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Citigroup CEO Fraser Races To Turn Around Sluggish Bank

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Jane Fraser has hit the midpoint of what the chief executive has called a critical year in her plan to fix Citigroup.

If she's successful, Citi might be the biggest turnaround story in recent Wall Street history. But skeptics are everywhere, in the auditorium at the bank's recent investor conference and upstairs in the offices of its headquarters. She's made progress, but more is needed. And soon.

"Yes, there is still a lot more to do," she said at the conference. "We have simply come too far to let up now."

Two decades of half-measures, strategic missteps and chronic underinvestment have led Citi, once the world's largest financial-services company, to this: a network that operates in 160 countries but badly lags behind its U.S. rivals in profitability and stock performance. A firm famed for its ties to foreign central banks that can't stay out of the Federal Reserve's doghouse for weaknesses in its internal controls. A glittering roster of clients who too often turn elsewhere for their most-important needs.

Fraser is pursuing everything, all at once, in her quest to change Citi's direction. Her priority is grappling with regulators' demands to fix the troubled bank's internal systems. She's also slashing costs, simplifying the organization and seeking to jump-start growth at key businesses. And she's trying to revive a stock that's been stuck more than 80% below its high for 15 years.

Interviews with more than three dozen current and former Citigroup executives, board members, clients, competitors and investors reveal that doubters are easy to find. Regulators and shareholders want her to accelerate. Some clients think she's moving too fast, including a top investment manager that bristled at the abrupt changes to Citi staff and services.

There isn't a day that goes by without Fraser catching grief from one corner or another. The calls for change are relentless, and often contradictory. But she's grown used to it. "It's OK," she said in an interview. "I feel uncomfortable every single day."

Over the past year, she has replaced business heads with outsiders, unveiled steps to cut 20,000 jobs from the bank's payroll and started to separate from Citi's Mexican consumer bank, Banamex, which had been roiled by fraud allegations in years past. Fraser, 56 years old, has laid out her plans to fix the bank for everyone to see. Transparency, she said, "is a very good way of forcing you to deliver."

It's also often unsettling. Employees are uncertain where they stand, or even if they'll still be there when the dust settles.

Fraser, who became CEO in March 2021, acknowledges her plan still has years to go -- and she may not have years. If the strategy doesn't pan out, calls to break up the once-dominant bank will grow louder.

The company's shares trade at about 0.6 times book value, well below those of all of its rivals. While they're up almost 20% so far this year, there's still a long way to go to get back to their record high, set in 2006.

Regulators have pressed the bank for years to fix its controls. An acquisition spree left Citi with a jumble of internal systems it never fully integrated. Calls from business leaders to improve **technology** functions went unheeded. And when executives had to choose between expensive upgrades and short-term profitability goals, the latter almost always won out.

Then, in August 2020, an employee accidentally wired nearly $900 million to creditors of Revlon, an episode that crystallized the government's fears that whatever Citi was doing to fix its problems was too little, too late.

Federal regulators issued the consent orders, decrees that prod banks to address weaknesses, in October 2020, citing "significant ongoing deficiencies." They revealed just how much of a problem child Citi had become. As Fraser sat listening to a call with bankers that month, the outline of a turnaround plan took shape.

"This is not going to be about remediating," she thought. "This is about transforming the bank, and goddamn it, we're going to get it right this time."

That trouble remains top of mind for regulators. Some branches of government value Citi's ties to foreign central banks and proximity to the digital pipes that move money around the world, helping Citi advance foreign policy and police money laundering.

Other officials fret that even a slimmed-down Citi remains too big to manage, and prefer to see a diminished entity emerge. A breakup, they say, should be on the table.

"They are never, ever, getting out of those consent orders," one former Citi executive said.

Fraser is a well-liked executive who forged deep ties throughout Wall Street as a McKinsey consultant well before she signed on at Citi 20 years ago. Many are pulling for her, even as they acknowledge the challenging path ahead.

She has sought to keep her executives moving forward by keeping it light. Fraser is known to pull elaborate pranks on her team, while insisting life would be boring at another big bank. "We're fighters," she said. For those who stick around, like finance chief Mark Mason did when he passed on the chance to pursue a CEO role at the private-equity firm Carlyle last year, a "career-defining opportunity" awaits. But the plan has to work.

"We know exactly who we are," Fraser said. "We know what we're not. We know this bank is important in the world."

Citi's relevance was unquestioned in 1998, when Sandy Weill pitched John Reed on his audacious plan to merge Travelers Group with Citicorp. The $83 billion merger -- which brought together traditional banking, consumer finance, insurance and investment banking services -- created the world's biggest financial-services company.

The bank's global network was initially hailed as a unique franchise, but soon proved too unwieldy to manage. Trouble spots formed in bunches at some of Citi's foreign outposts, putting the bank on the defensive with regulators on three continents.

Citi barely survived the crisis. A government rescue kept it going, but only after officials forced the bank to sell businesses to raise capital. By late 2012, then-Chairman Michael O'Neill led a boardroom revolt against CEO Vikram Pandit to make way for Fraser's predecessor, Mike Corbat, a former banker who had spearheaded the sales of unwanted businesses after the crisis.

Corbat took over as a new era was dawning on Wall Street. Emboldened by ultralow interest rates and an improving economy, companies and individuals began to buy, borrow and invest again. Bank stocks took off, even as the firms navigated new regulations.

Citi appeared primed to join them. Instead, it failed to capitalize. "The Mikes," as insiders called them, prioritized cost-cutting as the path to achieving higher returns. Those returns did rebound, but soon executives were imploring them to invest more, and address outmoded systems. A person familiar with the bank's strategy in that era said the cuts were necessary to match a drop in revenue that came as Citi shrunk itself. The person also said business leaders had budgets in the tens of billions of dollars and the authority to invest as they saw fit.

O'Neill retired in January 2019. Later that year, Corbat and the board picked Fraser as the choice to succeed him someday as CEO.

Fraser, born and raised in Scotland, began her career as a junior banker at Goldman. She earned an M.B.A. from Harvard Business School before joining McKinsey.

The years at McKinsey gave her an inside view on how global companies operate. A 1999 book she co-wrote hailed Citi as a model for "leveraging superior business-system productivity costs in different geographies."

Her insights caught the attention of Michael Klein, Citi's former banking head, who persuaded her to join the company in 2004. She was named head of strategy three years later, then took on a series of increasingly larger operating roles: first running the private bank, then mortgage lending, U.S. consumer banking and, by 2015, all of Latin America.

In October 2019, when Citi's board agreed Fraser would eventually succeed Corbat, the bank appointed her president and consumer banking head. Some directors hoped she would remain in that role for several years to gain further seasoning, and by that point Corbat had given no indication he was ready to retire.

The regulatory rebuke in 2020 altered Citi's plans. The board accepted Corbat's resignation within weeks of the Revlon fiasco, figuring a new CEO would put the bank on better footing with regulators and shareholders. The job went to Fraser, the first woman to lead one of the largest U.S. banks.

As she started to tour Citi offices and meet with the bank's various stakeholders, Fraser remembered to heed the advice Peter Henry, a director, had offered that fall: "You have to have big ears and thick skin."

Shareholders wanted higher returns yesterday, but they also felt stung by failed promises. Few investors who have sold their Citi shares in favor of other bank stocks have regretted it, said Glenn Schorr, an Evercore ISI analyst. "JPMorgan has had its time, Wells Fargo, Goldman Sachs and Morgan Stanley -- there were always better stories, and less trouble," he said.

There would be no quick fixes. "I felt like I had to almost imagine we were owned by private equity, and take that long-term view," Fraser said.

While the work began in earnest to address the regulators' concerns, Fraser withheld her reorganization plan for more than a year. The tactic led to questions, even from some board members, about why she hadn't moved faster.

The plan was revealed in full in March 2022, when Fraser said the bank would simplify and flatten its organization, and focus on five divisions.

Citi already serves more than 90% of the Fortune 500 and 25% of the world's billionaires, largely through its services arm and foreign-currency trading desk. They offer a base from which to deliver other services, like banking and money-management advice. Citi also plans to extend its reach to more midsize companies.

Fraser has set targets for profitability, aiming to lift returns on tangible common equity to 11% to 12% by the end of 2026.

It was what investors wanted to hear. "What's been laid out is what the company needed," Joe Pittman, an investment analyst for Harris Associates, a Citi shareholder. "We always thought the earnings power of the business was above what it had been doing."

Within weeks, Fraser's plan picked up a valued endorsement. Warren Buffett bought nearly $3 billion in Citi shares.

Buffett's association with one of Citi's predecessor companies began in 1987, when Berkshire Hathaway invested in Salomon Brothers. A 1991 scandal had forced Buffett to step in to clean up the mess. Salomon was never the same, and in 1997 the firm sold itself to Weill's Travelers. That deal helped salvage Berkshire's investment, but the ordeal left scars. For decades, Buffett cited the episode as a cautionary tale.

Berkshire is now Citi's fourth-biggest shareholder and Fraser has attended the last two Berkshire annual shareholders' meetings.

There have been signs of progress. Citi has now sold or wound down 12 international consumer-banking businesses and simplified the organization that remains.

Citi pulled the outright sale of Banamex after the bank misjudged the political climate in Mexico. A planned spinout is set to begin in 2025, and Citi remains in touch with several prospective bidders.

The bank has spent the past six months culling staff and closing businesses it had operated for decades, and more cuts are coming. Morale is near a low point. Some employees believe a coterie of London-based Citi bankers have been bashing Fraser anonymously in online message boards below news stories.

Even some of the bank's recent wins, including recruiting Bank of America's Andy Sieg and JPMorgan Chase's Vis Raghavan to run wealth management and investment banking, respectively, are dismissed by some critics as hollow victories.

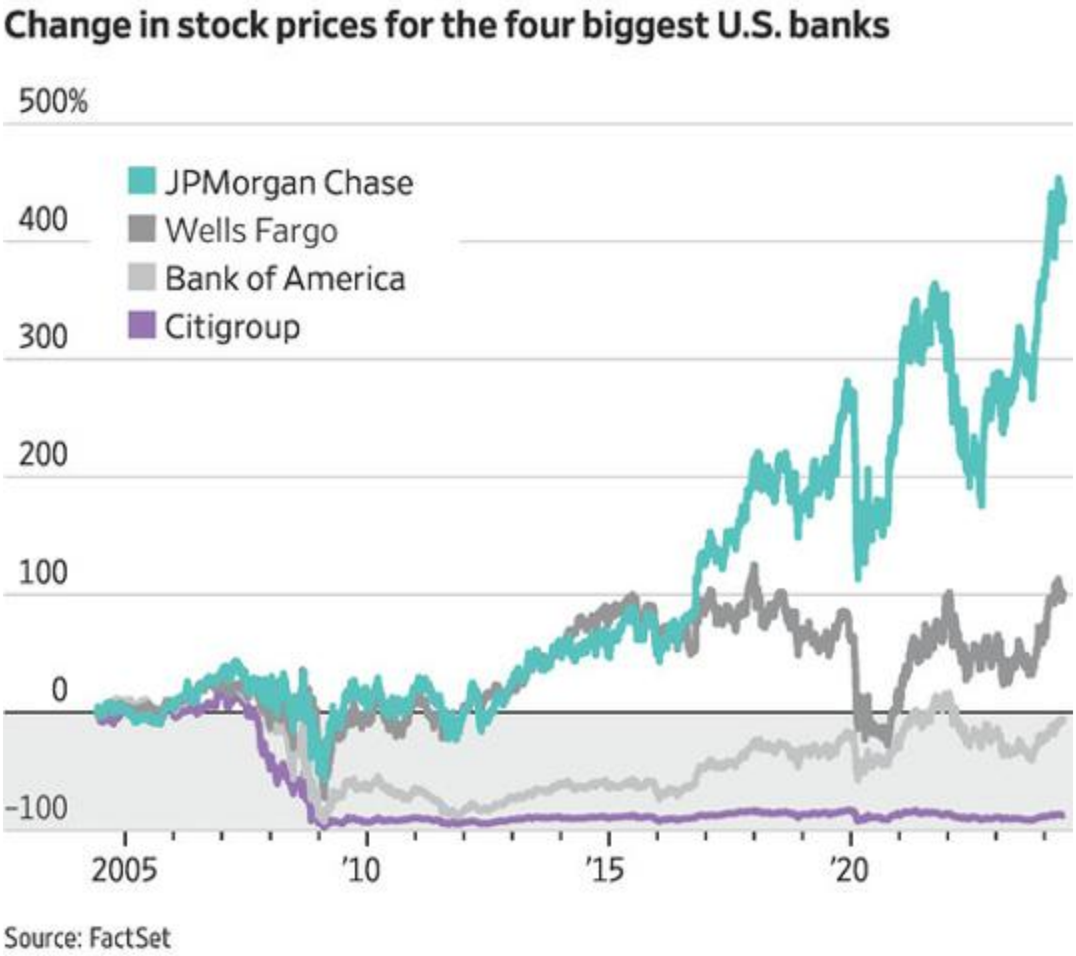
Potshots at the bank's new hires miss the bigger point, Schorr said.

"If they are able to bring the know-how of running a good franchise, how to prioritize things, what to avoid, what investments to make and to attract some people, then they're phenomenal acquisitions," he said.

If turning Citi around weren't so hard, it would have happened by now.

"There are easier places to work," Fraser said.

Andrew Ackerman contributed to this article.



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