Consumer Payments and Lending - Anand Selva

Anand Selva:

Thank you, Jim, for outlining our strategy and exciting growth potential for the Global Wealth business. Now let's turn to U.S. Personal Banking. U.S. Personal Banking is a large business serving 72 million customers with close to $170 billion in loans and generating close to $16 billion in revenue. About 85% of U.S. Personal Banking revenue and 80% of loans are from our market-leading cards business. Our retail bank is a great feeder to our wealth business driving referrals through the branch network. It generates about $220 billion in deposits, which includes about $100 billion of deposits deported in Global Wealth Management.

Last year, U.S. Personal Banking delivered 27% returns, 13% if you exclude credit reserve releases. As I had mentioned earlier, we do have strong market position in both our wealth management and personal banking businesses. In PBWM, we are a market leader in cards in the U.S. with number two position in card spend and loan balances. We rank fourth in deposits in the six urban centers where we have our branches. And although our retail bank physical footprint is much smaller than it appears, our branches are highly productive with the highest deposits per branch in the country. As you can see, we have attractive assets and leadership in cards positioning us well for growth.

We all know that the last couple of years have been challenging across our industry as the pandemic impacted macro business drivers and customer behavior, so I'd like to go into some depth to explain how that impacted our results and what it really means for us going forward. Before the pandemic, card spend, loans, and revenues showed a clear upward trajectory. In 2020, we started seeing headwinds of COVID with card spend and loans declining. Payment rates increased leading to a sharp decline in our revenues offset by lower cost of credit. The same story played out across our industry.

In 2021, card spend rebounded and is now up 10% from pre-COVID levels, reaching an all-time high of half a trillion dollars. However, payment rates remain a challenge. Savings and stimulus have led to consumers paying down their credit cards at historically high rates and with losses remaining remarkably low, so this has prevented the strong sales growth from translating into loan growth.

We expect cards spend to remain strong and payment rates to normalize over a period of time, and that will lead to loan growth. And as loans pivot to growth, we expect credit losses to also normalize from current historical lows. In retail banking, we have seen strong growth in deposits driven by higher household savings. Apart from higher savings and higher payment rates, we witness other changes to consumer behaviors. We expect many of these changes to be long-lasting, and as these changes were happening, we haven't been sitting still. We have continued to make smart investments to respond to and take advantage of those changes.

The first change, the shift to digital, this has been much discussed, but let me share some statistics. Online credit and debit spending has grown by 30%, and over 50% of consumers started using their mobile banking app more often during the pandemic. So, what did we do about it? We continue to invest in seamless digital experiences for essential banking needs such as account opening, wire transfers, and bill payments. And we created personalized offers driving online purchases that accounted for over 35% of our total branded card sales.

Second, consumers expect more borrowing choices, driving growth in point-of-sale financing, so we strengthened our lending solutions launching on-card Flex Pay and Flex Loans and off-card personal installment loans. We are also embedding point-of-sale and post financing solutions with our partners.

And third, 74% of our customers say that rewards are the main reason they choose credit over other forms of payment, and over 60% preferred cash back as their choice of rewards. We address this by refreshing our rewards portfolio with Rewards+ card and introducing the new Custom Cash card last year. Over the last couple of years, we also invested in our partner network signing a major e-commerce retailer, Wayfair, and extending long-term market partnerships including Macy's, AT&T, and Exxon Mobil. Staying front-footed with investments has given us great momentum heading into this year as we execute on a strategy that clearly differentiates us from our peers.

When I moved to the U.S. to run the U.S. consumer bank in early 2019, we had a narrow set of payment and borrowing options for our customers. We had limited digital capabilities, very little connection with retail banking, and our partner relationships were centered on a credit card-only proposition. Now coming from Asia, I was able to transfer our learning and successes there, where we built market leading digital capabilities and lending products and created a wide range of merchant offers.

As you can see on this page, we now have a comprehensive set of integrated solutions and they have been deployed with very good success. So let me take a minute to explain that. A typical customer journey would start with a purchase. At the point of purchase, a customer has multiple payment options. They can pay with or without plastic, pay with points, or pay using digital wallets wherein Citi cards are a provision. They also have the option to finance their transaction at point-of-sale or post the sale. And for those who need a cash loan, it is available on their card through Flex Loan or through a personal loan off the card.

And as they're making these payments, they earn rewards as points, miles, or cash back. We have made these rewards easily transferable from cash to points, miles to points, and so on. And our Merchant Offers platform delivers attractive offers to our customers creating more value for them while deepening our relationships with our merchants. And all these payment and lending solutions can further be bundled with banking products creating a truly integrated experience. This wide variety of products and partners, and our convenient and flexible integrated solutions, differentiate us from our peers. And that is even more so with card-only or lending-only players setting us up nicely for continued leadership.

As I look ahead, these clear differentiators combined with a strong foundation and the investments we are making to adapt to a fast-changing environment, drive our three growth priorities. First, we will strengthen our leadership in payments and lending, which we expect to be the biggest contributor of our medium-term growth, so what does that mean? That means growing faster in proprietary cards, deepening our partner network, and building our lending continuum both on and off-card. Second, maximize value from our retail bank and further strengthen synergy with wealth management. And third, continue to drive digital leadership to investments in NextGen technology.

Now, let's unpack each of those and let's start with payments and our plans to increase growth in proprietary cards. Over the last two years, we have refreshed our products with more flexibility in using rewards, a fully digital experience, and unique ways to earn cash back. We are committed to that path with a steady stream of refreshes and new products to keep our cards portfolio well positioned in the marketplace. We are constantly enhancing our award-winning rewards program, adding new point-of-sale redemption options. We now feature over 200 partners, such as Best Buy, for our card members to redeem their points. And we are also adding new points transfer partners, such as Wyndham. Our partnership with PayPal offers customers access to a broad ecosystem of merchants. And last year, we partnered with MasterCard to introduce a Merchant Offers platform, which provides exciting discounts to our customers across thousands of merchants.

And the way we've gone about all of this is by powering our product features and offers with end-to-end digitized experiences. For example, our new Custom Cash card was designed with a comprehensive digital-first approach with several new digital features, and it's driving significant digital engagement as you can see on the page. Just like proprietary cards, co-brand and private label cards also have an important role to play in our growth plans.

Partner cards in the form of co-brands and private labels give us scale and drive sustainable returns, and they help us add significant value for customers, partners, and Citi. For customers, we offer choice and convenience in how they pay and borrow right at the point-of-sale with their favorite brands. For partners, we are able to deploy integrated solutions that drive sales and build loyalty. And for Citi, we gain access to sales touchpoints, 200 million consumers and nationwide footprint across the partner ecosystem.

We are extremely proud of the partnerships we built with about 40 strategic partners across a diverse set of industries, including five of the top 10 e-commerce retailers in the U.S. This positions as well to capitalize on the opportunities from the significant growth we are seeing in e-commerce. We also continuously review our partnerships for growth and the returns they drive for us and explore opportunities to extend existing partnerships, as well as add new ones. As of today, partner agreements covering 97% of our cards receivables extend to 2024 and beyond ensuring continued growth and stability.

In the past, our partnerships have been mainly focused on cards. Over the last couple of years, we've expanded those relationships into lending, rewards, and banking. For example, with American Airlines, we started our relationship decades ago with a co-brand card. We've evolved that relationship over the last couple of years into multiple offerings from savings accounts to installment loans and making the miles more dynamic with the ability to transfer them to ThankYou Points.

And as we continue to grow our partner portfolio, not all successful strategic partnerships need to be a co-brand or a private label card. With Amazon, for example, we started our relationship with Shop with Points and have now extended to point-of-sale financing and payment options such as pay with [inaudible]. As you can see, our partner network is very valuable to us and a source of pride for our firm. We have been privileged to work with American Airlines. They've been great partners to us for about 35 years now. I would now like you to hear a bit more from them.

Robert Isom:

American has a longstanding relationship with Citi. After 35 years, we know each other pretty well. Over that time, we've done remarkable things to take care of our customers innovating every step of the way. There's been a long line of evolution starting with just the co-brand AAdvantage credit card, all the way to things like Citi Flex Pay. The Citi and American relationship is one that has expanded in many ways, so everything from capital markets advice to actually doing something that was incredibly essential to American Airline's future, supporting us in a $10 billion capital markets financing transaction that used the AAdvantage program as the basis for it. So our relationship, it's personal, it's long, it's deep.

Pamela Habner:

What makes this partnership so strong is that we work together to constantly innovate on our core co-brand card, while at the same time, finding new ways to expand our relationship into new territories, like our Citi Miles Ahead Savings accounts. Together with American, we keep evolving our partnership over time.

Robert Isom:

Everything we do stems from knowing each other really well, knowing what's valuable at Citi, and also knowing what's valuable at American Airlines. That creates an incredible relationship.

Anand Selva:

Thank you, Robert and Pam, for bringing to life the power of our partnership.

Next, let me switch to lending. We are very excited with the opportunities and growth potential we see in lending. Historically, lending on cards was built on traditional revolving lines of credit. That remains the bulk of our interest income and will continue to be a prominent contributor of revenues going forward. To that, we have added new installment loan products, Flex Pay and Flex Loan within the card. Flex Pay is buying now and paying later and is available as a financing option in both at point-of-sale and after the transaction is done.

And now we are expanding our lending solutions beyond credit cards to offer point-of-sale financing and personal loans without a credit card to complete the lending continuum. We started by focusing on existing customers to target over $50 billion of personal loan balances they have with other lenders.

Point-of-sale financing is not new to us. In our retail services business, we have offered point-of-sale financing promos to our customers for over a decade, and we have significant experience in our international markets with such offerings. With our strong expertise through credit cycles, we will ensure that we offer these products responsibly and with sustained profitability.

Our lending solutions have been very well received by our customers. As you see on the right side of the slide, card customers who take lending products from us bring new balances and drive higher revenue compared to transactors. In addition, they have meaningfully higher NPS and maintain strong credit performance. So, summing up payments and lending, we have a leadership in cards and loans, emerging scale in installment lending, strong digital capabilities, and attractive growth potential.

Our second growth priority centers on retail banking. As Jane mentioned, our approach to retail banking in the U.S. has been and will continue to be different from other banks that have a large retail presence. That said, there are clear opportunities for us to maximize value in retail banking, and we have made some changes over the last three years that will help us do that.

As you all know, we have a light physical footprint supported by a large ATM network. From 2016 to 2018, our retail deposit book was flat to slightly declining. However, from 2019 to 2021, we have grown our deposits by over a third to around $220 billion. That was because we focused on higher productivity from branches, modernizing our branches, and building digital capabilities. These efforts dramatically improve our branch NPS from 68% at the end of 2018 to over 80% by end of 2021.

Our retail bank is now well positioned to drive growth in our two strategic priorities. One, retail banking has strong synergies with our wealth business given that it is concentrated in six urban markets where our affluent customers reside. In fact, approximately 70% of our wealth management client accounts in the U.S. were opened or referred from the branches. And two, retail banking serves as a very good source of lower-cost funding to support payments and lending business. Around 90% of our deposits are in checking or low-cost savings accounts.

And we continue to build out our digital capabilities to acquire retail accounts and deposits through our digital channels. That focus on digital has allowed us to grow our digital deposits nearly 3X since 2019 accounting for 20% of the growth in total deposits. Half of the digital deposit sales come from customers outside of a branch footprint, while we continue to expand our multi-relationship customer base by deepening our existing cards customers. And we will continue to grow digital deposits ensuring they make economic sense and deliver value for the franchise.

With all that said, profitability in our retail banking business has been challenged. Despite strong growth in deposit volumes, the low interest rate environment has put pressure on our deposit margins and revenues. In addition, our investments in enhancing our risk and control environment, and modernizing our technology, further impact profitability. So where do we go from here?

We evaluated various options and we concluded that we should focus on maximizing value from our retail bank in the medium-term, by delivering even more from our current infrastructure and assets while we benefit from rising rates in the coming years. First, we will target a top-six deposit market share nationally with sharper focus on deepening share in our six core urban markets. We will do that by continuing to refresh and right place our branches while modernizing technology, including implementing a new customer relationship management platform.

Second, we will continue to grow deposits through our digital acquisitions. We expect digital to drive over 30% of our deposit growth in the medium-term. At the same time, we will drive value from increased relationship lending in mortgages and small business through our branches. And third, we will continue to build on the strong synergies with wealth management using the retail bank as a powerful feeder of wealth management clients.

We firmly believe that investing in retail banking to maximize value and drive our PBWM growth priorities in the way we have laid out today is the most optimal and responsible way to use capital and investment dollars in the medium-term. And this will contribute meaningfully to delivering our targeted returns in PBWM in the medium-term.

Our third strategic priority to drive growth is investing in digital and technology. We have been on a journey with our digital-first approach over the last few years, and we continue to invest in building digital capabilities. Given our light physical footprint, our focus on partnerships and the demand we see from customers, digital is critical to our success. We are seeing strong digital take up across the business, be it in customer acquisition, online spending, or customers using our digital channels for transacting and servicing.

We are spending about $2 billion in technology each year for PBWM. Besides the Citi-wide transformation effort that Karen will be talking about shortly today and the investments going into wealth management that Jim mentioned, a good portion of that investment will be in U.S. personal banking. We will be investing in modular platforms that enable us to plug and play with our partner systems using APIs and create seamless, secure, and resilient digital experiences driven by data. And our investments will help us improve speed to market and reduce tech development costs.

While we have more to do as we continue to innovate and build new capabilities, our increased digital engagement is driving both revenue growth and efficiency. Specifically, our digital users drive higher deposits and investment balances, higher revenue and lower attrition rates than non-digital customers with the cost to serve being much lower. We expect to see improved cost efficiencies in revenues as we automate, drive straight-through processing, and continue to replace analog processes with digital.

So to summarize our path forward, we are going to strengthen our leadership in payments and lending, maximize the value from retail banking, and deliver seamless, end-to-end, digitized experiences with a modern tech infrastructure. We are truly excited for our future. We have a leading market position in payments and lending with tremendous scale, attractive assets in retail banking, strong capabilities, and exciting growth opportunities.

In the medium-term, subject to macroeconomic trends, we expect to attract more wealth management clients through our branch network, build our digital deposits, and pivot from the pandemic-driven headwinds in loan balances. We expect that will drive continued growth in deposits, A&R, and revenue.

Now, let me bring it all together across personal banking and wealth management and what our strategy will deliver from a growth perspective over the medium-term, guided by the priorities Jane has outlined for our firm. To track our progress on this plan and hold ourselves accountable, we have outlined KPIs detailed on the slide. As we deliver against these metrics, I strongly believe that our well thought out, prudent, and focused strategy will deliver strong revenue growth in both Global Wealth Management and U.S. Personal Banking in the medium-term.

I know the team across PBWM is truly excited about what we can do together, and I am very excited and very confident. Thank you once again for joining us.