IMPACT ON INTEGRITY

# WELLS FARGO - LESSONS LEARNED

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**In the wake of the Wells Fargo fake accounts scandal, numerous questions remain to be answered about the role of governance, risk management and compliance at the bank.**

The Wells Fargo scandal made the headlines in both the mainstream and specialist press last year. As the furore surrounding the case has begun to recede, now is a good time to reflect on some of the deep-rooted, core failures that allowed these fraudulent actions to fester for around 10 years.

According to news reports the problems at Wells Fargo arose because the bank's sales targets and employee bonus structure were tied to the number of accounts staff were able to open, and executives would set unattainable sales targets. Put simply, corporate executives were turning a blind eye to fraudulent activity because they were making money. As many former employees have suggested, it was a common practice known throughout Wells Fargo, to push sales (accounts) to meet the goals set by executives and get compensated for it.[1]

However, what is not clear is exactly when the core principle of "doing good ethical business" at Wells Fargo was compromised and replaced with an apparent drive for profit maximisation at the expense of clients' best interests. Questions have been asked, such as *"how did this happen?", "why did this happen?"*, and *"who is responsible?"* Yes, the former CEO, John G Stumpt, took the overall blame but over 5,300 employees were fired[2] for doing what they were pushed to do by his executives.

Moreover, how did Wells Fargo's internal control functions – such as its whistleblowing programme and its governance, risk management and compliance functions – fail to expose the bank's illegal sales practices for 10 years?

## The need for governance

Good governance is essential for any business to function, especially for financial institutions such as Wells Fargo, which must operate within strict regulatory guidelines. Having a well-structured governance programme within the organisation will enhance the ability to identify infractions before they become widespread, potentially affecting the culture of the organisation. Looking from the outside in, where was Wells Fargo's corporate governance? Why did the bank's fraud issue last so long? How did it cover the problem up? And why did 5,300 employees lose their jobs?

Wells Fargo failed on this very basic issue of governance, lacking the ability to regulate itself and to protect those employees who looked beyond the unethical business practices and

*(continued overleaf)*

reported to the proper internal authorities. Multiple open source reports[3] stated that, as early as 2007, or even earlier, several employees had attempted to report these fraudulent infractions only to be later fired or forced to quit. These violations were not isolated events, but were committed across the entire branch network. Moreover, it is likely the corruption reached the executive level of management, which in turn had an overwhelming influence on how human resources and the local and regional compliance management handled the reporting and overlooked the fraudulent practices for personal or professional gain.

## Risk management

Risk management is another important aspect of compliance. In my view, Wells Fargo´s executive management encouraged the fraudulent and unethical behaviours in order to meet financial goals. If this were an isolated case within a single branch, then one could assume that that particular branch had played the odds of financial gains over the risk involved in committing fraud. However, this was not the case, and the practice lasted for at least ten years.

Again, from the outside looking in, it appears that Wells Fargo's overall business culture was one of "profit before risk", with sales staff crossing the line between ethical and unethical behaviour, driven by the search for profit with little regard to the ramifications of being caught. Again, we must return to the basic questions: where were the internal risk management checks and balances? What were compliance doing for the ten years that these activities were occurring? Why was there no risk management oversight when unethical, fraudulent behaviours became "normal" business culture in Wells Fargo's executive strategic planning and goal projection?

*This article was originally published in the International Compliance Association's inCompliance magazine under the title 'Rotten to the Core'.*

## Corruption within compliance?

Compliance with regulatory guidelines is a crucial element in any corporation. Wells Fargo is a prime example of the failure to implement stringent internal guidelines and to function within the boundaries outlined by the regulations. Clearly, without such regulations, some corporations remain unable to police themselves and to refrain from crossing the line between ethical and unethical behaviours as profit drives their strategic planning and target goals.

Applying any regulatory rules requires a corporation to have a well-established compliance division within its infrastructure, which is well-defined and populated by compliance professionals who are above personal corruption. Again, one has to ask, "how did Wells Fargo end up in this situation"? Was there corruption within the bank's compliance division? If so, for how long and how did it get corrupted?

The questions are many. The answers, as yet, have proved elusive.

## References

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