."

That profitability is reflected in return on equity at the corporate and investment bank, which has risen to 16% for 2018, up from 13% five years earlier, even though the division now operates on 15% more capital than it did back in 2014.

> Balance sheet, human and technology resources are expensive to deliver. But the truth is that clients tend to want some businesses that are profitable for a bank and some that are unprofitable
>
> \- Daniel Pinto

Analysts calculate JPMorgan Chase's cost of equity at below 10%. The bank is happy to make big strategic investments. It earns the capital to afford these. It also prides itself on running day-to-day costs with increasing efficiency. The CIB's overhead ratio stood at 61% in 2014. Five years later it is 57%.

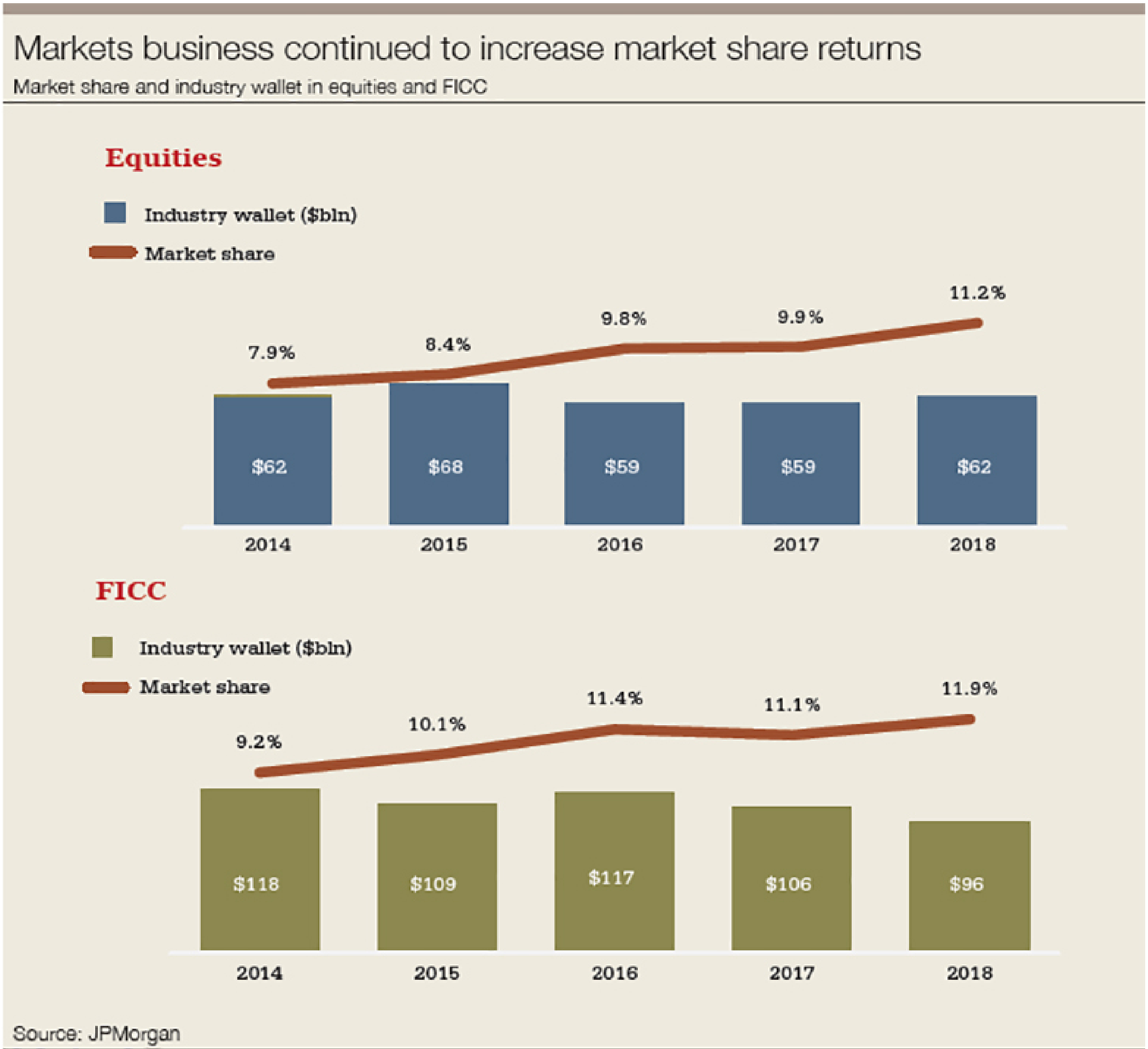
This is a disciplined firm, working in a complex business. The challenge for the chief executive of any bank trying to reconfigure its investment banking division is that it is almost impossible to identify and cut the unprofitable businesses and keep only the profitable ones.

It is difficult not just because these services have traditionally been bundled. From one year to the next, those that are profitable changes. Activities that once brought in the big returns and subsidized the loss leaders can swap places and become the low-return offerings that are a cost of staying in other more profitable businesses.

“We do constant reviews to evaluate the capital, resource consumption and profitability of each client relationship over time,” says Pinto. “Balance sheet, human and technology resources are expensive to deliver. But the truth is that clients tend to want some businesses that are profitable for a bank and some that are unprofitable. You need to be able to deliver both.

“It seems to us that some firms may have made a mistake by looking at overall profitability when it might have been better to look at marginal profitability,” he continues. “There is a lot of fixed cost that does not go away. FICC, for example, is a low ROE business. But if a bank exits or sharply cuts back, it may find itself worse off. Even with the overall wallet dropping, at this level of market share, we can hold on for a very long time and still be profitable. And clients need those services, so it’s important to be a complete provider.”

JPMorgan wants to be a complete provider, operating at scale to ensure efficiency and globally to further bolster diversification. Revenues from event businesses like ECM and M&A can be lumpy. Markets businesses can be volatile. Be big enough in enough of them, however, and even if the revenue comes from different segments in any given period, the aggregate result starts to look dependable.



Prudent management

JPMorgan could have made a strong case to win our award as the world's best investment bank in any one of the last 10 years. But there is something fitting about bestowing the accolade now.

JPMorgan had already been building its capabilities in advisory and financing in the years leading up to the financial crisis, but it only emerged as a global powerhouse in 2009, a banner year for equity raising and advising companies on asset sales and ways to transform their corporate and capital structures.

Saved by prudent management of its own balance sheet and liquidity from the carnage that beset the rest of the financial industry, JPMorgan was one of the last investment banks still standing without government support. And it made hay.

For a time, the question became: is JPMorgan a bank for a crisis, but not first choice when times are easier? Fast forward a decade and the bank's market share of global investment banking revenue in 2018 was the highest it has been since 2009.

"The flight to quality continues today," says Viswas Raghavan, chief executive of JPMorgan for Europe, the Middle East and Africa. "Issuers still see the attraction of having a very strong banking partner that will be able to support them in bad times as well as good, and that became very evident during the crisis. Similarly, across the markets businesses on the institutional investor side, those clients also want a strong and dependable counterparty that won't disappear when markets are difficult."

> We aim to lead in every business, but in order to be a complete provider, we have to ensure we offer a best-in-class service across the whole range of activities
>
> - Viswas Raghavan

But don't we live in the era of unbundled financial services where wholesale consumers – both asset managers, which are themselves answerable to end customers, and corporations answerable to shareholders – face a heightened duty to prove that they have picked only the best provider at the most competitive price in each financial service they purchase?

"We aim to lead in every business, but in order to be a complete provider, we have to ensure we offer a best-in-class service across the whole range of activities," says Raghavan, "which also includes the more annuity-like businesses such as cash management, payments and securities services. That way, the chief executive and the CFO no longer see you as the bank that only comes knocking to sell them on a rights issue or an M&A deal but as the bank that supports their financial lifeblood. That's when the client can say: 'Not only do they provide an excellent service on strategy and financing, they also support me every day with working capital,' for example."

Most banks have had to bite the bullet and pull back or withdraw from certain activities, while JPMorgan alone has been able to stay the course, drawing the lesson from the post-crisis regulatory response that to be successful it had to be big.

"As returns and margins were compressed, so volume and efficiency were key," says Pinto. "In FICC, the wallet has gone from $160 billion 10 years ago to $120 billion five years ago and $100 billion today. Now if you look back five years, our market share in FICC has gone from 9% to 12%. In equities, the wallet was always smaller, but at least it has stayed flat for the past five years. And there too our share has grown from 8% to 11%."

Growing strength in the markets businesses also sustains the primary capital markets activities that are the traditional yardstick of investment banking success. And while the specialist advisory boutiques may still describe JPMorgan as a financing firm that doesn't have many true M&A stars, that's a criticism that now drips like water off the back of a very large and unconcerned duck.

JPMorgan advised on more than $1 trillion in announced M&A in 2018, including important deals such as Takeda's $82 billion acquisition of Shire, IBM's $34 billion purchase of Red Hat and Walmart's $16 billion acquisition of Flipkart, India's largest online retailer. It participated in seven of the top 10 fee-paying deals in 2018.

Viswas Raghavan

JPMorgan derived more revenue from global financial sponsors in 2018 than did second-ranked Goldman Sachs. The two firms exchanged places at the top of that closely contested leader board.

As the global head of advisory at another firm points out: "We pay particular attention to that ranking because private equity firms are the most discerning purchasers of investment banking services across M&A, IPOs and capital raising and financing."

As Euromoney went to press, JPMorgan was, together with Credit Suisse and Bank of America, advising Infineon Technologies on the German chipmaker's $10 billion offer for Silicon-Valley based Cypress Semiconductor.

"It's a highly strategic, cross-border deal for a European company into the US, in which we are supporting Infineon right in the midst of current trade tensions," says Raghavan.

JPMorgan was also a joint global coordinator on the $1.5 billion new issue in London of Huatai Securities, the debut Chinese offering following the agreement of a link between the London and Shanghai stock exchanges.

"It's an important Asia-into-Europe transaction that underlines the view that, even after Brexit, London will remain a leading global listing venue," says Raghavan.

> Like everyone else, we certainly looked into the abyss," says Rohrbaugh. "But even then, we were allowed to invest
>
> - Troy Rohrbaugh

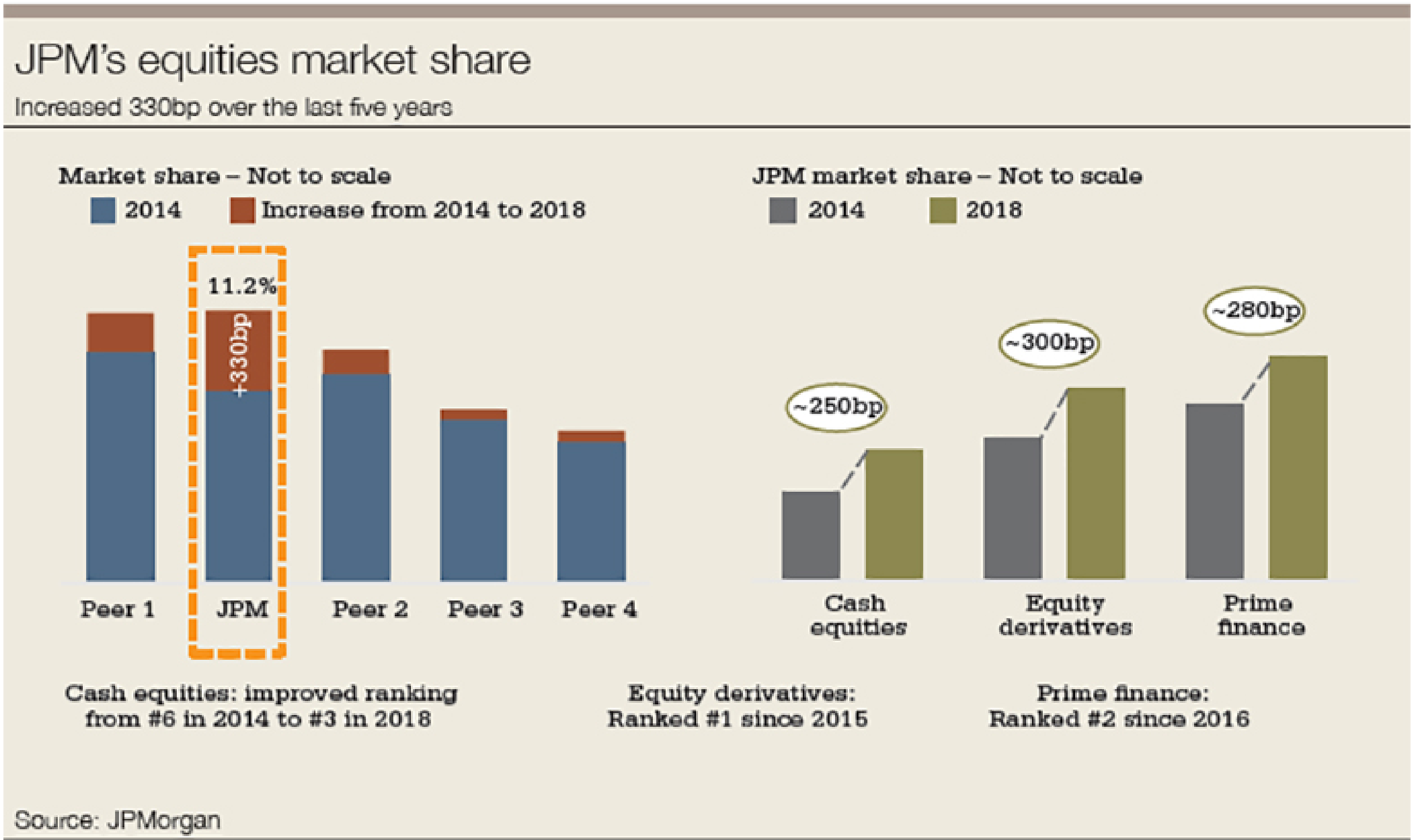
JPMorgan played a lead role on the successful IPO of Dutch payments firm Adyen in June, which was closely watched following the withdrawal of a number of European IPOs in May. The bank is sole adviser to Ireland-based Allergan on the proposed $63 billion cash and stock sale to AbbVie, facing Morgan Stanley on the other side, a deal announced as Euromoney went to press.

JPMorgan's investment bankers are of course fortunate that they have a not-so-secret weapon that can help win important mandates. It doesn't hurt when your bank's chief executive is the iconic figure in the global banking industry and likes to go on the road and make a pitch.

"Jamie [Dimon] is great with clients and he likes to be included in deals," says Pinto. "And when he is, it is very likely that JPMorgan will have a lead role."

It's very different today from when Dimon first arrived at JPMorgan following its purchase of Bank One in 2004, a deal that installed him as chief executive in waiting, a role he formally took on in January 2016.

Readers of our profile of Dimon in Euromoney's 50th anniversary issue in June will recall his caustic first impression: "I remember when I first got here some of the investment bankers telling me that the consumer bank was holding them and the company back. I told them: 'No. You're doing a shitty job all on your own. The consumer bank is not holding you back.'"



Looking into the abyss

They are doing a better job now. Look again at the decision to stay the course in FICC, particularly rates and credit that, both in cash principal position taking to support client activity and associated derivatives, have been hardest hit by higher regulatory capital charges. It's not only many of the largest European banks that have had to pull back. Even leading US firms such as Morgan Stanley had to rethink and trim the business.

It may not have been apparent to the outside world, but JPMorgan too, even if it didn't quite suffer an existential crisis, certainly had to review its commitment to FICC.

The pre-crisis history of JPMorgan and its predecessors Chase and Chemical was that it would have a couple of great quarters in FICC and then periodically blow up. That was the memory that many of the senior people still carried after the crisis.

Troy Rohrbaugh, now head of global markets at JPMorgan, joined the bank in 2005 in foreign exchange. He was asked to take charge of rates in 2012, which was a good year, as was 2013. Then in 2014 the rates marked collapsed. It was not looking good for any firm. Pinto and Dimon decided to review it.

"I believe that at any other bank senior management would have been asking me to decide whether or not to close portions of the business down," Rohrbaugh tells Euromoney.

"I gave Daniel and Jamie a couple of scenarios: basically, saying that the business could normalize but that if things went on like this, the outlook was really bad. The most important thing is they didn't panic. I remember Jamie saying: 'What are we going to do: not trade US treasuries, not trade European government bonds? That would be like running a store that doesn't sell bread or milk. No.' In the end, both Jamie and Daniel said we are going to stay in this business and also told me not to cut the technology budget, noting when it turns it could be good."

The decisions not to cut back led to very profitable years in 2015 and 2016.

"Like everyone else, we certainly looked into the abyss," says Rohrbaugh. "But even then, we were allowed to invest."

Some of that investment went into recruiting high-quality people the bank had been talking to for some time and who now suddenly became available.

JPMorgan today famously budgets $11.5 billion a year for technology with almost half of that going on change-the-bank new investments and the rest paying the bills to run the bank and keep the lights on. Looking at the bank's leadership position today, it's interesting to hear that Dimon was telling business leaders to maintain their tech budgets even during the toughest times five years ago.

Troy Rohrbaugh

The present success of JPMorgan in investment banking is also in large part the result of long-term thinking for which the banking industry has not always been renowned.

Rohrbaugh tells the story of how, after seeing the light on technology investment, JPMorgan was able to regain the leadership position in one markets business that it had let slip and attain leadership in another that it had never previously come close to.

At the very top of Euromoney's definitive global foreign exchange market share survey, Citibank, with its far-flung international empire, was the lead bank for 20 years until Deutsche Bank overtook it, thanks to the German bank's embrace of new technology. But the predecessor banks of JPMorgan were always close to the top.

Chase nearly knocked Citibank off its perch in 1996, when just 6bp of market share separated them and kept Chase in second place, with 9.04% of market share to Citi's 9.10%. And in 2000 when Deutsche finally eclipsed Citibank, so too did Chase, which again finished second, with Citi now down in third. By 2004, however, JPMorgan had fallen back into fourth place and was losing touch with the top two. In 2005, it came seventh. In 2006, it was ninth with a market share of just 3.9%, compared with run-away leader Deutsche's 19.3%.

Rohrbaugh's first years at JPMorgan were devoted to charting the long march back in foreign exchange.

"We had the bandwidth, the money and the resources, but we had completely missed out on e-trading in FX," says Rohrbaugh.

He recalls a particular client visit where, as usual, he asked to speak at the client's workstation to gauge its regular set up instead of in a meeting room. The client had arranged it so that JPMorgan was on the desktop along with Barclays and Deutsche, which was nice of them. But Rohrbaugh knew the client did close to zero with JPMorgan. The client told Rohrbaugh that Barx had some great features, but it then turned out he couldn't remember his log in.

“So, you do everything on Autobahn?” Rohrbaugh asked. “Yes, pretty much,” the client admitted, noting that straight-through processing with Deutsche outweighed many other features.

“It hit me like an epiphany,” says Rohrbaugh, “that price no longer really mattered as much. The first thing we had to do was properly integrate our entire FX platform from front to back and then reconnect to clients.”

It wasn’t quite that simple of course.

“In the first years, we still struggled to get some more price-sensitive clients to use our platform, and they told us we needed something else that distinguished us,” Rohrbaugh says. “So, we became the first major bank to develop FX algos, which we thought would also be useful for our own traders. Then we worked on the whole user experience, for example being first to allow wholesale clients to trade on their mobile phones, not because we really expected many of them to do so, more because they could just whip out their iPhones and say: ‘Isn’t this cool?’ But we have worked since to enable clients to access the markets at any time of the day or night, wherever they are in the world.”

The fight back from the humiliation of 2006 played out over 12 years. In 2018, JPMorgan ranked top of the Euromoney FX market share survey. It stayed there in 2019 – results were announced in June – with 9.81% of overall client business, 140bp ahead of Deutsche in second with 8.41%.

Global investment bank league table

FY18

Global revenue ($bln)	*JPM*	*GS*	*Citi*	*MS*	*BAML*	*Deutsche*
Investment bank	25.2 1	=2	=2	=4	=4	6
FICC	1	=3	2		=3	
G10 rates	1	2	3			
G10 FX	1		=2			
EM macro	=2		1			
Credit	=1				3	=1
Securitization	1		=3		2	=3
Commodities	2	=3	=3	1		
Municipal finance	3		1		2	
Equities	=1	3		=1		
Cash equities	3	2		1		
Equity derivatives	1	2				
Prime services	2	3		1		
Futures & options	1	2	=3			

Rank 1-3 4-6 7-9

Source: Coalition

Fortress balance sheet

As a market leader across investment banking, the new obsession of senior management at JPMorgan is to fight against complacency and any sense of entitlement that today's top dog will always be so.

"What happened in foreign exchange shows that it is sometimes easier to miss key changes to your business when you are a market leader," says Rohrbaugh, "and you are slow to admit the need for change. I remind anyone who thinks we will always be top in foreign exchange that we have been here before and we let it slip."

It wasn't like that in equities. JPMorgan was not traditionally even close to being a leader in secondary equities markets and was slow to spot that investment in technology might offer a chance to close the gap to the top firms.

"We used to believe very much in the high-touch relationship coverage model," admits Pinto, "but that's not how the equities business evolved. It is more technology-led today than any other markets business. We execute a lot of trades with our algorithms. Clients check the quality of our execution with their algos. And if we are not the best of the best, they simply direct their business elsewhere."

But they don't have too many options to turn to.

Today, JPMorgan still lags slightly behind established number-one firm Morgan Stanley in cash equities and second-placed Goldman Sachs, but it is breathing down the necks of the leaders, having pulled slightly ahead of them in equity derivatives and listed futures and options.

"Equities is a very fast-moving train for anyone else to try and catch up with now," says Pinto, who believes that regulators, by mandating unbundling, have played into the hands of the leading firms.

"It always seemed obvious that unbundling under Mifid II [the EU's Markets in Financial Instruments Directive] would only help the larger institutions, because once you separate research and execution, those firms with the big tech budgets and advanced trading capabilities would capture even more business. And when asset managers are paying for research with their own money and taking a hit to margins, they are likely to consume maybe 30% to 40% less of it. That also tends to tip the wallet to the bigger firms with top-ranked research. Our market share in equities in Europe has gone from 11% to 14%, and that has compensated for any drop in research revenue."

> I want us positioned around volatility events so we have capacity to do client business. The genius of this bank's leadership is that the review after the fourth quarter of last year was pretty much like after any other
> - Troy Rohrbaugh

But what most helped JPMorgan establish itself in equities was the fortress balance sheet that in the lead up to the crisis had the Federal Reserve and the US Treasury regularly knocking on Jamie Dimon's door with the next firm that needed rescuing.

"We had not invested in equities sufficiently and we were missing a key piece in a prime services platform, which all the top firms in equities had," says Rohrbaugh. The acquisition of Bear Stearns was pivotal. "It gave us a legitimate prime platform, albeit one that was quite US-centric. JPMorgan saw the value in that and invested in building a global prime platform. As well as being a leader in equity derivatives and with a strong prime platform, we now have a great cash equities business winning share with real money accounts."

Equities has been a 10-year build.

"It was clear when we acquired the prime platform that the pay-off would be five years in the future," says Rohrbaugh. "It was the same in FX from 2006 to 2009."

But if these investments can hurt JPMorgan's financials in the early years, when they do pay off, they can pay off handsomely.

"Don't think we pour investment into a black hole," says Rohrbaugh. "We have monthly meetings with Daniel to review progress, check that we are on track, ask if we are seeing anything significant in other markets. Every so often, we go and see Jamie and talk through significant investments and more often than not he says: 'Tell me what you need. Tell me why you need it and… you're done.'

"In the years I have been at this bank, more and more thinking has turned to long-term investment in the franchise."

This is not a bank that solves for the quarter.

Euromoney asks Rohrbaugh what the review for the markets business was like after the horror-show fourth quarter of 2018.

"Daniel [Pinto] is a trader. He knows that there are days when you lose money as the price of being in the market for your clients," he says. "I want us positioned around volatility events so we have capacity to do client business. The genius of this bank's leadership is that the review after the fourth quarter of last year was pretty much like after any other. In fact, after a bad quarter is typically when Daniel is often most supportive. It's after a good quarter that he's more likely to press you on what you missed."

Chasing opportunities

Talk to any of the leaders at JPMorgan now and they will express discomfort at being the leading firm, a fear that complacency will cost them if it creeps in, and a determination not to let it by clinging to the institutional memory of what happened in foreign exchange, for example. And that tone is set from the very top.

"I grew up scrappy," Dimon told Euromoney in June. "And you've got to have fire in your gut."

"I'm a much better underdog," says Raghavan, who outlines some gaps to shoot for. "If I look at our treasury services franchise, we are very good with financial institutions, but we have more to do with corporate clients."

That puts the firm in a battle with HSBC and Citi. And for all the talk of the victory of US firms in global investment banking, that's not how Raghavan sees it.

"I would suggest that this whole notion of the retreat of European banks has been very much overplayed," says Raghavan. "Remember that we have established operations in many European countries dating back over a century. But in any year, we might be number two in the UK or three in Germany or France, behind the national reference banks.

"What distinguishes JPMorgan is that we also want to be considered a national reference bank in each major economy. There are still lots of organic opportunities for us to chase in each market. Our plan is to close each of those gaps down systematically."

Pinto takes the same line: "There is always some business or some geography where we are not number one and still have work to do."

> What distinguishes JPMorgan is that we also want to be considered a national reference bank in each major economy. There are still lots of organic opportunities for us to chase in each market. Our plan is to close each of those gaps down systematically
>
> - Viswas Raghavan

He mentions trade finance, a rare business in corporate and investment banking where JPMorgan is far behind the leaders, albeit out of choice, Pinto explains: "Trade finance is very balance-sheet and capital intensive, so returns are low. I wanted to support our client franchise, but I didn't feel the need to be a top provider."

But watch out.

"We are reviewing that," he says. "We are going to take another look and see if our approach makes sense. We are very client-centric, and if clients really want us to provide a service alongside other business, such as FX or payments, then we may rethink it."

But there's a question here. A 9.2% market share in global investment banking revenue is high by historic standards and the gap to Goldman in second place of close to 120bp is wide. How much further can JPMorgan go?

In markets, Rohrbaugh says: "We may be close to the upper limits. In FICC, if the wallet keeps shrinking, there's a chance our share might inch higher if more banks pull out. But it would be a healthier outcome for JPMorgan if the wallet were to grow, even if our share shrinks."

Pinto looks at the overall share and, with the bank running at around 9.2% of investment bank revenue for the year to June, takes a similar view.

"I'm not sure it's possible to go much higher," he says. "Managing conflicts alone is one barrier and clients like to have numerous counterparties."

But even if they do want less market share with JPMorgan, that can be tricky.

"They do need certain products and services often delivered globally and always efficiently," says Pinto.

Global investment banking revenue by bank – FY2018

Rank	*Bank*	*Rev. $mln*	*% share*	*FY 2017*
1	**JPMorgan**	**6,905**	**8.7**	**1**
2	Goldman Sachs	6,192	7.8	2
3	Morgan Stanley	5,122	6.4	4
4	Bank of America Merrill Lynch	4,443	5.6	3
5	Citi	3,992	5.0	5

6	Credit Suisse	3,435	4.3	6
7	Barclays	3,317	4.2	7
8	Deutsche Bank	2,426	3.0	8
9	Jefferies	1,790	2.3	12
10	UBS	1,720	2.2	9
Total		79,708	100	

Global financial sponsor revenue by bank – FY 2018

Rank	*Bank*	*Rev. $mln*	*% share*	*FY 2017*
1	**JPMorgan**	**1,615**	**8.6**	**2**
2	Goldman Sachs	1,578	8.4	1
3	Credit Suisse	1,303	6.9	3
4	Morgan Stanley	1,186	6.3	4
5	Barclays	1,151	6.1	5
6	Bank of America Merrill Lynch	1,027	5.5	6
7	Jefferies	994	5.3	7
8	Citi	844	4.5	8
9	Deutsche Bank	807	4.3	9
10	RBC Capital Markets	646	3.4	10
Total		18,800	100	

Global investment banking revenue by bank – Q1 2019

Rank	*Bank*	*Rev. $mln*	*% share*	*Q1 2018*
1	**JPMorgan**	**1,677**	**9.6**	**1**
2	Goldman Sachs	1,448	8.3	2
3	Bank of America Merrill Lynch	1,076	6.2	4
4	Morgan Stanley	1,048	6.0	3
5	Citi	958	5.5	5
6	Barclays	741	4.3	7
7	Credit Suisse	671	3.9	6
8	Deutsche Bank	602	3.5	8
9	RBC Capital Markets	397	2.3	11
10	Wells Fargo Securities	367	2.1	13
Total		17,412	100	

Source: Dealogic

Digital future

JPMorgan will continue to defend what it has. It is also building now for what clients are likely to want and need in a digital future, where blockchain may be more prominent in primary capital markets and secondary trading; securities settlement may become same day and close to real time with real time payments too. Credit trading will follow its own path of increasing electronification, albeit distinct from that of the markets in more homogenous underlyings such equities and currencies.

Technology may also bring surprises. It's not entirely clear how artificial intelligence, big data, machine learning and robotic software will impact advisory and new issues for example. JPMorgan just has to put down some table stakes and back itself not to get played out of this game.

"The one thing we must avoid is inertia," says Raghavan. "We can import talent, for example through our 'In-Residence' programme, which draws in external fintech entrepreneurs who are sponsored to develop and test their ideas at scale by securely using our platform. But we also want to allow for a different mind-set for a big bank and a culture that holds the notion that it is not just OK to try new ideas and fail, but that it is really important to do so... as long as we fail fast of course."

Nowhere is the rallying cry to disrupt from within louder than in the new wholesale payments division that the bank unveiled at the start of this year.

Like many big universal banks, JPMorgan was quick to realize after the great financial crisis that transaction services, once considered a necessary but dull part of commercial banking, would become a powerful driver for corporate and investment banking.

Treasury services revenue at JPMorgan has been growing faster than at the competition, up from $3.6 billion in 2016 to $4.7 billion for 2018. That is partly thanks to rising rates in the US, but the division has also been growing its share of operational deposits from corporate and financial customers in all regions of the world.

In January 2019, JPMorgan combined its treasury services business with its merchant acquiring platform, which handles retail and other customer payments for large and many small businesses covered by Chase retail branches. Takis Georgakopoulos heads the new wholesale payments division and reports both to Pinto and to Gordon Smith, chief executive of consumer and community banking.

> We are developing these innovations, like the virtual accounts, because our customers are asking us for them. These ideas come from them, and our job is to figure whether and how we can provide them at scale
>
> - Takis Georgakopoulos

That sounds a little complicated and, perhaps to help, Georgakopoulos asks Euromoney's first question for us.

"Why did we put treasury services and merchant acquiring together? Because they are both scale businesses and combining them helps achieve greater economies. Treasury services at JPMorgan manages $6 trillion of payments a day, while merchant acquiring processes $1.4 trillion a year for about 300,000 merchant clients.

"Remember, we are the only big bank with a captive merchant acquiring business, with most of the other leading providers being independents. Combining them means at the front end we can have one set of rules and processes for client on-boarding and for KYC [know your customer regulations], while at the back end, because both businesses are about moving money, there are components of infrastructure that can be reused.

"But the real benefit comes from using that scale to provide new value-added services for clients."

The bank is building an integrated platform for payments, called Graphite, to replace a previously fragmented infrastructure, a build that began three years ago and today also spans global markets. In that time, the business has grown its headcount and technology budget by double-digit percentages.

The bank is now running teams looking at application interface (API) development, real-time payments, user experience design, blockchain, digital coins and partnerships with fintechs. No other big payments bank is investing at such a rate. And these teams are kept separate from run-the-bank duties and measured on client adoption, not revenue and profit.

What new products and services are bubbling away behind the scenes?

The wholesale payments business has been developing new end-to-end services for e-commerce companies aiming to accommodate merchants selling their goods on multiple platforms across the US, EU and Asia and needing to accept many different types of payment from customers and in many currencies.

"We can handle all methods of payments in the US and EU and will soon expand that to Asia and Latin America," says Georgakopoulos. "We are now proposing a new system of virtual, multi-currency accounts unique to each seller that can access all currencies they receive from purchasers and for which they will be able to set their own rules for paying out to their own conventional accounts."

For large companies, these virtual accounts will be able to provide everything a conventional account does.

"And for smaller merchants, we will have our first prototype virtual accounts in beta testing by the end of this year," Georgakopoulos says.

The benefit for clients is that they will be able to see the full picture of cash flowing in and out, as well as idle balances in all currencies in one place. That should help smaller merchants develop the same kind of cash-flow forecasting insights that the big banks provide to the largest multinational companies.

"If clients leave balances with us, interest on those can offset merchant services fees," says Georgakopoulos. "And because we are one bank running an integrated payments infrastructure across the world, small businesses will be able to see same-day settlement in cross-border payments."

It occurs to him that he may not have made one thing clear: "We are developing these innovations, like the virtual accounts, because our customers are asking us for them. These ideas come from them, and our job is to figure whether and how we can provide them at scale."

Even before the merger of treasury services and merchant acquiring and the latest development of virtual accounts, JPMorgan was already gaining renown as an innovator across the payments business.

Number of firsts

It was the first bank to offer real-time payments in dollars, euros and sterling on its new Graphite platform, and the first US bank to create and test a digital stablecoin, pegged one-to-one to the dollar, for instantaneous cross-border payments.

Takis Georgakopoulos

This works on the Quorum blockchain and the plan is to allow wholesale clients eventually to use variants of JPM Coin in other fiat currencies too.

Last year, JPMorgan became the first bank to bring blockchain into full production in payments, with its interbank information network (IIN), which uses distributed-ledger technology to speed up checking on transfers between JPMorgan and its relationship banks that may have been held up for sanctions screening or due to incomplete filling in of information fields.

“We were early adopters of blockchain and trialled it extensively, moving money cross border within JPMorgan. But moving money internally or among our correspondent banks is not really a problem 98% of the time,” says Georgakopoulos. “It’s quick, it’s secure, it’s straight-through processing.”

The problem is the 2% of the time when a payment gets stopped due to incomplete identity information for example, which can require going back from bank to bank in the network to check who has the information in the missing field. That has traditionally been done by email and phone calls, and can take days or even weeks.

“That 2% can amount to 80,000 payments a day for us,” says Georgakopoulos. “So having a network where every one of our correspondent banks is connected to every other and can quickly check those information fields, without having any one central depositary hold all that information, is immensely valuable. We have more than 250 correspondent banks now signed up. The next step is to encourage more to go beyond signing and start using it every day.”

And what is the longer vision for the IIN?

“Right now, this is only for our relationship banks with certain KYC and AML [anti-money laundering] standards,” says Georgakopoulos. “But in the future, it is possible that we may open it up to corporate clients, maybe to e-commerce companies and ultimately even our competitors.

“It is possible more services may go onto the network. We do fraud detection very well. We have very big lists of bad beneficiaries and excellent algorithms for detecting anomalies. Smaller banks just have less history and data to work with. I could see a time when we might provide that through an API on the network, which might also be the perfect place to host a KYC utility provided by a fintech. Our goal is to make correspondent banking more secure.”

And what about transacting payments?

With Facebook’s announcement of a new digital global currency, Libra, heightened attention from investors, regulators and customers will focus on banks’ innovations in payments in the months ahead.

Dimon certainly knew it was coming, as he told us in June: “You’ve got Silicon Valley putting tens of billions a year into fintech and then you’ve got the big technology companies. They’re coming in some fashion. It may not be a frontal challenge, but they all want to be in payments, they all want to hold money.”

Will his bank be ready?

“A coin, like JPM Coin, could work on the network,” Georgakopoulos says, “as a means for payments to operate 24/7 and 365 days a year that removes worries about missing cut-off times while minimizing transaction costs.”

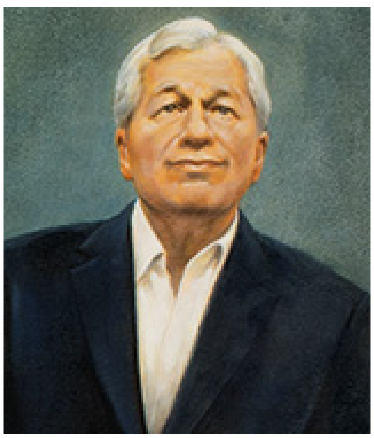
It sounds almost as if a long-term vision is about to become reality.

RELATED ARTICLES

ON EUROMONEY.COM

June 11, 2019

Euromoney FX Survey 2019 – results released

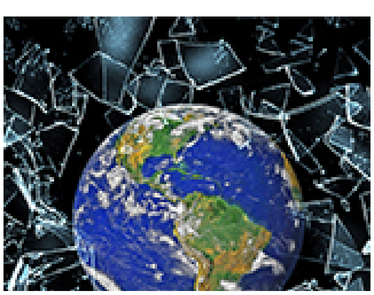


June 10, 2019

The bankers that define the decades: Jamie Dimon, JPMorgan Chase

February 19, 2019

JPM Coin competes with the Federal Reserve as much as with Ripple



April 02, 2019

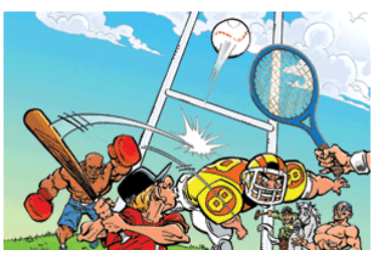
Lurching high-yield spreads show a broken market

January 08, 2019

JPMorgan: Master of all trades

January 09, 2020

JPMorgan: special focus



February 06, 2012

Investment banking: A whole new ball game

October 10, 2017

JPMorgan's David Hudson: Meet Dimon’s disruptor-in-chief

June 18, 2012

JPMorgan promotes FX head Troy Rohrbaugh

JPMorgan promotes FX head Troy Rohrbaugh

December 20, 2017

JPMorgan: Plugging the gaps