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Heard on the Street
Citigroup Has to Rip Off The Bandage --- South Korea move is harder than anticipated

By Telis Demos
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It won't be cheap for Citigroup to get out of South Korean consumer banking. That doesn't make it the wrong move.

Earlier this year, as part of Chief Executive Jane Fraser's strategic refresh in pursuit of higher returns, the bank said it would exit consumer-banking franchises in 13 markets across Asia, Europe and the Middle East. On Monday, Citigroup laid out costs for the bank to wind down, rather than sell, its South Korea consumer-banking unit. Due to costs related to reducing its workforce there, the bank said it expects to incur cash costs of about $1.2 billion to $1.5 billion.

It would have been nice to be able to sell the business, as the bank anticipates doing in other markets, and Citigroup shares are underperforming U.S. banks this year. But this shouldn't deter investors who are looking to bet on better days ahead. Once the business is fully wound down, a process expected to go through 2023, it is expected to free up about $2 billion of tangible common equity. This is part of around $7 billion of capital that is anticipated to be freed by the consumer-banking exits.

That capital can be returned to shareholders or reallocated into core businesses like local transaction banking or wealth management in hubs such as Singapore or Hong Kong. And that translates into a higher return on tangible common equity -- the measure on which many Citigroup investors are focused.

In a way, the fact that it isn't cheap to get out of a local retail market reinforces the rationale for the exits. Retail banking can be a very good business that brings in cheap deposit funding. But keeping up with the trend toward **digital banking** will require big investments, including costly downsizing of branches and their workforces, that may not ultimately be worth it.

Meanwhile, slimming the bank's global operations and focusing on its strongest businesses is the desired path forward. Wealth management in Asia can generate big returns, but it isn't some pot of easy money. Many of the world's largest banks are betting on the region's potential. Citigroup has its work cut out for it.

A lot of investors are likely waiting for more strategic benchmarks to be laid out in the bank's investor day, slated for March, before placing any big bets. So now is as good a time as any for the bank to do some of the hard parts.

Share-price and index performance, year to date

Source: FactSet

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