Citi 2.0: If she builds it, will they come?

Illustration: Thereddress

Jane Fraser, chief executive of Citi since March 2021, has a mighty task on her hands. Like so many of her predecessors, she faces the puzzle of how to articulate an identity for a bank that always seems to be trying to do too much at once. So far, she has focused on redefining the scope of the firm and most recently on adapting its structure to fit that. The hardest part – fixing the bank's woeful returns – is still to come.

Picture the scene. After years of crisis management and recovery following its near-fatal collapse under the weight of toxic assets, Citi announces an organizational and management overhaul. It is part of becoming a simpler, more focused and better managed bank and it follows strategic decisions to shed non-core assets.

The bank, we are told, will retain its international network – "the one true competitive advantage we have," an insider tells Euromoney. But it will strive to make more from the links between the few businesses where it is a clear leader, such as global transaction services, foreign exchange and rates for its corporate customers that operate across multiple countries.

The geographic heads that once ran their own businesses as siloed entities, each spending heavily on their own systems and controls, will lose influence. Instead, the heads of its key business divisions will now report directly to the chief executive.

The hope is that investors will reward this latest reorganization by putting a higher valuation on the earnings of a bank that has sufficient scale and efficiency in certain products to promise stability but also still plenty of opportunity to grow. One analyst tells Euromoney that for all the firm's sprawling reach, Citi's small share in many markets and products makes it in some ways the largest small bank in the world.

If the tale sounds familiar, it should. It has played out more than once. For this was not Citi chief executive Jane Fraser in September 2023 announcing the latest big reorganization to reshape Citi for the decades ahead.

No, this was John Reed, chief executive back in 1996, announcing yet another sweeping reorganization of the most international of all the big US banks.

It is tempting to see Citi's history as repeating itself now; echoing may be closer to the mark. And for those toiling at the bank and for the long-suffering holders of its stock, there may be reasons to hope that Citi's long search for an identity is finally bearing fruit.

For that to hold true, Fraser and her team will have to show concrete success – and soon. Having taken over in March 2021, she is well past the 100-day honeymoon period traditionally accorded to incoming bank chief executives.

At the firm's investor day in March 2022, precisely one year after she took charge, Fraser built a growth narrative around Citi's five core businesses: services, markets, banking, wealth and US personal banking. In September 2023 she made their primacy explicit, removing the institutional clients group (ICG) and personal banking and wealth management (PBWM) divisional layer that had sat atop them – and having their five leaders report to her directly.

The greater step is arguably the regional change, with a new international unit that will oversee Citi's country officers and what the bank calls its cluster heads, which are those that look after regions. From now on these regional roles will be filled by banking leaders that are double-hatting, reporting to both the heads of international and of banking. Many old roles will be superfluous.

Alongside all that is the creation of a central client organization to manage how the bank interacts with clients in all areas.

Fraser and those around her hope that this simplification of the firm will not only better reflect the reality on the ground of Citi's new profile, shorn of much of the international consumer baggage it once had, but will also present a more logical and transparent proposition to potential shareholders.

Rebuild it and they will come, perhaps.

Analysts, rivals and those working for her mostly continue to give Fraser the benefit of the doubt. Many like the look of the strategy she laid out at the investor day, just as they do the structure that she has now put in place to deliver it.

Now, just like her, they want results.

Wide-ranging decision

Back in 1996, the recovery that Reed was seeking was from the commercial real estate and highly leveraged loan crisis of the early 1990s that saw the end of so many US savings and loans. Citi had to raise capital, shed assets and decide what the bank was going to be.

Reed still felt Citicorp, as it used to be called, could serve two groups: individuals, through a big credit card operation in the US and Europe, a US retail bank, a global private bank and a consumer bank in growing emerging markets; and corporations and institutional investors, through transaction services, FX and some limited capital markets.

If this was simplicity and focus, it was quite wide-ranging.

Citicorp was *the* international commercial bank of the US business empire, built up under visionary leaders George Moore and Walter Wriston in the decades after World War II to serve US companies expanding overseas.

Reed had added a new kind of consumer banking business that saw retail not just as a source of deposits to fund commercial lending but rather as a profitable customer segment in its own right.

He believed technology would allow Citi to replicate that around the world. Back then the global consumer bank brought in 60% of the group's revenues.

Reed was good in a crisis, reviving Citi after the non-performing loans shock from Latin America in the early 1980s and the savings and loan crisis at the start of the 1990s. He was perhaps less impressive in the calm times.

Just two years after championing simplicity – the end of the old silos and a focus on global consumer banking and corporate banking – he led Citicorp into a merger with Sandy Weill's Travelers Group, proclaiming a new vision of the global financial supermarket that would offer every financial service to every type of customer everywhere.

Travelers was big in life insurance, property and casualty insurance, consumer finance and global investment banking. It had bought Salomon Brothers, which Reed saw could arrange debt and equity finance for the corporate customers that came to Citi for cash management, FX hedging and syndicated loans.

“It was an accident waiting to happen,” Jamie Dimon, Weill’s protégé, told Euromoney in 2019. It was too diverse, he said. “They bought a truck leasing company, for goodness’ sake.”

Dimon left, eventually becoming the leading banker of his generation at JPMorgan instead of at Citi. The accident, meanwhile, came in 2008, when Citi had to be bailed out by taxpayers in the global financial crisis.

It has been in recovery mode ever since.

‘Consequential changes’

That was 15 years ago.

So when Fraser told analysts and investors at the Barclays 2023 Global Financial Services Conference in New York City on September 13 that the latest overhaul she had announced that morning to do away with a couple of layers of senior management amounted to “the most consequential changes to how Citi will be organized and run that we’ve made in almost 20 years,” it sounded like an overstatement.

Jane Fraser’s problem is that the stock market still doesn’t like Citi’s story. Photo: Reuters

Vikram Pandit, a battlefield promotion to chief executive in 2007, announced far more consequential changes in 2009 when he split Citi into two.

A core group of businesses was retained – including the institutional clients group providing investment banking and global transaction services to corporations and markets business for institutional investors; and then a regional consumer and commercial banking division that included credit cards, US retail and international consumer banking and wealth management through a branch network also to serve smaller businesses.

But businesses accounting for many hundreds of billions of assets was disposed of through Citi Holdings, including not just the toxic legacy assets but whole aisles from the supermarket.

These included insurance companies, such as Primerica; wealth management, notably what was left of Smith Barney now handed over to a joint venture run by Morgan Stanley; some decent sized consumer finance businesses around the world; and consumer banking in much of the eurozone.

Mike Corbat managed the rundown of Citi Holdings so successfully that he was the board's choice to take over from Pandit in 2012 and continue the work of simplifying Citi.

Corbat inherited an institution that still had consumer banks in 56 countries. This was a confederation of standalone entities with their own products, pricing, IT, support systems and processes. The bank was running 800 different credit card offerings.

> *We have the brand and global reach, talent and capabilities to be a true global leader in wealth management... That's the way I see the opportunity; it's what drew me in*

Andy Sieg, Citi

He cut the 56 to 24 within three years, even selling the Japanese retail bank Citi had run for 100 years to Sumitomo Mitsui, as well as banks in Turkey, Egypt, Hungary, Czech Republic, Pakistan, Romania and many more.

These were pretty consequential changes.

When Fraser took over her first big announcement was to sell 14 more national consumer banks, including most of the last ones that Citi had clung onto in the hope of benefiting from higher growth rates in Asia, as well as in Mexico.

If Pandit dismantled the conglomerate that Weill built and Corbat began to dismantle Reed's global consumer bank, Fraser has almost completed that job.

Fraser’s problem is that the stock market still doesn’t like Citi’s story. The stock trades at less than 0.5 times Citi’s book value per share; JPMorgan trades at about 1.4 times book.

What is Citi in 2023 meant to be? Is it going back to some version of Wriston’s Citibank from the 1970s?

Andy Sieg, announced in September as the new head of wealth, may be a great hire after years running the old thundering herd at Merrill Lynch inside Bank of America. But can he build global scale in wealth management, so many years after Citi sold Smith Barney to Morgan Stanley?

He certainly thinks the firm has everything it needs to do just that. “We have the brand and global reach, talent and capabilities to be a true global leader in wealth management,” he tells Euromoney. “That’s the way I see the opportunity; it’s what drew me in.”

What is the future for a US retail bank focused on just a few of the country’s biggest cities? How does Citi fit together banking global multinationals and medium-sized businesses? And what, beyond transaction banking and trade finance, is its most compelling pitch to them?

The bigger story

Large, complex organizations tend to develop internal bureaucracies, notionally controlling and managing the product and service providers but often becoming self-perpetuating layers of management that deliver very little value.

The structural simplification of ICG/PBWM and the dismantling of much of the regional structure sounds like simple common sense, given the changed profile of the firm and its growth priorities.

Earlier in the year, it emerged that Paco Ybarra, the long-serving head of ICG, would be retiring from the firm in 2024. Anand Selva, who was in the equivalent post for PBWM, had already added the role of chief operating officer for Citi back in March and will continue in that position.

> *I sit in forums now where the businesses get to challenge each other on how to establish structural oversight*

Mark Mason, Citi

Within the firm there is sometimes a sense that the headline-grabbing dismantling of ICG and the departure of Ybarra overshadows the regional slimming, which many think is the bigger story.

“We were at risk of losing the plot a bit by overly focusing on regional metrics, regional offsites and regional strategic plans, and so Jane made the call,” says one senior banker at the firm. “Does it really matter what exactly is the revenue in EMEA for Citi? I think quite rightly people say: ‘No, actually that’s not the number I should be worried about.’”

And while Fraser says all the changes are not primarily driven by cost-cutting, she does point out that “they will help us start bending the expense curve.”

She told analysts on the third-quarter earnings call that these organization changes “will eliminate over 15% of the regional and functional roles at the top two layers, and 60 committees, freeing up over tens of thousands of people hours annually.

“We have identified about 1,000, or 50%, of our internal financial management reports that we won’t need any longer and have taken out co-heads and dual reporting lines to enable faster decision making.”

Who can’t like the sound of that? Regulators, perhaps.

Citi may have finally turned its back on Reed’s vision of a global consumer bank offering the same products and services in fast-growing emerging markets around the world to mass affluent retail. But Citi still operates in a lot of countries as a wholesale bank.

It might not be taking retail deposits, but its trade and transaction services business still takes large volumes of corporate deposits. And in the era of ringfenced local banks, national regulators still want to be able to call in local senior management when there is a problem.

Fraser owes her job in part to the consent orders imposed on Citi three years ago by the Federal Reserve and the Office of the Comptroller of the Currency that had warned it repeatedly over failures in its risk management systems and data controls.

Now Citi must take care that peeling away management layers does not impair its control functions – it says the process should improve them. But it will also have to ensure that client service at the very highest levels does not fall through the cracks.

Banks flip-flop all the time between handing control to global product heads and local geographic leaders. Those chief executives that prefer geographic heads often say that, as well as regulators, the banks' big customers want to be able to speak to senior bank executives in their own time zone.

If a billionaire customer of the private bank finds out that Citi's investment bankers are financing an unwelcome bid for one of their companies, who do they call to resolve the competing interests of the banks' different divisions? If they can't find someone senior to talk to at a time that suits them, other banks will be delighted to take their business.

> *If you are building a house, you want Jane Fraser as your architect... Her design is as good as it's been since Citi was invented in its modern form 25 years ago... The question is, can she build it?*

Mike Mayo, Wells Fargo

Something that used to preoccupy Citi's leaders in the era of standalone product groups was the phenomenon they used to call "the Citi swarm". Salesforces from different Citi businesses would descend on the same corporate customer, each pitching their own products and services, sometimes in competition with each other.

Reed fought against it. So did Pandit. Senior regional executives were one answer, standing above the business divisions and better coordinating customer relationship management.

No doubt reporting directly to Fraser will light a fire under business heads that are no longer being supported by another layer of leadership. But knowing they are under scrutiny and have greater accountability for their divisions' returns might not promote the kind of coordination or cooperation between businesses that is surely intended.

Fraser and her top executive team will need to be alert to all this.

Citi's strategic rebuild has obvious parallels in the physical world. The renovation of its Greenwich Street headquarters in New York – which took years in the run-up to the Covid pandemic – was, for anyone unlucky enough to be sharing the campus with the builders, a painful experience. The bank's Canary Wharf site in London is still going through its own lengthy transformation.

In another parallel to the strategic work now under way, the US leg of the refurbishment was dubbed the One Citi NY project, reflecting its aim to integrate its two adjacent buildings. The result has been a spectacular improvement in conditions for staff, which seems to bode well for London.

The timing of the projects has been happy coincidence, but they offer a usefully tangible example of renewal at a firm that is trying to get its 240,000 employees to do something similar in all sorts of other ways too.

The imagery can be infectious.

"If you are building a house, you want Jane Fraser as your architect," says Mike Mayo, head of US large-cap bank research at Wells Fargo. "Her design is as good as it's been since Citi was invented in its modern form 25 years ago.

"The question is, can she build it?"

Change-maker

It's clear that Fraser sees herself in a grand tradition of change-maker chief executives. Writing on LinkedIn after Morgan Stanley announced its plans to hand over the running of the firm from veteran chief executive James Gorman – who rebalanced the post-crisis Morgan Stanley by pivoting to wealth management – to investment bank head Ted Pick, Fraser summarized Gorman's tenure approvingly as "big bets, transformation and growth".

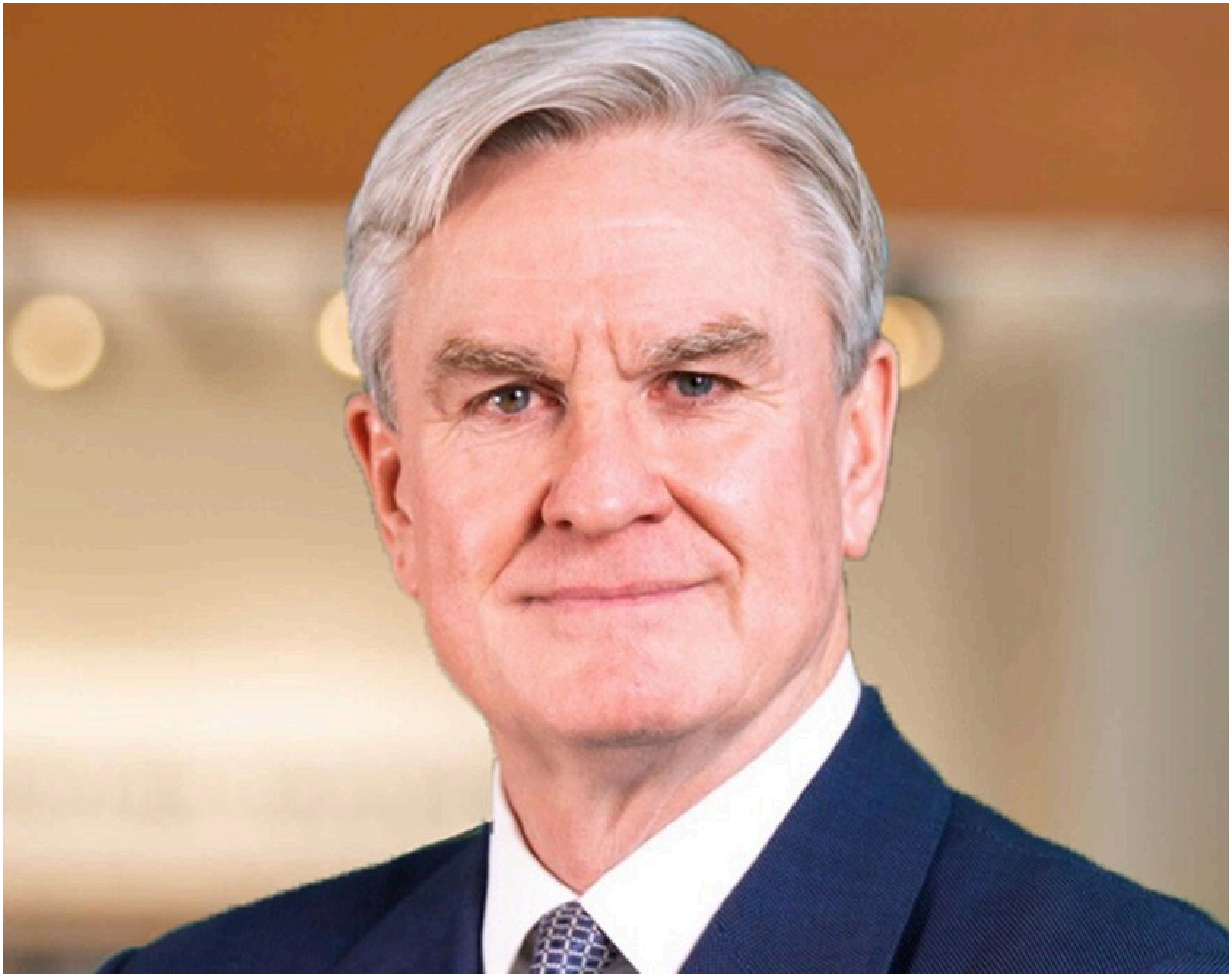
"Your legacy is in good hands with Ted Pick, whom I've known for a long time and has the experience and focus to take the reins," she added.

Fraser joined Citi in 2004 and has worked in the corporate and investment bank, the private bank, mortgages, US consumer banking and commercial banking – as well as running the bank's Latin America business. Her most recent role was as president of the bank and chief executive of the global consumer bank, running 19 markets.

She came to Citi from McKinsey, where she had been a partner. Her first job after studying economics at Cambridge University was at Goldman Sachs. Her MBA is from Harvard Business School.

> *It's not about what we could not do, but it's about what we can now do better*

David Livingstone, Citi



A combination of strategic experience and a practical background touching nearly everything at Citi not only made her a clear candidate to follow Corbat but may make her exactly the right chief executive for this particular moment at the bank – that, at any rate, is what shareholders will be hoping.

Those who have lived through many different market cycles at the firm and can bring historic context to their assessment of their boss, tend to speak highly of her and readily say she is a natural in front of clients –an aspect where some rival bankers are often less enthusiastic in comments about their own chief executives.

"There are many bank chief executives out there, but Jane actually has a hands-on understanding of what is required," says one Citi veteran. "We have had plenty of leaders with aspirations to succeed in investment banking, for example, but she has experience of that in her DNA."

Her first role at Citi was as head of client strategy in the corporate and investment bank, and she next worked as global head of strategy and M&A.

Since the September reorganization announcement and the third-quarter earnings cycle, Fraser's schedule has been dominated by touring the bank's network around the world.

At the time of writing, she had just spent a week in Hong Kong being wowed by talk of digital technologies among her teams and the bank's clients. In a breathless LinkedIn post on November 10, she professed herself "excited about the opportunities ahead in Asia."

Two weeks before that she was in Dubai, boasting of the Middle East banking unit's number one wallet share in the last five years. And that was just after board and management team meetings in Singapore, which she describes as one of Citi's key wealth and institutional banking hubs.

No one should doubt her commitment to the network. The trick she needs to pull off, of course, is to preserve everything good about it while putting into practice a new vision for this sprawling giant. It's a challenge that will take more than air miles.

Three-headed dragon

"Jane Fraser is trying to slay the three-headed dragon inside Citi," says Mayo. "One head is the disjointed global consumer franchise with all the bureaucracy that comes with it, and that is the most likely concrete success. The second head would be the outdated spaghetti-like back office. That is a multi-year slog.

"The third head is the silos and fiefdoms inside Citi and her need to create a more One Citigroup. And the success of that is still to be determined."

It's a striking image and one that perhaps captures the sense of battle better than many. Progress on defeating the first of those challenges has been slower than many would like, but it is at least widely seen as under way and with a chance of being largely executed within the next two years.

The back-office work, tackling Citi's technology, systems and processes, is – we are constantly told – a critical focus of the organization. Some outside the bank guess that it is still a few years behind its peers but also recognize that it is on the right track now and should get there.

Tackling Mayo's third 'head' is challenging because it is not possible to just flip a switch and change decades of culture.

> *Citi's global capabilities are truly distinctive among US banks, helped by our global network and services franchise*

Tyler Dickson, Citi

Among those outside the firm – principally investors and counterparties – it also takes time to build trust. Changing the narrative around Citi may be Fraser's toughest task of all. The restructuring that she unveiled in September – what one insider refers to neatly as "structure catching up with strategy" – has brought with it some tougher sounding communication than many employees may be used to.

"Get on board," she told staff at a town hall meeting shortly after the September announcement, in comments first reported by the Financial Times. "Lean in, help us win with clients, help us deliver the changes or get off the train."

Externally, that approach raised eyebrows, particularly as it was at odds with a gentler image that – whether intentionally or not – the firm is widely seen to have projected since Fraser took the top job in 2021. Not everyone thinks the new messaging sits comfortably. Some think it is the kind of talk that might be tolerated from someone like Dimon, running an institution with the reputation of JPMorgan, but which rings a little hollow from others.

"That kind of thing works for Jamie because he's written so many tickets," says one long-time observer of banks. "But Citi is a firm that has perennially disappointed from a risk management perspective for 20 years and Fraser is not a new face there."

But others disagree with criticism of Fraser's tone.

"I think there is nothing wrong with her messaging and there are a number of institutions that could take a page from that book," says Jerry del Missier, founder of financial sector-focused hedge fund Copper Street Capital. "But now it's about delivery."

An investor says: "I think from a communication standpoint Jane has outperformed expectations. I think you do need to shake the tree, and it sounds like she is."

It's a tricky balance. Messaging might matter for morale and there is doubtless concern at what is being planned, not least because many staff do not yet know the extent to which the bank will be looking to cut jobs. A flurry of reports of planned reductions in recent weeks will have done little to calm nerves.

But global banking is a grown-up world whose inhabitants should be well used to being challenged to deliver excellence. That Fraser – the only woman running a bank on Wall Street – might draw attention for speaking in forceful terms, when few would disagree that the firm needs an injection of something, seems disappointingly predictable.

That said, there is no getting away from the criticism on risk management. Banks can talk all they like about digital transformation, efficiencies and delayering, but ultimately they are risk managers and that is one of the main ways in which investors and clients judge them.

JPMorgan, with the exception of the $6 billion 'London Whale' trading scandal in 2012, is widely seen as best in class for risk management.

Citi is not. Its hapless fat-finger wiring of nearly $900 million of its own money to creditors of Revlon in August 2020 was a reminder that old habits die hard.

Distraction and disruption

How long does it take to recover a reputation for good risk management – or build one that perhaps never really existed?

"I think it takes years – on profits you can be quicker, but on risk management it takes a long time," says Rupak Ghose, a strategic adviser to the financial sector. He thinks back to how long it took UBS to recover from the trauma of Dillon Read Capital Management, the internal hedge fund that had been run by the Swiss bank's former head of investment banking, John Costas, and which UBS shut down in 2007 after it saw huge losses on US subprime mortgage bets.

"It took time and a lot of surgery for UBS to get over that," says Ghose. "And Citi talks a lot about technology but then wires money to a bunch of hedge funds."

Corporate reorganizations are typically distracting and disruptive: Citi is hoping that its own will create focus rather than distraction and be disruptive only in ways that will be useful. Fraser and her teams are well aware of the Citi backstory, the years of lax controls that caused problems to blow up periodically, often accompanied by a regulatory probe.

The obvious challenge when stripping back management layers and filleting the regional structure is to ensure that the risk management credibility that Citi is trying to build is not jeopardized.

> *We don't expect Citi to become a JPMorgan or a Bank of America in terms of return on equity… In our view, Citi is not of the same quality, but it is still too cheap*

James Hollier, Silver Beech Capital

Mark Mason, Citi's chief financial officer, insists that not only is oversight of risk not threatened by the changes under way but that the reorganization has the scope to bring an additional facet of efficiency to the overall effort.

"We've eliminated two layers, the ICG/PBWM management layer and the regional management layer, but we kept a regional cluster construct and I think that's important when we think about the risk and controls outside the US," he tells Euromoney. "And we now have an international function, which ensures the oversight of the legal vehicles that we have in those countries and the regulatory requirements that they have to meet."

He argues that the bank has actually shored up its risk and control oversight as a result, while also stripping out the excess in the management of the regions.

The added efficiency, he says, comes from the way that the bank is examining how its risk functions can benefit from the work done in strategic units – and vice versa. For the moment, the firm's transformation work has been ringfenced from the slimming down that is taking place; and Citi has put in place a separate stream that is focused on ensuring that risk and controls are not weakened.

"But just because you've ringfenced it doesn't mean you don't look at opportunities to execute that transformation more efficiently," says Mason. It is one of the things that he thinks about with Anand Selva, who has moved from running the old PBWM division to become Citi's chief operating officer.

What it boils down to is judging where an investment dollar is best spent – and avoiding duplication of effort. Spending on a strategic or tech initiative within a business line might provide a solution that the risk function can use. If so, then the task is to find a way to share that benefit. The days of Citi building everything multiple times must come to a swift end if it is to stand any chance of making a long-term shift on costs.

Artificial intelligence and the possibilities offered by its latest generative incarnations are an additional lever. There can even be regulatory applications, Mason insists – although regulators will doubtless be alive to the risks of banks dispensing with human scrutiny of such things.

"We have to make sure that all our policies across our network are aligned with the respective regulations in those markets," he notes. "With AI technology I can comb through all that instead of having people do it manually."

Investor-day promises

Sitting on Mason's desk is something that never leaves it these days – a copy of the investor day presentation from 2022. It is a constant reminder of all the promises made and what he must do. And he thinks the firm is squarely on track.

Much of what the market has seen at Citi since the investor day, Mason reminds Euromoney, was foreshadowed in it. The five interconnected business lines were mentioned over and again and so it should be little surprise that they now sit at the top level of the firm's structure.

It is difficult to argue against breaking up the two lumbering ICG and PBWM units. Having roles just below the very top and which are effectively aggregators often looks odd – Bank of America had a similar issue for many years until chief executive Brian Moynihan went to the other extreme with his expansion of direct reporting lines in September 2021.

Mason speaks as one with Fraser when it comes to arguing that the streamlining is about focus and accountability, which is why Mason says that the delayering at the top, and within the businesses and regions goes far beyond cost savings.

"The businesses can now have a much closer engagement with the centre, with Jane and me and the rest of the executive management team," he says. Some will enjoy that more than others: structural complexity gives cover for weak performance in many big organizations. Not surprisingly, therefore, Mason stresses the accountability that the new plan brings: the organization is simpler, now people must deliver.

It also goes two ways. "I sit in forums now where the businesses get to challenge each other on how to establish structural oversight," he adds.

Hopefully such discussions are productive.

The top team and those just below seem tightly knit. Talk to them and they frequently reference each other's businesses. They appear – to an outside observer at least – to relish the prospect of greater proximity to each other, something not always a feature of big banks.

From a revenue perspective, it is a slightly lopsided mix, dominated by three areas. Andy Morton's markets business is typically the biggest of them and accounted for 28.3% of the aggregate $52 billion revenue of the five divisions in the first nine months of 2023.

Just behind that were US personal banking, run by Gonzalo Luchetti, with 27.3%, and services, run by Shahmir Khaliq, at 26.6%. Next came wealth, run since September 27 by Sieg, with 10.5%, and then banking, being run on an interim basis by former Asia Pacific chief executive Peter Babej until a permanent head is found, and accounting for a lowly 7.3%.

Overseeing Citi's business outside North America is former Latin America chief executive Ernesto Torres Cantú, in the new role of head of international. David Livingstone, who was chief executive of Citi's Europe, Middle East and Africa business, is now chief client officer, another new role for the firm, heading a centralized client organization.

Livingstone's appointment is seen internally as a vital part of the new approach. Was the firm so dysfunctional before that it was not able to look holistically at a client?

"It's not about what we could not do, but it's about what we can now do better," Livingstone tells Euromoney. "It's not that we didn't look overall at a client who was being served by markets, by banking and by services all at the same time. But, by removing the aggregating layers, by making it clearer what the business objectives are, we can improve the quality of delivery."

Importantly, Livingstone is not about to rebuild the kind of cumbersome structure that the bank is busy trying to get rid of now.

"We are intentionally a central capability operating enterprise-wide," he says. "We are not replicating in geographies or product areas, and we are not creating a large central coverage team."

What there will be are senior bankers who are either covering individual clients or who are champions of certain client segments and whom Livingstone will now be holding accountable for making sure the bank understands the aggregated opportunities in those segments.

TTS and securities

“Strategy is as much about what you say you are going to do as it is about what you say you are no longer going to do,” says Mason. “At investor day we talked about both. We talked about growth and we talked about divesting businesses.”

Many outside the firm would argue those divestments have been painfully slow to realize, but Mason sticks to the script. “We will soon be out of nine consumer markets and we have a clear path for wind-down, sale and IPO of the remaining,” he says. “I bet when we stood on that stage no one thought we would be able to get out of nine in such a short period of time.”

Mason says plenty has played out favourably so far. The current interest rate environment, while challenging to some businesses, has been a driver for others, like treasury and trade solutions (TTS), and securities services. Revenues in TTS and in securities services were both up 18% year on year in the first nine months of 2023.

However, this is more than a rates story. Citi reckons that about half the recent growth in those two businesses has come from doing more with existing clients and bringing in new clients. Mason attributes that to the strength of the bank’s platforms and product offering in payments, liquidity management, trade, lending and working capital management.

“Those are two of our higher returning businesses and we are capturing significant top line growth,” he says.

He also likes the look of the US personal banking business, another of the big five units and sitting just behind the markets unit in terms of revenues, with about $14 billion in the first nine months of 2023. But for all the undoubted benefits of Citi’s global network when it comes to servicing corporates, many would argue that Citi’s home market in consumer banking presents the bank’s biggest challenge – and has always done.

Home advantage

“Citi’s biggest problem is that they are just not big enough in the US,” says a European bank chief executive. “They don’t have the presence of Bank of America or JPMorgan.”

It’s notable that North America is the one region that will continue to have its own dedicated manager in Sunil Garg. In a memo to staff, Fraser said that this was because of “the significant growth opportunity we have in our home market and the mix of consumer and institutional businesses we operate across the US.”

Revenues in Citi’s US personal banking unit rose 14% to about $14 billion in the first nine months of 2023. But JPMorgan’s consumer and community banking business clocked up $52 billion, up 33%. Bank of America’s consumer bank brought in $32 billion. Those firms have been more able than Citi to ride the net interest margin wave as rates have risen. But the trend goes beyond the latest inflation-fighting period: their consumer franchises have been important supports for their other businesses for many years.

Mason is still bullish. “We’ve seen very good top line growth in both our retail services business and our branded card business,” he says. The recent past has been a tricky period for card businesses, with payment rates rising as customers sought to reduce balances. That is turning now.

More emphasis is also being put on commercial banking, even if Citi seems to have woken up to its potential later than some. Bank of America has been talking about it as an exciting cross-sell opportunity for years. JPMorgan has seen the investment banking revenues it attributes to commercial banking clients soar 40% in the last five years.

Citi wants in. “It’s a key area of growth for us,” says Mason. “Why? In part because of that TTS franchise – those same products that we offer to the large multinationals, we are uniquely positioned to offer them to our middle-market clients.”

The logic is obvious – it is easier to capture the upside because the platforms already exist. All that was needed was to build a front end to offer those products to the smaller client segment in a tailored way.

In the markets business, meanwhile, the bank’s storied fixed income franchise has been firing well, helped by high levels of market activity. And in many ways the unit’s new metric – revenues over risk-weighted assets (RWA) – stands as a proxy for the bank’s new philosophy.

"We said at investor day that the markets business would shift to focus on returns, and the proxy for those was revenue to RWA," says Mason. "And you've seen us talk quarter after quarter about the progress we've been making towards and exceeding that target."

Bold move

Responsibility for doing that falls on the shoulders of Morton, head of Citi's markets business and one of those recently elevated to be a direct report to Fraser. He arrived at Citi in the global financial crisis, a casualty of the collapse of Lehman Brothers, where he had built a rates business that was the envy of many.

Bringing him on board was a bold move by Citi, suffering its own severe issues at that time, but the bank wanted him to do again what he had already done at Lehman.

> *Another advantage of being inside a platform of Citi's size is that we can afford to fund the credit business through a 50% drop in wallet because we have a massive FX and rates engine*

Andy Morton, Citi

And by many accounts, he has. There have been some quarters in recent years, such as at the start of the pandemic, when the bank topped Coalition's rates rankings. It is currently number two.

"I think Citi's steady support to build the business over the last 15 years has paid off," Morton says modestly.

Some away from the bank are more effusive. “Andy Morton is a rock star,” says one. But others sound like they come to bury Citi even while praising it. “I have always admired the franchise,” says one senior banker at a rival firm. “They are nowhere with hedge funds but look at the percentage of their fixed income business that is corporate clients – they are just so in the flow of money.

“As bad as they are, they can’t screw that up.”

Apparently not. Along with FX, where the bank has little short of a money printing machine, rates is one of the obvious places where Citi has shone in fixed income. But in some ways Morton sees the patient, slow-build Citi story best illustrated in its commodities business. He joined the firm not long before Citi was forced by the government to sell its Phibro oil trading business and the bank only had a nascent commodities franchise elsewhere.

“Again, that was a 10 to 15-year journey into building up a decent commodities business that now produces good returns and is a sizeable contributor in our fixed income firmament,” adds Morton.

Credit is the area that has been trending slower and rivals are quick to point it out. But Morton also argues that the wallet has fallen – by about 50% in the last few years.

“Nobody thinks that’s permanent, but you have to be willing to ride these drops out,” he says. “That’s another advantage of being inside a platform of Citi’s size – we can afford to fund the credit business through a 50% drop in wallet because we have a massive FX and rates engine.”

Equities is at a different stage of development. Morton says he is not interested in going for quick wins by targeting clients that might offer short-term revenue but will not be broader clients of the firm. He wants longer term ‘sticky’ business.

A big part of that plan is prime brokerage. For years rivals have marvelled at how Citi has hardly seemed to notice hedge funds (although some may have quietened their criticism in the wake of the Archegos scandal that cost prime brokers something in the region of $10 billion).

Equities is capital intensive, particularly in prime, but something that distinguishes it from fixed income is that its cost base tends to be fairly fixed. A prime business has a certain number of staff and a dollop of technology, but then the aim is to ramp up the balances being fed through the machine. The costs don’t go up in parallel, so a lot drops to the bottom line.

Improving returns

When Euromoney speaks to Morton, he has just finished giving a presentation on his markets strategy and has been discussing prime intently. Like many US bankers he reaches for baseball when he says that he thinks the bank is in the third inning of the game in equities.

“We will have results in the next few years,” he says. “I would say that it’s very analogous to commodities in that it could take us several years to really achieve scale.”

That is quite a timeframe, although Citi has shown elsewhere in markets that it is prepared to stay the course in what are capital intensive areas. Still, Morton knows that the pressure to improve returns is on him – it is his business that has historically been the drag. If Citi overall is going to get to its targets, markets will need to do its bit.

In the 2017 to 2021 period, securities services posted an average return on tangible common equity (ROTE) of 26%, treasury and trade solutions about 22%, banking 15% and markets a lowly 10%. In 2021 it was around 9%.

Now all the talk in the markets business is of this revenue-to-RWA target that was laid out at investor day. What does it mean in practice?

In his presentation that day, Ybarra said that the 2017 to 2019 average for revenue-to-RWA in markets was 5.1%, falling to 4.5% in 2021. The bank’s target now is to shift that to 5.5% in the medium term, by which it means roughly 2026.

That would be more of a change than it might sound. According to Ybarra, a 10 basis point change in that ratio corresponds to a roughly 60bp to 70bp change in returns, so a 100bp shift could be a full seven percentage point increase in return. And 16% looks a lot better than 9%.

Getting to the upper end of its targets was “critical” for the markets business, Ybarra said.

Morton knows that. “I think Citi maybe more than anyone else is conscious of returns and it’s pretty well known that the markets business at least from a regulatory capital perspective is not the highest of returning businesses,” he says. “So it’s doubly gratifying that we remain committed to it.”

Part of the secret to success, as Fraser has laid out, will be in getting the markets franchise to work better with the other parts of the firm – she thinks having them all sitting at the same table will encourage that. Morton recognizes that more can be done but points to an example of where it is already happening.

The best potential links are with Citi’s TTS business, where the bank can also boast leading shares in various products. And so the bank has been thinking about how to better serve those clients for whom something like FX is a service.

“It’s thinking about clients that are using or need to do FX as a consequence of other business activity, whether that’s because they are custodying assets and the cash flows need to be converted or it’s related to a working capital arrangement that we have with a big corporation,” Morton says.

“They care about their funds flowing correctly but some fail to consider FX costs. We help look after their FX-based P&L, giving a more strategic approach to FX, so it’s not an unavoidable cost of doing business.”

In the past, corporate FX work sat outside the institutional FX business that was run by global FX head Stuart Staley until he left the bank in May. But Morton says that in the last few months the bank has reorganized this area to create a unified FX business under the leadership of Flavio Figueiredo, who used to run corporate sales.

It’s one example of how the bank now has to make more of what it has. But across the whole markets business, the new obsession with capital efficiency has meant getting to grips with some new ways of thinking for many traders – Morton included.

“It was hard for me, I’ll admit, but you have to step back from thinking that revenues is the metric,” he says. “Every trader goes home every night knowing his or her P&L for that day, and it’s hard not to measure yourself by that.”

But what if instead it could be returns? Through that lens, the business starts to look a little different. Now staff might be looking at a trade that lowers the unit’s RWA by $500 million because it offlays risk to a client, but – and here’s the kicker – the P&L is going to be negative.

“Of course it’s going to be negative, but you have to celebrate that trade,” says Morton. “You have to want to print that trade at negative revenue because it improves returns.”

Obviously, there is a limit to that – a lot of business will need to post actual revenues. But Morton knows that if he is trying to optimize returns, then he is doing what shareholders want the bank as a whole to do.

Instrumental investors

More than anything, they want to stop being disappointed. A few recent moves may encourage Fraser that she is on the right track.

ValueAct Capital, an activist investor that was instrumental in agitating for change at Citi after it first bought the stock in late 2017, exited its investment in the fourth quarter of 2022, according to its 13F regulatory filings. At its peak it had owned 31.5 million shares valued at about $2.2 billion in early 2019.

ValueAct’s dissatisfaction at Citi missing returns and cost targets that it had announced to great fanfare at an investor day in 2017 is thought to have been at least partly behind Corbat’s retirement being announced in September 2020, and therefore the timing of Fraser’s own rise to the top.

ValueAct typically invests for three to five years, making its exit from Citi unremarkable on that basis, and the firm did not reply to Euromoney’s request for comment about the timing of its move. But its stated goal “is to leave a company in a better position than when we first invested in it,” according to its website.

At the same time, one of the most famous long-term investors in the world has been buying in. Having not owned the stock since 2001, Warren Buffett’s Berkshire Hathaway reinvested in Citi in the first quarter of 2022 – pulling out of Wells Fargo at the same time – and has since added to its position, according to its own filings.

As of the end of the second quarter, Berkshire Hathaway owned 55.2 million Citi shares, amounting to a 2.8% stake in the bank, worth around $2.3 billion at current prices. The move was an eye-catching one and sent Citi’s shares up by about 7% when it was disclosed. Given Buffett's investment preferences, it also suggests faith in Citi's ability to grow its less volatile businesses in the way it says it wants to do.

At the other end of the scale is Silver Beech Capital, managing less than $50 million and set up as recently as January 2023. Its stated investment strategy is to target "high-quality but misunderstood businesses and value-oriented special situations".

The bank is the fund's second largest holding. In their third quarter 2023 letter, co-managing partners James Hollier and James Kovacs told investors that in their view the bank was suffering because of its negative historical reputation, stretching back to its receipt of the biggest US bank bailout in the global financial crisis but also not helped more recently by the Revlon blunder.

Hollier's basic case for owning Citi is a technical one. He thinks the stock is simply undervalued, even considering the franchise's lower quality relative to peers like JPMorgan. He notes that adjusting Citi's tangible equity for the loan losses the bank would suffer in the Federal Reserve's severely adverse scenario would see it valued at a price to tangible book multiple of 0.56 times, compared with the multiple of 0.48 times at the start of November.

"We don't expect Citi to become a JPMorgan or a Bank of America in terms of return on equity," he says. "In our view, Citi is not of the same quality, but it is still too cheap. Obviously, a liquidation of a G-SIB bank would have a material impact on asset prices. That fact notwithstanding, the market is saying that if you were to liquidate Citi today you would make two times your money if you assume the assets are worth what Citi says they are worth."

The market may of course be saying that Citi's assets are not worth what the bank says they are. But Hollier also thinks investors are struggling to put much stock on Fraser's transformation plan yet.

That doesn't much matter to him, since he is aiming to capture the easy money when the market realizes that Citi is not in as bad shape as it thinks it is. Moving on from that reassessment to something closer to its peers would be the harder money to make.

In the first nine months of 2023, Citi posted return on equity (ROE) of 7.3% and ROTE of 8.3%. JPMorgan's ROTE was 23% and Bank of America's was 16%.

"If management achieves their 11% to 12% ROE targets, then great, but we don't think Citi will be a high ROE bank and nor do we think it is a 6% bank," he says. "We are playing for it being 8% to 9%. If it ends up being 11% to 12%, like they say, then great, but it's not core to our investment thesis."

Seeing is believing

It seems clear that the market's discount is telling Citi's management that it doesn't yet have faith in their ability to deliver what they say – or at least it wants to see real results before giving them the benefit of the doubt.

Banamex is the example investors and analysts point to time and time again as evidence of how Citi's management needs to deliver on expectations.

"Management needs to walk the talk and that includes doing what they say on time," says one investor. "Look at Banamex, where they announced in January 2022 that they would sell or IPO it and then said this year that they would IPO it in 2025.

"I know it is a huge lift to carve it out and it was held up by a Mexican government review, but three years?"

Breaking the cycle of disappointments for investors will be the key to clawing the stock back to something closer to its peers.

The changed regulatory and competitive landscape for all banks may, ironically, end up helping Citi with that. Scrutiny of the biggest institutions is of a completely different order to what it was before the global financial crisis. More recently, the transfer of risk into areas like private credit has arguably had the effect of making individual traditional banks less dangerous.

For many banks, increasing regulatory burdens are seen as a negative, given their tendency to depress returns. For Citi the calculation may be a little different – in other words, it is not regulation that is keeping Citi's returns low but poor performance. Improving that, while simultaneously benefiting from a lower perception of risk because of regulation, might move the dial.

In their third quarter letter, Silver Beech's Hollier and Kovacs argued that today Citi was less risky and cheaper than it ever has been.

And while they are not reliant on the transformation plan, they think that the upside case for the bank if it were to achieve its goals would put the stock at more than $85, roughly in line with its tangible book value as disclosed at the end of the third quarter.

That's about double where the shares trade now.

Mason gets asked all the time how he will get the bank to a ROTE of 11% to 12% in the medium term, in other words by 2026, and he says he can answer it.

First, he counts on a continued 4% to 5% compound annual growth rate on the top line. "We've been doing that since we said we were going to do it, and you should expect us to keep doing that through the medium term," he says.

Next, he points to targeted loan growth of 6% to 7% and a cost of credit of about 1%. As he notes, the bank's mix has changed a little since investor day, with more loan growth now coming from the cards business, which pushes the cost of credit a little higher.

The Basel III endgame is approaching; and Mason told analysts on the most recent earnings call that it would probably lead to an increase in capital requirements of about 16% to 19% on an unmitigated basis – about $180 billion to $185 billion.

Plug all that in and solve for an 11% return on tangible common equity and the required expense level spits out at about $51 billion to $53 billion, says Mason. In 2022 expenses were $51.3 billion.

"Our 2023 expense target is roughly $54 billion and that has about $1 billion of severance in it," he says. "So I've got to get from $53 billion now to $51 billion to $53 billion in order to get to an 11% return, if you believe those other factors."

He thinks that's just fine.

"Hard work? Yes. Unachievable? I don't think so."

Spanner in the works

Excel is one thing; the world is another and it often throws a spanner in the works.

Mason has already had to adjust for all manner of unforeseen issues since investor day: a completely different rate environment; not one but two geopolitical crises; a sharp downturn in the investment banking wallet as corporate sentiment has weakened; and a tougher environment for driving top line growth in the wealth business than might have been hoped.

"We saw pressure in investment banking, with the wallet down 60% last year and down 20% this year," he says. "Corporate sentiment has been cautious about reentering capital markets activity."

Citi's nature as a largely corporate bank means it feels that pain a little more than some.

But the bank has been busy hiring in investment banking and at senior levels too. Insiders trumpet how Citi has at last been able to lure folk from Morgan Stanley and Goldman Sachs.

Rivals simply wonder how on earth the bank can afford it, given the paltry deal flow and Citi's often low share in these businesses compared with the market leaders.

"What are they doing – and why do they even bother with advisory or equity capital markets, particularly outside the US?" asks one rival who doesn't believe that Citi will be a top performer in those areas even after hiring and assuming activity picks up.

Unsurprisingly, there is a different view inside the firm.

"We have an outstanding reputation in developed and emerging markets in debt and equity capital raising," says Tyler Dickson, previously co-head of the banking, capital markets and advisory business and recently named head of investment banking and vice chairman of banking and international.

"Citi's global capabilities are truly distinctive among US banks, helped by our global network and services franchise. We have to deploy our resources to international markets efficiently, support and right-size our commitment relative to the opportunity, but what we offer is a unique ability to serve clients around the world with all banking solutions in a product-agnostic way."

Mason doesn't say "doubling-down", but it looks like that is what is going on. "We invested in some of the client segments where we didn't have as much strength and we brought in front-end talent to beef that up," he says. "We are positioning ourselves for when that wallet turns."

And he points to tentative positive signs in the last two quarters, with debt capital markets activity – where Citi is strong – showing some pick-up. Some investment bankers have also read into the appointment of investment banker Pick as the next chief executive of Morgan Stanley as further evidence of where the next recovery will come.

“We have the preeminent corporate bank, a highly competitive investment bank and of the US banks we have the most upside in investment banking and the most upside in commercial banking,” adds Dickson. “I think we have our resources in the right place, we are carefully adding talent in areas like healthcare and technology, and our platform is posed for a substantial growth opportunity as markets recover.”

What will it take?

To listen to Mason talk about Citi’s prospects, investors should be falling over themselves to pile into a franchise with such obvious upside. But they haven’t. Is he surprised or disappointed?

“These things undoubtedly take time and they take time because we are rebuilding credibility with our investor case and with the market,” he concedes. “On top of that effort, you have the macroeconomic factors. And so we need to execute in an uncertain environment and that means we need time, but we also need continued proof points of doing what we said we were going to do.”

He says he has been consistent on his revenue target of $78 billion to $79 billion for 2023, adjusting for the impact of divestments, and about $54 billion of expenses, excluding the firm’s assessment from the Federal Deposit Insurance Corporation. For the first nine months of the year, Citi reported $61 billion and $40.4 billion, respectively.

That expense figure might be trending within his target, but it is still 5% higher than the same period last year (although revenues rose 6%). And Mason still can’t escape questions on expenses on his quarterly earnings calls with analysts, who always seem to want to know more about how he will ‘bend the curve’.

Citi has talked about the three levers it has for that. One is the transformation investments, which are a short-term cost but should create longer term benefits and efficiencies. The market must be patient.

The second is the exits: some costs related to those come out automatically, others have to be worked out aggressively. The third is the organizational simplification.

“At investor day we talked about a path that captured upside revenue growth and continued investment in the franchise, the continuation of benefits from those investments both in the top line and the bending of the expense curve, and so getting to those 11% to 12% return levels that we haven’t seen in the recent past,” adds Mason.

“But we said it was a multi-year journey, we said it wouldn’t be a direct path, we said the business model was resilient and diversified, and I think that is what we have seen play out.”

And yet and yet. Citi shares have barely budged from their low multiple in the months since Fraser and Mason laid out their plans. What will it take?

“We believe this path is an achievable path and how we convince the market is by steady-as-we-go delivery of what we said we would do,” says Mason. “I’d like to think that the solid progress we are making will be taken into consideration well before 2026.”

Backing that hope is his expectation that eventually people will come to realize that Citi promised to do certain things and then did them, and so even if the bank has more to do, there is no reason to think that it won’t.

Do them successfully and Citi gets to that fabled 11% to 12% return, Mason reminds Euromoney yet again. And he throws in for good measure that while the shares are trading at 0.49 times book now, an 11% to 12% ROE would suggest 1.1 times.

“Why wouldn’t you buy into that?”