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COVER STORY

Healthy Citi Unit Trying To Cash In

■ BY STEVE BILLS

Citigroup Inc. is preparing to revamp its cash management technology to capitalize on corporate customers' growing interest in tools to manage their finances.

Executives of the troubled financial company say the new system, to be introduced in phases starting around midyear, will work more closely with the payments systems of corporate customers and correspondent banks that resell Citi's products.

"We have an opportunity to put some white space between what we're doing and the rest of the market," said Gary E. Greenwald, the global head of capabilities and information products in Citi's global transaction services unit.

Citi's business clients are demanding technology that gives them more visibility and control over their finances, increases their working capital and improves efficiency, Greenwald said. Though such products are the staples of cash management providers, the slumping global economy is driving up demand, he said. "In a credit-constrained environment, that is amplified," he said.

The transaction services unit is one of the bright spots for Citi. The unit's revenue grew 22% in 2008, to \$9.6 billion, while its net income grew 34%, to \$3 billion. (Citigroup as a whole lost \$20.4 billion in 2008 on revenue of \$130 billion.) Executives say the unit has had five consecutive years of growth.

Marc Harrison, a consultant at Greenwich Associates, a financial market research firm in Stamford, Conn., said the recession



Greenwald: "Lego block functionality" will make tools easy to install.

is putting pressure on corporate clients to concentrate more of their business with fewer banks,

"There's a lot of movement in this space now, and there's a lot at stake," Harrison said, and Citi is trying to win a bigger share of its clients' deposits.

"Treasury management is a fee business," he said. "Banks have been focusing on that opportunity because of the constraints on their willingness to lend."

Because of its global reach, Citi has capabilities matched by few other cash management banks, Harrison said. "The mentality Citi has is that we're a software company within the bank."

Paul Galant, the chief executive of Citi's

global transaction services unit, said the overhaul should boost Citi's correspondent banking business, a key to the company's global strategy.

"The biggest differentiator for that market is the ability" of other banks "to white-label the totality of our platform," he said. Being able to offer Citi's technology to their own corporate clients under their own brand, he said, gives bank clients "a better service model, and it's all variable-cost."

Jacob Jegher, a senior analyst at Celent, the financial research arm of Marsh & McLennan Cos. Inc.'s Oliver Wyman consulting unit, said many banks offer mainly what the banks choose to deliver, rather than listen to what corporate customers want.

"There are innovators and there are laggards," and Citi is not a laggard, Jegher said. "Innovation in the cash management space today is critical, especially given current market conditions."

Unlike the last major revision of its online cash management system, the 2006 TreasuryVision release, the upcoming system (which has no brand name yet) will deliver advanced Internet capabilities and is built using service-oriented architecture and extensible markup language; the result is a series of modules designed to be used alone or together, Greenwald said — a "Lego block functionality" that customers can easily plug into their current systems.

The company is working with International Business Machines Corp. and Microsoft Corp. to upgrade its Citi Direct portal infrastructure to the modular technology,

he said. "By the end of 2010, we will have migrated everything to that, and clients can pick and choose what they want."

That means correspondent banks, for example, can embed Citi's tools within their own cash management systems, Greenwald said. "They can do domestic payments and use the Citi capability for doing multicurrency payments."

Business users will also be able to install Citi's tools on their own systems, he said, creating "financial dashboards" with a variety of different applications on corporate treasurers' computers.

The pharmaceutical company Pfizer Inc. is already using some of Citi's applications on its European intranet for financial shared services, incorporating bank services into its internal financial systems, Greenwald said.

"I want to start with something that resonates with some of our bigger clients," he said. "But we see it moving well downmarket."

While the front-end user interface is designed to be modular and adaptable to clients' needs, the back-end processing design incorporates "a multi-tenant capability" that can be white-labeled to correspondent banks, he said. "It is not just for

Citi but also for our partner banks."

In the next several months Citi plans to roll out payments tools that incorporate technology from the global financial cooperative Swift, the Society for Worldwide Interbank Financial Telecommunication.

The first, Swift EBAM — for electronic bank account management — should be available to corporate clients at the end of the second quarter, he said, using Swift digital credentials for signatures and user identification.

TreasuryVision offered a similar feature for corporate users of Citi systems around the world, enabling companies to manage changes in the authorized signers of payments using an electronic system, rather than paper-and-ink signature cards. Swift EBAM extends that capability to companies that do business with multiple banks, Greenwald said.

"This never was possible till we had something that was go-to-court bullet-proof," he said.

In the third quarter Citi plans to unveil its first mobile treasury service, again using Swift technology. This product embeds digital authorization credentials

in a smart card that can be plugged into a reader on a BlackBerry handset, enabling, for example, a chief financial executive at an airport to authorize a payroll disbursement or a wire transfer.

Such approaches will become standard among banks as federated identity programs mature, Galant said.

"We already rely on each other's security work" in correspondent banking, on issues such as knowing the customer, he said. "I'm not going to do that work again. This should follow that same logic."

Citi also plans to adopt advanced online capabilities, such as video. Greenwald noted that banks' customary approach to video is to bring in professional production crews with scripts and high production values to produce slick programming products.

CitiMedia, a planned component of its upcoming rollout, will instead employ a "YouTube-type concept" with desktop Webcams for Citi experts to provide quick analyses of developments in fast-moving markets, Greenwald said. "The intellectual capital of a place like Citi, that's an asset we should be much more agile in getting to our clients." ■

