Citi's Linville slowly turns around bank's card business

BY DAVID HENRY
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A Citibank sign is shown in downtown Los Angeles, California in this October 29, 2014 file photo.
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(Reuters) - When Jud Linville joined Citigroup in 2010 to head its main credit card business, he discovered a card called "Simplicity" that was anything but.

It had three different possible base interest rates, depending on whether money was borrowed for balance transfers, cash advances, or purchases, plus penalty fees and possible higher interest rates if payments were late. Customers that did not want a Simplicity card could instead choose from 10 different versions of rewards cards. The array of cards was dizzying, and marketing so many possibilities was expensive for Citigroup.

Linville, 58, has spent four years simplifying products like

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Simplicity as part of an effort to turn around the bank's credit card business, which in the late 90s was second biggest in the U.S. by spending, but a decade later fell to fourth biggest, according to data from The Nilson Report. He is showing signs of stabilizing the business: annual spending on Citi-branded cards in the United States has climbed nearly 7 percent since Linville took over.

While Linville has been turning his group around, credit cards have become one of Citigroup's most important businesses. Linville's unit, combined with another that runs cards for retailers, was responsible for a third of the bank's profits from its main businesses last year, a figure that would have been closer to about one-fourth before the crisis. The bank is the biggest issuer in the world by loans and number of credit cards.

To be sure, even with Linville's success, rivals have been speeding ahead. Citi's 7 percent gain in U.S. branded card spending compares with a 38 percent increase at JPMorgan Chase & Co and a 32 percent increase at American Express, according to Nilson data. JPMorgan's business has been overhauled by Gordon Smith and Eileen Serra, who, like Linville, used to work at American Express, and have followed a similar playbook.

For Citigroup, the credit card unit has particular importance. The bank has some $50 billion of tax credits, many from losses in the financial crisis, which it can only take advantage of if it generates enough U.S. income. Those credits generally came from losses that the bank recognized in the financial statements that it reported to investors, but that can't be used for tax purposes until the bank earns more taxable income in the United States, which credit cards can provide.

In addition to credit card loans the bank makes to customers, it can market other products, such as mortgages and savings accounts, to them, which could boost U.S. revenue even more. Most of its rivals have lower tax credits from the crisis and more sources of U.S. income.

"The card business is a powerful asset to help restore the Citi brand," Linville said in an interview.

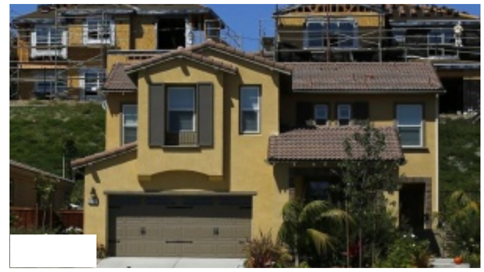
Linville's efforts to boost the bank's credit card unit over the last four years mirror the struggles of Citigroup as a whole, which has been trying to find its way for more than a decade.

Built up through a series of acquisitions starting in the 1980s, Citigroup has struggled to integrate its businesses, harmonize and update its computer systems globally, and figure out how to best profit from its broad array of international businesses. The bank required three rescues during the financial crisis after it found itself heavily exposed to bonds linked to U.S. subprime mortgages.

Going forward, Citigroup can be a formidable force in credit cards, said David Robertson, publisher of The Nilson Report, an industry newsletter.

"A lean, meaner, tougher Citi being recommitted to cards is going to be a much more forceful competitor in the U.S. market than it has been over the last decade," said Robertson. "They want to get that brand out there again before the American public."

For Citigroup's investors, its ability to gain ground on rivals in businesses like credit cards is one of its biggest opportunities to boost its share price valuation, which lags many rivals. Citigroup's shares trade at about 0.8 times their book value, or the accounting value of the



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For credit cards, Citigroup's next step for boosting profit is its international business. The bank has 11 different rewards programs around the world, which Linville is boiling down into one. Having a single program should make it more efficient to strike promotional deals with more than more than 100 assorted vendors around the world, including Hilton hotels, Singapore Airlines and Cathay Pacific. One program should also enable more customers to redeem rewards on web sites instead of by phone, as half of international cardholders now must do.

Linville had similar simplifying and updating to do when he joined Citigroup in 2010, becoming the fifth head of the bank's credit card business in six years. Parts of the bank's information systems for things like fraud detection and marketing analytics were more than 20 years old. To cut costs, Citigroup had closed its call centers for credit card rewards on Sundays, one of the busiest days of the week for point redemption. When the bank asked customers if they would recommend their credit cards to someone else, just as many said "no" as "yes."

The bank was an industry leader in the 1980s and 1990s, and was early to understand how plastic could become a critical part of the personal finance landscape.

"They were the first nationwide marketer who went full bore in the early 1980s and offered credit cards to consumers with whom they had no other banking relationship," Robertson said.

Linville has fixed many of the obvious problems in the U.S. business—he's opened the rewards call centers on Sundays, reduced the number of U.S. rewards cards to three from 10, and eliminated the late fees and penalty rates on the Simplicity card.

Linville, who has a doctorate in psychology, wants his cards to appeal emotionally to customers. For example, in August, the bank issued a cash-back card, which according to credit card research site NerdWallet offers one of the highest cash-back bonuses in the industry, at 2 percent.

The card offers a reward of 1 percent when the consumer buys an item, and, more important, another 1 percent when the customer pays their bill. The bank's research shows that offering an extra reward for paying strikes a chord with customers who occasionally carry a balance, and thus are some of the most profitable clients.

"To me," Linville told Reuters, "it is recognizing and rewarding people who say, 'I am going to find a way to pay.'"

(Reporting by David Henry; editing by Dan Wilchins and John Pickering)

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