



Subject: RM & IM 1

Chapter: UNIT 2

Category: CASE STUDY

Cross-Selling at Wells Fargo

Wells Fargo is a bank that survived the 2007–2008 crisis well. It avoided the risks taken by other banks during the period leading up to the crisis and gained a reputation for stability. Unfortunately, subsequent events tarnished its reputation and led to a loss of trust from potential clients.

Cross-selling involves attempting to sell multiple products to clients. A client with a checking account might be encouraged to take out a credit card or open a savings account. Wells Fargo was considered to be one of the best banks at cross-selling, and indeed there is nothing wrong with cross-selling. But if it is carried out too aggressively it can be bad for a bank's reputation and even be fraudulent.

Wells Fargo considered branch employees to be "salespeople" and clients to be "customers." Branch personnel were given very aggressive quotas for the number of products they were expected to sell to clients, and they were under a huge amount of pressure. As a result, they ordered credit cards for clients without the clients' consent. They also created checking and savings accounts for clients who had not asked for them. In many cases, these activities led to clients paying additional fees to the bank. Quotas were sometimes even satisfied by enrolling homeless people in fee-accruing products, even though they would almost certainly fail to make payments as they became due.

Wells Fargo's dysfunctional sales culture was first documented by the Wall Street Journal in 2011 and further described in an article in the Los Angeles Times in 2013. Some reforms were then made, but the bank was fined \$185 million in September 2016 for creating more than 1.5 million unauthorized deposit accounts and over 0.5 million unauthorized credit-card accounts between 2011 and 2016. Later estimates in May 2017 suggested that the number of unauthorized accounts was higher than this, closer to 3.5 million in total.

Senior executives claimed that they were unaware of what was going on as a result of the company's pressure-cooker sales culture. This seems unlikely given that employees made calls to the company's ethics hotline and complaints from customers had to be dealt with. The bank fired 5,300 employees between 2011 and 2016 as a result of the fraudulent sales practices. The CEO, John Stumpf, agreed to forgo \$41 million in stock options and resigned in October 2016. Later, \$28 million of his earnings were clawed back. Other executives also lost earnings. The bank paid \$110 million to clients who had accounts opened without their permission. Investigations were commenced by the Senate Banking Committee, the Securities and Exchange Commission, and prosecutors in a number of jurisdictions.

Clearly, the aggressive sales culture at Wells Fargo was misguided. It alienated employees, many of whom were under unreasonable stress and found it difficult to find new jobs when they were fired. It also destroyed the trust and good reputation that Wells Fargo had built up with its clients over many years.

If Wells Fargo's risk appetite had included a desire to avoid doing activities that could adversely affect its reputation, it would surely have reduced the sales pressure and emphasized the importance of developing good long-term relationships with clients.

Wells Fargo took steps to change its sales culture under a new CEO in late 2016. It stopped the practice of giving employees sales quotas. Some employees who had been fired were rehired. It will take time for the bank's relationships with employees and clients to recover, but Wells Fargo is a financially strong bank and we can expect that it will eventually bounce back.



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