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Citigroup Is Pressed To Fix Risk Managing

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Regulators are frustrated with the progress Citigroup Inc. has made in the two years since they reprimanded the bank for problems with the systems it has in place to prevent costly mistakes, according to people familiar with the matter.

Federal Reserve officials have repeatedly grilled Chief Executive Jane Fraser about the bank's plans to fix its risk-management system, demanding to see more progress, the people said. In a meeting this summer, officials from the Office of the Comptroller of the Currency warned the bank's board that there could be consequences for not getting a handle on the situation, they said. The bank is due to submit a new plan Thursday that its executives hope will ease regulators' concerns, the people said. The plan includes a series of landmarks Fed and OCC officials can use to judge the bank's progress, they added, and is more specifically tied to the problems identified by regulators.

A regulatory response to the detailed submission isn't likely for several months. Regulators have the power to order the bank to replace managers or directors, among other things.

"We have taken decisive actions to simplify our firm and we will continue to act with urgency to modernize the bank for the digital age and strengthen our risk and control environment," a Citigroup spokeswoman said. "We are completely committed to the sustainability of this effort and to executing at the level expected of us."

The Fed and OCC fined the bank $400 million in October 2020, citing "significant ongoing deficiencies" in its risk-management systems. In a series of consent orders, they demanded Citigroup make a lengthy list of improvements to its web of **technology** and procedures designed to detect problematic transactions, risky trades and anything else that could harm the bank.

The reprimand hastened the departure of former CEO Michael Corbat and vaulted Ms. Fraser into the top job at the nation's third-largest bank. She has made fixing the risk-management problems her priority, calling it a long-overdue transformation. Ms. Fraser, however, warned that it would take several years and cost billions of dollars.

The bank has added 30,000 employees to teams involved in fixing the problems over the past two years, Ms. Fraser told staff in a recent memo. That figure includes existing employees who moved into new roles. The bank has more than 230,000 employees worldwide.

"We each must take greater responsibility for preventing errors and escalating issues or challenges immediately when they do occur. We have to remediate our existing issues on time and effectively," she wrote. "This is our top priority -- as ultimately our clients and customers, our investors and our regulators need our bank to operate safely, soundly and excellent."

The bank is also shedding its consumer-banking operations in more than a dozen countries, part of Ms. Fraser's attempt to simplify the bank.

The CEO transition and the hiring surge are part of the reason the progress has been slow so far, some of the people said.

One issue is the infrastructure underpinning Citigroup's broader risk systems, a legacy of deals in the 1990s that transformed the bank into a financial supermarket. Citigroup never integrated many of the operations, leading to a hodgepodge of data systems and customer identification codes throughout the bank. Regulators believed the system was vulnerable to mistakes.

In 2020, Citigroup accidentally sent $900 million to the creditors of cosmetics company Revlon Inc., which regulators had viewed as evidence of such weakness. The bank recently won a court appeal to get the money back.

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