INTRODUCTION

In recent years, more attention has been paid to corporate culture and “tone at the top,” and the impact that these have on organizational outcomes. While corporate leaders and outside observers contend that culture is a critical contributor to employee engagement, motivation, and performance, the nature of this relationship and the mechanisms for instilling the desired values in employee conduct is not well understood.

For example, a survey by Deloitte finds that 94 percent of executives believe that workplace culture is important to business success, and 62 percent believe that “clearly defined and communicated core values and beliefs” are important.1 Graham, Harvey, Popadak, and Rajgopal (2016) find evidence that governance practices and financial incentives can reinforce culture; however, they also find that incentives can work in opposition to culture, particularly when they “reward employees for achieving a metric without regard to the actions they took to achieve that metric.” According to a participant in their study, “People invariably will do what you pay them to do even when you’re saying something different.”

The tensions between corporate culture, financial incentives, and employee conduct is illustrated by the Wells Fargo cross-selling scandal.

WELLS FARGO

Wells Fargo has long had a reputation for sound management. The company used its financial strength to purchase Wachovia during the height of the financial crisis—forming what is now the third-largest bank in the country by assets—and emerged from the ensuing recession largely unscathed, with operating and stock price performance among the top of its peer group (see Exhibit 1). Fortune magazine praised Wells Fargo for “a history of avoiding the rest of the industry’s dumbest mistakes.”3 American Banker called Wells Fargo “the big bank least tarnished by the scandals and reputational crises.”4 In 2013, it named Chairman and CEO John Stumpf “Banker of the Year.”5 Carrie Tolstedt, who ran the company’s vast retail banking division, was named the “Most Powerful Woman in Banking.”6 In 2015, Wells Fargo ranked 7th on Barron’s list of “Most Respected Companies.”7

Wells Fargo’s success is built on a cultural and economic model that combines deep customer relations and an actively engaged sales culture. The company’s operating philosophy includes the following elements:

Vision and values. Wells Fargo’s vision is to “satisfy our customers’ needs, and help them succeed financially.” The company emphasizes that:

Our vision has nothing to do with transactions, pushing products, or getting bigger for the sake of bigness. It’s about building lifelong relationships one customer at a time. … We strive to be recognized by our stakeholders as setting the standard among the world’s great companies for integrity and principled performance. This is more than just doing the right thing. We also have to do it in the right way.8

The company takes these statements seriously. According to Stumpf, “[Our vision] is at the center of our culture, it’s important to our success, and frankly, it’s been probably the most significant contributor to our long-term performance.”9 “If I have any one job here, it’s keeper for the culture.”10

Cross-selling. The more products that a customer has with Wells Fargo, the more information the bank has on that customer, allowing for better decisions about credit, products, and pricing. Customers with multiple products are also significantly more profitable (see Exhibit 2). According to Stumpf:

To succeed at it [cross-selling], you have to do a thousand things right. It requires long-term persistence, significant investment in systems and training, proper team member incentives and recognition, [and] taking the time to understand your customers’ financial objectives.11

Conservative, stable management. Stumpf’s senior management team consists of 11 direct reports with an average
of 27 years of experience at Wells Fargo. Decisions are made collectively. According to former CEO Richard Kovacevich, “No single person has ever run Wells Fargo and no single person probably ever will. It’s a team game here.” Although the company maintains independent risk and oversight mechanisms, all senior leaders are responsible for ensuring that proper practices are embedded in their divisions:

The most important thing that we talk about inside the company right now is that the lever that we have to manage our reputation is to stick to our vision and values. If we are doing things for our customers that are the right things, then the company is going to be in very good shape. ... We always consider the reputational impact of the things that we do. There is no manager at Wells Fargo who is responsible for reputation risk. All of our business managers in all of our lines of business are responsible.

Wells Fargo has been listed among Gallup’s “Great Places to Work” for multiple years, with employee engagement scores in the top quintile of U.S. companies (see Exhibit 3).

CROSS-SELLING SCANDAL

In 2013, rumors circulated that Wells Fargo employees in Southern California were engaging in aggressive tactics to meet their daily cross-selling targets. According to the Los Angeles Times, approximately 30 employees were fired for opening new accounts and issuing debit or credit cards without customer knowledge, in some cases by forging signatures. “We found a breakdown in a small number of our team members,” a Wells Fargo spokesman stated. “Our team members do have goals. And sometimes they can be blinded by a goal.” According to another representative, “This is something we take very seriously. When we find lapses, we do something about it, including firing people.”

Some outside observers alleged that the bank’s practice of setting daily sales targets put excessive pressure on employees. Branch managers were assigned quotas for the number and types of products sold. If the branch did not hit its targets, the shortfall was added to the next day’s goals. Branch employees were provided financial incentive to meet cross-sell and customer-service targets, with personal bankers receiving bonuses up to 15 to 20 percent of their salary and tellers receiving up to 3 percent.

Tim Sloan, at the time chief financial officer of Wells Fargo, refuted criticism of the company’s sales system: “I’m not aware of any overbearing sales culture.” Wells Fargo had multiple controls in place to prevent abuse. Employee handbooks explicitly stated that “splitting a customer deposit and opening multiple accounts for the purpose of increasing potential incentive compensation is considered a sales integrity violation.” The company maintained an ethics program to instruct bank employees on spotting and addressing conflicts of interest. It also maintained a whistleblower hotline to notify senior management of violations. Furthermore, the senior management incentive system had protections consistent with best practices for minimizing risk, including bonuses tied to instilling the company’s vision and values in its culture, bonuses tied to risk management, prohibitions against hedging or pledging equity awards, hold-past retirement provisions for equity awards, and numerous triggers for clawbacks and recoupment of bonuses in cases where they were inappropriately earned (see Exhibit 4). Of note, cross-sales and products-per-household were not included as specific performance metrics in senior executive bonus calculations even though they were for branch-level employees.

In the end, these protections were not sufficient to stem a problem that proved to be more systemic and intractable than senior management realized. In September 2016, Wells Fargo announced that it would pay $185 million to settle a lawsuit filed by regulators and the city and county of Los Angeles, admitting that employees had opened as many as 2 million accounts without customer authorization over a five-year period. Although large, the fine was smaller than penalties paid by other financial institutions to settle crisis-era violations (see Exhibit 5). Wells Fargo stock price fell 2 percent on the news (see Exhibit 6). Richard Cordray, director of the Consumer Financial Protection Bureau, criticized the bank for failing to...

... monitor its program carefully, allowing thousands of employees to game the system and inflate their sales figures to meet their sales targets and claim higher bonuses under extreme pressure. Rather than put its customers first, Wells Fargo built and sustained a cross-selling program where the bank and many of its employees served themselves instead, violating the basic ethics of a banking institution including the key norm of trust.

A Wells Fargo spokesman responded that, “We never want products, including credit lines, to be opened without a customer’s consent and understanding. In rare situations when a customer tells us they did not request a product they have, our practice is to close it and refund any associated fees.” In a release, the banks said that, “Wells Fargo is committed to putting our customers’ interests first 100 percent of the time, and we regret and take responsibility for any instances where customers may have received a product that they did not request.”

The bank announced a number of actions and remedies, several of which had been put in place in preceding years. The company hired an independent consulting firm to review all
account openings since 2011 to identify potentially unauthorized accounts (see Exhibit 7). $2.6 million was refunded to customers for fees associated with those accounts. 5,300 employees were terminated over a five-year period.25 Carrie Tolstedt, who led the retail banking division, retired. Wells Fargo eliminated product sales goals and reconfigured branch-level incentives to emphasize customer service rather than cross-sell metrics.26 The company also developed new procedures for verifying account openings and introduced additional training and control mechanisms to prevent violations.27

Nevertheless, in subsequent weeks, senior management and the board of directors struggled to find a balance between recognizing the severity of the bank’s infractions, admitting fault, and convincing the public that the problem was contained. They emphasized that the practice of opening unauthorized accounts was confined to a small number of employees: “99 percent of the people were getting it right, 1 percent of people in community banking were not. … It was people trying to meet minimum goals to hang on to their jobs.”28 They also asserted that these actions were not indicative of the broader culture:

I want to make very clear that we never directed nor wanted our team members to provide products and services to customers that they did not want. That is not good for our customers and that is not good for our business. It is against everything we stand for as a company.29

If [employees] are not going to do the thing that we ask them to do—put customers first, honor our vision and values—I don’t want them here, I really don’t. … The 1 percent that did it wrong, who we fired, terminated, in no way reflects our culture nor reflects the great work the other vast majority of the people do. That’s a false narrative.30

They also pointed out that the financial impact to the customer and the bank was extremely limited. Of the 2 million potentially unauthorized accounts, only 115,000 incurred fees; those fees totaled $2.6 million, or an average of $25 per account, which the bank had refunded. Affected customers did not react negatively:

We've had very, very low volumes of customer reaction since that happened. ... We sent 115,000 letters out to people saying that you may have a product that you didn't want and here is the refund of any fees that you incurred as a result of it. And we got very little feedback from that as well.31

The practice also did not have a material impact on the company’s overall cross-sell ratios, increasing the reported metric by a maximum of 0.02 products per household.32 According to one executive, “The story line is worse than the economics at this point.”33

Nevertheless, although the financial impact was trivial, the reputational damage proved to be enormous. When CEO John Stumpf appeared before the U.S. Senate, the narrative of the scandal changed significantly. Senators criticized the company for perpetuating fraud on its customers, putting excessive pressure on low-level employees, and failing to hold senior management responsible (see Exhibit 8). In particular, they were sharply critical that the board of directors had not clawed back significant pay from John Stumpf or former retail banking head Carrie Tolstedt, who retired earlier in the summer with a pay package valued at $124.6 million.34 Senator Elizabeth Warren of Massachusetts told Stumpf:

You know, here’s what really gets me about this, Mr. Stumpf. If one of your tellers took a handful of $20 bills out of the cash drawer, they’d probably be looking at criminal charges for theft. They could end up in prison. But you squeezed your employees to the breaking point so they would cheat customers and you could drive up the value of your stock and put hundreds of millions of dollars in your own pocket. And when it all blew up, you kept your job, you kept your multimillion dollar bonuses, and you went on television to blame thousands of $12-an-hour employees who were just trying to meet cross-sell quotas that made you rich. This is about accountability. You should resign. You should give back the money that you took while this scam was going on, and you should be criminally investigated by both the Department of Justice and the Securities and Exchange Commission.35

Following the hearings, the board of directors announced that it hired external counsel Shearman & Sterling to conduct an independent investigation of the matter. Stumpf was asked to forfeit $41 million and Tolstedt $19 million in outstanding, unvested equity awards. It was one of the largest clawbacks of CEO pay in history and the largest of a financial institution. The board stipulated that additional clawbacks might occur. Neither executive would receive a bonus for 2016, and Stumpf agreed to forgo a salary while the investigation was underway.36

Two weeks later Stumpf resigned without explanation. He received no severance and reiterated a commitment not to sell shares during the investigation. The company announced that it would separate the chairman and CEO roles.37 Tim Sloan, chief operating officer, became CEO. Lead independent director Stephen Sanger became nonexecutive chairman; and Elizabeth Duke, director and former Federal Reserve governor, filled a newly created position as vice chairman.
The long-term impact on the bank was unclear. Customer visits to branches declined 10 percent year-over-year in the month following the scandal. Credit card and debit card applications also fell. Deposits and new checking accounts, however, continued to grow—albeit at below-historical rates. The senior management team promised more proactive outreach to customers and investors. Internally, the company placed greater emphasis on customer service and sought to clarify roles and responsibilities for risk management.

**WHY THIS MATTERS**

1. The Wells Fargo cross-selling scandal demonstrates the importance of financial incentives not just at the senior-management level but at all levels of an organization. Was the company wrong to provide incentives to branch-level employees to increase the number of products sold per household? Would the program have worked better if coupled with additional metrics? With closer monitoring and measurement?

2. Branch-level employees were incentivized to increase products per household but the senior-executive bonus system did not include this metric. Did this disconnect contribute to a failure to recognize the problem earlier? Did it lead to senior executive failure to monitor lower-level incentive structures?

3. The financial impact of the Wells Fargo cross-selling scandal was fairly limited but the reputational damage to the bank was massive. What systems should have been put in place to identify and escalate potential problems earlier? What steps should senior management and the board have taken immediately following the news to better contain the fallout?

4. Wells Fargo prides itself on its vision and values and culture. By several measures, these have been highly beneficial to the company’s performance. What is the best mix of incentives to reinforce these concepts across the company? How do you maximize the positive contribution that financial incentives make to culture while minimizing the potential negative outcomes that can occur?

5. Wells Fargo chose an inside executive as CEO successor to John Stumpf. Was this the correct decision? Are wholesale changes needed to the company, its culture, and its systems? Or is a seasoned company veteran better positioned to help Wells Fargo recover from the scandal?

---

5. Ibid.
6. Tolstedt was named to the list continuously from 2003 to 2015 and named number 1 in 2010. See Sara Lepro, “Wells’ Tolstedt at Top of Power List,” *American Banker* (Sep. 27, 2010).
8. Wells Fargo’s Vision & Values was written in booklet form in the early 1990s and is distributed to all employees. See Wells Fargo, “The Vision and Values of Wells Fargo,” (Accessed Nov. 1, 2016).
10. Maria Aspan, loc. cit.
15. There is some evidence that employees were discussing sale pressure on social media sites, such as Glassdoor, as far back as 2010; however, the frequency is modest (less than 10 percent of employee reviews). Research by the authors. For a discussion of the ability of social media to predict organizational risk, see David F. Larcker, Sarah M. Larcker, and Brian Tayan, "Monitoring Risks Before They Go Viral: Is It Time for the Board to Embrace Social Media," Stanford Closer Look Series (Apr. 5, 2012); "Josh Hardy and the #SaveJosh Army: How Corporate Risk Escalates and Accelerates Through Social Media," Stanford Closer Look Series (Apr. 14, 2014); and "Lululemon: A Sheer Debacle in Risk Management," Stanford Closer Look Series (Jun. 17, 2014).
18. Ibid.
21. The fine comprised of $100 million to the Consumer Financial Protection Bureau, $35 million to the Office of Comptroller of the Currency, and $50 million to the city and county of Los Angeles. In addition, the bank refunded customers for fees they incurred on these accounts. Accounts included deposit accounts, checking accounts, debit cards, and credit cards. The lawsuit was first filed in 2015, James Rufus Koren, "Wells Fargo to Pay $185 Million Settlement for ‘Outrageous’ Sales Culture," *Los Angeles Times* (Sep. 8, 2016).
25. This represented 1 percent per year of the approximately 100,000 Wells Fargo employees working in retail branches. 10 percent of the terminated employees were at the manager level or above. The review was subsequently expanded to include 2009 and 2010.
26. Emily Glazer “Can This Woman Save Wells Fargo’s Consumer Banking..."
The Wells Fargo Cross-Selling Scandal

27 Wells Fargo press release, (Sep. 8, 2016), loc. cit.
29 CEO John Stumpf in “Full Committee Hearing on ‘An Examination of Wells Fargo’s Unauthorized Accounts and the Regulatory Response,’” Federal News Service (Sep. 20, 2016).
31 CFO John Shrewsberry in “Wells Fargo’s (WFC) Management Presents at Barclays Global Financial Services Conference (Transcript),” loc. cit.
32 According to CEO Timothy Sloan, “Let me clarify that these accounts had a de minimis impact to the retail banking household cross-sell ratio that we report on a quarterly basis, with the maximum impact in any one quarter of 0.02 products per household or 0.3% of the reported metric. At no time were all of the identified accounts included in our reported cross-sell ratio because unused deposit accounts rolled off.” See “Wells Fargo & Company’s (WFC) CEO Timothy Sloan on Q3 2016 Results – Earnings Call Transcript,” Seeking Alpha (Oct. 14, 2016).
34 Note that the majority of this compensation represented equity-awards accrued over her 27-year tenure with the company and were subject to the company’s hold-past-retirement policy. See Exhibit 4 and Wells Fargo, Form 8-K (Jul. 12, 2016).
35 “Full Committee Hearing on ‘An Examination of Wells Fargo’s Unauthorized Accounts and the Regulatory Response,’” loc. cit.
38 “Wells Fargo & Company’s (WFC) CEO Timothy Sloan on Q3 2016 Results – Earnings Call Transcript,” loc. cit.

Brian Tayan is a researcher with the Corporate Governance Research Initiative at the Stanford Graduate School of Business and a member of the Rock Center for Corporate Governance at Stanford University. He is coauthor of the books Corporate Governance Matters and A Real Look at Real World Corporate Governance. He would like to thank Michelle E. Gutman for research assistance in the preparation of these materials.

The Stanford Closer Look Series is a collection of short case studies that explore topics, issues, and controversies in corporate governance and leadership. The Closer Look Series is published by the Corporate Governance Research Initiative at the Stanford Graduate School of Business and the Rock Center for Corporate Governance at Stanford University. For more information, visit: http://www.gsb.stanford.edu/cgri-research.
EXHIBIT 1 — WELLS FARGO: SELECTED PERFORMANCE METRICS

TOTAL SHAREHOLDER RETURN

As of March 21, 2016, rounded to the nearest percentage.

RELATION BETWEEN RETURNS AND VOLATILITY

Based on quarterly results, Q1 2009 through Q4 2015.
EXHIBIT 1 — CONTINUED

REVENUE GROWTH (2015 V. 2014)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Revenue Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wells Fargo</td>
<td>2.0%</td>
</tr>
<tr>
<td>US Bank</td>
<td>0.8%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>-1.0%</td>
</tr>
<tr>
<td>PNC</td>
<td>-1.0%</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>-2.1%</td>
</tr>
</tbody>
</table>

AVERAGE LOAN GROWTH (2015 V. 2014)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Loan Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP Morgan</td>
<td>7%</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>6%</td>
</tr>
<tr>
<td>US Bank</td>
<td>4%</td>
</tr>
<tr>
<td>PNC</td>
<td>3%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>-2%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>-5%</td>
</tr>
</tbody>
</table>

AVERAGE DEPOSIT GROWTH (2015 V. 2014)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Deposit Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNC</td>
<td>8%</td>
</tr>
<tr>
<td>US Bank</td>
<td>8%</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>7%</td>
</tr>
<tr>
<td>Bank of America</td>
<td>3%</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>2%</td>
</tr>
<tr>
<td>Citigroup</td>
<td>-5%</td>
</tr>
</tbody>
</table>

Sources: Wells Fargo, Investor Day (May 24, 2016); Wells Fargo, Credit Suisse Financial Services Forum (Feb. 9, 2016).
EXHIBIT 2 — WELLS FARGO: CROSS-SELLING METRICS

RELATION BETWEEN NUMBER OF PRODUCTS PER CUSTOMER AND FUTURE PURCHASES

Note: Shows the relationship between the number of products that a retail banking customer holds with Wells Fargo and the percentage of those customers who make an additional product purchase from Wells Fargo in the subsequent year.

RETAIL BANKING PROFIT PER CUSTOMER

EXHIBIT 3 — WELLS FARGO: EMPLOYEE ENGAGEMENT METRICS

EMPLOYEE ENGAGEMENT RATIO

Note: Engagement data from Gallup. Engagement ratio calculated as the ratio of engaged employees to actively disengaged employees.

## Exhibit 4 — Wells Fargo: Selected Executive Compensation Provisions

<table>
<thead>
<tr>
<th>Policy / Provision</th>
<th>Requirement / Trigger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Officer Stock Ownership Policy</td>
<td>Until one year following retirement, our executive officers must hold shares equal to at least 50% of the after-tax profit shares (assuming a 50% tax rate) acquired upon the exercise of options or vesting of RSRs [Restricted Share Rights] and Performance Shares, subject to a maximum requirement of ten times the executive officer’s cash salary.</td>
</tr>
<tr>
<td>Unearned Compensation Recoupment</td>
<td>Misconduct by an executive that contributes to the Company having to restate all or a significant portion of its financial statements.</td>
</tr>
<tr>
<td>Extended Clawback Policy</td>
<td>Incentive compensation was based on materially inaccurate financial information, whether or not the executive was responsible.</td>
</tr>
<tr>
<td>Performance-Based Vesting Conditions</td>
<td>Misconduct which has or might reasonably be expected to have reputational or other harm to the Company or any conduct that constitutes “cause.”</td>
</tr>
<tr>
<td></td>
<td>Misconduct or commission of a material error that causes or might be reasonably expected to cause significant financial or reputational harm to the Company or the executive’s business group.</td>
</tr>
<tr>
<td></td>
<td>Improper or grossly negligent failure, including in a supervisory capacity, to identify, escalate, monitor or manage in a timely manner and as reasonably expected, risks material to the Company or the executive’s business group.</td>
</tr>
<tr>
<td></td>
<td>The Company or the executive’s business group suffers a material downturn in financial performance or suffers a material failure of risk management.</td>
</tr>
</tbody>
</table>

Note: Edited slightly for length.

EXHIBIT 5 — SELECTED CRISIS-ERA BANK SETTLEMENTS

<table>
<thead>
<tr>
<th>Bank</th>
<th>Settlement ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>$16,650</td>
</tr>
<tr>
<td>JPMorgan</td>
<td>$13,000</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>$8,900</td>
</tr>
<tr>
<td>Citigroup</td>
<td>$7,000</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>$2,500</td>
</tr>
<tr>
<td>HSBC</td>
<td>$1,920</td>
</tr>
<tr>
<td>UBS</td>
<td>$1,530</td>
</tr>
<tr>
<td>Rabobank</td>
<td>$1,070</td>
</tr>
<tr>
<td>JPMorgan</td>
<td>$1,020</td>
</tr>
<tr>
<td>Deutsche</td>
<td>$985</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>$185</td>
</tr>
</tbody>
</table>

Note: Bank of America settlement for mortgage practices, JPMorgan for mortgages ($13 billion) and London Whale ($1.02 billion), BNP Paribas for violation of U.S. sanctions, Citigroup for mortgages, Credit Suisse for aiding tax fraud, HSBC for money laundering lapses, UBS for Libor manipulation, Rabobank for Libor manipulation, Deutsche for interest rate cartels, and Wells Fargo for opening unauthorized accounts.

EXHIBIT 6 — WELLS FARGO: STOCK PRICE

1. Settlement with Consumer Financial Protection Bureau announced.
2. Stumpf testifies before the U.S. Senate.
4. Stumpf resigns as CEO and is replaced by Sloan.

Note: Prices of the KBW Bank Index re-indexed to coincide with Wells Fargo stock price as of September 1, 2016.

Source: Yahoo! Finance.
“We recognize now, that we should have done more, sooner, to eliminate unethical conduct or incentives that may have unintentionally encouraged that conduct. We took many incremental steps, over the past five years in an attempt to address these situations. But we now know, those steps were not enough.

“In 2011, a dedicated team began to engage in proactive monitoring of data analytics, specifically for the purpose of rooting out sales practice violations. In 2012, we began reducing sales goals that team members would need to qualify for incentive compensation. In 2013, we created a new corporate-wide enterprise oversight for sales practices. In 2014, we further revised our incentives compensation plans, to align pay with ethical performance. In 2015, we added more enhancements to our training materials, further lowered goals, and began a series of town hall meetings to reinforce the importance of ethical leadership and always putting our customers first.

“Throughout this five-year period, we identified potential inappropriate sales practices. We investigated those and we took disciplinary actions that included terminations of managers and team members for sales policy violations, the 5,300 terminations over the five years that have been widely reported.

“Despite all of these efforts, we did not get it right. We should have realized much sooner that the best way to solve the problems in the retail banking business was to completely eliminate retail bank product sales goals. And one of the areas that we missed was the possibility that a customer could be charged fees in connection with accounts opened without their authorization. Because deposit accounts that are not used are automatically closed, we assumed this could not happen.

“We were wrong. And we took steps to refund fees that were charged and made changes so this could not happen again. In August 2015, we began working with a third-party consulting firm, PricewaterhouseCoopers, which conducted extensive large-scale data analysis of all 82 million deposit accounts, and nearly 11 million credit card accounts that we had opened from 2011 through 2015. Of the 93 million accounts reviewed, approximately two percent, 1.5 million deposit accounts and 565,000 consumer credit card accounts, were identified as accounts that may have been unauthorized. To be clear, PWC did not find these accounts had been unauthorized, but because it could not rule out the possibility, these accounts were further reviewed to determine if any fees had been charged.

“PWC calculated that approximately 115,000 of these accounts had incurred $2.6 million of fees, which have been refunded to those customers. Even one unauthorized account is one too many. This type of activity has no place in our culture. We are committed to getting it right 100 percent of the time, and when we fall short we accept responsibility and we will do everything we can to make it right by our customers.”

Source: “Full Committee Hearing on ‘An Examination of Wells Fargo’s Unauthorized Accounts and the Regulatory Response,’” Federal News Service (Sep. 20, 2016).
EXHIBIT 8 — U.S. SENATORS: SELECTED COMMENTS TO CEO JOHN STUMPF

Robert Menendez (D., NJ): “In the last week, you and your chief financial officer have taken to the press and laid the blame squarely on low-paid, retail bank employees. And while I don’t excuse what they did by any stretch of the imagination, I find that despicable…. You and your senior executives created an environment in which this culture of deception and deceit thrive.”

Joe Donnelly (D., IN): “It’s not a square deal when the people that are fired are the tellers who make 15 bucks [an hour], and the senior execs walk off with $100 million.”

Sherrod Brown (D., OH): “Wells Fargo team members struggling to support a family on $12 to $15 an hour followed their manager’s guidance to do whatever it took to make their quotas. Some may have worked off the clock. Others cut corners to avoid being fired, for missing goals, goals that Wells now admits were too high. … 5,300 team members earning perhaps $25,000, $30,000, $35,000 a year have lost their jobs while Ms. Tolstedt walks away with up to $120 million.”

Pat Toomey (R., PA): “This isn’t cross-selling. This is fraud.”

Jeff Merkley (D., OR): “A pressure culture situation, putting tellers and personal bankers in an impossible situation.”

Elizabeth Warren (D., MA): “Since this massive, years-long scam came to light, you have said repeatedly, ‘I am accountable.’ But what have you actually done to hold yourself accountable? Have you resigned as CEO or chairman of Wells Fargo? … Have you returned one nickel of the millions of dollars that you were paid while this scam was going on? … Have you fired a single senior executive? … Instead, evidently your definition of accountable is to push the blame to your low-level employees who don’t have the money for a fancy PR firm to defend themselves. It’s gutless leadership.”

Heidi Heitkamp (D., ND): “This is a behavior that was created by the culture, that was allowed. … What we’ve now lost has been trust… between this committee and large financial institutions.”

Source: “Full Committee Hearing on ‘An Examination of Wells Fargo’s Unauthorized Accounts and the Regulatory Response,’” Federal News Service (Sep. 20, 2016).