Fraudulent Account Crisis Case Study

WELLS FARGO

Kalista Mitrisin

Beth Michalec

Pennsylvania State University

Index:

Introduction:

Case Overview

Wells Fargo & Co. is recognized as one of the nation's largest banks. The company has prided itself over its diversified, community-based financial services. However, on September 8th 2016, Wells Fargo was fined $185 million by the Consumer Financial Protection Bureau (CFPB). This came after an audit detailed that the company created over 3.5 million fraudulent accounts under consumers' names without their consent over the course of several years. After further investigation, it was found that performance management and incentive programs created a high-pressure in the Community Bank, driving inappropriate behaviors which decentralized the company's values. Wells Fargo reached a settlement of $3 billion with federal prosecutors and the Securities and Exchange Commission in February of 2020. The settlement was made after its long-running civil and criminal examinations into the accusations made on fraudulent sales practices.

Organizational Profile

Background

Founded in 1852, Wells Fargo is headquartered in San Francisco. The company currently holds $1.97 trillion in assets, and engages in the assistance and provision of banking insurance, investments, mortgage, along with consumer and commercial finance. The firm operates through segments including Community Banking, Wholesale Banking, Wealth & Investment Management, and Other. Wells Fargo serves around 70 million customers across the country, with an employee base more than 266,000. It describes it business as one aimed at "helping customers succeed financially" (MSA, 2020).

Since news hit the public in September of 2016, Wells Fargo has received considerable amounts of widespread publicity. From social media to the world's largest news sources, many external sources gained information to speak upon the issues raised. A Bloomberg report published in May of 2020 outlined an Asset Cap Drag which showed Wells Fargo well behind competitors. Since early 2018, it shows Wells Fargo's decline in market capitalization. When the Fed announced a cap on its assets, we soon saw a shift. The company has lost a total of $220.1 billion in total market value. (Levitt, 2020). Not only did these uncontrolled platforms have the ability to deliberately exploit organizational information, they had power to form opinion and belief through evidence, perception, and observed company culture.

Crisis Oversight

Case Significance

The alleged misconduct on Wells Fargo was released after the Consumer Financial Protection Bureau (CFPB), the Los Angeles City Attorney and the Office of Comptroller of the Currency (OCC) fined the bank on accounts of wrongful business practices. An internal investigation into the corporation found that employees were creating fraudulent checking and savings accounts by moving money out of existing accounts and into new ones. From as early as 2002 to 2016, millions of accounts in customers' names were opened without their consent. Lower-level employees took part in signing account holders up for credit cards and bill payments. To do so, company employees were creating fake personal identification numbers, and forging signatures in order to transfer customer finances. A case study examining Wells Fargo's corporate governance found that among the fake accounts, 1,534,280 deposit accounts may have been opened without consent of consumers. (Tayan, 2019). Between 2011 and 2016 it was found that the company created 2 million additional fraudulent credit cards and fees accounts for pre-existing customers. It was estimated that around 3.5 million accounts could have been made without customers' permission. From 2011 through 2016, the bank fired 5,300 employees for sales misconduct, but more than 8,500 for performance issues. In addition to the terminations, four former corporate executives were charged a total of $90 million.

Immediate Issues

When sources of media brought the company's fraudulent account scandal into the public eye in 2016, the relationship and trust built between stakeholders was taunted, as sources exposed the corporation. The impact of its fraudulent account dealings affected copious amounts of primary stakeholder groups. Directly affected, authorized investigations have led to the discovery that as many as 3.5 million accounts could have been opened without customers' permission. Reports and remarks from government officials and trusted news sources nationwide covered the company scandal as information was evaluated, investigated, and released. Not only did this blatantly bring the company's unethical principle and poor leadership to light, it set framework into the scope and size of the occurrence, and those affected. The company received a great deal of publicity, which caught the attention of numerous Members of Congress, including Senator Warren. John Stumpf, who at the time, was both CEO of WFC and Chairman of its Board of Directors, got called to testify in September 2016 before the Senate Banking Committee and the House Financial Services Committee. Warren accused Stumpf of "gutless leadership". This was drawn after the firing of lower-level employees instead of higher paid executives, who had ultimate control and leadership over the corporation. The investigations, press releases, and corporation information that was released and seen in the eyes of the public had created perceptions and opinions in the eyes of the public. The internal crisis that stemmed from inability to facilitate effective business practice and communication among stakeholder relations soon gave insight into Wells Fargo's true corporate culture. In an attempt to recover its brand, corporate executives accused the problem in stemming from lower level management issues.

Arising Problems

Wells Fargo has lost $220 billion in market value since the Federal Reserve imposed a cap on the firm's assets in 2018, according to Bloomberg reports. Increased scrutiny and loss of revenues at the bank forced limited spending and minimal expansion. This has caused significant delay in total shareholder return. In part, the decrease in market capitalization fell through inability to communicate with key stakeholders in a timely, transparent manner. Their lack of responsibility, timely deliverance, and corporate governance left secondary stakeholders with lack of trust and incentive. A survey conducted by management consultancy cg42 found that positive perceptions of the company fell to 24% post-scandal from 60%. Non-Wells Fargo customers surveyed over 50% were unlikely to join the bank, compared with 22% previously. (Egan, 2016). A series of investigations, market trends, and statements has led to deeper understanding among the company's crisis. Wells Fargo has continued to experience the fallout of the account scandal. The inability to address public concerns in a timely manner made effects it faced increasingly worse. Its corporate crisis proved more than a series of fraudulent account dealings, and reflected internal issues that would carry forth through the company.

Information Summary

- On September 8th 2016, Wells Fargo was fined $185 million by the Consumer Financial Protection Bureau (CFPB). This came after an audit detailed that it created over 3.5 million accounts over the course of several years (Egan, 2020).
- The CFPB's consent order states: [WFBNA'S] employees engaged in "simulated funding." Following superficial incentives made by its executives, employees of Wells

Fargo took part in the act of opening deposit accounts without consumers' authorized consent (Tayan, 2019).

- September 13th, 2016, the bank announced it is ending its employee sales goals program.
- The House of Representatives' Financial Service Committee's investigation found that former executive Carrie Tolstedt received a $125 million-dollar payout when she stepped down in July 2020 (Kelly, 2020).
- John Stumpf testified to Senate Banking Committee on September 20th, 2016.
- Ronald Mitrisin, a customer of Wells Fargo, participated in an in-person interview. He was personally affected by the company's misperceptions. Entering the bank like any normal day to deposit a check, Mr. Mitrisin was approached by a teller about a "new credit card special". He expressed his disinterest in the new credit option. Persisting, the teller began to detail the new deal it was offering. Finally, Mr. Mitrisin agreed to sign up for the credit card. Arriving home, he carefully read through terms, policies, and interest owed on the credit card. Upon further review of the policy, Mr. Mitrisin believed the deal to be a hoax, as a lure to boost revenue and company quota. He cancelled the account the very next day.
- News sources nationwide covered the company scandal as information was evaluated, investigated, and released. Not only did this blatantly bring the company's unethical principle and poor leadership to light, it set framework into the scope and size of the occurrence, and those affected.
- U.S. Attorney Nick Hannah for the Central District of California publicly interpreted the company's actions as a "trade in its hard-earned reputation for short-term profits" (Franck, 2020).

- Separated the roles of Board Chair and CEO, elected an independent Board Chair, and appointed Tim Sloan as CEO
- Board conducted a comprehensive, third-party-facilitated self-evaluation focused on composition, performance, effectiveness and reporting
- A business report was put together by the Wells Fargo Corporation in December of 2018.
- CNBC report stated on January of 2020 that the U.S. government announced former Wells Fargo ex-CEO John Stumpf as barred from working with any banking company (Franck, 2020).
- Other executives are facing similar charges, and are fighting allegations.
- Charles Scharf was appointed in October of 2019 as CEO
- A Bloomberg report published in May of 2020 outlined the company lost a total of $220.1 billion in total market value. (Levitt, 2020)

Current Programming/Implementation

The Wells Fargo corporation put together a Business Report in December of 2018 (MASE, 2020). The corporation addresses the settlements made with Consumer Financial Protection Bureau (CFPB), the Office of the Comptroller of the Currency (OCC), and the Office of the Los Angeles City Attorney over unacceptable banking sales practices which impacted millions of customers. The report highlighted significant changes made among its corporate culture. The *2018 Wells Fargo Business Report* states that a key part of its work has involved "reviewing our businesses, functions, and practices; identifying the root causes of issues; making changes were needed; and – importantly – remediating customers for financial harm." The company goes into detail on identifying issues, describing culture and goals, corporate governance, commitment to customers, and other key aspects in improving corporate culture.

Solutions

Leadership

Much of Wells Fargo's decline in consumer report and overall market share is due to their inability to properly facilitate business relations. After running through a series of CEOs once the account scandal broke out, it has not been able to find a sustainable and efficient leadership momentum to pick the company back up. With many appointments made in-house, the company must adopt a diverse leadership force with better scope on internal relations, external relations, and ethical business practice. While this solution would cost several executive members their jobs, the implementation is necessary to redefine corporate values.

Corporate Governance

With practice in place, the Wells Fargo's 2018 Business Report has not changed corporate fallings significantly. In order to better amend company performance and reputation, changes must be made in the corporate governance framework. Adopting a strategic organizational structure and performance plan carried through by a newly appointed Governance and Monitoring Committee will advance the adaptation of effective communication and business practices. Restructuring corporate governance would call for revision of existing guidelines, as well as a shift in committee participants. Although this would change pre-existing membership, it's necessary to ensure Wells Fargo facilitates ethical and effective executive advisory.

Corporate Culture

Internal research must be thoroughly conducted among the internal corporate environment. By collecting team member feedback, analyzing current strategy and stakeholder feedback, and implementing redefined companywide culture, it can align true value and foster consistent value and belief. Restructuring corporate culture will call for the company to redefine its purpose and vision. A series of strategic planning must be made in redeveloping the implementation in a way that allows the corporation to foster culture consistently throughout the corporation. Redesign, redevelopment, and strategic communication must play a role in implementing new values and beliefs among key stakeholders. Although the process requires considerable evaluation, redevelopment, and marketing tactic, it will create new public perception.

Stakeholder Relationship

Wells Fargo must work in an effort to regain and rebuild trust among key stakeholders. The corporation should implement a strategic action plan which will work towards gaining consumer perception, evaluating stakeholder outreach, and redirecting communication and relation between the corporation and its stakeholders. It must first analyze the current viewpoints and relationships held with stakeholders. From consumers, shareholders, and employees, Wells Fargo must gain better perception on its reputation. Through a series of surveys and stakeholder feedback requests, it can gain more understanding. While this plan will call for the corporation to take time and effort into reaching stakeholders and gaining feedback, it’s necessary to understand current stakeholder relationships. After assessing consumer reports, it can implement a stakeholder relations plan, governing effective ways to communicate and maintain relationships with key stakeholders.

Recommendations

In order for Wells Fargo to see effective change in market share, consumer outreach, and reputational standpoint, significant and dynamic change must be made within the corporation. Above all, it must build from the ground up, and redirect their business approach. Changes in senior leadership are necessary to properly facilitate new company outlook. Wells Fargo should devise a strategical plan to implement new leadership by Fall of 2021. After organizing and developing a new team of senior executives to take leadership, the company can begin to devise public press releases highlighting change in leadership and company vision. Change in corporate governance will also draw an effort towards employee relation. In addition to providing framework on the role of the Board and company, guidelines should be restructured and reinforced among membership criteria, resignation policies, voting standard, management succession plan, and leadership structure. The importance of assembling a qualified Corporate Governance Committee is crucial in the effective measures of change and adaptation. Wells Fargo must change terms of guidelines to fit a changing and evolving culture. A companywide vote should be held annually to elect committee members following restructured guidelines. The corporation should aim towards restructuring guidelines before the Fall of 2021. Then, it can introduce companywide committee vote with senior leadership change in Fall of 2021. Changing overall leadership and corporate governance will help facilitate what Wells Fargo was previously unable to do; effectively implement change within the corporation.

Monitor and Control

Leadership

Changing executive leadership is a significant change among corporate culture. The new leadership approach will call for observation among business performance and stakeholder feedback. By implementing a stakeholder outreach hotline, stakeholders both internally, and externally can share remarks on appointed officers. Extensive review on the company’s leadership change will also be monitored through data collection. An analysis should be made every six months. The analysis will combine stakeholder feedback, current market share trends, and effective approaches made within company relations.

Corporate Governance

To obtain feedback on the effectivity of change among corporate governance, a series of data collection tactics should be utilized. By tracking active employee participation in annual voting, stakeholder feedback among committee tactic, and overall performance trends with appointed committee, the company can analyze overall effectiveness.

References

Armstrong, R. (2019, January 14). Wells Fargo: Repairing a damaged brand . Retrieved from https://www.ft.com/content/b858da70-1418-11e9-a581-4ff78404524e

Cheslow, D. (2019, March 12). CEO Says Wells Fargo Has Transformed After Scandals; Lawmakers Are Skeptical. Retrieved from https://www.npr.org/2019/03/12/702501160/ceo-says-wells-fargo-has-transformed-after-scandals-lawmakers-are-skeptical

Column: That Wells Fargo accounts scandal was even worse than you can imagine. (2020, January 27). Retrieved from https://www.latimes.com/business/story/2020-01-27/wells-fargo-scandal

Colvin, G. (2017, June 11). Inside Wells Fargo's Plan to Fix Its Culture Post-Scandal. Retrieved from https://fortune.com/2017/06/11/wells-fargo-scandal-culture/

Duggan, W. (2016, September 14). Wells Fargo Blasted On Social Media Following Fraud Settlement. Retrieved from https://www.benzinga.com/fintech/16/09/8457355/wells-fargo-blasted-on-social-media-following-fraud-settlement

Egan, M. (2016, July 15). Wells Fargo is a hot mess. It has only itself to blame. Retrieved from https://www.cnn.com/2020/07/15/investing/wells-fargo-bank-dividend/index.html

Flitter, E., & Cowley, S. (2019, March 09). Wells Fargo Says Its Culture Has Changed. Some Employees Disagree. Retrieved from https://www.nytimes.com/2019/03/09/business/wells-fargo-sales-culture.html

Franck. (2020, February 21). Wells Fargo to pay $3 billion in settling criminal and civil investigations into its fraudulent sales practices. Retrieved October 27, 2020, from https://www.cnbc.com/2020/02/21/wells-fargo-to-pay-3-billion-in-setting-criminal-and-civil-investigations-into-its-fraudulent-sales-practices.html

Kelly, J. (2020, February 24). Wells Fargo Forced To Pay $3 Billion For The Bank's Fake Account Scandal. Retrieved from https://www.forbes.com/sites/jackkelly/2020/02/24/wells-fargo-forced-to-pay-3-billion-for-the-banks-fake-account-scandal/

Kelly, J. (2020, January 07). Former Wells Fargo Executives Could Face Serious Criminal Charges. Retrieved from https://www.forbes.com/sites/jackkelly/2020/01/07/former-wells-fargo-executives-could-face-serious-criminal-charges/

Levitt, H. (2020, May 15). Wells Fargo Has Lost $220 Billion in Market Value Under Fed Cap. Retrieved from https://www.bloomberg.com/news/articles/2020-05-15/wells-fargo-has-lost-220-billion-in-market-value-under-fed-cap

McCallister, D. (2016, September 20). Wells Fargo CEO Discusses Secret-Accounts Scandal In Senate Hearing. Retrieved from https://www.npr.org/sections/thetwo-way/2016/09/20/494680201/wells-fargo-ceo-to-address-accounts-scandal-before-senate-panel

McFarlane, G. (2020, August 28). How Wells Fargo Became One of America's Biggest Banks. Retrieved from https://www.investopedia.com/articles/markets/093014/how-wells-fargo-became-biggest-bank-america.asp

McLean, B. (n.d.). How Wells Fargo's Cutthroat Corporate Culture Allegedly Drove Bankers to Fraud. Retrieved October, from https://www.vanityfair.com/news/2017/05/wells-fargo-corporate-culture-fraud

Msa. (2020, June 11). Wells Fargo Mission Statement 2020: Wells Fargo Mission & Vision Analysis. Retrieved from https://mission-statement.com/wells-fargo/

ONeil, E. (n.d.). The History of Wells Fargo, One of America's Biggest Banks. Retrieved from https://www.thebalance.com/wells-fargo-from-stage-coaches-to-modern-banking-315117

Tayan, B. (2019, February 06). The Wells Fargo Cross-Selling Scandal. Retrieved from https://corpgov.law.harvard.edu/2019/02/06/the-wells-fargo-cross-selling-scandal-2/

Timeline: Wells Fargo Accounts Scandal. (n.d.). Retrieved from https://abcnews.go.com/Business/timeline-wells-fargo-accounts-scandal/story?id=42231128W. (

W. (n.d.). Wells Fargo Media (Rep.). Retrieved https://www08.wellsfargomedia.com/assets/pdf/about/corporate/business-standards-report.pdf

Wells Fargo & Company - Company Profile, Information, Business Description, History, Background Information on Wells Fargo & Company. (n.d.). Retrieved from https://www.referenceforbusiness.com/history2/69/Wells-Fargo-Company.html

Wells Fargo Mission Statement 2020: Wells Fargo Mission & Vision Analysis. (2020, June 11). Retrieved from https://mission-statement.com/wells-fargo/

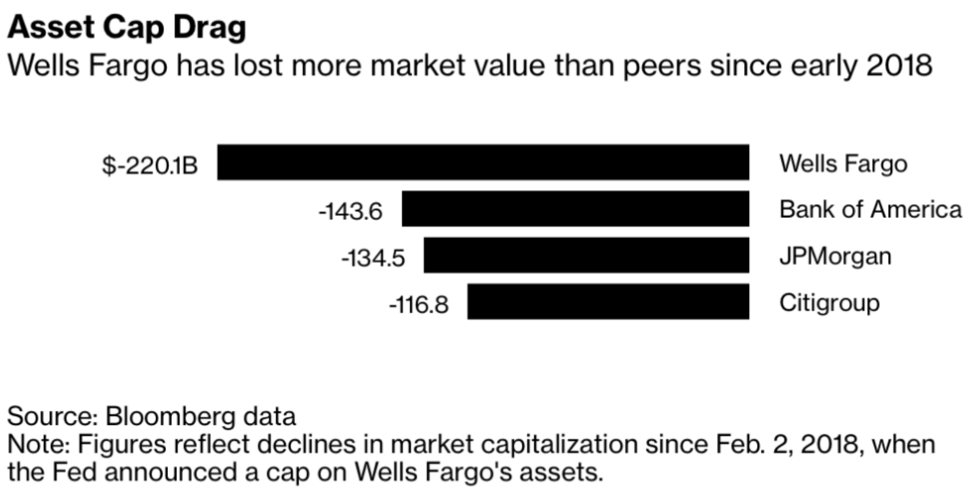
Wells Fargo Total Assets 2006-2020: WFC. (n.d.). Retrieved from https://www.macrotrends.net/stocks/charts/WFC/wells-fargo/total-assets

Wells Fargo: More Than 3M Possibly Fake Accounts Created. (n.d.). Retrieved from https://www.usnews.com/news/national-news/articles/2017-08-31/wells-fargo-estimates-35-million-accounts-impacted-by-scandal

WFC. (n.d.). Retrieved from https://money.cnn.com/quote/profile/profile.html?symb=WFC

Appendix A:

Bloomsberg Report on Total Los of Market Value



Source: https://www.bloomberg.com/news/articles/2020-05-15/wells-fargo-has-lost-220-billion-in-market-value-under-fed-cap

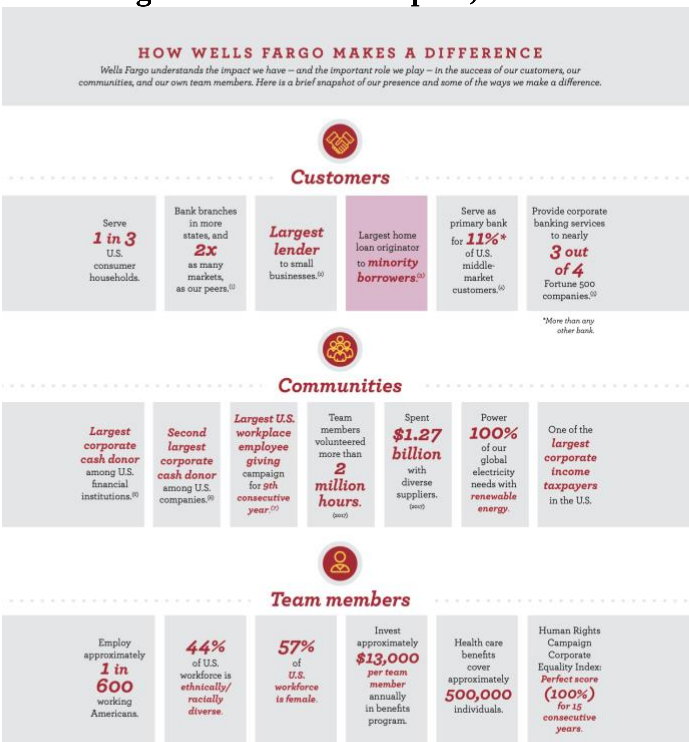
Appendix B:

Consultancy cg42 Found that Positive Perception Rates Fell

Source: https://money.cnn.com/2016/10/24/investing/wells-fargo-fake-accounts-angry-customers/index.html

Appendix C:

Wells Fargo 2018 Business Report, Stakeholder Reach



Sources: https://www08.wellsfargomedia.com/assets/pdf/about/corporate/business-standards-report.pdf