JPM AT THE BERNSTEIN STRATEGIC DECISIONS CONFERENCE

TRANSCRIPT

May 30, 2019

MANAGEMENT DISCUSSION SECTION

John McDonald
Analyst, Autonomous Research

Okay. We're ready to get started. We're very happy to have JPMorgan joining us, again, this year. This year, really pleased to welcome Gordon Smith. Gordon is the Co-President of JPMorgan; he's also Co-Chief Operating Officer of JPMorgan, and CEO of their largest business line, Consumer & Community Banking.

Gordon, thanks for joining us.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

You're welcome.

John McDonald
Analyst, Autonomous Research

We're happy to have you.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Thank you for the invitation.

QUESTION AND ANSWER SECTION

John McDonald
Analyst, Autonomous Research

Q

Thought we'd start off a little talking about your macro views. How you feel about the world? Bank stock investors are concerned about the flat yield curve slowing economic growth, trade war talk, where do you shake out on how things feel overall in the economy and what you're hearing from customers?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

I think it was October that I spoke at the Bank of America Conference. And I said at that time I felt very optimistic about where we stood. I think if you cast your mind back to October, you might remember that there was a worry about a trade war with China, that there was a worry about Brexit, and there was a worry about North Korea. And then we went through a period where there was a lot more calm, there was a lot more optimism around the various topics. And it feels like we swung back the other way. So, I'll start with kind of the more negative side of this equation and then get to the positive in terms of what's happening.

So I think the trade war is clearly going to have a meaningful impact on the economy. I've seen various sizings of what that might be. I think it's an exceptionally difficult thing to size. But, clearly, it will affect the economy depending on how severe it gets. So, I think that's a real concern, and it's understandable that the markets are alarmed by it. But we're not anywhere near as volatile as we were when we go back, at least from an equities perspective, to the fourth quarter of last year.

Now, so let's look at how do we stand right now. I think the U.S. consumer and the U.S. economy looks to be in really strong shape. Yes, GDP has slowed slightly. But when I look at overall consumer spending, it looks very strong for us. In fact, we had a good first quarter. And we've probably seen a fractional strengthening in the second quarter so far. So that's really encouraging. We'll talk later on about credit numbers and so on. They look exceptionally good.

So I think you have kind of a bit of a story of two worlds that the core economy in terms of as it's performing today and as the U.S. consumer feels is very positive. People are working, they're doing overtime, their earnings are increasing, and then there's the overhang of what are the storm clouds that we may or may not sail into.

And I think if we were to hear an announcement that said that there is encouraging progress on trade negotiations, I think people would feel like a lot of the thunderstorms would start to blow away. If the reverse happens, then my guess is that we start to see a deterioration. But, right now, I would say that the consumer looks just really strong.

John McDonald
Analyst, Autonomous Research

Q

And across JPMorgan, Jamie, yourself, Daniel, you guys always talk about not predicting a recession, but being prepared for one.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

Can you talk about what that means and how is that preparation factored into the day-to-day management at JPMorgan?

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. We do, because I know an awful lot of people try to predict a recession and a lot of people it's their profession to try and figure out when the recession is. I think what we've always tried to do is always be prepared for all eventualities. And just to give you a little bit of a view of the mechanics of those, Sarah Youngwood, who's the Chief Financial Officer for all of the consumer businesses, used to run Investor Relations, so many of you will know Sarah. She and I hold detailed business reviews for every one of the businesses at least every month.

If we see things that need a little extra attention, we might put them on a two-week cycle. And we dive down into really detailed reviews around pricing and returns and credit performance, what roll rates look like in credit where people – how many customers are rolling from current to 30, and so on and so on and so forth; so very, very detailed view.

And I'll give you just an example, if I could, John, in terms of one of the decisions we took. I'm going to say it was about 18 months ago. We looked at the 84-month plus duration auto loans and we saw no credit deterioration. But when we just looked at the overall returns for those loans, we concluded that there was no room for any type of deterioration in the overall economy during the duration of that loan and, if it did, profitability would at best be marginal. So, we decided we would pull back. Since that time, our share which was relatively modest in that segment previously is down 75%; so a pretty meaningful drop.

Now, if we got that decision wrong, we left a little bit of revenue on the table, but if we got it right and – whether we got it right or whether we got it wrong, it will be an absolutely no regrets decision. So we try to look for those issues, constantly, that might generate a disproportionate amount of risk, and we do that across every business, as I say, at least every month.

John McDonald

Analyst, Autonomous Research

Q

So when you take your comments about the macro, feeling good about the economy, how do we take that down a level and talk about the banking industry environment and financial service environment? What are some of the key industry tailwinds and headwinds you're experiencing in your businesses?

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

In all of the years that I've been doing this, I've never seen the impact that technology is having on our business segment be so positive, be so sustainable, and have such longevity. And so I think the move to mobile and digital, where we are investing exceptionally heavily, is driving down our cost structure. I know you'll tell me expenses go up, and I'll talk about that a little bit later on. But I said at Investor Day that, from about 2014, our pure cost to serve is down about 15%.

So what do we do in terms of calculating that number and why is it relevant? We try to look at just what does it cost to maintain a relationship with the customer; inbound telephone calls that need to be dealt with, sending out statements and so on and so forth. And then we separated out from that math the cost of technology development, the cost of marketing, the kind of building the business cost, including technology where we're working on things that are going to drive the future.

So I think what you're seeing is that the move towards mobile and digital is giving us a much stickier relationship with the customer, much more longevity. We see the best retention numbers we've ever seen. The cost of those transactions, so even a voice response transaction, think of as roughly 35 cents, and then if you think about a voice call at roughly 4 bucks, and then you think about a mobile transaction, a penny, it's enormous operating leverage that it begins to generate over time.

And then the last point I would make on that, our ability to have the customer be connected with multiple products is greatly enhanced because you can make the products work together so much more simply and intuitively on the mobile device. So, I think that trend is just going to accelerate.

Machine learning, artificial intelligence, I would say, we at least are right at the beginning of that journey and already seeing – what we've tried to do is to pick three or four across the consumer businesses, I'll call them use cases, but where we can really apply those capabilities and really drive outcomes rather than have 100 of them which are unlikely to bloom. And we've already seen a meaningful improvement in managing fraud as a result of machine learning and artificial intelligence.

So there are a whole bunch of tailwinds, which I think are going to be really helpful. The headwinds are the obvious ones that are talked about on TV 24 hours a day, seven days a week, but those pass. So I think net-net, as an industry, I feel very good about the short, the medium and the long term.

John McDonald
Analyst, Autonomous Research

Q

Yeah. In the collection of businesses that you oversee, CCB, you've been exceeding your ROE target, running at 28% recently and your longer-term target 25%. What's enabling you to kind of outperform that, I guess, a kind of a through-the-cycle target?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Returns are good. I don't expect over the short-to-medium term for us to drop back down to be within our range; but, over the long term, 25% is the right number. Over the long term, we'll start to see credit numbers begin to normalize. It's hard to even say they're normalizing now because they're moving, thankfully, at an exceptionally slow level, which is really positive.

So, over time, interest rates will move and credit losses will move, and so that's the right long term guidance. In the short term, I see no real deterioration from what we saw at the end of last year, the first quarter, and I think we'll continue to outperform that metric.

John McDonald
Analyst, Autonomous Research

Q

So, it's been about a year you're into your role as Co-President and Co-COO. What has been the main area of focus and what are you looking at in 2019 and beyond in that role?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Well, firstly, many of you know Daniel Pinto, who is my Co-President with me, and he's just absolutely a pleasure. So, in these situations, people like to look for the shards of daylight between people. It's actually a great relationship and a wonderful partnership.

We've really tried to help Jamie across the whole company. So, we do business reviews for all of the functions. When I go back after this meeting, we're doing the legal functions business review. We do HR. We do finance, and so on and so forth. We help with – think through the issues around succession for the company at various levels and talent movement, both running technology, help us to look at prioritization of technology dollars and so on across the whole firm.

So, I think what we've both tried to do with Jamie and with the Operating Committee is just to play "yes to own" and spend obviously significant amounts of time on our two businesses, which represent 80-plus-percent of the overall firm, but then to be able to spend more time looking across JPMorgan Chase, looking for the synergies.

And the last example I would give you is we looked at Merchant Services and we said, you know it might make a lot of sense to better put that into the Wholesale side of the business. We looked at the kind of value we could add for customers if we do that, so we made that move.

John McDonald
Analyst, Autonomous Research

Q

So sticking with the idea of management change, you've had some moves made recently.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

And you have Marianne coming in to lead Consumer Lending in your organization and Jennifer becoming the new CFO of JPMorgan, overall.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

What's the rationale behind these moves and why does it make sense for the company and the new structure for CCB?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Well, I've worked with both Jenn Piepszak and Marianne for 12 years, and they're just both hugely talented. And I'll cover some broader development points in a moment, but we thought it'd be a great opportunity to give Marianne, who I think you would all agree was just a superb CFO, just superb, and had been in that role for many years – I forget precisely, but six or seven years magnitudinally. And we said we should give Marianne the opportunity to run a business. In fact, we've given her the opportunity to run three businesses and three really big ones.

And so, again, between Daniel, myself and Jamie, we looked at the various alternatives. And remember, in January, Daniel made some pretty significant changes across the Investment Bank, again, all designed to keep developing and growing talent so that more people know more about the entire firm. And so, we made this change and said there are some obvious synergies between credit card, mortgage and auto finance as the lending businesses, and we wanted to give Marianne the ability to be able to run one as the CEO and have the other two businesses report to her.

So what do I mean by that? So, both mortgage and auto finance both have CEOs that report into Marianne, and she day-to-day runs the credit card business, which is very competitive as you all know, and has plenty of its own complexities, we felt it would be a great mix of businesses and it was synergistic. So we made those moves. But there are also a whole group of moves that you don't necessarily see where we are taking people from finance and moving them into risk management or from risk management and moving them into directly run a business with, again, the objective of – customers travel through a company east-west and the organizations tend to be structured north-south. And so, the more that we can take our senior leadership team, and I think of that as not just a top 15 at the Operating Committee, but kind of the 200 odd people below that – 250 odd people below that, and keep broadening their skill sets, have a better view of the customer, a better view of how the business is run and a more holistic view of the entire firm.

John McDonald
Analyst, Autonomous Research

Q

And how about the bigger picture succession question? Jamie has kind of said he'll stick around for five-ish years or rolling five-ish, but when people think about CEO succession, can they have confidence that the core drivers of JPMorgan's success, its culture, its discipline, the planning, the intensity that you talked about, are those been institutionalized and will they survive Jamie and any changes at the top?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Well, I hope he keeps going with his rolling five years because he really is an amazing CEO. But the answer to your question is very simple, yes and absolutely yes. I think those disciplines that you see in the company go very deep down through the company. The openness with data so that everybody can look at it, that everybody can opine that we're very analytic about the things that we do really focus on the customer. And I would say, over the last decade or so, certainly post financial crisis, we've evolved from being a company that's grown through merger and acquisition to a company that's grown entirely as an organic growth company.

So I think all of those attributes are deeply embedded in the culture of the company. And just one other thing I would say about it's very obvious and understandable why Jamie's succession is what gets the vast majority of the ink, if we can still have ink in a digital world, but the vast majority of the press. That's understandable. But what we all worry about is, yes, the CEO, but who are the 15 people or so plus or minus that will be on the Operating Committee of the firm that will steer it for the next decade, the decade following Jamie's rolling five.

What will be that group of people? And so, no one person can go into that role and run it by themselves. So, going back to, you know John, your earlier question about the moves that we made with Jenn and Marianne and others is we're trying to make sure that we've got a really talented cadre of people who can move up and be ready and comfortable in those big jobs, and be able to be in them for many, many years.

John McDonald
Analyst, Autonomous Research

Q

So, could we talk a little bit more about the firm-wide tech budget and where you're prioritizing that? I think Marianne pointed to a budget of about $11.5 billion this year, which is up 6% or 7% from 2018. Top of the house, where are you prioritizing that, where are you investing more and where do you feel like your technology is already best-in-class and where will be the growth areas?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Interesting thing, when you take the $11.5 billion and just simply kind of disaggregate running the ship from investing in the future, the running the ship number has been flat to marginally down since about 2016, so we've just seen very progressive improvements on an absolute dollar basis.

So, remember, that during that period, obviously, we've seen meaningful growth in each of the businesses. And then, obviously, the increase that you're seeing is us continuing to make investments for the future of the firm. So, I think that's very important from an investment perspective in terms of how much does it just take to keep the lights on every day.

We go through a very disciplined process for each of the businesses around how we spend the money. There are obviously some basic things that we prioritize immediately where regulatory issues exist. We put whatever money is required behind those issues, make sure we've got the right tech teams, the right investments so that we can fix those issues and fix them permanently and fix them fully to the satisfaction of our regulators.

Then there are day-to-day activities, and this is a relatively small number, but we'll find flaws in our delivery to customers and we just allocate through our operations organization a very modest amount of money that Sarah keeps a very close eye on that they can just deploy on fixing problems. What you don't want when somebody comes around and says I got this issue on a screen that's affecting 1,000 people, you don't want somebody to have to go through a return on investment process to go fix it. So, Sarah gives them some money, they just go out and get those things done.

Then we get to the vast majority of the money and we have a disciplined process to review what's the return on investments, NPVs, what are the overall payback for the initiative set. We break things into horizons and just – so think about the first horizon being what I would just think of as tried and true. We put money to work on X, Y or Z, we just know what the return is going to be.

The second horizon will have a pretty good feel, but there might be some learning to do. And then the third, which is generally very modest, think about 5%, 7%, 8% of what we do where we're really exploring. And a firm of our size should all be exploring. And then what we'll do, so we'll deploy the money to folks, and then we will go back and do reviews and say what was the performance, the financial performance, the impact on the customer of those investments relative to the business case and what our people said they would be.

John McDonald
Analyst, Autonomous Research

Q

So, JPMorgan's expense growth has been higher than peers, but your revenue growth has been significantly more than peers. You've had good operating leverage. How do you manage the – I think Jamie often says, well, quarter-to-quarter things aren't as important as the long term, but you also want to deliver good near-term results. So how do you balance year-to-year delivering a nice gap between revenue and expense growth and then making the right investments?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. We don't start with operating leverage and you know there have been years where we haven't had it. But what we try to do is to say – and actually interestingly, from a budgetary perspective, we've actually been able to automate a significant amount of the preparation of the budget. So, if you think about a big firm, there are thousands of cost centers and thousands of cost center managers. And with the best will in the world and the strictest guidance, if everybody puts in 5% of conservatism in their numbers, and then it rolls all the way up and Sarah and I get the numbers, and they're like a billion and a half dollars adrift of what we expected, and then we have to go back and do a little coaching.

When we go through more of an automated process, we use the run rate for the businesses. What are they actually generating? We do certain specific overlays, and then we ask the cost center managers to look at the numbers that we're giving them and to come back to us with a reason or justification as to why they're different. So, it's leading to a more efficient, less bureaucratic, and more accurate outcome for us.

So we'll run through kind of where the businesses are headed and then we'll overlay all the various investment ideas that people have, and we'll try to invest in all of the ones which we really like. We really will try to say can we draw the line at exactly the point, make sure that we've covered everything that's got that meet our return hurdles. We don't always get there, but pretty often we do.

And then we'll look at, okay, now what's the outcome in terms of our efficiency ratios and so on. And sometimes we might conclude we're going to let those ratios deteriorate because we can see with a high degree of certainty that the things that we're doing are going to deliver materially better value, materially better outcomes, and I think you're seeing that from the investments that we've made in mobile and digital.

John McDonald
Analyst, Autonomous Research

Q

Yeah. And that's also translating to some flattening out of your cost curve.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

I know, at the top of the house, Marianne talked about the cost curve kind of flattening out, and your business, you've talked about flattish expenses and the efficiency ratio improving...

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

...for CCB from about 53% to going down to 50% over the next few years.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

That's right.

John McDonald
Analyst, Autonomous Research

Q

So, is that because there was some elevated or acceleration of investment or it's just a benefit you're getting from past years?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Much more the benefit from past years and much less a surge in investments. We've tried when we're investing to avoid, and some of you may have come across, these kind of gargantuan initiatives that are many years long and billions of dollars. They almost always fail. There are different definitions of failure; instead of a billion dollars, it might cost you two, and instead of meeting your return hurdles, they might get halfway there.

So what we've tried to do is to disaggregate change down to digestible pieces, and I think an exciting area that we focused on is this kind of – and many are across the industry to greater or lesser degrees, is this whole notion of agile teams where you're pulling technology people and business people and compliance people and risk people all into a room together and giving them a target. And actually, interestingly, we've also tested the teams bidding for the tech development that they want to do and how long they think that will take them and how much they think that they will be able to do it for. And we've seen some fairly meaningful efficiencies in the cost to deliver tech, the speed at which we deliver it and the quality at which we deliver it. And I would say that work is also in its infancy, but quite encouraging.

John McDonald
Analyst, Autonomous Research

Q

And that's what's driving these efficiency improvements in your businesses?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

So you're also taking the show on the road, building out new branches, going in digitally to new markets. So what are some of the early takeaways from the build out? You've got some pretty big plans, I think, targeting 90 new locations in 2019.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

Why is this the right time to do it? Is digitization allowing this to happen in an easier way?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Well, a couple of things. Obviously, we've been continuing to build branches within our footprint for many years. We got regulatory approval to allow us to go more broadly than our existing footprint into new states. So that's one facilitating factor, and obviously a very important one, that the regulators had the confidence to allow us to do that; and, it's really been an interesting journey for us. I will come back to the digital and mobile piece. It's all very new. So I want to be really clear that we're the first kind of – think of us as being the first kind of 15 or 20 branches, but we're probably 2x the business case at 15 to 20 branches and just a matter of six months, nine months in.

But it's a much better problem to have than us to look at it and say we're nowhere close to where we wanted to be. So it's actually been really encouraging, really encouraging, the type of momentum that we're gaining.

I think there's a piece of that that says our brand is very well known and people want to try it, there's a piece of that that says we've got a national credit card business at huge scale and credit card customers who like the product, want to try it, there's a piece which is people like our digital and mobile capabilities in retail banking.

But, net-net – and over time we'll parse these things and understand them better, perhaps even by Investor Day, but they just need time to mature. But I would say at the earliest stages – our development is – our extension into the new markets is really encouraging.

John McDonald
Analyst, Autonomous Research

Q

Is there a certain level of market share you need to get to in a new market to be profitable or acceptably profitable?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Well, one of the numbers that we like to look at for each Investor Day is how many of our roughly 5,000 plus or minus branches are profitable. So each one has its own P&L. So though I would check the numbers for today and it's 5 are not profitable. So of our 5,000, there are 5 branches which are not delivering positive returns for us. And that's all part of the mechanics that we deliver every day.

The way we try to approach the branch network is we thinned out the density in certain areas, so where there may have been three or four branches in a 2-mile radius, we may take one out. And we have a – it took us a little while to develop this, but a fairly detailed playbook in how to actually do that and not lose the customers and not lose the deposits. And that's actually worked really well for us. We have a very good sense of density.

The scale in terms of having us be profitable is really not an issue for us because we've got scale across the United States. But again, I would say the early signs are that the new branches are going to be very profitable and I'm pleased, at least for the first few months. Nobody update any models; way too early. I'm just giving you an early observation.

John McDonald
Analyst, Autonomous Research

Q

And how would you characterize your strategy for competing for deposits? Judging from my own checking account, I would say you're not a price leader, you've got a great mobile app and I suspect you are attracting folks on your technology and your reach and your brand, like you said.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

So what are you seeing in terms of deposit pricing competition and what's your strategy for competing in different markets?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Well, customers, when they're choosing a bank, are looking at a whole number of factors. What is the value proposition that the product offers, the quality of the mobile device? I mean, just look at some of the things you can do on your mobile device, now, that that you could never do previously. If I wanted to send you $10, I could do it here in 10 seconds or less. I'm not going to do it, but I could. You can pay your bill in real time in moments. If you receive a bill from your yard service, and you and I happen to use the same yard service and we already have the details in the account, it'll automatically populate that for you. So we're just relentlessly improving the capabilities of the mobile device and constantly improving the value proposition. That's really important to customers.

An important number – so, a number that we have not really talked about very much before, but if we take the – we measure whether we are your primary bank, your secondary or your tertiary bank and if we took that number and look back to 2015, plus or minus, and look at the number today, it's moved up 10 percentage points in terms of our customer base which now consider us – so obviously the whole base has grown – but in terms of the number of customers who consider us – Chase – their primary bank has increased 10 percentage points. That's incredibly powerful. And so we try to make sure that we're in the market with competitive pricing. We watch it on a daily basis. We have a team that's all they do is monitor where we are from a pricing perspective.

We've seen a slowing in deposit growth, but also interestingly where we track customers who've outflowed some of their deposits to a third party, we are retaining in almost all situations the primary bank relationship. So people are taking a component of their deposits, they're parking those deposits with a high-yield competitor, whomever they may be. But what we also see is that that money is very liquid, so it will then move from that high-yield competitor to another to another to another, but that high-yield competitor is not winning the primary bank relationship which is obviously what's critical.

John McDonald
Analyst, Autonomous Research

Q

And so far you and some other big banks have been able to gain deposit share...

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

We have.

John McDonald
Analyst, Autonomous Research

Q

...while lagging...

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

...peers on pricing.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Yeah.

John McDonald
Analyst, Autonomous Research

Q

And I noticed even in Marianne's slides, you kind of thought maybe historically – you go back to the historical beta of where deposit prices go up 50% to 58% of the rate hike and maybe now could be even a little better than that?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yes, I do. I'm not going to change the guidance, but I do. If you think about deposit pricing, it's component of what "the customer pays" for the products and services that we offer. But if you think about all of the new capabilities that we've added over the last many years, go into the branches and you use an ATM, and then it was a decade ago you could go in and get cash. Now you can go in a fully configured banking terminal that you can stand there and make payments, deposit cash and it's now almost as if you're inside the branch. We don't charge for that.

You can go back to the Zelle example that I was using earlier for person-to-person payments. We don't charge for that. So obviously a component of the price that a customer pays is in deposit pricing. But we've, I think, overall delivered amazing value for our customers and they seem to feel that way just given that they retain their business with us, and we've seen retention rates at a rate that are the best we've ever seen and we've been historically outgrowing the industry at about two, two-and-a-half times. That won't continue while deposit prices are where they are, but we think we'll be at least consistent and potentially continue to outgrow the industry, but on a more marginal basis.

John McDonald
Analyst, Autonomous Research

Q

So, shift gears, and talk about Marianne's new businesses, Card Services, personal lending. The credit card issuance space as always feels very competitive. You invested early, after the crisis you've gained a lot of share.

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

Is it still an attractive market – still attractive business to invest in?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Credit card really is. I mean, I think – and John, I think you didn't ask me this question at the time. But when I first joined JPMorgan Chase in 2007 and said that we were going to start to compete in credit card in the more affluent segments of the market, many people raised the question or made the statement more than a question that it's a very competitive space, that it's dominated at the top end by a few players and was there really room for Chase to compete there. Roughly, our market share at that time was 15%, 16%. Now, we're at 22.5%. So, in that environment, we've gained over the last decade 700 basis points of market share. So yes, it's competitive, and everyday the teams are thinking about how to add new value. But it's a skill, a muscle that I think we've really developed well over the last many years. It's good.

John McDonald
Analyst, Autonomous Research

Q

So, at Investor Day you announced two new products for credit card customers...

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

...My Chase Plan and My Chase Loan. What are these offers that customers weren't getting from Chase already?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Well, it just gives the customer more flexibility in terms of – if they want to revolve, for example if you were to buy a flat screen TV for Super Bowl or something, I was going to say those things, maybe you spend $500 or $2,000 but it's astounding you get something for like $700 nowadays. But if you were to complete a large transaction on your mobile device, you might say, you know what, I'd like to kind of pay this particular transaction off, might be true for a vacation, over six equal payments. And there's a whole bunch of different ways that you will be able to do that on your mobile device and you'll be able to set the up and we'll just automatically bill you so that you clear that transaction over four, five or six, whatever you set up, monthly payments.

So, just think about it as a way to simply, for our existing customers, offer them different alternatives to be able to revolve a transaction with us over different durations and give them more flexibility.

John McDonald
Analyst, Autonomous Research

Q

And how about in payments, earlier this year you announced a creation of Wholesale Payments, bringing together Treasury Services and the merchant acquirer business. A little over a year ago you closed the WePay deal. So, stepping back, what's your vision for the business and the key opportunities you see in payments?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Just enormous opportunity here. I mean, each of these businesses are incredibly strong in their own right. So think about Treasury Services processes about $6 trillion a day. Merchant Services processes about $1 trillion a year. And actually since we took complete ownership of Merchant Services which had previously been part of a JV, it's more than doubled in size. So we think that we can take all of those value propositions and be able to go out to the wholesale space on a global basis and be able to offer the whole package of services that wholesale customers will need in the payment space, gives us ability to be flexible on pricing and so on. So I think we pretty much have a full product set now to go and compete very aggressively and in most – not all yet, but in most regions of the world.

John McDonald
Analyst, Autonomous Research

Q

And what about on consumer payments, what are the opportunities for Chase and what are some of the challenges you worry about from fintechs and non-traditional payments providers?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Well, we like to fall a little bit into the "only the paranoid survive." Although as long as the paranoia is constructive and we try to keep it that way. But everyone is trying to enter payments. The fintechs, actually, we found a number of good opportunities to partner with them over time. There'll be various situations where we think an acquisition may or may not make sense. But I think typically what the fintechs have done and done very well is to take a slither, a component of the customer experience and make it much better. And so, our job is going to have to be to make sure that everywhere that we see friction for our customers that we are relentlessly removing that friction, improving the customer experience and sometimes we'll build, almost always, occasionally we'll partner and occasionally we might acquire some capabilities to do that, but it's – there's no question that it's a very competitive space, it's competitive in terms of the mainline players that we've known for decades and many of the new fintech type players.

I do think a recession will bring some surprises to some of the newer entrants and I think it's almost always been true that people – often when people come into a new market or come into a new industry segment, the returns in good times in the sub-prime space always look very attractive in good times. And there are a couple of players – established players in the industry who do a very good job in sub-prime underwriting and have been successful through all the economic cycles, but there are many examples of where that is not true and a deterioration in the economy has an exponentially large impact on some players. So, when we're a decade into an expansion, some people either take their eye off of credit or they never had it on there in the first place.

John McDonald
Analyst, Autonomous Research

Q

Yeah. Is there any lessons learned with Chase Pay, ChaseNet that you could offer?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. It's been an awful lot slower than we expected, in all candor. We would have hoped that we could have grown that much more quickly than we are able to. But we have learned a huge amount and continued to grow our value proposition and continued to grow our share. But what we haven't been able to do is to get out into the market and really build a network side of the business in the way that we would have hoped. And that's a learning for us.

What we are seeing actually, interestingly, is the move to NFC, Near Field Communication where you'll be able to tap your card. It's just been tested in certain stations on certain lines in the subway right now, is, I think, going to be a very neat capability that will make it even easier, going back to the friction points, for customers to better use both their credit and their debit cards.

Some of us remember – maybe hardly anyone in the audience, but remember when, in order to complete a credit card transaction, there was a three-part form that went into a machine and the people – the store pulled the device – a roller across so that the carbon paper – some of you don't know what carbon paper is, I understand that, but that the carbon paper would then take the embossed information off the credit card, and then that middle piece would be torn off and sent to the credit card company. I mean, it's astounding how things have changed in a relatively few decades.

John McDonald
Analyst, Autonomous Research

Q

Someday, we'll be saying, remember when you used to have to scribble something...

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald
Analyst, Autonomous Research

Q

...remember, like your signature?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

I know. I know.

John McDonald
Analyst, Autonomous Research

Q

In your shareholder letter you talked about being impressed by some of the Chinese companies and the way they function, the technology. What were you referring to there?

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah. Jamie pushed a group of us to just go and spend some time in China with no business purpose other than to learn. And when you're all very busy and – just a week or 10 days out just to go learn, it seems like a big – and he's kind of a bit like a woodpecker some days, like when he has something in his mind, he may not say just go do it, but it's a little bit like having a woodpecker on your shoulder just like tap, tap, tap, tap, tap away. And then, eventually you get...

John McDonald

Analyst, Autonomous Research

Q

You're going to go.

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

...you get tired of something tapping on your head. And he was exactly right. It was a great trip. And I think that eight of us went out and literally just absorbed what's happening in the Chinese market, which is very different from the United States. But what was so impressive was just the speed at which they're progressing. And privacy laws are different. I'm not suggesting that we would replicate what's been done with facial recognition and other things, but the speed at which the companies were moving, and particularly in the fields of AI and machine learning was just astounding. I came back and I said to Jamie, while there maybe companies that we don't have to worry about, particularly now, that we might of thought have been an issue, we certainly have to worry about the speed of change and we have to substantially improve our pace.

John McDonald

Analyst, Autonomous Research

Q

So you mentioned the idea of M&A being one way you could build out. Jaime's talked about the desire for the company to use excess capital to invest in the business.

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Yeah.

John McDonald

Analyst, Autonomous Research

Q

It seems like payments, maybe fintech, is an area where you could acquire talent or different ideas. Is that fair? What are the challenges there?

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

It is fair. The issue with mergers and acquisitions, generally, I'll come to tech specifically, is you do generally pick up a lot of other people's problems. It's very rare that a really good company is for sale at a relatively modest price. So I think one of the huge advantages that JPMorgan Chase has is – after all these years is converting our self into – or evolving into – an organic growth company.

What happens on the tech side when we dig into fintechs is you find a number of things that you have to be very deliberate about if you're going to make an acquisition; so, for example, cybersecurity. Is the software built in such a way that it's at industrial strength from a cybersecurity perspective? Is the software developed in such a way that it can scale to the types of volumes that we would put it through at JPMorgan Chase? Is resiliency built in? Is the language that the applications are developed in one where there's an ample resource of programmers and developers? So we try to look at all of those things, and almost always we conclude that there's a good amount of development to be done to solve those various issues. Sometimes, we decide it's too much and we'd rather build. WePay was a great example where we had to deal with some of those things, but they've done a very, very nice job in the company. And we've done all of the things that you just described there, John. We got some really talented people, we got some great infrastructure, and there are some areas that we've got – and are focused on – to bring that up to what I would call kind of a full-scale industrial-strength capability.

John McDonald
Analyst, Autonomous Research

Q

So maybe we can get a quick comment on You Invest and what you're looking to do in the personal financial wealth management; compete with Schwab or Merrill Edge or – what's the vision that you have for You Invest?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

We'll compete with everyone, and everyone is competing with us. So we know that every day. But You Invest is – we could see clearly that customers were flowing investments out for trading. We felt it was a gap in our product lineup. So we built You Invest. It's off to a very good start. We are only marketing to our own customers with it. The other thing – I would think about You Invest as a platform that will allow us in the first stage which is where we are, right at the beginning of the journey to just have the basic trading capabilities for customers at what's effectively free for the vast majority of customers. And then, we'll be able to build other investment advice, kind of automated investment advice into the capability. So think about it as a platform that over time that we're going to be able to build. And the term we use pretty consistently at Chase is that we have roadmaps for all of our products. So the roadmap say what do we want to do over the next 4, 8, 12 quarters. And so we have a roadmaps for You Invest with Mary Erdoes and her team that will continue to build on that early success of the You Invest platform.

John McDonald
Analyst, Autonomous Research

Q

And then the last quick question on mortgage and your desire to penetrate more of the Chase customer base with mortgage products. What's been the challenge there?

Gordon A. Smith
Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

A

Mortgage is a really tough space for the national banks. You've seen, I'm going to say, all of us lose meaningful share in the mortgage space since the financial crisis. We think mortgage is an important product, because obviously we're a huge retail bank, and in finance it's a mortgage, to our customers it's a home. And so we wanted to help customers to make that really, really important purchase. But it's acutely complex. There's more than 3,000 different regulatory requirements when you take at the federal and the state level, very complicated in terms of the operations. And in certain channels that are people intensive, it can cost $7,000, $8,000 to originate a mortgage.

So we're trying to deal with all of these things and say, can we simplify the mortgage experience, can we make the mortgage experience much simpler for the customer to understand with a much more certain outcome in terms of when the mortgage is likely to close and take out an awful lot of the processing that takes place, so to cut cycle times as well. So we have a whole bunch of work underway. I think Jamie mentioned this too. So we're looking at every aspect of mortgage to try to find the right balance of solutions that will help us to see improved returns and still be able to offer the right alternatives for our customers to be able to buy a home.

John McDonald
Analyst, Autonomous Research

Great. Well, Gordon, we're out of time. Thanks very much. We covered a lot of ground. Appreciate it.

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Always a pleasure.

John McDonald

Analyst, Autonomous Research

Thank you.

Gordon A. Smith

Co-President, Co-Chief Operating Officer and CEO of Consumer & Community Banking, JPMorgan Chase & Co.

Thank you.