The Wells Fargo Banking Scandal

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Introduction

Wells Fargo was **founded in 1852** in San Francisco during the California Gold Rush as a regional bank and express delivery company. During the 19th and 20th century the bank **became a national brand**, even if its main commercial banking operations were still focused on Northern California. The **1998 merger with Norwest Bank** marked a turning point, introducing an aggressive cross-selling strategy aimed at selling multiple products to each customer. In **2008**, coming out relatively stronger from the crisis, **Wells Fargo acquired Wachovia** for $12.5 billion, creating the largest coast-to-coast retail banking network in North America. **By 2015, it was the world's most valuable bank**, serving one out of three American households. However, **between 2011 and 2016, the company became embroiled in a massive fake accounts scandal**, with employees opening millions of unauthorized accounts to meet sales targets. This led the bank to be **fined for $185mln** by the CFPB, and CEO **John Stumpf resigned**.

1852
Wells Fargo is founded and starts operating in San Francisco

1998
Wells Fargo merged with Norwest and started implementing the cross-selling policy heavily

2008
Wells Fargo acquires the 4th largest US bank Wachovia, becoming the dominant commercial bank on the East coast as well

2015
Wells Fargo become the 1st bank in the world by market capitalisation and customer respect.

2016
Wells Fargo gets fined for $185mln for the fake accounts scandal and loses both value and respect

Wells Fargo Goes Far to Cheat Customers, and It Was Predictable

Human nature is such that if incentives can be gamed with little chance of detection, they probably will be. The managers at Wells Fargo should have heeded this advice.

By: Robert Prentice

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BANKS

Wells Fargo will pay $190 million to settle customer fraud case

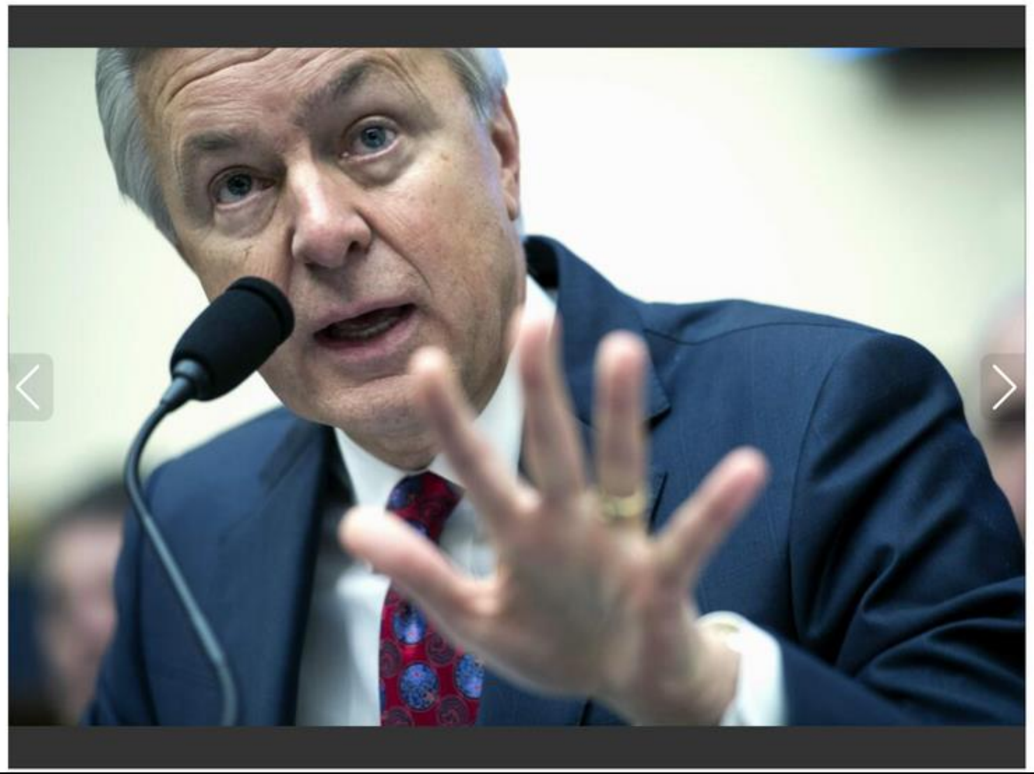
PUBLISHED THU, SEP 8 2016·4:07 PM EDT | UPDATED FRI, SEP 9 2016·8:43 AM EDT

Wells Fargo boots 5,300 employees for creating accounts its customers didn't ask for

September 8, 2016

Wells Fargo CEO John Stumpf steps down amid fake accounts scandal

Wells Fargo's embattled CEO John Stumpf stepped down Wednesday as the nation's second-largest bank is roiled by a scandal over its sales practices.



Wells Fargo Fined $185 Million Over Creation Of Fake Accounts For Bonuses

SEPTEMBER 8, 2016 · 1:02 PM ET

By Bill Chappell

Regulators announced Thursday that Wells Fargo is being fined $185 million to settle allegations that it secretly opened unauthorized accounts for customers in order to meet sales goals.

Ben Margot/AP

Crisis of the Week: Fake Accounts Scandal Rocks Wells Fargo

By Ben DiPietro Follow *Wall Street Journal*

Sept. 19, 2016 at 2:54 pm ET

WELLS FARGO AND A NEW AGE OF BANKING SCANDALS

By Sheelah Kolhatkar

October 4, 2016

Community Banking and Cross-selling

- Wells Fargo's core strategy in **community banking** (⅔ of total revenues) was based on collecting as much revenues as possible focusing on the use of **cross-selling** with the goal of strengthening customer ties, increasing profitability, and driving long-term growth for the bank. The strategy became **very clear in 1998 after the merger with Norwest Bank**, which was already focusing its revenues generation on cross-selling and wanted to become the **"Walmart of financial services"**.

- The final goal for Wells Fargo was to go for the **"Gr-Eight",** which could be translated in the objective of selling **8 bank's products per customer**, on average. This products included saving/deposit accounts, credit cards, loans, insurances, etc. At the same time, this goal was **not easy to achieve**, especially considering that the average number of products per customer for the other US banks was around 2,7.

- To increase the focus on this matter, Wells Fargo **continuously emphasized the importance of cross-selling in its annual financial reports** with sentences like the following:

" Our primary strategy...is to increase the number of products our customers utilize and to offer them all of the financial products that fulfill their needs "

" We've been called, true or not, the 'king' of cross-sell "

" The bad news is it's hard to do. The good news is it's hard to do, because once you build it, it's a competitive advantage that can't be copied "

Customer Relationship and Respect

- Even if Wells Fargo plan to reach 8 products per customer was very ambitious, **they had the cards** to pursue that goal thanks to the **public respect and reputation** they gained throughout the years of the Great Financial Crisis.
- In those years, while every big Wall Street bank just wanted to make more and more money, **Wells Fargo always refused to engage in the sale of complex synthetic investment vehicles and subprime loans.** Instead, they decided to redirect their focus on the diversification of their revenue stream by strongly encouraging cross-selling.
- While because of this choice Wells Fargo lost some market share in the mortgage business from 2003 to 2007, **that decision was viewed as a great sign of virtue** when the real estate bubble went burst and other banks started collapsing. This scenario also allowed Wells Fargo to acquire Wachovia at discount and expand its dominance to the East Coast.
- So, Although the bank still had an investment banking division, the **people saw it differently from the other banks**: Wells Fargo was **7th most respected company in the world by Barron's, and described as "kindly, well-run neighborhood-oriented bank with only modest aspirations for the rough-and-tumble world of Wall Street investment banking"**. People loved that WF had respectable values and was far from the greedy Wall Street banks that caused the GFC to happen and wiped the savings of millions of regular people out.
- The perception of the bank got even better when, in 2009, **Warren Buffet** started investing in it and giving out quotes like this:

"It grows quarter by quarter. And what you make money off of, is customers...and not doing anything dumb. And that's what they do."

Wrap-up - Cross-Selling and M&A outcomes

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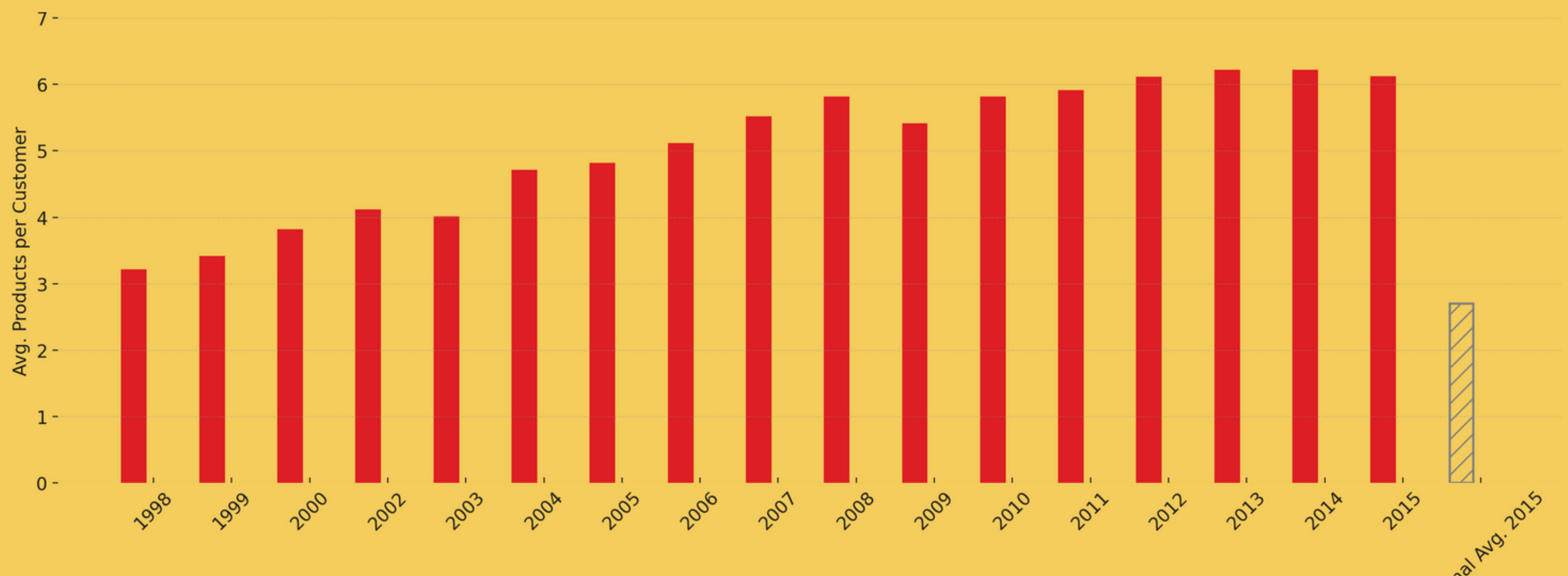
Financial Outcomes :

- 1st US bank by market capitalization and 3rd largest US bank by total assets.
- $86,1 bln in annual revenues (2015) growing YoY.
- $22,9 bln in annual net income (2015).
- The average products per customer went from 3,2 (1998) to 6,1 (2015) vs 2,7 of other banks.



Average numbers of product per retail banking customer at Wells Fargo

Reputational Outcomes :

- Known for fostering a strong customer-centric culture and very careful risk management.
- 7th Most Respected Company in 2015 by Barrons'
- Heavily invested in by Warren Buffet (around 9,5% of the company).

"...the most powerful expression of our heritage isn't in documents or artifacts or even our stagecoach. It is in any of the millions of relationships we have formed over generations with customers, team members, communities, and shareholders. Relationships define Wells Fargo. "

John G. Stumpf - Annual Report 2015

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If everything was going so well, how did Wells Fargo end up being fined for $185mln and having its CEO to resign in 2016 after being embroiled in massive fake/unauthorized accounts scandal?

Issue number 1: Corporate Culture

Sales-Driven Culture

- Executives treated branch banking like retail sales: **the more the better.**
- Corporate Culture imposed **cross-selling as a doctrine** rather than just a performance tool, often fixing **strict and unrealistic sales quotas** for branch tellers and private bankers, creating implicit approval for unethical behaviours as long as sales targets were met.
- Leadership popularized slogans like **"Eight is Great"**, effectively encouraging staff members to push for the 8 products per customer, when the industry average was around ⅓ of that. **Employees had to be pressing and persuading with customers** to reach this goal, because very often the additional products that they had to sell didn´t meet any real customer need at all.

Numbers over Values

- This **sales-centric mindset ended up overshadowing Wells Fargo's "customer-first" core principle.** Its customers noticed this, and they were not happy at all: a survey conducted by cg42 in 2011, 2013 and 2015 showed that, with respect to the other surveyed banks, **Wells Fargo's customers were feeling considerably more frustrated** about the sales insistence of their bank.

Issue number 2: Incentives

Constant Monitoring

- Not only the branch staff was required to meet daily sales quotas, but they were also **monitored and questioned** about that **multiple times a day**, meaning that branch workers never had any time to breathe.

Misaligned Rewards & Punitive Consequences

- The most important rewards like bonuses and promotions were **strictly tied to sales targets.**
- Missing the targets not only wouldn't allow employees to get any of the previously listed rewards, but **it could also lead to strong penalties**, making **workers fear for their entire job stability**.

Quantity over Quality

- Incentive structure emphasized **quantity of accounts opened rather than the quality or usefulness** of those accounts. For example, around 6% of all the issued credit cards weren't even active, but still contributed to charging fees to customers, and the same happened for deposit accounts.

All these implicit incentives encouraged some employees to cheat by using illegal ways to boost their sales.

Issue number 3: Leadership Behavior

Sales-First Mandate

- Leadership (CEO Stumpf) set an **aggressive sales-first tone** by relentlessly promoting the cross-selling vision and instilling the **“Eight is Great”** mantra as a company-wide priority.
- This approach signaled to all levels of the organization that **sales figures mattered more than ethics** or customer needs, strongly influencing staff behavior.

Ignoring Red Flags

- Leadership consistently **ignored growing evidence** of widespread misconduct within the organization.
- Despite being warned as early as the 2000s, Stumpf **denied any systemic issues**, refusing to believe the sales model was fundamentally flawed, while Carrie Tolstedt insisted the problems were caused by a few rogue **“bad apples.”**

Dismissing Internal Warnings

- Concerns raised by low-level leaders and whistleblowers about unrealistic sales goals and the unethical behavior they were fostering were **ignored by upper management.**
- Instead of acknowledging flaws in the incentive structure, Tolstedt placed the **blame on employees**, and the lack of leadership responsiveness allowed the high-pressure environment to persist.
- Leaders **failed to implement ethical safeguards** or **investigate root causes**, instead focusing on symptoms like firing employees — a response that allowed the toxic sales culture to persist for years.

Issue number 4: Employee Pressure

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Pressure Environment

- Employees were subjected to constant stress and **performance monitoring**, with managers demanding multiple sales updates per day — a relentless race to meet quotas that **created immense anxiety** across the workforce.

Extreme Competitiveness

- Daily and monthly “motivator reports” were used to rank every region, branch, and employee by their performance, **with scorecards that publicly highlighted** those falling behind, effectively shaming low performers.
- This constant surveillance severely damaged morale and **encouraged unhealthy behavior**.

Fear and Coercion

- Employees kept in line by fear of punishment, believing they will **lose their jobs** if they didn´t meet sales goals.
- Staff managers instructing tactics like opening duplicate accounts for customers who couldn´t manage their original account.
- Pressure leading to bankers **open unnecessary accounts** on family and friends or enrolling customers in products **without consent** as a direct response to the extreme demands.

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Wrap-up - Uncovering the Drivers Behind Wells Fargo's Sales Scandal

Multiple factors drove Misconduct

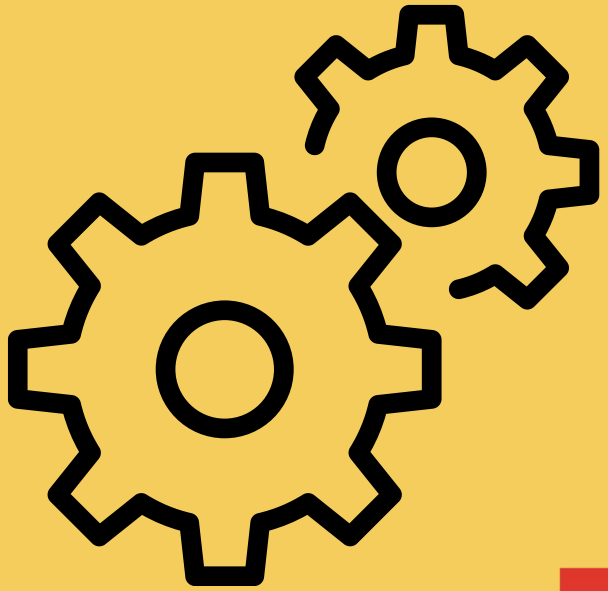
- A **toxic sales culture** that glorified cross-selling and ignored customer well-being.
- **Misaligned incentive systems** and unrealistically high sales goals that rewarded raw numbers over ethics.
- Leadership failures in setting a proper tone, **ignoring warning signals** and enforcing oversight.
- Extreme employee pressure and fear on the front lines, which made cheating seem like **the only option to keep one's job.**

"... Today's action should serve notice to the entire industry that financial incentive programs, if not monitored carefully, carry serious risks that can have serious legal consequences."

Richard Cordray, CFPB Director

Conclusion: Systematic failures and not individual Misbehavior

- not just "bad apples": The Wells Fargo scandal was rooted in systematic failure rather than isolated misbehavior of individual employees.
- While over 5.300 employees were fired for the improper sales, the real drivers were organizational - a **corrupted culture, wrong incentive systems, bad leadership behavior and a "pressure environment"** for employees.



Rebuilding Wells Fargo from Within

Reshape Corporate Culture

- Wells Fargo must **shift away** from a **sales-driven mindset** and build a culture grounded in **integrity**, **transparency**, and **long-term customer trust**.
- **Senior leadership** should consistently model **ethical behavior** and reinforce values through communication, policy, and visible action.
- Ethical principles must be embedded into hiring, training, evaluations, and everyday decision-making **across all departments**.

Reform Incentive Structures

- **Eliminate** aggressive **sales quotas** and tie employee goals to **KPI's** created based on **customer satisfaction**, **compliance**, and **quality of service**.
- Performance reviews should prioritize how well employees **meet real customer needs** over how many products they sell.
- Train managers to support, track, and **reward ethical, customer-focused behavior** across their entire teams.

Enhance Employee Training

- Provide regular, **scenario-based training** that emphasizes ethics, compliance, and putting the customer's interests first.
- Use **real-world examples**, including Wells Fargo's own failures as teaching tools to reinforce accountability.
- Make ethical education a **continuous**, evolving part of employee development, employees should continue to be educated on business **ethics throughout their Wells Fargo-careers**.

Strengthening Controls and Trust

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Reinforce Internal Controls

- Invest in **smart monitoring systems** that detect red flags or suspicious behavior early in the process.
- Create an independent **ethics committee** empowered to investigate, this committee should be **autonomous** with the **power to act** without any executive interference.
- Strengthen **whistleblower protections** and ensure employees feel safe, heard, and supported when speaking up.

Promote Accountability

- Hold **all leaders**, not just employees, accountable for building and maintaining **ethical workplace environments**.
- Evaluate managers on **ethical leadership**, transparency, and their response to team concerns or misconduct, hold team leaders **accountable for teams not adhering** to ethical standards.
- Shift from blaming individuals to **addressing system-wide failures** in leadership, policy, and oversight.

Rebuild Public Trust

- **Communicate transparently** with the public about reforms, setbacks, and progress toward meaningful change.
- Publish independent audit results and regular updates to demonstrate a **genuine commitment to reform**.
- Rebuilding **trust takes time**, but sustained ethical action, openness, and humility can **restore confidence**.

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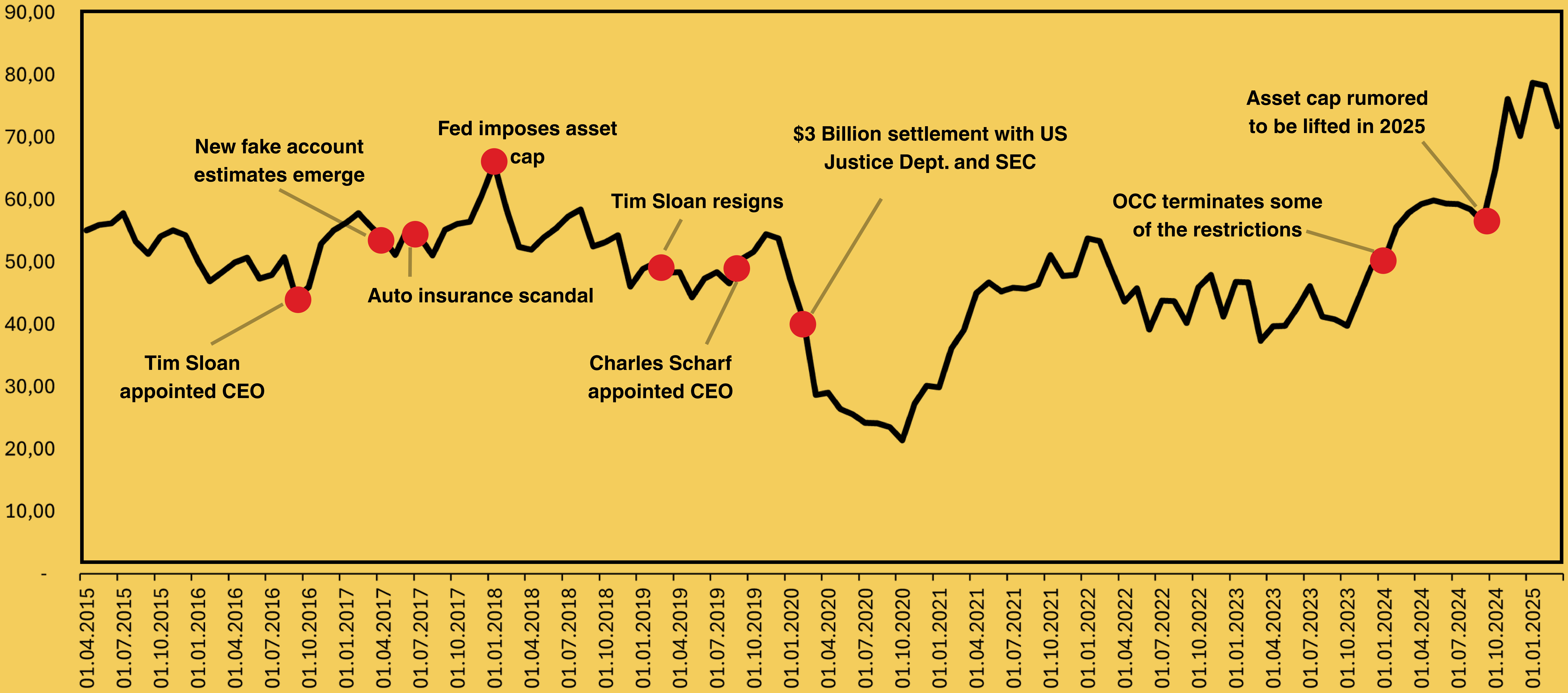
Wells Fargo stock price (USD)



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What actually happened under Tim Sloans leadership

Sloan took over leadership amid crisis (October 2016)

- *Main objective: stabilize the company and reassure regulators, employees, investors and the public*

  - Eliminated aggressive **sales goals**
  - **Customer remediation** programs
  - Internal **restructuring**
  - Employee and **culture focus**

However...

- New (old) problems continued to emerge.
- In 2018 The Fed imposed an **asset cap** on the company - pending satisfactory clean-up.
- Sloan failed to convince them of lifting this penalty and **resigned in March 2019.**

Conclusion

- Although Sloan made **meaningful efforts** to clean up, he came short of expectations.
- Wells Fargo needed a true outsider to “rebuild the ship”, while Sloan - a Wells Fargo-veteran - tried to “patch the hole” in a ship he **helped build.**
- His successor Charles Scharf has made improvements - but asset cap remains in effect.

THANKS FOR THE ATTENTION