

# Citibank: Sights Set On the Retail Market

By Colin Mills

A decline in Japanese corporate demand for banks' traditional lending services is "making life very difficult for bankers" in Japan, according to James J. Collins, North Asia Division executive for Citibank N.A. Intense competition and the rapid diversification of financial instruments and customer requirements has forced Citibank, one of the largest commercial banks in the United States, to explore new markets in Japan which may enable the bank to supplement its conventional corporate lending services.

"This is not a unique situation. The Japanese banks and all the foreign banks in Tokyo are facing essentially the same problem—where do you go?" Collins said. "The answer, as our chairman (John S. Reed) has said many times, is to begin looking at the retail market as a possible way of building up business for the future," he added.

Citibank, whose holding company Citicorp recorded a 13% increase in total assets to \$196,124 million in 1986, recently marked the 85th anniversary of its commencement of operations in Japan.

What is now Citibank's Yokohama branch was established on October 8, 1902 by International Banking Corporation, which in 1915 was acquired by Citibank's predecessor, the National City Bank of New York.

However, it is only during the past decade that the bank has been stepping up activities outside the corporate banking sector in a bid to expand its potential customer base. Seven wholly owned Citicorp subsidiaries established in Japan since October 1978 now deal in fields ranging from consumer credit to data processing, software development, leasing, trust banking and financial consulting.

Citicorp's activities in the Asia/Pacific region contributed \$134 million or 13% to the \$1,058 million in consolidated net income generated worldwide by the corporation and its subsidiaries during 1986. In comparison, Citicorp, which has 1,907



James J. Collins, North Asia Division executive of Citibank N.A.

branches, representative offices, subsidiaries and affiliates in 91 countries outside the United States, earned 54% of its overall net income in North America, 24% in the Caribbean and Central and South America, and 9% in Europe, the Middle East and Africa in 1986.

Collins says Citibank's primary line of business in Japan was originally to supply funds to many of the companies which sprang up during the immediate postwar period. Today some of those companies are giants of multinational stature.

"We're among a small group (of foreign banks) that developed relationships with most of the major Japanese corporations during the '50s and '60s," he said. In re-

cent years, however, "our traditional business of lending money has been under constant pressure, with margins getting narrower and narrower."

## Forced to diversify

Collins says Citibank encountered a drop in corporate demand for its funds chiefly because many large Japanese companies became increasingly self-funded and obtained direct access to international financial markets on which they are free to buy and sell debt instruments. Faced with this realization, Citibank was forced to diversify. "The first area we looked into very carefully, and

very successfully I may add, was the foreign exchange area," he said.

Playing other markets, particularly the Euromarket, provided Japanese corporations with a variety of new hazards as well as opportunities to tap new sources of funds. "So while the corporations didn't need our money any more, what they began to really need was to hedge their exposure one way or another."

"Is the Swiss franc going to go up or down relative to the yen? Do they have receivables coming in in Australian dollars? Is that good or bad? You know, it's hard to tell sometimes."

Responding to demand for new ways in which to raise and invest funds while minimizing the risks presented by exchange rate fluctuations, Citibank began to devote more energy to foreign exchange trading and the development of innovative money market instruments and investment banking services.

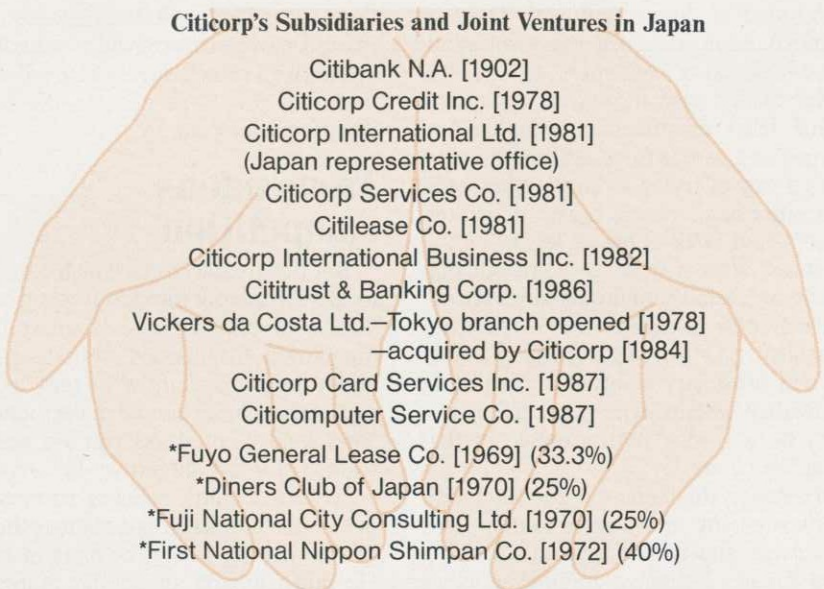
Citibank found its creativity tested by this "disintermediation" process, in which corporate customers began to seek more from banks than just money. The bank quickly began experimenting with a variety of relatively new hedging instruments such as foreign exchange and interest rate options, and even came up with a few of its own. Citibank claims to have invented some of the past decade's most innovative instruments, including the interest rate swap and the Eurocommercial paper.

Financial deregulation in Japan has actually provided Citibank with potentially greater opportunities to hone its investing banking skills than in the United States, where the Glass-Steagal Act still inhibits the participation of banks in the investment banking sector.

"Tokyo and London are key areas in which to expand that (investment banking) business," said Collins. But just as Citibank's trading and investment banking operations began to bloom, the bank was forced to ask itself again—"What are we going to do now?" said Collins.

"Because even that business is well known. There's no secret on how to do a swap any more. There's no mystique about some of these instruments that are now in the market. So the margins are

### Citicorp's Subsidiaries and Joint Ventures in Japan



Citibank N.A. [1902]  
 Citicorp Credit Inc. [1978]  
 Citicorp International Ltd. [1981]  
 (Japan representative office)  
 Citicorp Services Co. [1981]  
 Citilease Co. [1981]  
 Citicorp International Business Inc. [1982]  
 Cititrust & Banking Corp. [1986]  
 Vickers da Costa Ltd.—Tokyo branch opened [1978]  
 —acquired by Citicorp [1984]  
 Citicorp Card Services Inc. [1987]  
 Citicomputer Service Co. [1987]  
 \*Fuyo General Lease Co. [1969] (33.3%)  
 \*Diners Club of Japan [1970] (25%)  
 \*Fuji National City Consulting Ltd. [1970] (25%)  
 \*First National Nippon Shimpan Co. [1972] (40%)

Notes: 1. Dates in brackets indicate year in which company was established or year in which first Japanese office opened for business.

2. Asterisks indicate companies in which Citicorp holds a capital share. Citicorp's share is indicated in parentheses.

getting narrower, the clients themselves are becoming just as sophisticated as our traders, so they can think of ways of maybe even bypassing the banking system to hedge now," he said.

New financial products spread throughout the market virtually as soon as they are introduced, which simply means "you have to keep finding something new to do!"

## More stable banking

Hence Citibank's interest in the Japanese retail banking sector, which in any case is generally more stable than other forms of banking, Collins says. "While there's tremendous volatility in the investment banking side and corporate side, the retail side is steady, or at least that's the experience so far. While you may have fluctuations in the costs of funds, you can be sure the asset's going to be fairly stable," enabling the bank to lock in a predictable spread, he said.

The corporate lender, on the other hand, may find borrowers shifting their fund sources at short notice, "so your loans could evaporate overnight." How-

ever, Collins admits successful penetration of the Japanese retail market is not something that Citibank can expect to achieve quickly or easily.

Citibank's move into the retail sector in the United States has been very successful, he says, "but emphasis varies from country to country, of course."

Based primarily on the acquisition of a greater share of the U.S. retail market, Citicorp's global activities in what the corporation terms the consumer-oriented "individual banking" sector generated net earnings of \$462 million in 1986, a hefty 41% or \$135 million above the amount earned in the same sector in 1985. However, Citicorp's 1986 annual report admits "our presence is not yet as broadly based as we think is needed in Asia/Pacific."

Collins is sure one of Citibank's most difficult challenges during the coming years will be the cultivation of an individual customer base in Japan. The bank presently maintains only six branches in Japan—in Tokyo's Otemachi and Akasaka districts and in Yokohama, Osaka, Nagoya and Kobe—which Collins concedes is "a very limited distribution network." In December 1987, however, Citibank

concluded an agreement with Dai-Ichi Kangyo Bank in which they will allow their respective customers to use the other bank's cash dispensers and automatic teller machines in what Collins terms an attempt to "establish contact." "It's a way of trying to share a potential customer base. We are big in the United States, and DKB is big in Japan."

But Collins is quick to point out that Citibank's retail banking activities are not entirely new in Japan. In 1978, Citicorp established Citicorp Credit Inc., a wholly owned subsidiary involved in furnishing individual clients with personal loans. "It's been a long hard struggle in that area," he says.

However, the increased attention Citibank is paying to the retail market does not mean the bank's corporate lending and foreign exchange trading activities have been abandoned. Quite the opposite, in fact. Collins admits the bank's traditional corporate finance business is no longer a growth area for Citibank, "but a great deal of our revenue comes right from that loan portfolio."

"We could expand our loan portfolio by just lending lots and lots of money at very small margins, but it has a terrible impact on your return on assets and your capital ratio," he explains.

Nonetheless, Citibank, encouraged by the growing success of its retail opera-

tions in the United States, hopes retailing in the Japanese market will eventually develop into a growth area which will offset declining profits earned via the bank's traditional services.

## Tremendous competition

But the greatest force which continues to drive Citibank forward is the tremendous competition of the Japanese banking market, Collins said. "What we think about almost constantly," he says, "is what part of the market can we make money in, what kind of products can we gear to, what customers should we be serving?"

In fact, Collins believes competition outweighs financial regulation as the biggest constraint facing the bank in Japan. He said Citibank spends far more time thinking of ways to meet customer requirements than worrying about Japanese government restrictions.

"Finance in general in most countries is a slightly regulated industry, but deregulation has proceeded rather rapidly (in Japan)," Collins says.

And it seems there is little Citicorp is unwilling to try in an attempt to drum up new business. Citicorp Services Co., established late in 1981, processes yen-denominated travelers' checks and is involved in data processing and software

development, while Citicorp International Business Inc., created two months later in January 1982, promotes travelers' checks denominated in the U.S. dollar, pound sterling and deutsche mark and carries out a variety of other peripheral banking services.

Citilease Co., set up in 1981, is involved in leasing computer and other equipment, Citicorp International Business Inc. (1982) in financial and management consulting, and Cititrust and Banking Corp. (1986) in trust banking.

Citicorp, which established another two subsidiaries in Japan in early 1987, has also had a 25% capital share in Diners Club of Japan since 1981 and a share in Fuji National City Consulting Ltd. since 1970.

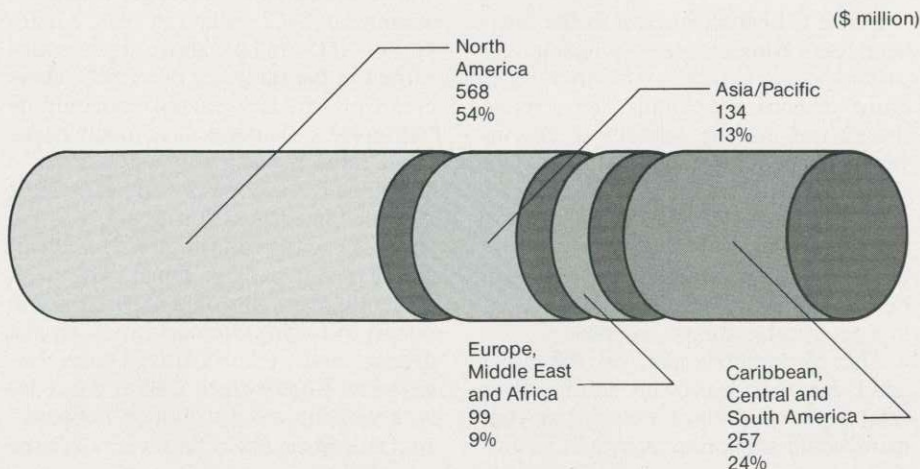
The corporation was one of the founding partners of consumer finance company First National Nippon Shimpan Co. in 1972, and in 1984 acquired London-based securities firm Vickers da Costa Ltd., which in 1986 became one of the first six foreign securities firms admitted to the Tokyo Stock Exchange.

"I think the future is going to be constantly difficult because it's a fiercely competitive market, and that's not going to change," says Collins. "We have made investments in various segments of the market, but how they're going to pay off is hard to tell." Either way, Collins is convinced Citibank will continue to remain committed to the Japanese market.

Citicorp and its wholly owned subsidiaries now employ over 1,000 people in Japan, and the corporation is continuing to put a great deal of effort into the recruiting and training of local staff. Citibank is also actively involved in the retraining of employees originally trained as corporate lenders, seeking to provide them with the trading and investment banking skills now demanded by the bank's clients.

Says Collins: "We've made it through 85 years, I think we'll stick around for a while."

Geographical Distribution of Citicorp's Overall Net Income in 1986



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