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Investment banking profit squeeze forces Citi to think beyond job cuts

Article

The news: **Citi** is the latest Wall Street lender to rethink headcount in its investment banking arm as it aims to trim costs amid a prolonged deal slowdown, CFO Mark Mason told Bloomberg.

- Mason said Citi needed to "recalibrate" staff numbers at its investment bank as the lender focused on improving its bottom line.
- The bank is also focusing on more lucrative business lines and investing huge sums in data, risk, tech, and its infrastructure as part of a companywide "transformation" that more than 11,000 staff are working on.

M&A dearth spurs layoffs: Investment banking redundancies are not uncommon during periods of dwindling deals and Citi is not alone in making cuts. But the latest round of layoffs is likely to be one of the biggest to hit the banking sector since the financial crisis.

- Goldman Sachs is undergoing extensive cutbacks that will see more than 3,000 jobs lost.
- Morgan Stanley, **Credit Suisse**, and **Bank of New York Mellon** have also reduced headcounts.

Profit squeeze forces strategy shift: Banks are under pressure to trim costs to shore up their bottom lines, and layoffs are a straightforward way to achieve this. **Citi had a disappointing 2022 in which profits narrowed 32% year on year (YoY) to $14.8 billion**. But the bank is also embracing more radical plans to improve its financial health and in response to a $400 million fine for risk management failures.

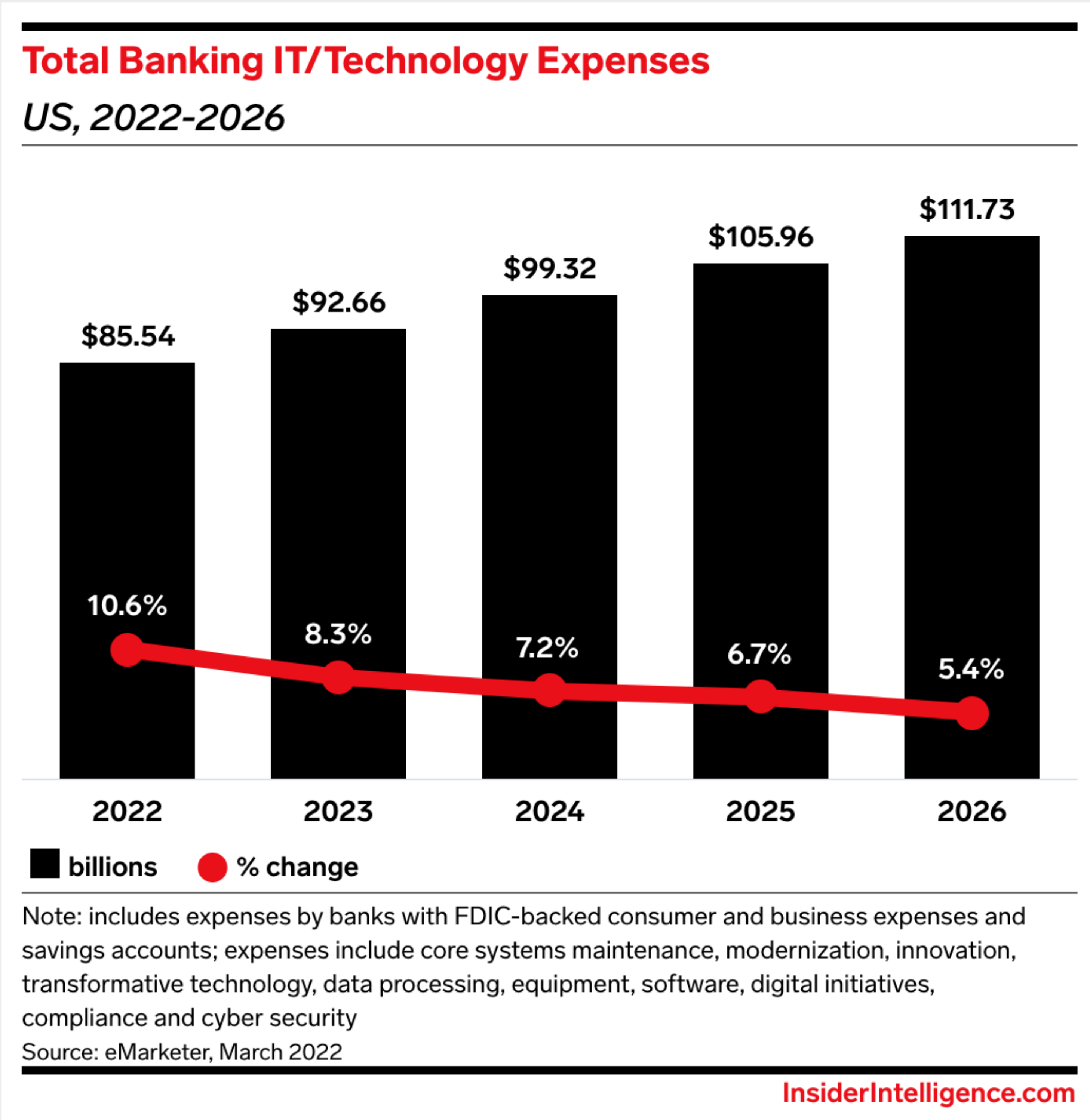
- Citi is aiming to bolster profits by focusing on its treasury and wealth management services, which provide more consistent revenues than potentially volatile returns from investment banking.
- It's also spending billions on upgrading its tech and underlying infrastructure and is dedicating more than 11,000 staff to a "transformation" project aimed at redesigning its data organization and strengthening how it handles risks and controls, per a Q4 investor presentation.

The verdict: Citi is embracing the job cuts that investment banks usually employ in market slumps but also investing in new approaches to drive growth.

- That's costing a huge amount of money: **Citi plans to increase expenditure for 2023 by 5.3% YoY to $54 billion**, much of it driven by its transformation project and about one-quarter solely on tech.
- **Results will also take time**—it's not expecting to see improved efficiencies or returns until three to five years after starting the project.

- **And it could be risky.** There's no guarantee that gains will outweigh the vast costs and in three years time the banking environment could be very different from the one Citi operates in today.

However, Citi's long-term approach could reap success compared to rivals focused on immediate cost-cutting by trimming headcount.



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