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JPMorgan Chase & Co. (JPM) CEO Jamie Dimon Presents at Bernstein 38th Annual Strategic Decisions Conference (Transcript)

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JPMorgan Chase & Co. (NYSE:JPM.PK) Bernstein 38th Annual Strategic Decisions Conference June 1, 2022 10:00 AM ET

Company Participants

Jamie Dimon - Chairman and Chief Executive Officer

Conference Call Participants

Unidentified Analyst

All right, great. Thanks everybody for joining. We're really happy to have JPMorgan Chase Chairman and CEO, Jamie Dimon return again to the conference. Jamie, thanks so much for joining us today.

Jamie Dimon

Thrilled to be here. Thank you.

Unidentified Analyst

So, you hosted an Investor Day last week for your investors and analysts. A lot of journalists in the audience today probably didn't get a chance to listen in. Maybe you could take a few minutes to summarize the key takeaways that you and your team and your team wanted to convey at your Investor Day, last week.

Jamie Dimon

Yes, so we did have Investor Day. It was long; it went from like 8:00 to 3:00 o'clock. All the major executives made presentations, including one on tech, one on CCB, CIB, asset wealth management, payments, markets, et cetera. And the point was is that we really hadn't spoken to investors in detail for two years. So, some had a compliant that we're spending a lot of money, a lot of issues out there, we've done a bunch of acquisitions; and they were right. So, we took to time to explain it in detail about why we're spending $6 billion more in 2022 versus 2021, how we look at investments.

And there was a lot of detail in that, like how we look at application investments, how we look at acquisition investments, how we look at new branches and bankers, and hardware and software, and modernization and all that. So, you got to go through the detail, but that's how you have to run a business, is at a very detailed level. We gave some updates of things which don't surprise people very much of NAI as -- for this year, and kind of a first view, but kind of benchmark for maybe next year. And we spoke -- obviously spoke about the economy and stuff like that. I really think it's a great chance for you all to see our senior management team in person, answering questions, up on stage, explaining their business, why they're doing what they're doing, a couple of things are different, a couple of things are not completely normal.

And we didn't describe everything. I think sometimes we describe too much and give away too many things that help our -- help investors [technical difficulty] I went to Fidelity, and Wellington, and [technical difficulty] I went up to Boston, did a kind of Boston tour, and [some people] [Ph] were asking some really great questions, which were exactly the ones we didn't want to answer, and -- because we're not going to. But there's -- there's other great stuff we're doing. We're quite comfortable with the company, and we're quite comfortable with how we make these investments and such. So, I'm -- yes.

Question-and-Answer Session

Q - Unidentified Analyst

Yes. I mean, traditionally, JPMorgan has been a stock for all seasons, it's done well in good markets and tough markets, and particularly in down markets, you've been defensive. Do you think the characteristics of what's built the company historically, and the balance sheet, and the diversity are still true today, and could make it perform well on a tough day?

Jamie Dimon

Totally. I mean, what protects a company in a downturn is, firstly, you're prepared. But we're only talking about through the cycle. So, we acknowledge when we're over-earning on credit, and that that's going to normalize; we're quite clear about that. And that might be $3 billion of charges for a year. And we have to prepare for things like CECL and AOCI, and downturns, and all that. But your best preparation is [that fortress] [Ph] balance sheet, it's conservative accounting, we don't have a lot of - not a lot, we have almost no one-time gains or losses or MSR, even when you look at like MSR, that's conservative too because there's very little FHA services in there.

When things go bad FHA servicing is very expensive when the delinquencies hit 5% or 10%, which is guaranteed to happen in downturn. And the same with -- look at our real estate portfolio, it's mostly the ones you worry about are mostly Class A; fully leased up, no spec, you know, all these various things which is hard to look at, but that protection, when those margins, when things get bad, we'll still have the margins, we'll still be making money. And the reason we want to do that is so we can serve clients in the toughest of times, and we have plenty of capital, and plenty of balance sheet. There's a lot of capital uncertainty because we still don't know SEB, we don't know if there'll be any adjustments of G-SIFI, which we're not counting on. We did some acquisitions which took away from some buyback capability. Though, I much prefer to do really smart acquisitions and stock buyback. You may not like that so much sometimes because you want our consistency, and all that. But -- so, yes, we'll be a [fortress] [Ph] balance sheet in the next go-around too. And we're quite concerned about the environment. So, I try to separate, if you ask me, what it -- right now, if you have a benign environment, like you all have forecast, which in our forecast; that's your forecast it's a benign environment.

I don't know what it's going to be like by the end of the year. I'm prepared for a non-benign environment by the end of the year. So, to me it's -- we try to explain all that as best we can, and I think it's important we do that. But we will be prepared for bad outcomes.

Unidentified Analyst

And on that front, what degree of difficulty do you attach to the task at hand in front of the Fed right now? And you mentioned storm clouds.

Jamie Dimon

Yes.

Unidentified Analyst

Maybe you could talk about --

Jamie Dimon

I'm going to change the storm cloud because I said there were three things that we're going through, which are, I hate the word unprecedented, which are kind of unprecedented. And you got to put this in the back of your mind, when you haven't -- when you're seen things that have never happened before, then you have to question your ability to predict, okay. One is huge growth in this country driven by fiscal and monetary stimulation. That isn't a normal recovery, okay, and that fiscal stimulation is still in the pocketbooks of consumers, they're spending it, they're spending at very strong levels. And the data is completely distorted. It's distorted by inflation, it's distorted by -- they went from goods back to services, it's distorted by all these things; but jobs are plentiful, wages are going up, consumers are spending, the lower-income folks, not quite as much as before, but everybody else it looks like they have $2 trillion dollars more, savings rate drop. I don't think that's going to stop their spending the six or nine months. And so, that to me is the bright clouds out there or -- but it's different. The Fed has to meet this now with raising rates and QT. And the new part of this isn't the raising rates, it's the QT. The QT has -- we've never had QE before like this.

Therefore, we've never had QT like this. So, you're looking at something they could be writing in the history books on for 50 years; what was QE, what worked, what didn't work? I think a lot of parts of QE backfired. I think the negative rates was probably a huge mistake for a whole bunch of different reasons I won't bore you with now. But they got to raise rates, and mind you, they have to do QT. They do not have a choice because there's so much liquidity in the system; they have to remove some of the liquidity to stop the speculation, to reduce home prices, stuff like that. And you've never been through QT, so, all the major buyer -- if you -- look, if you go back to 2010 and say, "Who are all the major buyers of treasures?"

All that time it was central banks, foreign exchange managers, banks who were topping up their liquidity profiles, because we had to for regulations. All three, it's -- it won't happen, the go-around. Banks are topped up, foreign exchange managers are topped up, the central bank would be selling, not buying, and governments have much for fiscal deficit to finance. That's a huge change in the flow of funds around the world. I don't know what the effect of that is. I'm prepared for -- and you're talking about minimum huge volatility. And the third thing is Ukraine; that you've not had a European land war since 1945, okay. And you -- and the complexity of Ukraine is we don't know the outcome.

I always make a list, you know, you predict the outcome. Well, you couldn't predict the outcome of Vietnam, Korea, Afghanistan, Iraq, and 10 other conflagrations; all wrong. Wars go bad. They go south, they have unintended consequences. And this happens to be really in the commodity markets of the world; wheat, oil, gas, and stuff like that which, in my view, will continue. We're not taking the proper actions to protect Europe from what's going to happen in oil in the short-run, and we're not taking the proper actions to protect you all what's going to oil in the next five years, which means it almost has to go up the price. We're not investing enough money to keep oil -- remember, and for all those who love climate change, if oil prices go to $175 or $150, which I kind of think is in the cards, to tell you the truth.

You know, not in the immediate run, but down the road, then CO2 won't go down, which is everyone predicts because people buy less oil and gas. It's going to go up because all those other countries out there, the poor countries who need oil and gas to feed and heat their citizens, will turn off -- will not buy oil and gas, they'll buy coal, that's what's going to happen. CO2 will go up, it's won't come down. And we're not dealing with these challenges. So, those three things; fiscally induced growth, QT, Ukraine war, so I'm going to change the storm clouds out there because I -- look, I'm an optimist. I said there's storm clouds, they're big storm clouds, they're -- it's a hurricane.

It's, we -- right now it's kind of sunny, things are doing fine, everyone thinks the Fed can handle this. That hurricane is right out there down the road coming our way. We just don't know if it's a minor one or Superstorm Sandy or -- yes, Sandy or Andrew, or something like that. And it's -- see, you better brace yourself. So, JPMorgan is bracing ourselves, and we're going to be very conservative in our balance sheet. And with all this capital uncertainty, we're going to have to take actions. And I kind of want to shed non-operating deposits again, which we can do in size to protect ourselves so we could serve clients in bad times. And so, that's the environment we're dealing with. And I'm -- I think it's okay to hope that it will all end up okay; I hope it, that's my goldilocks, I hope, who the hell knows.

Unidentified Analyst

What do you think it means for the potential credit cycle that might ensue, and the preparedness of the banking industry?

Jamie Dimon

It's -- the banking industry is in great shape, and the credit cycles follow a norm, okay. And even in the Great Financial Recession, it followed a norm, with a couple of little exceptions; mortgage, it was a trillion dollars actually to be lost. You -- we all woke up some time in '08 or '09 and said, "My god, it's a trillion dollars," and it was everywhere. It wasn't derivatives. It was in CLOs, it was in banks, it was in insurance companies, it was -- but that caused panic because people woke up, and investors, and they said, "My god, it's everywhere." What do you do? You sell. You know, so there's panic-selling and stuff like that.

And I think you may see that again, by the way, too, because I -- I don't think the bank could intermediate in the markets that we're used to. So, when all this liquidity gets rundown, yes, we're going to hit wall. And then when that wall gets hit in terms of intermediation, you're going to see very volatile market again. And no one is going to be able to step in, other than the Fed, which maybe they can't do this time. So -- but the credit cycle follows a norm, normally. And that's the minimum you should expect. And we've shown people credit card -- I mean it's at all-time lows today, but in the Great Recession it had peaked at 10%. We would have told you before that 8%; we were off by not that much.

What surprises people is it won't be mortgage this time. It won't be -- we don't see it, there might be something in the private credit markets, you had, okay it goes. I mean, when things happen it will -- someone will get hurt somewhere. And sometimes it's industries you just least expect. And so you have to be very careful in that, like in the '00s it was telecom and utilities, the ones that were the most stable. You know, in '07-'08 it was Warren Buffet and newspapers. I mean, so there's underlying changes in credit, you have to be very careful about, very hard to spot. And therefore, the discipline is you never put all your eggs in one basket. You're very careful, and no matter how people think real estate or there's something like that.

And so, anyway, you have a normal credit cycle, charge-offs will go up, we'll still be earning money; CECL makes it very volatile. Like, I think I pointed out in Investor Day; we put up, in two quarters, so in the first quarter of 2020, the second quarter $15 billion of CECL. And then the next four quarters, we took it down. I mean, I don't know what kind of accounting that is, I think it's crazy. I don't know who invents this shit, but we have to deal with it regardless.

Unidentified Analyst

There's been a big expansion of credit outside the banking system, you know of reference that. Is that a concern in your mind, in terms of the -- [multiple speakers]…

Jamie Dimon

It's hard to tell. This is the private -- I mean I -- look, I think some of these direct lenders are very smart people. And you had Blackstone here, you have Ares, and Oak; they're all very smart. It's huge numbers now. The issue for the world is that those borrowers may be stranded when the shit hits the fan, because these people cannot rollover that credit at 13% and 14% -- they're going to have to charge 13% or 14%. And so, they're going to call up JPMorgan and say, "What do you -- would you -- will you have us back?" And we're going -- in some cases we're going to say no, because we'll have tapped out what we could do too because we also hit our own redlines, and stuff like that.

So, is that systemic? I don't know; there's a lot of leverage lending out there. Will someone get hurt? Probably. Will that credit dry up in that segment of the market? Probably. There are other things we see out there that are particularly bad. No, but we have to still report we have called shadow banking. And we put it all together from repo to money market funds to commercial paper to CLOs to mortgage banking. The mortgage businesses have moved away from banks for good reason. The capital and liquidity requirements are so high that a bank, it really doesn't belong in banks anymore. And will be able to make mortgages when the shit hits fan? Maybe not. Even today if you look at private label mortgages, they are 50 to 75 basis points higher than what retail banks are doing. And the only way the other folks can finance it is by securitizations. I don't why a retail bank is issuing something at 4.25 when you can buy in the marketplace at 5? You have to question that logic a little bit. And so, you are going to see this stuff is going to get worse if the markets get tighter and liquidity dries up a little bit. We will be prepared for. And so, should you if you are smart.

Unidentified Analyst

Talk about some of the industry issues that you are dealing with. In terms of expense pressures, how much of the inflation burden are banks likely to see? And where are you seeing that now?

Jamie Dimon

It's no different than everywhere. I mean you see it every day now, like but this when we told you all numbers, we kind of embedded that in. I don't know what other people did when they told you their numbers. We were embedding and you can embed in your own number 4%, 5%, but it's relentless. And so, you are going to see a lot of people making adjustments. And by the way, I want to keep our best people. So, like, we have to pay well to keep our best people. We're quite religious about that. It will be what it is. Remember there are benefit from inflation too like NII is going to be much higher. And it's not a one thing. But, you are going to see it. And I think you will see a lot of banks, tech companies -- I think a lot of companies are facing it.

Unidentified Analyst

Yes.

Jamie Dimon

But you -- when you guys do your own estimates for 2023, you should tell me what you think it should be because I could be thinking 5%. You are thinking 2%. Or, you are thinking 2% -- I am thinking 2 and you are thinking 5. And it will be what it is at that point. We will do it intelligently. We will manage our expenses like we always have.

Unidentified Analyst

And for banks--

Jamie Dimon

In 2023, remember, if you have a -- if a severe recession starts sometime in 2023, wage inflation can go to zero like literally overnight.

Unidentified Analyst

Okay. And how about capital? There is capital pressures are growing on yourself and other banks from a combination of the macro environment and also the regulatory rules. How does that influence --

Jamie Dimon

It's mostly accounting rules, AOCI and CSOL, and yes, it will conscript -- we do a little bit. And G-SIFI and you got to project forward and all that, so --

Unidentified Analyst

How does that affect your plans for growth and how you allocate capital?

Jamie Dimon

It doesn't affect our plans for growth in terms of growing our company or investments we are making. It will affect how we deal with non-operating deposits, what we put on balance sheet or not, what we sell or not. We could be much more aggressive about what's on the balance sheet and what's not. There are lot of things we simply don't have to keep or don't have to do somewhere to facilitate markets, somewhere to help clients. And so, if we have to, we will tighten that up to. And we're probably going to.

Unidentified Analyst

Earlier in the year, you laid out a medium-term ROTCE target of 17% at the Investor Day.

Jamie Dimon

It was never a medium-term target. That is what we expect to earn through the cycle. I am getting rid of -- I don't know what medium term means. I remember when I first got to Bank One -- no, JP Morgan, I said we aspire -- maybe it was Bank One. We aspire to earn 15% in tangible equity. And inside the company, it was like aspiration. People thought I didn't mean it. So, I eventually said, no, that's your freaking target buddy. That's what you got to earn. Like that's what you should be earning. Let's not pretend. So, we said 17% is what we expect to earn through cycle and we have. But the way I look at it through the cycle.

So, this cycle we are under earning NII. We are over earning in credit. We've still got 17% last year and we are better. I don't really include [SeaStone] [Ph] there because that just swings around just too much. But I obviously include charge-offs and stuff like that. And next year, NII is going to be a nice kick for us. And expenses are going up a bit and all that. So, it's still 17. If you have recession, it will be 17. It will be something lower like that's life. And I also told our CFO, Jeremy Barnum to do a little calculation. Anyone has a 12c in front of you? HP 12c, whatever it is? Do the calculation that JP Morgan earn 17% in capital and grows at 7% a year for how many years it will take before 50% of the GDP of the United States of America? I mean I would take 17% all day long. Okay, that's pretty good. You all don't earn 17% of your capital.

Unidentified Analyst

One of the drivers this year is loan growth. And you are looking for loan growth to be kind of growing in high single digits. How broad based is that? And then, how does the hurricane kind of factor into that?

Jamie Dimon

Again you have to separate the hurricane from running the business day to day. And that hurricane is making us be careful how we are running the business day to day. Loan growth is an output. If you run a bank and you think a lot of loans, you do not want loans. A lot of loans have a suboptimal return. If I generate a loan and I put it on my balance sheet which you can buy the same loan in the market, okay, without any overhead, why would I have 240,000 people doing at a year? Why won't I just have no people and buy the loan. It's called the fun. And so, the reason you do a loan is because you are building a business that for every loan -- and for the most parts loans are priced at the market. And of course with regulations -- and one day I am going to show you a chart, if I have to hold twice as much capital with somebody else that somebody else should own the loan.

Now I am not going to be able to do it overnight. Damn sure I am going to do it over time. Why we own loans that you couldn't hold much more profitably than me. And so, to me it's going to -- you got to recycle your capital. It happens in some markets and not in others. But loan growth is an outcome. If you don't have the whole business, you wouldn't probably be in the business at all. And the whole business -- if you think of the subscription business, cash management, custody, other flows, feed businesses, the relationship. So, one of the benefits at JP Morgan, we make it -- why we are doing unitranche lending now like in unitranche lending there are bigger loans. They are priced better than our term A, term B, and sub, and all stuff like that.

You can pay more per dollar risk. But that's all they get. And then, people invest in that. We get that plus also the stuff. That's why we do it. I wouldn't do it just to get that. And so, we got to be very careful when you bank about why you bank at all, and so, launch you an outcome of – and obviously outcome of growth and the economy and all that. So, we see a lot of today middle market companies are taking -- they kept the revolvers. They need more to finance inventory, the receivables, and CapEx, which seems to going up in whole bunch of different places. So, it looks like now I got a pretty decent loan growth this year. We may very well reduce what we hold on the balance sheet, which is a different issue. That's more of a best execution you should ask for managing the balance sheet. But the loan growth itself it looks to be pretty robust right now.

Unidentified Analyst

How about the demand on the consumer side? Are they revolving a little bit more on cards? And what are you seeing in terms of consumer demand and -- [multiple speakers]…

Jamie Dimon

I got to say I haven't looked at it since Investor Day. Surely want to update that. But I have been clear from then I expect that to happen. You can guess when it's going to happen. But, it's like given. And you already see it in subprime. So, my guess is it will happen probably a little bit later. But it's the same basic thing.

Unidentified Analyst

You mentioned managing the operating deposit.

Jamie Dimon

Also Marianne always points out that you got to look at two things. Well NII went down because revolver went down. Charge-offs went way down because revolver went down. So, they had some relation between the two.

Unidentified Analyst

In terms of industry deposits, do you expect deposits to leave the banking system as QT gets going? And you mentioned [indiscernible] --

Jamie Dimon

I want to push it now. I mean I am on the other side of this one. I want to -- we have a lot of nonrecurring deposits. We keep as a service declines. I don't know. I mean I -- but the issue for the industry is what happens when they reverse QT. And what does come out of first. And we don't really know. I guess we never had QT. If I had to tell you my current thinking at first you are going to see a reduction in money market funds kind of wholesale related deposits, the Fed RRP facility is now in astounding $2 trillion, but eventually you're going to see it filter into consumer because when we had QE, if I remember correctly, and actually we should get this data could we did some real work way back when that first QE showed up in wholesale deposits, but eventually morphed into consumer deposits. And so, you can see that, so we again, we have to be prepared for both, like what's, where's the runoff going to be? So, we -- I think Jeremy gave you guys a number about the expected deposit growth with all of our assumptions, and that number is probably still pretty good. And I gave that could be plus or minus $300 billion or $400 billion, but again, it's $400 billion, and it comes out of non-operating deposits, it doesn't really mean that much to us.

Unidentified Analyst

And maybe you could talk a little bit to these folks here today about the investment agenda that you laid out at the Investor Day, just think you've got a leadership position most of your businesses. So, where are the opportunities you see that are not there?

Jamie Dimon

But the team showed, which I think is really important, not just where we're a leader, but where we're not like, you could be number one in fixed income trading, but we know we're number four in Asia, we're number seven in this country, we're number 10 in FX in this country, we're number. So, if you look at all the weak spots where we don't have big shares, we don't know, like even our Chase Wealth Management, because Jen and Marianne showed, the huge growth opportunity, but we have like a 1.5% share from $100,000 to $5 million of assets under management, why not 10 and Jen mentioned that, I think so if you have a 20% share in deposits, until about 10 or 15 years from now, because that's almost every other country has that and as you add services and products, so but anyway, the way we look at branches, bankers, and these could be and we don't, we're not going to give you all the numbers, this is somewhere embedded in the presentations.

But opening a branch, we know exactly the profitability pretty much going to be down the road. And we've been positively surprised. And now we're in 48 states, hiring bankers and middle market or Chase Wealth Management bankers, we pretty much know what the outcome is going to be and we've been positively surprised. Marketing is, that go up or down. So, we sit here and marry into a number $7 billion in marketing. Now, another accounting ridiculous thing is a lot of the credit card business; it is expensed against NII in 12 months. So, you don't see it. The only you see, we tell you about that. But I mean, I don't know that doesn't seem to be matching revenues, expenses to me, just like CECL does, and AOCI does and banks like the industry, wherever the all the losses are upfront and everything else is on the come, and which hurts capital by the way, it hurts capital formation and banking which I again think is a minor mistake, but that that those numbers could, you could have a billion dollars of opportunity that gets very high returns, or can disappear right away.

And the other lesson, secret lesson is, sometimes when things get bad that marketing money is worth more, not less, because you get far more bang for the buck. So, you got to be a little careful. That's why I don't like making promises and expenses at all, we could spend $500 million more on marketing, credit card or marketing something like this, and the returns are extraordinary high, we're going to seize it, and then explain it to our shareholder, just like you would if you owned 100% of the company. And then, we went, the harder ones are in every business went through stuff, they're doing some of the tech and we gave it like very specific things, just some examples of AI. Okay, where we know we're spending, we didn't tell you how much we're spending, but there's a billion dollars of identifiable benefit we gave one, I'll give you one example on risk and fraud, or risk and fraud and the Consumer Bank is losses are coming down, while volumes over the years have doubled. And you all know, how much Ford is out there today. That's AI, a couple of examples like that.

And AI does things like hedging a lot of our equity portfolios today, which is astronomical in a way you couldn't do as a human being. And then, we gave specific examples on software, we're building that has identifiable returns, and some that doesn't really, some of the modernization stuff and data centers stuff, even like the data center stuff, we know when we move something new data center, that the operating costs for that application dropped 20% or 30%. And it becomes accessible to far more services. It's kind of invaluable. But so we try to give people a taste for all those things. And the $77 billion, about $50 billion, what we call it investments, and we try to have rigor around those.

Unidentified Analyst

And in terms of how the investment agenda gets set at JPMorgan, it's not Dimon said it's from the top down, right? It does come from the bottom up and people come to you with ideas.

Jamie Dimon

It's a little bit of both. So, and it should be like, so people, we ask them, what do you want to do? How do you want to do it? What are your opportunities and they that surfaces up, some things and we don't tend to if they're obvious, we tend to let them do it, okay, but there's certain things that have to be said at the top, modernization has got to be set at the top, certain things you know that we have to, like, I've been a lot of companies where operations is always under invested in because no one sets a budget for operations. If you have operations within the CIB or the company, the rebuild and fixing and technology it supports operations has got to be budgeted centrally, it was budgeted in front of office will always win. And the new data centers will never be built. So, the new data centers we top down, some of the modernization is top down, some of the other stuff that's in my view as Daniel Pinto in the CIB is top down, and then other stuff bubbles up is both.

Unidentified Analyst

So, from the outside, how should we gauge the success of the investments over time? I mean, just in terms of how it plays to your operating metrics ROE?

Jamie Dimon

I mean we try to show you the tons of examples that should give you comfort, how we go about it. But the end of the day, do we earn 70% on tangible equity through the cycle and do we grow? Do we compete, because it's very easy not to grow, it's very easy not to invest in your future and have higher margins. I also think I've always been opposed this concept of ever increasing margins. I don't know what people are thinking, we live in a capitalist world. So, when people I remember that when Citi was under all that, they're constantly increasing their margins, and they're showing the increase in operating leverage. Well, what do you increase operating leverage to, Jeff Bezos says, your margin is my opportunity. So, we take very often we're giving the customer a better deal. That's what we do. It's called capitalism, you will do it required to think that you can honestly always increase your margins as a mistake, as long as you're building a great company with great returns, great customer results, good growth and stuff like that, you should be happy with your company.

Unidentified Analyst

In addition to the organic investments?

Jamie Dimon

But the other thing to keep in mind is, if we don't think this stuff is working, we can cancel it. But not like the Federal government who started a program that doesn't work as they are 30 years later, we can cancel it. And we can apply rigor, looking backwards about some of the stuff we did or didn't work or did work.

Unidentified Analyst

You've been using fill in bolt-on M&A a little bit more in the past couple of years, in addition to the organic investments, well, what's the change that led to that?

Jamie Dimon

Well, I think for a long time, we wouldn't have been allowed to do acquisitions for a whole bunch of different reasons. And the other thing, which I think is very important, I think every company should, I grew up in an environment where every time a business wasn't doing well. At the management meeting, you quickly start bullshitting about M&A? Well, we need to have size and scope. I think every business should have your own plan, how you can build it, how are you going to compete organically and organic growth is the hardest growth.

Adding Salesforce is hard, adding research is hard, adding branches is hard, and you can't turn them on and turn them off. And so, I always tell people, no, you have a job organic growth. That's a huge discipline at Bankers and clients and services and products. And it's the best growth, it's your culture. It's consistent. It's you know what it is? It's like our opening branch didn't like, Doug Petno showed a chart since WAMU. Where do we open we're now in all 75, I think also the five major cities. We were in 25 of them. We started before WAMU, getting him to open in every and getting him he wanted to do but to open it every place to hire bankers, to add the credit officers, to add the Treasury services, product managers. It's a lot of work.

But it's great work because the returns are enormous. And I could have bought we were, we couldn't buy another bank, but acquisition is also very hard. They shouldn't detract more. So, years ago, I was told you all we want to I'd rather invest in our own business organically, M&A after a dividend and then buyback. And so, I think acquisition opportunities opened up and we started to take them, I want them as we can be looking, and they're disciplined enough that they can grow organically and look, as opposed to it distracts, sometimes it does distract you from growing organically. When you do a big acquisition you're also on all your teams are focused on consolidating and putting things together and management team and it kind of innovation and organic growth drops by the wayside, doesn't have to but it often does.

Unidentified Analyst

Is there any kind of common denominator or thread of the type of things you'll do in organically versus build?

Jamie Dimon

No, in asset management, you don't understand this, we bought a company that manages Timberland, we bought a company that does tax, it takes single accounts, MSAs and does tax advantaged investing, so it automatically adjusts for an company that does ESG, open events where you can basically say I liked this index, but I want to over index the boards that have more women on the more that have do a better job on scoring on this climate score ESG, so you can run a portfolio and then direct it the way you want, in payments we got to look at Aviva, its capabilities is extraordinary.

So, it's just kind of a fabulous add on for us. And in a little bit, the one was a little bit different is the stuff we did in travel, cxLoyalty awards company and frosh, a travel agents. But it's fabulous stop and we expect it all to pay back and in pay back and defend the business, it will also defend the business. So, we have to execute. But the fact is, I think it was a fabulous strategy. And I congratulate them for even coming up with all of that. And we've got some very competitive folks there who want to win big time in travel.

The other amazing thing and we, I always say, is there a reason you win, one quarter of all U.S. travel goes through our credit card. That's a huge number. And only a portion of that goes through our own travel related stuff. And if we can increase that portion even a little bit, it's fabulous for the client, it is fabulous for the company, and it's hugely competitive, and offensive and defensive.

Unidentified Analyst

In terms of the competitive environment, and as long as I've been doing this, you've always said, as a financial institution, there's competition everywhere from every angle always, but with the rise of Fintechs and maybe big tech, looking at financial services as the nature or intensity of competition change in recent years?

Jamie Dimon

Well, I think in the recent months has come down a little bit, look I think there's going to be a lot of winners and losers in this and what I've tried to point out is that 20 years ago, if I was sitting here, our competition was mostly other banks around the world, U.S. around the world, stuff like that. And now you have very intense shadow banks, think of Citadel, the mortgage brokers, direct lenders, a lot of payments companies, exchanges, data companies, but they're skimming off a lot of profit from the financial system. And then, you have Fintech. And they're good ones, and not but Stripe and PayPal, and IDN and Square, and they're all doing interesting stuff.

And then, you got big tech. So, big tech, you've all seen Apple has made their announcements about they want to do P2P, they've already got the Apple wallet, they want to give you some kind of credit journey experience, they're going to do merchant processing, they're going to do merchant lending, and may not be their own balance sheet. But that's a bank. That's a bank, may not have insured deposits, but it's a bank, if you move money, hold money, manage money, lend money, that's the bank. And then, everyone's going to try to embed payment systems in their ecosystem just makes sense. It could be as a bank, it could be white labeled, it could be, which we're not going to do but your soul will do it or it could be they'll give you a marketplace. So, there's a lot of I think there's a lot of competition coming. And the reason I talk about is not I'm not afraid of it, I'm in favor of competition, and their strengths and weaknesses for banks. But you better not put your head in the sand. I mean, the worst thing a CEO can do at a company is, is have this A, B, C, arrogance, bureaucracy or complacency. If you put your head in the sand, you die. I think that I'm just trying to note that, I think JPMorgan is in pretty good shape. I think your competition is going to be brutal and fun to watch. And I think there'll be a lot of losers in it too, by the way.

Unidentified Analyst

You've written about the need for a level playing field between banks and new entrants?

Jamie Dimon

I didn't say that, I simply because we're not going to get a level playing field. I don't expect, the regulars aren't going to change anything on banks at this point. But what I was pointing out is that among the things we have to deal with is we have capital requirements. Some of these people don't, we have liquidity requirements some of these people don't, we've got social requirements, people don't, we got AML KYC, which they have in some capacity, but they don't, we've got insurance requirements they don't, we've got resolution requirements, they don't, we've got that's I am just pointing out the truth. It is what it is. Just acknowledge it, that's all and if they ever want to change, change it then let them change. I can't rely on any of those things being changed, has been 10 years since Basel, talking about Basel IV. And we still know what it is. So, that creates uncertainty for banks. I know it's not what I like, but that's my lot in life. I got to deal with it.

Unidentified Analyst

On the consumer side, Marianne and Jen touched a bit on this last week, you reach over 66 million American households, got a dominant footprint in retail banking. What's the strategy to connect with the younger generation as they begin to build wealth and connect with them on broader levels?

Jamie Dimon

Yes, well I think I've got the numbers they put up there, but we already have a huge share of Gen Z and Millennials. So, it isn't like we're missing anything. And they like our product, like our service, like our sapphire card. And then, we added things like self directed investing, which we acknowledged, we didn't have the best platform of all but it's already up to $50 billion or $60 billion, so it's there, so you can now go on your phone and we got to make it easy for you, we got to add a bunch of stuff that you know other people have. So, we have your account, we got your deposit, you get your credit journey, you get free bill pay, you get free risk rewards, you get free offers, you get free this, you get free trading, it's pretty good. So, we're trying to work for the customer more and more, which will appeal to customers in general. We're not trying to game a fight or anything like that, but we want to be there for customers younger and older. And so, and I think we've been quite successful at it, and more to come. I think some of these things, Marianne just gave you a snippet of travel and offers more to come.

Unidentified Analyst

Could you touch on the credit card environment and how you differentiate as a credit card issuer and a payments provider in a very competitive environment, and maybe what you're doing with travel and some of the engagement stuff?

Jamie Dimon

Yes, so payments, I think payments is kind of probably the most challenged, people talk about like, like it's old, it's not old challenged, JPMorgan moved $7 trillion, $10 trillion a day around the world, very cheap, very effective through our AML systems, or BSA systems, or risk of fraud systems, 99.9999 accuracy and all that. But some parts are charged, we are trying to move money overseas. So, people looking at that whole ecosystem and trying to reduce their cost and the price to merchants or consumers. And we have to make sure we do that, too.

I just I think it's a whole thing. And obviously, credit card on the consumer side, credit card, debit card, and all the other payment systems, ACH and Wires and all that make it easier and better for customers, which we intend to do. So, on credit card, we've got the brand, our brand Sapphire, Chase cards and, and things like that. And then, we got wonderful co-brands, Southwest, United, great partner companies that kind of enhance our system of travels and stuff like that. So, what we want to do is give you better travel packages and better rewards programs and better offers that are more targeted to you, more personalized in a way that you really like using both platforms. And we're convinced, it's a great strategy, and we have to execute, but I think you're going to see that, early, late this year, early next year, some really neat stuff coming.

Unidentified Analyst

And then just more broadly on technology, the cost of it and the benefits of it, right.

Jamie Dimon

That's the other thing, by the way, it's about data, we protect people's data and privacy. And a lot of other people out there in the finance, they're selling that data all the time. We don't, we're not allowed to, but we can use it to help you on risk of fraud or marketing. And we can partner with someone without giving away data where we can offer you something better. And so, that, that is both a plus and a minus, how you look at how things get to use data and stuff like that. So, that will be a big asset, I think hopefully one day.

Unidentified Analyst

And you've touched on this in the past. But could you help us kind of demystify a little bit what moving to the cloud means for JPMorgan?

Jamie Dimon

Yes, well we've been writing about for years, digital, cloud, and AI are they're all related. And they're real. Okay, the cloud allows you to do enormous compute, I think Lori Beer gave a thing that would go from like one server to 14,000 servers to do a bunch of calculations all the way down to that one, can't even do that in our big data centers and it's unbelievable compute, that compute, when you can access multiple databases in a split second to do something for you for risk of fraud or marketing is extraordinary.

That compute power was in the private cloud or the public cloud. So, you have to put, you can put stuff in the public cloud that you need unbelievable compute, stuff which you don't need it, it's very steady, you don't have to, it's all different. But you have to spend the time to re-factor and re-platform data and apps. So, they're cloud eligible, it's in the private cloud or the public cloud, the new data says we have, we're going to reduce the operating costs, the actual operating costs of running something by 20%, 30% or 40% and make it accessible to machine learning and stuff like that, because we can do machine learning in our own data centers or in the public cloud. So, that's a journey, I tell people you really want to do as a constant innovate, a lot of stuff is already in the cloud already has AI ML and some of the stuff you may never do, like the certain mainframe applications, you're going to run it just that way and you retire one day or build a new cloud eligible one, but a lot of stuff has already been put in the cloud. So, you may not change the mainframe, but all the stuff at Digital, compute AI ML, you're slowly moving the cloud to so I say innovate, but it's a slog. It's like hard work to get all this stuff there. You could have any company that does it and but you need to do it. And if you don't do it, right, you'll be at a huge disadvantage down the road.

Unidentified Analyst

How hard is it for smaller banks to compete and as we've seen the consolidation of certain products like mortgages and credit cards and do you see deposits getting consolidated into the hands of bigger banks and other products as well? And is there still a role for smaller banks?

Jamie Dimon

Yes, look I think you're going to see a lot of consolidation. I think they need it, I mean, I think you need to kind of just scale as you know, consolidation is really hard to social names and consolidating systems, and then you're going to have a lot of people, third-parties, who offer Cloud based type of benefits to smaller banks. So, it isn't like they can't have them at all, they're going to get them third-party, someone's third-party.

Now, I could tell any names and stuff like that ahead of others, some of the banks are doing it, some don't, I always think a very well run Community Bank or regional bank can do well, it's just going to be very well run, you got local knowledge and local people, local authority, and they sit in the local boards, and they, but they have to accommodate it too, because clients do walk with their feet, they've got to offer these, some of these great services and products to their clients too. And it's not possible. I mean, if you look at the world out there, all these FinTech companies, if you combine them all have 400 million, 500 million, 600 million accounts in America, they own 150 million households.

So, you take them all, they've got their rent. So, JPMorgan have 66 million, we have all these deposits, but there's this, there's these people chipping away at every single piece of it, we can't hold when, it's not possible. And what you see now is like and you see people are like FinTechs are deepening, some will let you know, it's very easy to cherry pick. So, I remember [indiscernible] was first coming out and said, "Oh, student loans," the price was one was the same for everybody. But I'll take your student loan, if you went to Harvard, Princeton, or Yale, little did they know how little that meant, but seriously they were just cherry picking credit. That's in not in my whole life. Now they want your investment account, your checking account, your debit account, your this account, that means they have to compete with us too. That's a whole different ballgame for them. But we'll see, some will do it well, and some won't. And the squares done a great job and a whole bunch of different stuff, but then is if they charge customers take your money out, their revenue stream is charging you 1.5% to take your money out. We don't charge you to take your money out or put it in. So, we have huge competitive advantages. And I have enormous respect for them, I'm not sure that's how sustainable that model is. Some of it, they're building so much stuff so quickly. They're just they're out there bobbing and weaving and very good at it. And my hat's off to them.

Unidentified Analyst

Great, a couple of minutes left, a few questions here from the audience. The first one was, can you talk broadly about how you're thinking about your business and footprint in Asia over the next few years and what kind of growth investments you're making there?

Jamie Dimon

It's the same, and I think we put some charts up there than commercial banking we've opened offices in Asia to do more. Think of not middle market, but corporate type of banking businesses, which I would put in the low risk category, by the way, but it's country by country. There are plans for every country out there. And we want a certain share of corporate business and financial institutions business and payments businesses and trading businesses. It is country by country. Obviously, the big one is China and India, the big ones Greater China and India, so our plans in China is pretty much the same. We've got our full licenses. We're growing carefully. And same with India though, it's hard to do business in India too. So, nothing much changed or just continue to grow there. And I think huge opportunity over time, and obviously, Asia is going to grow faster than the rest of the world for quite a while.

Unidentified Analyst

Just from an ESG perspective, you were Chairman of the Business Roundtable a few years ago and kind of led the effort to re-conceptualize Corporation suited to serve all stakeholders, or banks, or banks doing on that. How's JPMorgan doing?

Jamie Dimon

First of all, just I am a red blooded free market capitalist, and I'm not woke, and I think people are mistaking the shareholder, stakeholder capitalism thing for being woke. But all we basically said for stakeholder capitalism is when you say to me, when you say the American forget you all, okay there's 325 million Americans. And when you say shareholder value, and fiduciary responsibility, they hear short-term profit taking at the expense of employees or customers. And fiduciary, they hear white shoe high paid lawyers, protecting CEOs.

All we're saying is when we wake up in the morning, what we give a shit about is serving customers earning their respect, earning their repeat business and we do that through employees and that's what we do and obviously we want to earn shareholder value, so it's just why should we get buttonholed into a stupid legal debate, so all your General Counsels, you are going to say, your fiduciary, yes so what? Explain to the American public what you do and why you do it, and of course, and when we do things like we're quite serious about climate I don't think America is getting climate right, I think the chances getting right is virtually nil. I don't think we remotely understand the complexity of this. And we can't turn on electricity from hydroelectric power much less, and then we're going to reduce oil and gas, which is going to cause more CO2, and we're just -- we're not getting it right because it's an uncoordinated -- we're confused between hugging trees and yelling at lending, and they're -- it's just way off base, there's no -- we need real leadership in this area, and we're not getting it.

And so -- and then other stuff, we --- like we -- we want -- if you're an employee of ours, and whether you're black or white, Jewish or Muslim, Indian, Asian, disabled, LGBT+; we want you to be treated with respect in our company. We want to give you opportunity. That's not woke, that's -- what I want from my -- what we want for you, that you can contribute to the company the best of your ability. So, any senator or congressman says that's woke, they're not thinking clearly, because I want to win in the marketplace, I want the best employees, I want happy employees. And so, but some of the other stuff we don't get involved in because it's -- it is woke, you know that I don't think people should get involved in some of these issues where it's far more detailed than you think, and people are just getting jazzed up about, "You got to do this, and you got to," no, you don't, no you don't.

You know, so I agree with it. I think some people are overdoing it. And I think like -- I think like -- I mentioned these -- this hurricane. Part of the hurricane is the high oil prices, which I think are in the cards. And I just -- I'm watching that train coming down the tracks, and I'm very sad about it. I don't know, I wake up every morning, I'm quite sad about it.

Unidentified Analyst

This is the last question, in terms of succession, succession planning. You know, it sounds like you're going to be in the seat as the leader of JPMorgan Chase for four-plus more years. How is the Board using that time to prepare your succession --

Jamie Dimon

Yes. So, it's totally -- remember, it's totally up to the Board. And so, whatever -- anything I say, it's up to the Board. I have 10 board members who decide every day whether they want me in the shop or not. I'm an employee at will; they could fire me tomorrow. I think -- when I went up to Fidelity and Wellington, I explained to them that the most important thing, and I think sometimes the press misses this too, is does the Board meet without the chairman and CEO all the time, not is there a chairman and CEO. My -- the lead director has all the authority of a chairman. They meet every single time since I got the Bank One; it's not required by law. Now, it's required, I think, once a year in a Dodd-Frank.

But I have insisted every single time they hear -- they get full access to the management team, full access to everything. They go play golf with them, they could have lunch with them, they meet, not just by direct reports, they know them well, but they meet the next layers down. And they meet every single time without me, and they have, since 2000. And they have an open conversation about what's working, what's not working, what feedbacks we give Jamie, what are we happy with, we're not happy with. And that's what they do. That is the most important thing.

And while I'm making a pitch to you all, you -- corporate America has a problem, okay? And the problem - and I think investors have to do this; I can't. So, think of asset managers, we've gone from 7,200 public companies in 1996, and this may be a real problem; I'm begging you to pay attention to it when you go home, okay? We've got 7,200 to [expats] [Ph] like 4,200. Now, that number should have gone from 7,000 to 14,000. And what happened? Well, private equity, I'm only talking about the big ones, because I can't even add up all the smaller ones who's gone. I'm not against private equity, I'm just pointing out some facts, has gone from only 1,000 to 10,000 companies.

And all this other capital is moving private. I'm not against private capital; I'm not against private equity. I'm just wondering why that's taking place. And you'd think someone would be thinking about what do you want in America. You want active public mortgage. And we're driving companies out of the public markets because of litigation, regulation, press, cookie-cutter governance, you know, "Oh you got to have this amount of directors, and this amount of that," and who said so? What's wrong with a free market system where you -- UC companies. I mean what's independent mean? And Warren Buffett will tell you independence -- independent-minded, you know, it's not anything else. If you rely on fees you're not independent, you know.

So, we -- and so, with private equity, management teams focus on the business, boards focus on the business. They're not -- they can -- they could come up with the kind of schemes they think work the best for that business. They don't have to deal with Glass Lewis and ISS, which shame on you if any of you -- if that's how you vote, shame on you. I mean, seriously, you should be embarrassed, okay. And do your own homework. And the shit I hear from people about, "Well, you know, there's too many [prime] [Ph]," no, there's not. If you own a hundred companies, the average proxies got six, that's 600, there maybe ten to matter. And like even that, you know, so we talked to our investors, and we send up -- I don't do it, the lead director does and stuff like that, so the lead director goes up there and they talk to a 27-year-old compliance officer, who writes a memo, and then votes Glass Lewis. I think if we send up a director of ours who is a decision-maker, they should send someone who is a decision-maker. And you should be able to say to that person on the spot you got my vote or you don't, as opposed we have to wait to proxy day. And I just think we are just slowly destroying Corporate America for all the wrong reasons. And if you don't fix it, folks, you better go private too, because there will be no public companies. I don't use Good for America, because I think our active transparent mortgage are great. They had been one of the engines. With all the flaws we've had, they had been one of the engines here. So, I'm begging you. I'm begging you, don't allow this to happen with [technical difficulty] -- figure out what it's got like in ten years, and see if that's acceptable, because in my view it's not.

Unidentified Analyst

Jamie, thanks so much for joining us today. We appreciate it.

Jamie Dimon

Yes. Thank you very much. Appreciate it.