JPM AT THE BANK OF AMERICA SECURITIES FINANCIAL SERVICES CONFERENCE

TRANSCRIPT

February 11, 2025

JPMorganChase

MANAGEMENT DISCUSSION SECTION

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

We'll go ahead and get started. So next, delighted to welcome, Jenn Piepszak, who became the Chief Operating Officer of JPMorgan last month. Jenn, thank you so much for joining us.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

Ebrahim, great to be here.

QUESTION AND ANSWER SECTION

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

And I said this to the team when we were preparing for this, I was like it's hard for me to do this Q&A and not ask Jenn, first of all, in terms of walking us through the thought process of taking the COO role, which are big shoes to fill in their own right, but then also removing yourself from the CEO succession sort of, I guess, consideration. So, tell us why?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

Okay. Well, thank you. Thanks for having me. It's great to be here. I would start by saying that it is an incredible honor to even be in the conversation for Jamie's succession. We have an enormous, deep bench of talent at JPMorganChase. And so to be considered among them is a great honor. But we all make our own life choices and have to own them. And for me, it was a life choice.

And more importantly, at this point, I am really incredibly excited about having a Firmwide purview in this new role as COO. As you know, I've been at the company now nearly 31 years. I've been in many parts of the company. So to be able to have this role where I can work across the company in some ways that I think can really add value is exciting for me. And to be able to work with people that I enjoy, that I trust, that I respect, and people that I would be happy to work for in the future is just terrific.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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That's fair. I was going through and you're right, I think. I was doing my homework over the weekend and I was like, you've been at JPMorgan all these years in this Controller, CFO, Co-CEO of the Consumer Bank, Co-CEO of the Corporate Investment Bank, now the COO, and I got to tell myself, I was like, there's only one role she's not done yet. But give us in terms of the transition, like you've been at JPMorgan for all these years in these different businesses, when we think about the COO role, it can be all encompassing in terms of, it means different things for different organizations. What does it mean for JPMorgan and how do you prepare yourself and transition into that scene?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah, sure. So I would start with, you had said in the last question, big shoes to fill. There's no doubt about that we're all going to miss Daniel Pinto very much. I have the benefit of not only an extended transition right now, but have had the benefit of learning from Daniel for many years now. At JPMorgan, I would say, like many roles, they are what you make them. And so, I think this is a real opportunity to have some direct responsibilities, but also a chance to engage across the company.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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So just in terms of my direct priorities, technology is an obvious one, the modernization agenda, which I'm sure we'll talk about, migration to the cloud, cyber of course, our data agenda, working with teams across the company around strengthening the foundations of our data as we think about how data is aggregated and consumed across the company, and then modernizing our data to make it AI ready. And then having an opportunity in corporate strategy is part of what I'm responsible for as well. And so there are a number of strategic initiatives that cut across the company. That would be obvious places for me to engage.

But then as we think about our own strategic offsites, we have one in July as an Operating Committee, really setting the agenda with Jamie and the Operating Committee around the most important strategic priorities for the company. And then talent development, leadership development, working with our fabulous HR team to develop the next generation of leaders of the company.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

I'd like to come back to some of these, but maybe before we get to the bank and sort of double click on some of the issues you mentioned, just talk to us about the macro operating backdrop. As you think about internally what you're hearing from bankers, the clients, there is some optimism around the policy backdrop, but you also had headwinds in terms of, what, tariffs, immigration, higher rates than expected could mean. Would love to get your perspective.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So, I mean, it's obvious that the new administration and all the changes and potential changes are taking all the oxygen in the room. But we shouldn't lose sight of, we were just talking about before we came up here, that the underlying economic environment is still very strong just going around the world. The U.S. continues to deliver strong growth. China is recovering. Japan is experiencing a resurgence. The emerging markets have been resilient. I mean, the only real area of weakness is Europe. And so, as we as we think about absorbing all of these changes and I'll come to the policy changes in a moment, but as we think about that we're really starting from a very strong foundation. And so, I would say there is general optimism. Clients, however, are, because there's still a lot we just don't know yet, and so what we hear from clients is optimism, but a bit of a wait-and-see approach around committing to significant investments in CapEx.

The Fed, we heard from Powell this morning, not surprisingly, on hold for now, probably an asymmetric bias to cutting perhaps later in the year if there is any area of weakness versus a much relatively higher bar, I would say, for them to resume hiking.

And then when we think about the policy, there's sort of the headwinds and the tailwinds which we've all been talking about now for weeks, but the tailwinds of taxes and deregulation and the headwinds of tariffs and immigration, and it remains to be seen kind of where that all nets out. But I think there's reason to be optimistic that it could be a net positive. But again, kind of a wait-and-see approach in terms of the overall cautiously optimistic sentiment.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Right. I think you phrased it well in terms of taking out all the oxygen in the room. I think Mary Erdoes was at Davos and talked about having war rooms set up to kind of analyze what the executive order is coming out of the administration. Like talk to me, I mean as the Chief Operating Officer now, how does a firm like JPMorgan digest what's coming out and the implications both for the bank and for your clients?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So, first of all, it was kind of funny that the war room comment got picked up quite a bit. I mean, at JPMorgan, it may not surprise you to know that anything that we think needs a sense of real urgency and it needs rapid communication on something that's very relevant and time sensitive and moving fast, we create war rooms. They may be literal, they may be virtual. And what this meant is that this is a really important

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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thing and we need to rapidly digest and disseminate all of our learnings. And that's really – it might have sounded more dramatic, we do this all the time at JPMorgan.

And so, right now, as we think about digesting all of the change, just in terms of banks, I mean some of you may have heard Jeremy this morning, we still just don't know where a lot of this is going to land. And of course, details will matter, and so it's unclear. But I think, most importantly, like this isn't about for us deregulation for deregulation's sake. So, just less is not necessarily the answer if it's less of what continues to be, not coherent, holistic. And so what we are hopeful for is that this is an opportunity for real coherent framework within regulatory agencies and that when it comes to policy that there's an opportunity to, particularly as it relates to the capital, the liquidity rules, consumer fees, things like that, for there to be real thoughtful work done around not only the intended consequences but the unintended consequences, and that we have a rational framework to operate in and that really allows banks to do our jobs in serving an inclusive economy.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Got it. I guess maybe coming back to the bank and maybe about halfway through the first quarter, just talk to us in terms of activity that you're seeing, particularly on the capital markets front?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So, pipelines are healthy, deal flow has continued particularly in DCM into the quarter. For IB fees, we at this point, of course, we're only halfway through the quarter, I have to give all sorts of caveats that a lot could change. But right now we see IB fees up mid-teens year-over-year. And so, in terms of the outlook in Equity Capital Markets, we expect healthy issuance. We think we should see a real resurgence in IPOs. We've seen a few IPOs priced so far, but whether it's tech IPOs or whether it's just a strong backlog of healthy companies owned by sponsors who are looking to monetize assets or return capital to LPs, that we should see a healthy increase in IPOs year-over-year.

DCM, DCM issuance has remained very good, but last year was a very strong year for DCM. So year-over-year comparisons may be a little different there. And then M&A, while it will take some time to play out, still optimistic that that should be a tailwind for us as we move through the year. And then on the market side, the momentum, I would say, has continued into the first quarter here. And so with the same massive caveat that we're only halfway through the quarter and a lot could change, these things are very difficult to predict, but we think there, Markets up low double-digits year-over-year.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Sounds constructive.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah, constructive.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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As of Feb 11, that is.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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As of February 11. Thank you for emphasizing that.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

But just talk to us, so it's interesting, right, we talked about this policy uncertainties, but it seem like the corporates are moving. When you think about M&A, just you're seeing that a little bit more in the capital markets side. Talk to us if you can, in terms of the M&A pipeline and is there enough certainty for corporates to actually act on strategic actions given how much of a headwind anti-trust DOJ had become to M&A over the last few years?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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I think there's reason to believe that that certainty will be delivered. But I think, first of all, these things take some time to play out even when the certainty is delivered. But I think, we probably need to see it first.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Got it. And I guess taking this to lending, maybe not really seeing many tangible signs of life, talk to us what you are seeing from commercial bankers, commercial clients around drawing down on lines, borrowing more? Is that any green shoots there?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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So lending demand has remained muted. And even though we have seen many companies continue to access like loan and bond markets, a lot of it has been refinancing activity. And so, while we have seen healthy activity it hasn't necessarily manifested itself in loan growth. And it is true, of course, going back to the sort of cautiously optimistic sentiment around a wait-and-see approach, I think that is probably weighing a little bit on loan demand at this point.

There are perhaps green shoots in infrastructure and data centers. And then on the CRE side, actually, there perhaps there are green shoots. I mean, originations have been – continue to be low on the CRE side because that will be dependent on a more stable and lower rate outlook. But as we look at Office, it is – vacancy rates remain high but we have seen green shoots in leasing activity up a bit year-over-year in places like New York and San Francisco. So that obviously has a way to go. But it is possible that those are some green shoots. Multifamily is still in high demand.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Got it. Maybe just going back to the bank in terms of, I think it's about over a year since we combined organizationally the Commercial Bank and the Investment Bank, if you don't mind reminding us the thought process around bringing these together. And how smooth has the integration been so far?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So I'd start by saying that the combination of the Commercial Bank and the then Corporate and Investment Bank is the synergies are actually quite obvious. And I'll talk about them just in terms of removing organizational seams to better serve our clients. So perhaps the question is like why not sooner?

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Why? Right.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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And there, it is really about our Middle Market franchise. So, 10 years ago, our Middle Market franchise was a nascent effort, and today, albeit still in a very fragmented market, so still a lot of opportunity for us. We have a leading Middle Market franchise in the U.S. And so, what was really important to us over that time period was to remain focused on growing the Middle Market segment. And it is quite possible when you're trying to grow a Middle Market business. And I know this in the consumer side, when you're growing your small business franchise inside of the behemoth that's the Consumer business or you're growing your Middle Market franchise inside the behemoth that is the Corporate and Investment Bank, sometimes you can lose focus. And so it was really, really important to take extraordinarily talented leaders and have them focus on growing that franchise. And it has proven to work very effectively.

And so bringing them together now felt like the exact right time, because we now have an at scale Middle Market franchise that in combination with the Corporate and Investment Bank, frankly, all of it is even more powerful. So, both were extraordinary franchises in their own right, very well optimized between the two. So we shared KYC, we shared loan systems, so that we didn't have – this was never about expense synergies or productivity for that matter because they were well optimized, great partnership between the two.

But it is true that whether you're serving a client segment that behaves more like an ecosystem, think Innovation Economy where you have you have VC firms, you have portfolio companies, you have founders, you have GPs, LPs, serving that ecosystem with an organizational seam was more challenging. Because as much as we worked very hard for that not to be the case, when you have a product that exists in the Corporate Investment Bank but doesn't exist in the Commercial Bank because it's for more sophisticated needs or larger scale needs, moving that client from one business to the other unfortunately was more of a disruptive experience than we would have liked.

And so removing those seams makes a really big difference in terms of growing a corporate from the early stages all the way through up to IPO and beyond. And then when you think about, talk about the Innovation Economy, sponsors is another area that we are just better able to serve as a combined organization.

And then lastly, I would just talk about our serving mid-caps internationally. So, there we had a relatively small effort in the CIB and the beginnings of one in the CB. And so, this really allows us in combination to accelerate our coverage of mid-cap corporates internationally.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Got it. That's helpful perspective. Any areas of friction when you think about just combining these businesses together, does that require changing incentives or does it lead to natural attrition when there were folks who enjoyed the way things were the old way, are not on board with the new plan, any of that?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah. I mean, I think I would describe it as areas of complexity rather than areas of friction. I mean, it is true that even combining two organizations – it's a great question, because combining two large organizations, even within a company, can feel very much like a merger. You don't necessarily have the very significant challenges of combining cultures which usually is the most challenging part of a merger. But we didn't share everything.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Right.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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So, there are CRM systems. There was, of course some people decisions. So, there were areas of complexity but not friction. And we feel great about where we are at this point, because we took the better part of 2024 to get it right. And we feel very well-positioned now for this year. We're hitting the ground running and beyond.

And it's just – I would say that there were probably more surprises to the upside than the other way around. I think the areas of complexity were foreseeable. Some of the areas of opportunity and I talked about it a little back with mid-cap corporates, but if you just take a subscale business in a small market in Southeast Asia, we had subscale in the Commercial Bank, subscale in the CIB, you would have thought under the JPMorgan umbrella, they would have combined and felt like at scale but they didn't because of that organizational seam. And now bankers will tell us in those markets that they actually feel like a big difference that they have an at-scale franchise. So, there were surprises but they were all to the upside.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Got it. And maybe sticking with sort of growth and scale in the markets, CIB had a good year in terms of market share growth. One means when you look at that business, the best market share opportunities across that business. Just talk to us around where do you see those opportunities and what does the bank need to do? Is it macro? Is it something what you describe with the combination of the Commercial and Investment Bank? What needs to happen to gain even more market share?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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In Investment Banking?

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Investment Banking. Yeah.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah. So, we have this great table at Investor Day last year and we've all referenced it a lot, so I imagine you'll see it again this year and we'll talk about our progress. But the table was three rows, so three products, ECM, DCM, M&A, and then it was 28 columns for 28 subsectors. So 84 boxes. And of the 84 boxes, 48 of them were yellow or red, meaning we're not number one, which is extraordinary opportunity when you think

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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that 48 of them. So I think, it's investing in capabilities whether it's product expertise, but it's bankers. It's hiring bankers in key sectors like tech and healthcare and making sure that they have access to the greatest resources, not just our balance sheet but everything else that we bring to serve clients and do it kind of one box at a time.

And I think beyond our global reach and product expertise and whatever, I think the thing that can differentiate us, and we just have to stay incredibly disciplined around investing, is the fact that we can invest through cycles and so global, diversified, at scale. That means a lot of things. But it means that because of that scale and because of that diversification, we are able to absorb economic cycles in a way that allows us to continue to invest. And so that's what we can and what we need to do.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Got it. And maybe if you could spend a few minutes on the Payments business.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

It's a huge focus from an investor standpoint, but I think there's a lot that gets thrown under the Payments umbrella. So, give a sense of what the Payments business means for JPMorgan and then the growth runway that you have and the investments that you made in the business over the last several years?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah. This is a great question too, because this is another area where the combination of the CIB and the CB has been very powerful because of the opportunity that we have in Payments. We've gained a lot of share over the last several years. We're very proud of that. And that's not just because what we have seen in particularly the TS space, is what we've seen is consolidation into the bigger players. But for us, that is where the success of our Middle Market franchise has really manifested itself in share gains within the Payments business. And so, where we need to continue to focus there would be on closing product gaps, whether it's FX capabilities, focusing on priority corridors for multinational clients or whether it's continuing – we have a strong FIG franchise, so staying focused on that. But really making more progress with corporates. We have an opportunity, we're relatively underpenetrated, I would say, compared to the FIG franchise in corporates.

And then geographic expansion. It's sort of similar to retail branch expansion in the sense that we have to invest market by market and so, whether it's Mexico, Brazil, China, the Middle East, is an opportunity for us. So, you'll see us just very disciplined investing to build out not just the product gaps or the coverage gaps, but importantly, the geographic gaps that we have in the Payments business.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Interesting. And I guess maybe rightly or wrongly, blockchain, digital assets, crypto get tied to payments, and what a more defined regulatory backdrop could mean for digital assets within the construct of payments?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Right.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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So, I mean, JPMorgan's had the JPMorgan Coin for a long, long time for your own clients. So, one, how do you use digital assets today in terms of the JPMorgan Coin and what will having a regulatory framework allow you to do that you're not doing today?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Right. So it's interesting, because you say rightly or wrongly, it gets tied to the Payments business and it is rightly in the sense that like what we're talking about is the digital movement of money. It's wrongly in the sense that like, we do that really well. And so there are definitely opportunities to do it better, which is where the benefits of sort of distributed ledger technology come in. And so, while we don't offer cryptocurrencies or stablecoins, as you know, we have been working with blockchain technology for a very long time. And the products we offer are, as you say, JPMorgan Coin, which are on chain value exchange products or the ability to tokenize different asset classes.

And so JPM Coin is just that, it's a digital representation of a bank account. So, it allows for the things that we don't do so well which is real time settlement, it allows for that. And then Kinexys Digital Assets platform, is our platform for tokenization of various asset classes, whether it's Treasuries or mortgage-backed securities, corporates, munis. So that's our digital assets platform.

And so, a clear regulatory framework would be, of course, helpful, it always is. There are – one example of that would be banks are required to build on private permissioned networks. And to achieve real scale, you need to be able to build on the public blockchain. So that's one example. But I would say, regardless, we would stay very focused on pain points that can be solved through distributed ledger technology and customer demand.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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In your view, I know this only in a limited extent, but like if I go back five, six, seven years ago, there was a lot of enthusiasm around blockchain and what it could mean on efficiency. Obviously, you use a lot of the technology at the bank, but has it progressed slower than you would have expected, if you go back six, seven years ago in terms of its adoption and how much it's going to be used within banking?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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I think so.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

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Why is that?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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So I think, if I go back, I don't know about five, six years, but certainly 10 years ago, I mean I remember thinking, this is going to be transformational and it has probably, relative to the excitement back then, moved more slowly. I think, in part, because all too often these

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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things, they're aimed at problems to be solved. But people fall in love a little bit more so with the solution than with the problem. And I think, there are very real use cases for it, but perhaps not as many as we once thought 10 years ago, I haven't really given this a whole lot of thought. But I think that's probably it, that it was – it seemed like a very exciting solution. But there was a reason even back then when we were all so excited about it, we were all still asking like what problem are we solving here? And I know this probably even more so with consumer payments, that getting adoption, getting behavioral change is very challenging, especially when it's just a fancy solution that isn't necessarily addressing a real pain point. But I think where it has addressed pain points, you have seen that adoption. Yeah.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Make sense. And just switching to, when we think about what regulation has meant, I think one of the byproducts has been a lot of emergence of non-bank competition across different businesses. So, take it whichever way you want, but just talk to us, when you think about non-bank competition be it in trading or fintech, like what does that mean? Where do you see the biggest threats to the bank or to the banking industry?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So, first of all, we focus on competition, not necessarily non-bank versus bank competition, although you're right in the sense that every competitor brings relative strengths and weaknesses. And so, we do think about those very specifically. I think, having a culture of sort of, only the paranoid survive and a lot of humility, which is, we are incredibly proud of the places where we are doing really, really well, but we never take that for granted. And more importantly, we double click to find the places where we can get better. And oftentimes when we double click and find a place where we can get better, we realize that we've ceded ground to non-bank competitors.

And so it's really important to make sure that you are incredibly disciplined and focused on serving clients and customers regardless of whether you're in wholesale or consumer. Because when you take your eye off the ball, is when you kind of create that space for particularly a non-bank competitor to make inroads. So as we think about private credit, we probably don't go through a week, sometimes not a day without talking about private credit. And there, we actually feel very good about where we are and very well-positioned, notwithstanding the fact that we bring a lot of paranoia and humility to that competition. But there we can offer a more – like we can offer a client-focused, product-agnostic solution in the sense that we can offer either a direct loan or a broadly syndicated loan or access to the bond markets and be very focused on what is the right client solution while at the same time financing private credit portfolios or partnering with direct lenders in our co-lending structure.

So there is space for us to be appropriately paranoid about the competitive threat of non-banks, but enough space to also partner with direct lenders to grow our co-lending structure.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

Just maybe switching to expenses and when we think about the CIB, it was a good year from a positive operating leverage perspective. This means – JPMorgan is known for making a lot of investments all the time. When we think about what's already been invested and the operating leverage that's embedded in the franchise, just talk to us what we should expect going forward?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So operating leverage. While the spirit of operating leverage is incredibly important to us, meaning we need to get better, faster, cheaper all the time and get more productive all the time, that it's very difficult in a business with volatile revenues to sort of look at operating leverage as some sort of temperature check on that level of productivity. So for us, I wouldn't focus on operating leverage so much as focus on unit cost improvement. And so, it is it is really important that we deliver that kind of unit cost.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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So when I talked about double-clicking on competitors and double-clicking on the places where we can get better, double-clicking on your expenses is something that we do with great discipline. So whether it's looking at overall the expenses for KYC as an example, may look relatively flat, but volumes are up significantly and unit cost is down 40% over the last several years. So, or whether it's cost per trade in Custody or Middle Market banker productivity, looking at all of those things is what you should expect us to continue to deliver versus just being able to deliver on operating leverage because of a volatile revenue line.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

I guess maybe going back to, I think you touched upon this in the beginning around tech spend and data, just give us a mark-to-market on where the franchise is in terms of big technology investments and what are the top two or three priorities for you as you look out the next few years?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Sure. So on tech, we have probably hit peak modernization spend. We have largely, with a bit of work left to go, migrated to our strategic data centers. The strategic data centers are 30% more efficient and resilient. And when we think about migration to the cloud, 65% of our apps are now running a significant amount of their workload in the cloud. And so when you combine apps that have been moved to the strategic data centers or apps that are now operating a significant amount of their workload on the cloud, that's 95% of our applications. So like I said, probably past peak modernization.

Having said that, we'll be modernizing for the rest of our lives. And so that doesn't drop to zero. That comes off the peak, but doesn't drop to zero. And then is more than offset really by taking that and reinvesting in products and platforms and experiences. And when we look at the level of demand for compute and storage, that continues to increase as well. So, while we're off the peak level of modernization spend, we still see our overall tech expenses going up. And so, we were just under $17 billion in 2024, we expect that number to be closer to $18 billion in 2025. That is not new news in the sense that it was included in the guidance that Jeremy gave at fourth quarter earnings and in fact, was on a slide that he had there. So $18 billion of tech spend. But again, underlying that, delivering unit cost productivity.

And so, our priorities on top of cloud migration, completing that and data center migration, would be business by business as we think about continuing to modernize platforms. But importantly, investing in products, new products and platforms, and of course, AI which I'm sure you're going to get to because no fireside chat is complete.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

The banks are all about AI, so. But on that side, I think when you think about – technology has impacted productivity in banking for decades.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yes.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

When we think about using your metric around unit costs, in terms of what you've achieved over the last 5, 10, 15 years, is the runway even greater going forward? And what role can AI play in bringing down those unit costs?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

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Yeah, so I don't think we know and we don't know over what time horizon, but there's every reason to believe the answer is yes. I mean, the world has gotten more and more productive forever, and there's reason to believe that AI certainly could transform, completely transform many of the things that we do. We've been using AI and machine learning, you just talked about banks getting more productive for a long time. We've been using AI and machine learning for a long time. Fraud, consumer fraud in particular, is a great example where, again, the headline number because of growth in volumes has increased, but the unit cost has come down dramatically because of advanced machine learning models.

And so we have more than 450 use cases across the company and they range from things like risk management, payment processing, trade optimization, customer service, personalization. So you see that in revenue, not just in expense. We have two very significant domains right now where we're focused around voice and document management. So voice on the consumer side, but then sharing those learnings with the wholesale side, document management on the wholesale side, sharing those learnings with the consumer side. So, and then in terms of generative AI, we have about 70 use cases that are embedded in that 450 that I mentioned. But more than 200,000 employees now have access to LLM suite, which is our proprietary GenAI platform. And so, I think that there's almost no doubt that it will impact everything we do to some extent and completely transform many things that we do. But the time horizon, the next few years is probably a bit too soon to see that. But there's certainly opportunity for that.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

And anything anecdotally from the LLM and AI assistant you'll have internally, and how has that impacted productivity?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

Yeah. So, there I think, there'll be many cases where it's a unit cost improvement on a very big process. But then, there's also 1,000 points of light, which is why it's really important that you thread that needle from making sure that you're very focused about things that can have the greatest impact, while at the same time making sure that you get these tools into the hands of the people who can make everything they do a little bit more productive. And so, in some ways it has to be about 1,000 points of light. But the way we do that is making sure that everybody is accessing the one platform, the LLM suite that we have built, because then we can control how it's being done and over time measure it.

But we want everyone, because who's best suited to figure out how they can save two hours in a process that normally takes eight, are the people that actually do that. And if we if we say, we only want to focus on the big rocks, we'll be missing out on what could be a massive multiplier on a bunch of people saving two hours on a process that used to take eight. So, it's a balance.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

And you talked earlier about the franchise moving to the cloud, what does it mean? So, one, when you think about moving to the smart data centers or the cloud, when does that journey end or get close to the end? And what will that mean in terms of productivity, be it revenue growth, expenses? From an investor perspective, how should they think about what this actually means from an ROE, P&L standpoint?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

So, I had mentioned that the strategic data centers are 30% more efficient. Once our infrastructure is modernized and I would say importantly, our data is also modernized to make it AI ready. So it's aggregated. It is consumed as data products that allow our data scientists to be able to leverage the data for AI. It just means the speed at which the speed-to-market as an example for a particular product launch is much faster. And so, how that translates, that's going to translate in hopefully over time, it's going to translate in market share gains and it's going to translate into more efficient processes. But again, that's going to be an Investor Day opportunity, because it's not the kind of thing that because we're a growing business, you'll still see headline growth, but that's where you need to spend the time to look at the underlying efficiency.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

So it could it should make everything we do more efficient. And then you're able to redeploy that human capacity into more value-added activity, which over time should have a benefit, of course, to our customers and our clients.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

We have time for one last question, I want to double-click on, you mentioned international.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

Yeah.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Q

And I think it's been interesting that you've seen a lot of global banks retrench and exit certain countries, et cetera. So when you think about the JPMorgan franchises, talk to us in terms of the international opportunity across businesses, across markets. You mentioned a few earlier, like how meaningful is that and how excited are you about it?

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

A

Yeah. So, I think the Payments business is a good example of that where relative to our largest peer, we have a lot of countries to enter to close the gap from their footprint to ours. And so, continuing to do that. And like I said, being able to do that and having muscle to do it, because it's not easy to enter a new country, and so is a real priority for us. But these are the kinds of things that have long-term payoffs, but they're highly probable, highly predictable payoffs, although they take, but we have the patience and we're lucky to be able to have the performance and the balance sheet that allows us to be patient for those investments to pay off. So I'm excited about that.

The international private bank is another opportunity for us when we think about serving the ultra-high net worth segment in the international private bank. But then I would say, as excited as I am about international opportunities and given our positioning domestically, you may think that that's where all the excitement lies. Well, there is still an enormous amount of opportunity domestically, particularly as we think about continuing to grow the Middle Market business, but also the retail branch expansion, because there it is the case that again while we may be number one in retail deposits, when you look at the top 125 retail deposit markets in the country, there are still many, many, many areas where we're not one, two or three. And those include places like Washington, D.C. and Philly and Boston. I mean, big, big markets where we still have an opportunity for growth and an opportunity to take share.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Sounds like you're just getting started yet.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

It does kind of feel that way sometimes.

Ebrahim H. Poonawala
Analyst, BofA Securities, Inc.

Right. Thank you, Jenn. Thanks a lot for joining us.

Jennifer A. Piepszak
Chief Operating Officer, JPMorganChase

Thanks for having me.

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