DOW JONES

THE WALL STREET JOURNAL.

Schwab Faces More Uncertainty After Tough 2023

By Hannah Miao
1,148 words
23 January 2024
The Wall Street Journal
J
B1
English

Charles Schwab last year weathered a banking crisis, layoffs and a sharp drop in its stock price. Inside the company, employees are preparing for another uncertain year.

The largest publicly traded U.S. brokerage last Wednesday reported a third consecutive quarter of year-over-year revenue and profit declines, hit hard by higher interest rates. Net income in 2023 dropped 29% to $5.1 billion. Shares fell 17% last year and are down more than 7% in 2024 to date.

On a conference call, executives said financial results should improve in the year ahead, setting Schwab up for growth in 2025 and beyond. But they described 2024 as "transitional" and dependent on factors that are difficult to predict: the trajectory of interest rates, the stock market and the behavior of new clients.

"Last year, there were some challenges. Let's not kid ourselves," James Kostulias, head of trading services, said in an interview earlier this month. "Now that we're past the vast, vast majority of that, I think there will be more time, energy and resources we can devote to innovation, to growing the business."

Schwab, founded some 50 years ago, grew from a discount brokerage for Main Street into a personal-finance supermarket that came to rival Wall Street firms as an asset-gathering machine. While Schwab cut fees and made less revenue from trading, it minted money sweeping cash from its brokerage customers into bank deposits that paid out little interest. When rates were low, it worked well for Schwab. Customers were content keeping their money at the bank when there were few alternatives for better yield.

That business model was put to the test last year, when the Federal Reserve continued to aggressively raise interest rates. Yield-hungry customers moved money into options like money-market funds. Since early 2022, Schwab has lost some $175 billion in bank deposits, or nearly 40% of what it held at its peak. Trading activity also stalled, since customers could make robust returns just parking their money in cash-like investments.

The company has said customer funds largely stayed at Schwab when clients moved money from bank deposits to other investments. Still, with bank deposits fleeing, Schwab had to turn to pricier funding that cut into profits, like borrowing from the Federal Home Loan Bank system and issuing certificates of deposit.

Last March, the collapse of several regional banks put Schwab in the spotlight. The company had invested chunks of its balance sheet in longer-term bonds when rates were low. When rates rose, the value of those bonds fell. Schwab's shares lost more than one-third of their value in just a month.

Inside Schwab last spring, employees were largely unconcerned, at least initially. Chief Executive and Co-Chairman Walt Bettinger reassured employees that the company was on solid footing. He bought about $3 million of Schwab's stock, appeared on CNBC and told The Wall Street Journal that the company could continue to operate even if it lost most of its deposits.

Then in July, the mood shifted. Bettinger said on an earnings call that Schwab would reduce its head count and office space. The moves would cut expenses by about $500 million a year, he said.

The plan blindsided even some managing directors at Schwab, who were usually clued in to corporate decisions.

Current and former employees describe feeling frustrated with what they say is a lack of clear communication from the highest level of leadership to everyone else. Schwab is led by an executive council consisting of founder and board Co-Chair Charles R. "Chuck" Schwab, Bettinger, President Rick Wurster, Chief Financial Officer Peter Crawford and about a dozen executives representing various arms of the company, including Kostulias.

The impending layoffs sapped morale. Rumors spread, with employees speculating on the date and size of the job cuts. Some managers found it was difficult to motivate their teams. Employee engagement dropped, according to an internal survey.

A company spokeswoman said, "We acknowledge the last year was challenging for our employees and know that anytime a firm undergoes layoffs, it will have an impact on morale. However, despite those challenges, our quarterly engagement data tells us that our employees remained highly engaged throughout the year and committed to delivering for our clients."

Meanwhile, employees also began executing one of the largest brokerage integrations in history. Schwab had bought TD Ameritrade in 2020, and last year it began moving millions of TD Ameritrade customers to Schwab accounts.

The first four rounds of customer conversions moved over about 90% of client accounts with no major complications, according to Schwab. Schwab said customer attrition from the integration is tracking below projections and called the conversion so far a success.

Still, not all customers were happy. Clients from TD Ameritrade pulled billions of dollars of assets from their accounts last year. Once customers were switched over, some felt Schwab's platform **technology** was inferior and had a hard time getting answers to their questions.

For independent advisory firms that use the brokerage as a custodian for client assets, their TD Ameritrade customer-service representatives remained assigned to them through the transition, according to former employees. That meant those customer-service representatives were also new to working with the Schwab platform, making it difficult to help customers with questions.

The Schwab spokeswoman said the company continues to listen to client feedback and has made platform updates. The company said it understood customers might have strong preferences for one platform, but it has worked to acclimate clients to the new system.

In October, Schwab held its annual conference for investment advisers. Some employees at the conference returned to work the following Monday to find they were being laid off. In all, Schwab cut about 2,000 employees, roughly 6% of its workforce.

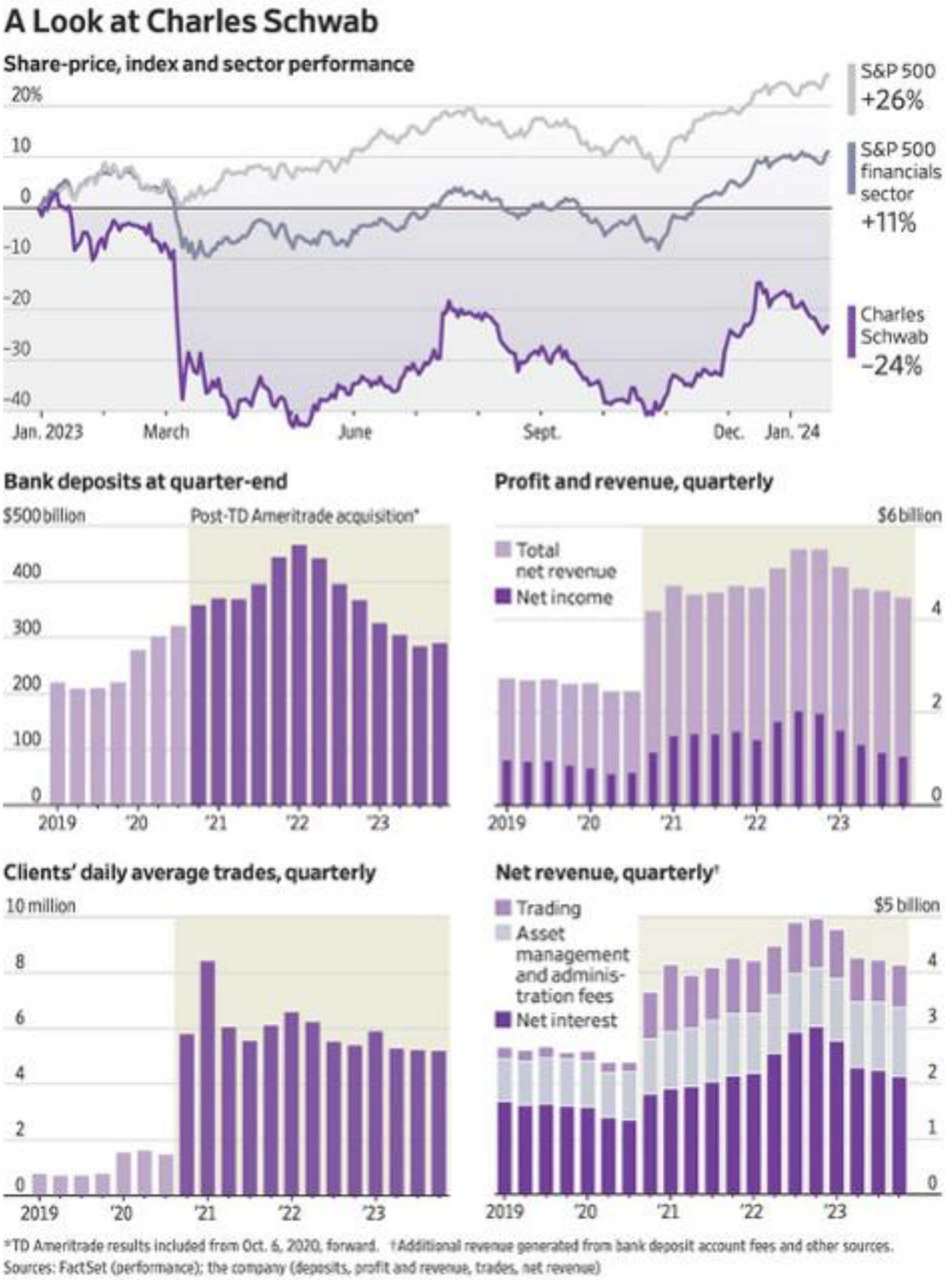
"The work needed to come through this change even stronger than before is just beginning," Bettinger and Wurster said in an internal message about the layoffs.

Wurster was promoted to president in 2021 and is widely viewed as the heir apparent to the CEO job. Schwab hasn't publicly announced any succession plans.

Bettinger has told employees that Schwab isn't planning any more major layoffs. Many remain on edge.

The company said it has seen promising signs that customers' movement of cash out of bank deposits is nearing an end. Transactional sweep cash -- client cash that hasn't been invested yet -- increased month over month in November and December, Schwab reported. Bank deposits increased quarter over quarter at the end of 2023 for the first time since early 2022.

Schwab expects to boost profitability in the year ahead as it pays down more of its short-term borrowing. The company expects that by the end of 2024, it could consider resuming share buybacks, which it paused in 2023.



Document J000000020240123ek1n0001o

Search Summary

Text	(technology OR "AI" OR fintech OR "digital banking" OR "cloud computing" OR blockchain OR cybersecurity OR "machine learning" OR "data analytics" OR "big data" OR "predictive analytics" OR "cloud migration" OR "edge computing" OR "5G banking" OR "API banking" OR "open banking" OR "data governance" OR "data monetization" OR "digital transformation" OR "quantum computing" OR "AI-driven banking" OR "AI in compliance" OR "AI-powered fraud detection" OR "AI in customer service" OR "AI in investment banking" OR "conversational AI" OR "generative AI" OR "robo-advisors" OR "natural language processing" OR "algorithmic trading" OR "automated risk assessment" OR "AI regulatory challenges" OR "embedded finance" OR neobanks OR "Banking as a Service" OR "BaaS" OR regtech OR suptech OR "decentralized finance" OR DeFi OR "cryptocurrency adoption" OR "Central Bank Digital Currencies" OR CBDCs OR tokenization OR "real-time payments" OR "Buy Now Pay Later" OR BNPL OR "cyber resilience" OR "Zero Trust security" OR "identity verification" OR "fraud detection" OR "insider threats" OR "AI-driven cybersecurity" OR "financial data breaches" OR "data privacy laws" OR GDPR OR CCPA OR "operational risk management" OR "regulatory compliance technology" OR KYC OR "Know Your

	Customer" OR AML OR "Anti-Money Laundering" OR "hyper-personalization in banking" OR "customer-centric banking" OR "omnichannel banking" OR "digital wallets" OR "contactless payments" OR "voice banking" OR "biometric authentication" OR "wearable banking" OR "banking UX/UI innovations" OR "financial inclusion technology")
Date	01/01/2024 to 03/31/2024
Source	The New York Times Or The Wall Street Journal Or The Economist Or Forbes
Author	All Authors
Company	The Charles Schwab Corporation Or Charles Schwab & Co Inc
Subject	All Subjects
Industry	All Industries
Region	All Regions
Language	English
Results Found	1
Timestamp	17 March 2025 7:44 PM GMT

