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Opinion **Lex**

## JPMorgan rewrites laws of finance – with some help

Tech, regulation and customer inertia have changed the rules



JPMorgan, whose chief executive is Jamie Dimon, spends \$17bn a year on tech — a figure with which few can compete © Al Drago/Bloomberg

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Jamie Dimon does not like the suggestion that JPMorgan is “dominant”, as an analyst discovered on the US megabank’s earnings call on Friday. How could it be, with more than 4,000 lenders in the US and an abundance of hungry fintechs? Yet in some respects, JPMorgan’s hefty profits show that in banking, regular rules of competition no longer apply.

Take the bank’s enormous consumer division. It made a 29 per cent return on equity [in the latest quarter](#). Assume the cost of equity — the minimum investors demand — is 10 per cent, and the bank is making handsome supernormal returns. Over the past decade, if JPMorgan had merely hit that hurdle, its retail bank would have made about \$50bn in cumulative earnings. As it is, it made \$90bn more than that.

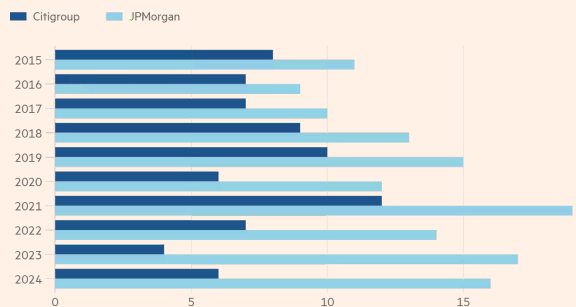
Extraordinary returns tend to get competed away, textbooks teach — and if they do not, it can suggest a market problem. But there are a few reasons JPMorgan defies gravity. The cost of setting up a rival bank with national reach is prohibitively high. The credit cards JPMorgan peddles rely on troves of historic data and insight into customers’ habits. Goldman Sachs is one competitor that tried and failed to build that from scratch.

Technology has further unlevelled the pitch. After the pandemic accelerated customers’ embrace of all things digital, the biggest lenders are shovelling tens of billions of dollars towards faster payments, artificial intelligence and slicker customer experiences. [JPMorgan](#) spends \$17bn a year on tech. Few can compete: there are only nine US banks whose entire operating expenses are that big, according to LSEG data.

Customer inertia helps too. Dimon said on Friday that “deposit betas” had come out lower than the bank modelled. In plain English, that means account holders settled for lower returns on their savings than one might think from the way interest rates moved around.

### JPMorgan is enjoying many happy returns

Return on equity across the bank, %



Source: LSEG (2024 based on analyst estimates)

What ties a bow on these spoils is the same regulatory red tape that drives bankers to distraction. Bank executives continue to grumble about new capital rules that the Federal Reserve plans to introduce, even though they have already been watered down. But the reality is such rules, when sensibly crafted, create a moat around the biggest lenders. The more tightly they are regulated, the more customers trust them.

Not all big banks are similarly fortunate. Apply the 10 per cent return-on-equity hurdle to JPMorgan’s rival Citigroup over the past decade, and its actual earnings fall more than \$60bn short. That suggests Dimon’s steady hand has had a sizeable impact on JPMorgan’s outsize returns. And that Citi, by destroying shareholder value year after year, is bending the norms of capitalism in its own way too.

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