Wells Fargo Bank

The context

In December 2013 Wells Fargo's "sales practice issues first came to public attention through articles in the Los Angeles Times that spotlighted troubling practices engaged in by some employees in Los Angeles."

In September 2016, Wells Fargo was fined $100 million by the Consumer Financial Protection Bureau, $50 million by the Office of the Comptroller of the Currency and $35 million by the City of Los Angeles, for opening two million unauthorised customer bank accounts. The are also a number of legal actions underway.

The reputation of a major US retail bank has suffered and a number of senior staff have left the organisation.

The central issue was the creation of false customer accounts but it is likely that there have been other equally serious abuses including allegations relating to the sale of other financial products.

This note is based on the report initiated by the non-executive directors of Wells Fargo published in April 2017.[1]

The central issue

The bank was dominated by its former CEO, **Richard Kovacevich**. He retired in 2005 and handed over to his protege, **John Stumpf**. The retail bank (known as the Community Bank) was run by **Carrie Tolstedt** who had worked in senior roles in the bank since 2002.

The business model was based on cross-selling products. This strategy had been initiated by Kovacevich and carried on by Stumpf and Tolstedt. The aim of the cross-selling programme was for each customer to have at least eight bank products memoralised in the sales slogan "eight is great".

General learnings

1. Self-delusion and blindness to culture

There was a significant amount of managerial delusion about the implications of the cross-selling strategy. This evident in the terminology used to describe issues such "opportunities", " slippage" etc. Coupled with this was a level of blindness and blinkered approaches displayed by the senior management and all the control functions. All the

[1] Independent Directors of the Board of Wells Fargo & Company, Sales Practices Investigation Report (April 2017), https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf

checks on managerial abuse failed due to issues resulting from a severe lack of critical thinking and introspection in all areas.

In part this appears to be due to how problems were “framed” so, for example, individual abuse of the sales system was treated as a series of actions by “bad apples”. There was no attempt to think more widely and to analyse the evidence from different perspectives. Little was done to view what was happening from a customer’s point of view (ie that some two million unauthorised accounts were opened over a fifteen year period).

Moreover, the business was very inward-looking with no attempt to consider how the issue might appear from outside. In part this may have been due the success of the bank weathering the 2008 financial crisis and the hubris this may have produced. The corporate “mind-set” may have been set on tram-tracks hobbled by a lack of diversity of thinking.

2. Control function failures

The bank had a number of control functions (eg Risk, Internal Audit, Compliance, Legal etc). There were a number of executive and board level committees focused on risks and control issues. All of these failed apparently for similar reasons mentioned above in relation to the culture and self-delusion of the organisation.

3. Once concerns were raised outside the bank actions at all levels were ineffective and defensive

The actions taken following the LA Times article in December 2013 were very limited and defensive. For example, there was no attempt to see if there were problems with the sales of other products such as insurance and investments and a report commissioned from McKinsey on the risk function in early 2013 seems to have been defensively focused.

Actions by the executives and the Board appear to have been dilatory and lacked urgency and drive. Moreover, the Board appears to have had no expertise in conduct of business and reputation risk nor any insights into these areas and the Board members appears to have been very dependent on what business management allowed them to see.

At the heart of the bank was a cultural failing that appears to have existed for many years. So, for example, simply tinkering with sales targets would not change a cultural canker.

Conclusion

The recent failing identified at Wells Fargo should be examined by UK based financial services firms and others. This may help prevent issues with similar underlying roots.

In addition, members of bank boards should consider undertaking formal, independent training and assessment to ensure a broad level of board-level skills and self-awareness and the early identification of areas of weakness and the implementation of rapid and effective remedial action.