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Facing brutal competition in the U.S., giant Citigroup is reaching out to the burgeoning middle classes around the world.

It's not easy to navigate Rua da Quitanda in São Paulo, Brazil during lunchtime. The busy street is filled with a dozen salesmen from competing loan shops pressing flyers into hands among the passing crowd. "Loans!" cries out a tout. "We make personal loans." A woman makes shooing motions at a particularly pesky one--then gives up and starts running. Not Fernando José da Silva, a 51-year-old mass transit worker. On a recent afternoon he's sitting in the hush of a Citigroup minibranch, telling a loan officer about his sick daughter (she has respiratory problems) and daunting medical bills. Moments later he emerges with a \$450 loan, at 7.9% interest a month, and a look of pleasant surprise.

Citigroup is eagerly seeking more folks like da Silva--millions of them, in 54 countries outside the U.S. Its assets of \$1.5 trillion and 2004 revenue (before deduction of interest expense) of \$108 billion make it the largest bank in the world. But Citi faces the same dilemma that the largest U.S. oil companies do: Its North American operations, which provided 61% of its \$21 billion in net income (before charges) last year, can't gush forever; the biggest strikes will come from abroad, where growth rates are high and the bank is adding customers at twice the domestic rate. With such prospects in mind, Charles O. Prince, soon after becoming Citi's chief executive in October 2003, decided that half the bank's earnings should derive from international markets by 2009. "We would in some ways be throwing away our legacy if we did not expand in this direction," he says. "There's an explosion of opportunity."

It's an ambitious goal, focused on consumer banking. It must be met neighborhood by neighborhood, country by country, by courting the emerging middle classes in such fast-growing economies as Brazil, Mexico, Russia, India and China. Citi has made massive investments in up-and-coming economies, betting that its premium brand will be a hit with the masses. The potential payoff is enormous. Marjorie Magner, head of consumer banking, figures the potential revenue from global consumer banking is \$1.3 trillion, much of that from virgin territory.

This is not a game of steady gains. Citi has recently stumbled badly abroad. Regulators in Europe are investigating its alleged role in the collapse of the scandal-laced Parmalat SpA and a questionable bond-trading strategy, dubbed "Dr. Evil," by participants. (Prince had another name for it: "knuckleheaded.") Right around the time of those contretemps, Japanese officials accused Citi of misleading some of its wealthy clients and forced the closure of its private bank; Citi fired three senior executives, including the head of Citigroup International. And then there was the revelation of a "substantial, years-long relationship" with Augusto Pinochet, the former Chilean dictator (see box, p. 84). Last month the Federal Reserve took the unusual step of telling the bank not to make large acquisitions until it straightened out its systems of compliance.

But much of Citi's massive push abroad isn't taking place on the trading floors or in mahogany-paneled board rooms. Around the world it's working with regulators to create the legal mechanisms that allow Western-style consumer loans, credit cards and deposits. Then Citi has to persuade customers to trust it with hard-earned cash. Then put credit cards in the hands of people who have never before used plastic. Much of the world has never considered taking out a bank loan--or paying interest--to buy a car or TV or to pay for a wedding or medical bills.

Working in Citigroup's favor are its deep roots in international banking, strengthened under the reign of Walter Wriston, the bank's chairman from 1970 to 1984. (He died in January.) He climbed to the top job after heading Citi's international business and expanded the company well beyond U.S. borders, often obtaining first-mover advantage. But he and his successor, John Reed, seemed content with 1% or 2% market share in many countries, achieved by focusing mostly on the wealthy elite. "Walter Wriston told me once that when he ran the bank, the largest source of revenue was shipping finance," recalls Prince. "That was 30 years ago. The bank he ran has been completely transformed by competition, by evolving technologies, by changing dynamics in the financial marketplace."

**STILL, CO-OPTING THE MASSES IS** a slow business, as Citi's experience in Russia underscores. When it opened its first branch in Moscow in November 2002, a Western pioneer in this respect, it found a relatively primitive legal structure that is only now putting in place a deposit insurance program. Citi and other banks worked with regulators to help set up credit bureaus, which could begin operating as early as September, and a change in lending laws so that credit card interest begins accruing after a set period rather than at the time of a sale. Taken for granted in mature markets, the feature was so new in Russia a press conference introducing the card attracted

27 reporters.

Such efforts certainly grease the wheels for Citi, which has spent an estimated \$100 million building 18 branches in Moscow and St. Petersburg, and 200 ATMs and kiosks in gas stations and shopping malls—with nary a kopek in profits. But they also help reassure a population deeply suspicious of sharing private information or trusting anyone with its wealth. Years of government expropriation, communism and, more recently, gangster capitalism have all taken their toll. Many of the 145 million Russians woke up in 1998, following the Asian currency crisis, to find their bank had collapsed and their life savings had disappeared. As a result, an estimated \$50 billion in cash, one-third of the nation's savings, is stashed away at home. In this market of skeptics Citi found it had just single-digit brand recognition. Executives brought landlords for potential branches to existing locations to prove Citi was a legitimate outfit.

To find its first customers Citi exploited connections from its corporate banking side, which has served multinationals and large Russian companies since 1993. Executives went to personnel directors at the largest businesses and proposed a direct-deposit program they said would save hundreds of productivity hours because employees would no longer have to suffer Moscow's interminable traffic to get to the bank.

That led to initial meetings with potential customers. But Citi finds it still requires three or four phone calls—or home and office meetings—to persuade people their money is safe. Tina Managadze, a district branch manager in Moscow, says only half-jokingly that every third customer is apprehensive about depositing money. One woman told Managadze she had \$100,000 from the sale of property but was nervous she might lose it all if it went into a bank. Managadze persuaded her that Citi had no plans to fold up and leave the country, but instead was rapidly expanding. Over time the woman deposited her money.

Just as important is assuring customers that they have access to their money 24 hours a day. Citi offers that service by phone or Internet—or at ATMs and the branch lobby, where guards stand by. In a more than symbolic move Citi lobbied the central bank to allow it to stay open during a ten-day holiday in January. Confidence does seem to be building. During a small banking crisis last summer, Citi Russia saw record inflows of deposits. Anton Kabachinsky, a 28-year-old finance manager at a Russian investment bank, held \$50,000 in a Russian bank until rumors surfaced it was going to default. When he tried to withdraw his money, the bank charged him \$1,000 in commissions and fees. He grudgingly paid it and deposited his wad with Citi.

For services such as credit cards and consumer loans Citi relies on a direct sales force—another novelty in Russia. The bank trains this cadre in the basics: how to address customers politely, keep a prospective client talking and attract attention with catchy phrases. Predictable public places are good targets of opportunity, but so are fashion and wedding trade shows, dentists' offices and electronics stores.

Typical of such efforts is the work of 21-year-old Lena Bulahova. Clipboard in hand, she spends six hours a day at a BP gas station on a Moscow highway, which resembles any rest stop along a U.S. interstate, encouraging people to apply for a credit card with a competitive 24% annual interest rate. She gets a handful of applications each day and carries a digital camera to take the requisite photos of passports and car registrations. With at least half of Russian income undeclared, assessing credit is tough, so Citi uses things like provable earnings, marital status and car ownership as proxies for stated income. The owner of a new Mercedes probably has income from somewhere.

Most Russians are still not comfortable with taking loans; typically they pay for items in cash or borrow from friends and family. Citi estimates the Russian nonmortgage consumer lending market to be just 2.5% of GDP, compared with 15% to 20% in the U.S. and U.K. And Citi has a loan portfolio of an estimated \$150 million and just 70,000 credit card holders out of the perhaps 4 million people who could meet Citi's minimum requirements.

It hopes to double the number of account holders to 300,000 by the end of this year. Frederik F. Seegers, head of consumer banking for Europe, the Middle East and Africa, reckons that within the next five years, thanks to first-mover advantage, Russian consumer profits could converge with those of India; Morgan Stanley estimates that India's total profits will be \$1.6 billion. Yet even the most worldly-wise are a tough sell. In January Vladimir Putin met with Citi Chairman Sanford I. Weill, who offered the Russian president a bank account and credit card. Putin said he did business at Sberbank, the state-owned institution with two-thirds of the deposits. And the credit card? "I will have to calculate the interest."

Citi has similarly outsize ambitions in Brazil, where it has done business for 90 years—but has just 1.2% of the nation's loans, according to a Morgan Stanley estimate. Yet the opportunity is huge in a nation in which **two-thirds of the 180 million increasingly prosperous people lack even a bank account**. In this inflation-ravaged land people once loath to borrow had a total of \$44 billion in loans, not including home mortgages, as of January, up 32% from a year earlier. Today consumer loans stand at just 6% of GDP versus 12% or so in France, Germany and South Korea.

With that kind of elbow room Brazil is an attractive target, one of five countries with the biggest potential growth. Morgan Stanley says Citi could increase net income there more than tenfold, from \$109 million last year to \$1.4 billion in 2009. The target customers for Citi's small personal loan subsidiary, called CitiFinancial, are the 35 million Brazilians earning \$2,400 to \$14,400 a year who take out an average loan of \$900, mostly to buy cars. To distinguish itself in a crowded field, the bank tries to portray itself as a trustworthy alternative. It discloses loan processing fees--an average 0.6% a month--on 2-by-21/2-foot posters in the front of its stores instead of burying them in small type, an old trick to fleece customers in the U.S. and, apparently, Brazil.

In a nation where losses for lenders reach 30% or more of all outstanding loans, it is also attempting to instill a little Yankee thriftiness, handing out CitiFinancial pads with preprinted grocery lists and advice: "Have your list of things you want, and don't buy anything else." Other freebies: *The Saving Family*, a cartoon book with chapters titled "Needs Versus Wants" and "Ostentation." Last year the bank sent 500 customers to one-day classes to learn basics--like how Brazilians can cut their monthly loan payments by borrowing for longer periods.

Citi's prospects are also helped by a government decision last year to allow banks to extend loans with interest payments automatically deducted from borrowers' paychecks. Leveraging its corporate banking ties yet again, Citi signed up 78 companies. It also started a new practice of considering recorded telephone conversations with borrowers as binding contracts. Citi now offers so-called payroll loans well beyond its São Paulo branches to Nokia and Sony workers in factories in the Amazon; it expects to tap 170 additional companies by year's end.

Yet for all its resourcefulness Citi still faces skeptical customers. Memories of volatile interest-rate swings in the 1990s leave Brazilians a bit queasy with adjustable-rate loans. That explains why people like Julio Fugiwara, a 40-year-old employee for a credit card firm, prefers to save a bit more, with inflation recently at a four-year low of 7.6%, rather than borrow. "I'm afraid inflation will come back," he says. "I'd rather take out a loan during a recession."

There is little Citi can do to control the economy or rate spikes, but it could certainly adopt a more emphatic, competitive posture. It faces three big foreign rivals--ABN Amro, HSBC and Banco Santander--each with 1,000 or so branches. Citi, with just 45, has yet to make a sizable acquisition. Two years ago ABN Amro bought Banco Sudameris, with 293 branches, for 1.8 times book value. Shares of Banco Itau, a possible Citi target, recently traded at 3.7 times book.

**COMPETITION POSES A FORMIDABLE** challenge to Citigroup in India, where it has practiced some form of banking since 1902. Everyone wants a piece of the consumer loans business, some \$220 billion, according to Morgan Stanley, and growing at twice the rate of GDP. By investing \$500 million since 1985, Citi has a slew of firsts in India, including car loans offered through auto dealers, home mortgages, 24-hour and online banking, monthly account statements, credit and debit cards. The bank has more than 5 million customers, 1.2 million of them signing on last year. "We're seeing hypergrowth," boasts Sarvesh Sarup, head of Citi's consumer banking in India. Yet most of that growth--and 3.5 million customers--is coming from those who earn \$1,000 to \$1,800 a year. Such rivals as State Bank of India, the nation's largest, ICICI Bank and HDFC Bank forced Citi to pay attention to this long-neglected group. "There is a large segment of the population that is cut away from the organized financial services industry," says P.R. Seshadri, managing director of CitiFinancial Consumer Finance India. "That's where we've positioned ourselves."

CitiFinancial came into existence five years ago. That's when Citigroup merged India's Nationwide Finance Ltd. and the Indian arm of Associates First Capital Corp., a U.S. concern. Separate from Citibank India, CitiFinancial is a nonbanking finance company, which allows it to avoid some of the myriad constraints that bind foreign banks in India. (The Reserve Bank of India recently banned foreign banks from acquiring more than a 5% stake in Indian banks, on top of restrictions about branch expansions.) CitiFinancial cannot buy an entire bank, but it is free to add to its 160 branches and 2,000 staffers. It writes 700,000 loans a year, worth north of \$600 million, for its almost 1 million customers--sweepers, railway clerks, drivers, grocers and the like--who earn at least \$90 a month. Typical loans are in the \$800 to \$1,000 range, with a payback period of one to three years, to finance such items as TVs, refrigerators and motorbikes. A deal is often concluded over a cup of tea; first-time borrowers pay as much as 21.5% in annual interest.

One-third of CitiFinancial's business is in home mortgages for customers like Santosh Chalke, who earns \$100 a month driving a car for Petroplus, a small private firm that markets petroleum products. Chalke, 30, has never taken out a loan before. Now he's borrowing \$570 over two years to buy a \$5,400, one-room tenement in Mumbai for himself, his wife and 9-month-old daughter. He should be able to manage the \$34 in monthly payments. Would he consider taking out a home equity loan for a television or a fridge? "No, no," he says, slightly horrified at the idea. "Just for my house."

Chalke's loan was approved in a scant six days--one way that Citi tries to gain an edge on other banks. It has had to scramble since the 1990s, when the Reserve Bank of India issued new banking licenses and a host of private outfits sprang up. Into the mix came new players like ICICI Bank and HDFC Bank, offering the same slew of

products and the latest technology but without slapping on extra fees that foreign banks invariably charged. They originally marketed lower interest rates on car loans and credit cards that appealed to the masses. ICICI now claims a customer base of 12 million people.

Citi is fighting back with its own innovations. Branches of CitiFinancial are open from 10 a.m. to 7 p.m. six days a week, some even on Sunday. The Suvidha ("convenience" in Hindi) program allows customers--most of them young, salaried workers--to bank entirely via the Internet, phone or ATM with a minimum balance of under \$25. Citibank is experimenting with microfinance, offering \$100 loans to women in small towns and villages. "You can keep peeling this onion--it's that kind of market," says Sarup, the consumer banking chief. "Looking at a base of 100 million customers is within the realm of possibility."

Still, complains Sanjay Nayar, Citibank India's chief executive, "We desperately need the ability to branch out freely." That's difficult, given the government's tightening restrictions. But Citi has fastened onto a nice slice of burgeoning business--serving India's entrepreneurial class through a five-year-old effort aimed at small and medium-size enterprises. With 22,000 customers, borrowing an average \$500,000 to \$1 million, it's also one of Citi's fastest-growing pieces of its corporate banking. As Nayar says, it's "where Indian GDP is growing."

And where some of Citigroup's profits will undoubtedly come from. But as the company expands its vast businesses from class to mass, there is concern about sullyng its venerable name. "What if your maid comes home and says, 'I'm a customer of Citi's, just like you?'" frets a CitiFinancial employee in class-conscious Brazil in a moment of candor.

"We want to extend the brand," says Chuck Prince. "We don't want to cheapen it."