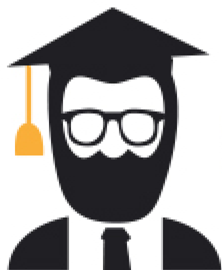

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http://www.chicagotribune.com/business/ct-wells-fargo-fake-account-scandal-20160909-story.html

Opinion:

Wells Fargo scandal looks like a vast uprising of disgruntled employees

Matt Levine, Chicago Tribune, Sept. 10, 2016

Two basic principles of management, and regulation, and life, are:

- You get what you measure.
- The thing that you measure will get gamed.

Really that's just one principle: You get what you measure, but only exactly what you measure. There's no guarantee that you'll get the more general good thing that you thought you were approximately measuring. If you want hard workers and measure hours worked, you'll get a lot of workers surfing the internet until midnight.

If you want low banking bonuses and measure bonus-to-base-salary ratios, you'll get high base salaries. Measurement is sort of an evil genie: It grants your wishes, but it takes them just a bit too literally.

Anyway, Thursday Wells Fargo was fined $185 million by various regulators for opening customer accounts without the customers' permission, and that is bad, but there is also something almost heroic about it.

There's a standard story in most bank scandals, in which small groups of highly paid traders gleefully and ungrammatically conspire to rip-off customers and make a lot of money for themselves and their bank.

This isn't that. This looks more like a vast uprising of low-paid and ill-treated Wells Fargo employees against their bosses. The Consumer Financial Protection Bureau, which fined Wells Fargo $100 million, reports that about 5,300 employees have been fired for signing customers up for fake accounts since 2011.

Five thousand three hundred employees! You'd have a tough time organizing 5,300 people into a conspiracy, which makes me think that this was less a conspiracy and more a spontaneous revolt.

The Los Angeles City Attorney, which got $50 million (the Office of the Comptroller of the Currency got the other $35 million), explained the employees' grievances in a complaint last year:

"Wells Fargo has strict quotas regulating the number of daily 'solutions' that its bankers must reach; these 'solutions' include the opening of all new banking and credit card accounts. Managers constantly hound, berate, demean and threaten employees to meet these unreachable quotas. Managers often tell employees to do whatever it takes to reach their quotas. Employees who do not reach their quotas are often required to work hours beyond their typical work schedule without being compensated for that extra work time, and/or are threatened with termination.

"The quotas imposed by Wells Fargo on its employees are often not attainable because there simply are not enough customers who enter a branch on a daily basis for employees to meet their quotas through traditional means."

So they resorted to non-traditional means. Like:

"In the practice known at Wells Fargo as 'pinning,' a Wells Fargo banker obtains a debit card number, and personally sets the PIN, often to 0000, without customer authorization. 'Pinning' permits a banker to enroll a customer in online banking, for which the banker would receive a solution (sales credit). To bypass computer prompts requiring customer contact information, bankers impersonate the customer online, and input false generic email addresses such as 1234@wellsfargo.com, noname@wellsfargo.com, or none@wellsfargo.com to ensure that the transaction is completed, and that the customer remains unaware of the unauthorized activity."

Is it not weird that all the fake email addresses were Wells Fargo addresses? I mean "noname" is obviously a weird email address, but maybe the customer was Norbert O'Name. But surely all the "@wellsfargo.com" accounts were a tip-off that the requests were coming from inside the building. Anyway, it's all pretty much as dumb as that, but on a scale that is magnificently, hilariously dumb.

From the CFPB's consent order:

"Respondent's analysis concluded that its employees opened 1,534,280 deposit accounts that may not have been authorized and that may have been funded through simulated funding, or transferring funds from consumers' existing accounts without their knowledge or consent. That analysis determined that roughly 85,000 of those accounts incurred about $2 million in fees, which Respondent is in the process of refunding."

And:

"Respondent's analysis concluded that its employees submitted applications for 565,443 credit-card accounts that may not have been authorized by using consumers' information without their knowledge or consent. That analysis determined that roughly 14,000 of those accounts incurred $403,145 in fees, which Respondent is in the process of refunding.

So that's about 2.1 million fake deposit and credit-card accounts, of which about 100,000 -- fewer than 5 percent -- brought in any fee income to Wells Fargo. The total fee income was $2.4 million, or about $1.14 per fake account.

And that overstates the profitability: Wells Fargo also enrolled people for debit cards and online banking, but the CFPB doesn't bother to count those incidents, or suggest that any of them led to any fees.

Which makes sense: You'd expect online banking and debit cards to be free, if you never use them or even know about them. Meanwhile, all this dumb stuff seems to have occupied huge amounts of employee time that could have been spent on more productive activities.

If you divide the $2.4 million among the 5,300 employees fired for setting up fake accounts, you get about $450 per employee. Presumably it cost Wells Fargo way more than that just to replace them."

In the abstract, you can see why Wells Fargo would emphasize cross-selling of multiple "solutions" to customers. It is a good sales practice; it both indicates and encourages customer loyalty. If your customers have a checking account, and a savings account, and a credit card and online banking, all in one place, then they'll probably use each of those products more than if they had only one. And when they want a new, lucrative product -- a mortgage, say, or investment advice -- they're more likely to turn to the bank where they keep the rest of their financial life.

But obviously no one in senior management wanted this. Signing customers up for online banking without telling them about it doesn't help Wells Fargo at all. No one feels extra loyalty because they have a banking product that they don't use or know about. Even signing them up for a credit card without telling them about it generally doesn't help Wells Fargo, because people don't use credit cards that they don't know about.

Cards with an annual fee are a different story -- at least you can charge them the fee! -- but it seems like customers weren't signed up for many of those. This isn't a case of management pushing for something profitable and getting what they asked for, albeit in a regrettable and illegal way. This is a case of management pushing for something profitable but difficult, and the workers pushing back with something worthless but easy.

Not that the workers were happy: These tactics seem to have been less a fun way to put one over on the bosses, and more a desperate attempt to stop the pain. Some of them still sound pretty traumatized by all the berating:

"When I worked at Wells Fargo, I faced the threat of being fired if I didn't meet their unreasonable sales quotes every day, and it's high time that Wells Fargo pays for preying on consumers' financial livelihoods," Khalid Taha, a former employee, said in a statement.

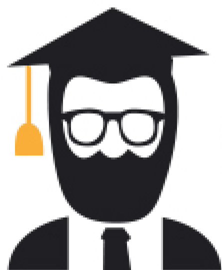
And of course the customers were unhappy. Actually, it seems like a majority of them were unharmed and oblivious, but that's a majority of a very large number. Thousands were charged fees, or had their credit damaged, or were generally creeped out by, you know, strangers using their personal information to open bank accounts on the internet. Even ignoring all the eventual fines, no one was made better off by this system. Wells Fargo's customers were harmed, its employees were miserable, and it didn't even really make any money doing it.

Eventually we will all stop reading and writing articles about Why No Senior Executives at Big Banks Went to Prison for the Financial Crisis, but that time isn't quite yet.

There are basically two views about the answer. One is that senior bankers knowingly countenanced fraud, but were good at covering it up, and prosecutors couldn't quite find the smoking gun. The other is that fraud is sometimes an emergent property of complex institutions, and that there can be widespread misbehavior at a bank without senior management approving it, or knowing about it, or wanting it.

This case is, I think, useful evidence for the latter view. "Wells Fargo knew, or in the exercise of reasonable care should have known, that its employees open unauthorized accounts," said the L.A. City Attorney last year, but it's hard to believe that any actual human in senior management wanted that to happen.

They wanted employees to open lots of real accounts, and designed a system that they hoped would encourage that. But they designed it badly, and ended up instead encouraging employees to open a lot of fake accounts. That's not what anyone wanted, but it happened anyway.



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