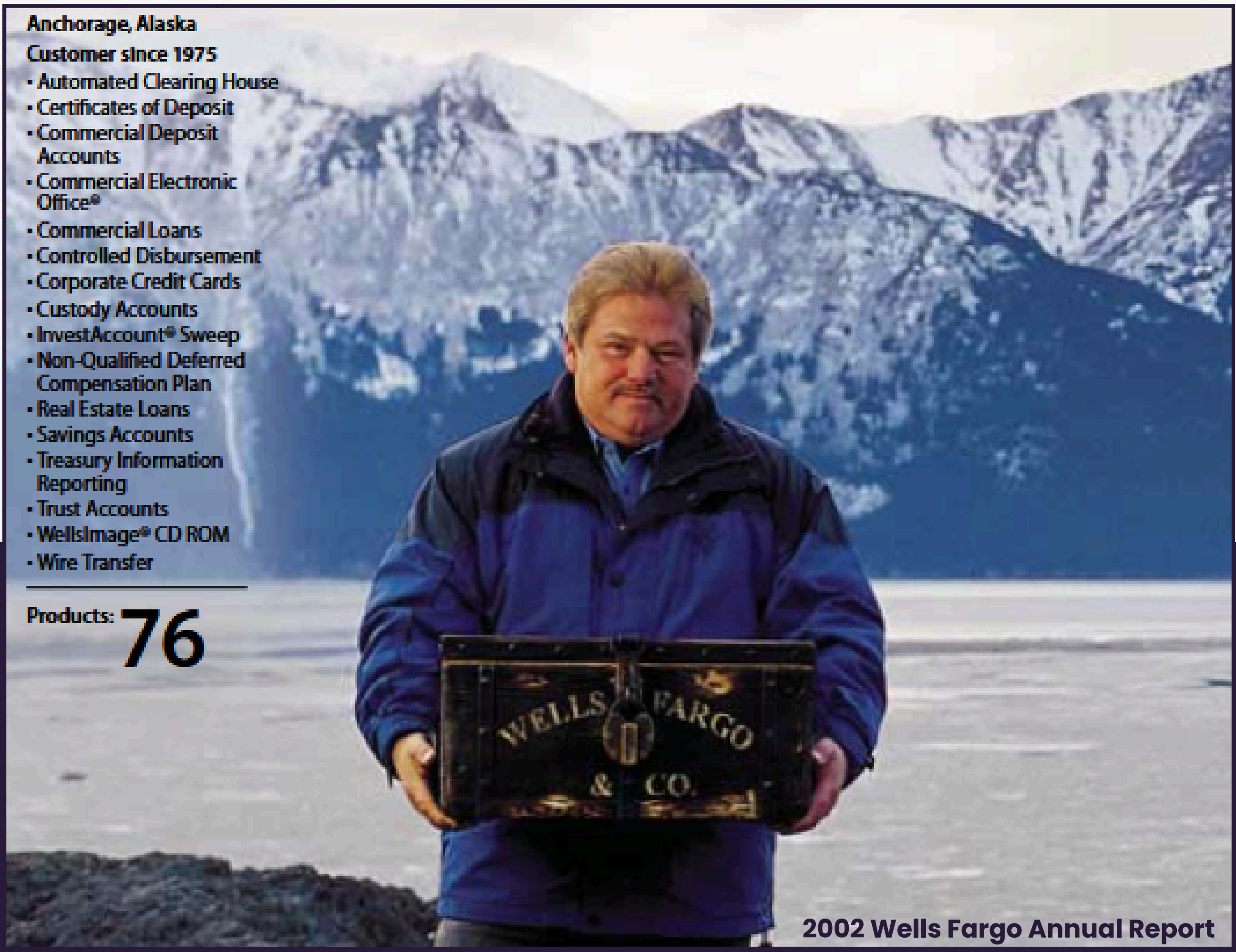
Policy Theatre in Practice: Wells Fargo



2002 Wells Fargo Annual Report

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When policy exists and still fails

Source: Wells Fargo Annual Report (1998).

Introduction

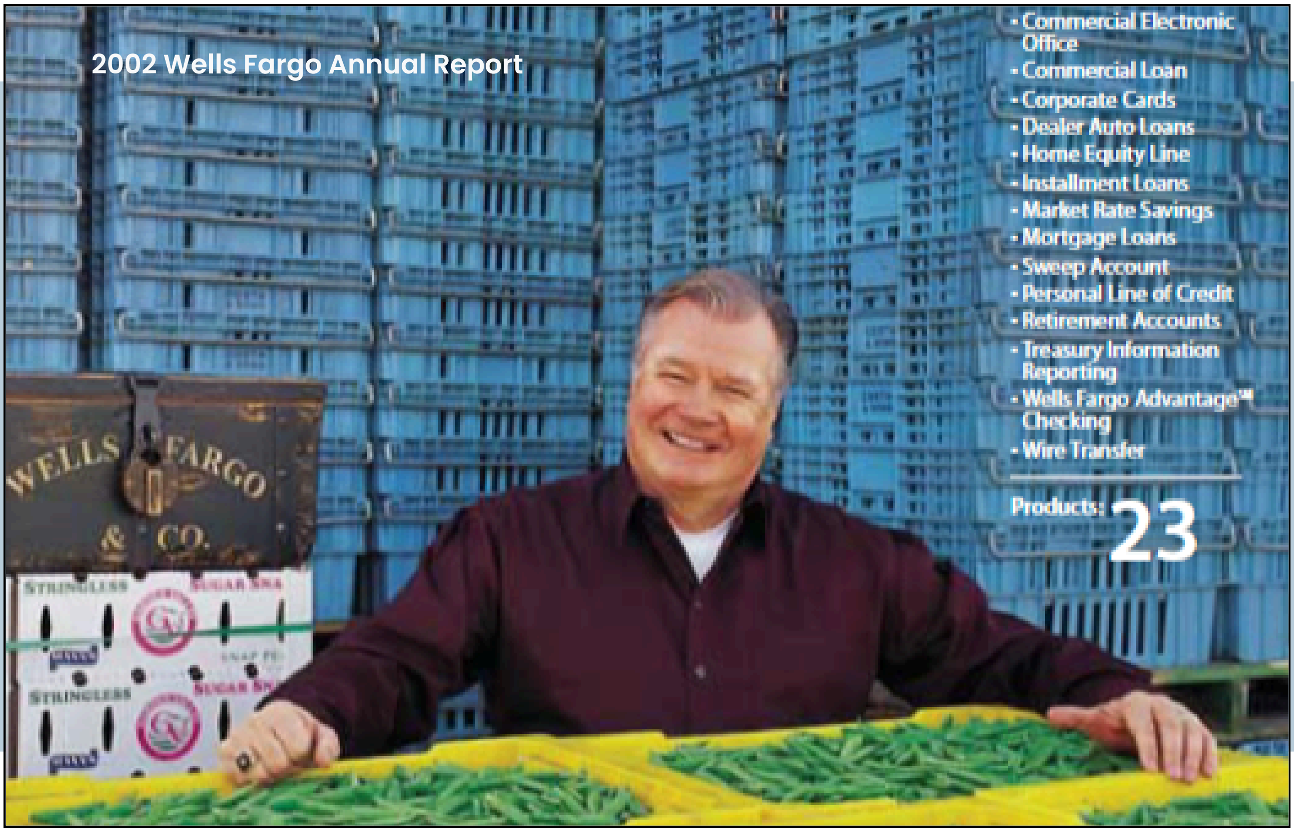
Investors frequently rely on the disclosure of formal policies — codes of conduct, ethics training, and internal reporting mechanisms — as evidence that human capital risks are being appropriately managed.

The Wells Fargo sales-practices scandal demonstrates why that reliance can be misplaced.

It is one of the clearest modern examples of policies that appeared robust on paper coexisting for years with incentive systems that drove very different outcomes in practice.

On paper, the bank had everything investors expect to see:

- a formal code of conduct
- ethics training
- internal reporting channels
- repeated statements about integrity and customer focus



Sources: Wells Fargo Annual Reports (1998–2004).

Introduction

In practice, behaviour was governed less by the policy frameworks disclosed to investors than by the performance metrics used to define success inside the organization.

By the early 2000s, Wells Fargo’s public disclosures made those priorities clear. Growth was framed around increasing the number of products held by each household, elevating cross-selling from one strategic lever to a central performance objective.

The most visible expression of this approach was branded as “Going for Gr-Eight,” reflecting the elevation of a numerically specific — and analytically untested — target into the primary definition of success inside the organization.

The sections that follow examine how that system took shape, how early warning signals were handled, and why formal governance failed to intervene before risks crystallized into losses.

2002 Wells Fargo Annual Report

Sources: Wells Fargo Annual Reports (1998–2004).

Cross-selling as a core strategic priority

The operating logic that ultimately produced the sales-practices failure predates both the slogan and the misconduct.

Following the 1998 Norwest–Wells Fargo merger, cross-selling was presented as a defining strength of the combined institution. The 1998 Annual Report highlights Norwest's sales culture and frames growth around increasing the number of products held by each customer. In an emphasized passage, management states:

"We expect to sell at least one more product to every customer every year."

What matters here is not the ambition of the statement, but its framing.

Source: Wells Fargo Annual Report (1998).

Origin of "Going for Gr-Eight"

Success is defined as a volume expectation — more products per customer — rather than as a function of customer need, product suitability, or risk-adjusted value creation. In banking, product mix matters: deposits, cards, mortgages, and credit products carry very different profitability and balance-sheet risks. Collapsing them into a single "products per customer" metric simplifies measurement but strips out those distinctions.

That same report asserts — without disclosed sourcing or methodology — that the average U.S. household holds approximately 15 financial services products, and sets an internal ambition of 8 products per household.

At the time these ambitions were articulated, Wells Fargo's own disclosures indicate that the average household held approximately 3.2 products with the bank. The eight-product target was therefore set against a baseline less than half that level, without accompanying analysis of how such an increase would be achieved in a way consistent with customer need or sustainable value creation.

4. **SALES AND SERVICE CULTURE** Over the years, Norwest and Wells Fargo developed somewhat different styles — reflecting their markets. Norwest, more high touch. Wells Fargo, more high tech. This merger combines the best of those two styles in your new company. Our customers can choose financial services — when, where and how they want them.

Fortune magazine — using customer and industry surveys — ranked Norwest #1 for customer satisfaction in the banking industry, #1 "most admired" commercial bank in the USA last year and the #3 "most admired" bank in the world. Over the past 10 years, Norwest built a reputation for having the industry's strongest sales and service culture. This reputation was backed by superior systems for tracking sales, customer profitability and customer information — using technology to personalize customer service. During those 10 years, Norwest also bought almost 100 banks and doubled their products sold per household. It did this by offering customers a broad product line and a better deal for doing all their business with Norwest. We intend to propagate effective technology — and a superior sales and service culture — across the entire new Wells Fargo. We expect every Wells Fargo business to refer all their customers to other businesses. We want to earn nothing short of all the business of every creditworthy customer. *We expect to sell at least one more product to every customer every year.* The more products we sell customers, the better deal they get, the more loyal they become, the more we know about them to serve them better, and the higher the return for Wells Fargo stockholders. Everyone wins — our customers, team members, communities and stockholders.

1998 Wells Fargo Annual Report

Sources: Wells Fargo Annual Reports (1998, 2002, 2004).

Origin of “Going for Gr-Eight”

By 1999, this logic is formalized and branded. The 1999 Annual Report introduces “Going for Gr-Eight,” explicitly linking growth strategy, leadership focus, and performance expectations to increasing products per customer. Cross-selling moves from a sales capability to a defining organizing principle.

At this stage, the strategy still reads as aspirational. The governance risk lies not in intent, but in how quickly a numerical slogan begins to harden into an operating target.

Richard Kovacevich introduced “**Going for Gr-Eight**” at Norwest in 1997, before the merger and his move to Wells Fargo.

When asked why the target was eight, his explanation was blunt:
“**It rhymes with GREAT**.”

The slogan stuck—then gradually hardened from a rallying cry into a performance expectation.

1999 Wells Fargo Annual Report

Early evolution of the system

By the early 2000s, the cross-selling framework had moved beyond branding and into measurement.

Annual reports from this period emphasize that Wells Fargo measured success differently than its peers, highlighting metrics closely tied to cross-selling: products per household, product sales per banker per day, and customer penetration across credit, cards, and bundled offerings.

Cross-selling was described as the bank's "most important customer-related measure."

"Products per customer" is a weak proxy for value creation in banking but a powerful tool for performance management. It is simple, comparable, and highly responsive to pressure. As it became embedded at senior levels, it increasingly defined how success was understood and rewarded across the organization.

2002 Wells Fargo Annual Report

Sources: Wells Fargo Annual Reports (1998, 2002, 2004).

Early evolution of the system

The tension this created is visible in leadership rhetoric. In the 2004 CEO letter, management praises employees for *"satisfying all our customers' financial needs"* and for enabling customers to *"buy even more of our products and services — thus increasing our revenue,"* while also asserting a culture grounded in strong governance and ethical instincts, where employees should *"know instinctively what's right and what's wrong — without needing to be told."*

The "Next Stage"

Once again, we thank our 150,000 talented team members for their outstanding accomplishments and record results. We thank them for believing, living and sharing our customer-focused vision and values. We thank them for knowing how they connect individually with our business strategy and our time-tested business model. We thank them for their unrelenting focus on satisfying all our customers' financial needs and for partnering to do what's best for our customers. We thank them for listening to our customers, asking them the right questions, and offering products and services of real value — so that our customers, in turn, can succeed financially and then vote with their pocketbooks and buy even more of our products and services — thus increasing our revenue. We thank them for their commitment to our communities and for the time — hundreds of thousands of hours — and the talent they contribute to non-profits and community activities. We thank them for striving for the highest standards of corporate governance, their commitment to tough and thorough internal audit and compliance, for believing in principles not just rules. We thank them for building a corporate culture in which we all should know instinctively what's right and what's wrong — without needing to be told.

We thank our customers for entrusting us with more of their business and for paying us the ultimate compliment: returning to us for their next financial services product. We thank our communities — thousands of them across North America — for the privilege of helping make them better places in which to live and work. And we thank you, our owners, for your confidence in Wells Fargo as we begin our 153rd year.

The "Next Stage" of success is just down the road — for our team members, our customers, our communities and our stockholders.

It's going to be a great ride!

Dick

Richard M. Kovacevich, Chairman and CEO

CEO Letter 2004 Wells Fargo Annual Report

Source: Wells Fargo Annual Report (2004).

Early evolution of the system

Read together, these messages clarify how success was operationalized. Employees were measured, evaluated, and rewarded against explicit numerical targets, while ethical behaviour was treated as an assumed baseline — expected to persist without structural safeguards when incentives pointed elsewhere.

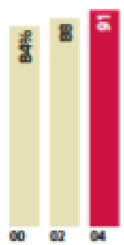
This is where policy theatre begins — not with misconduct, but with a strategy whose assumptions went largely unexamined as they hardened into targets, metrics, and incentives that defined success inside the organization.

2004 Wells Fargo Annual Report

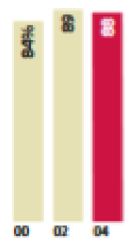
- Vast majority of our surveyed team members like their work and know how it helps our company achieve its goals.
- Our team member satisfaction scores: significantly higher than national average.
- Our ratio of engaged to actively disengaged team members in Regional Banking is 4 to 1 (1.7 to 1 for average U.S. workers).

Source: The Gallup Organization

Goal: Maintain our engaged to disengaged ratio well over the national average.

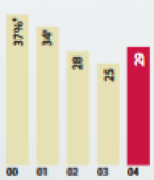


Wells Fargo Team Members Who Say They Know How Their Work Helps Wells Fargo
percent



Wells Fargo Team Members Who Say They Like Their Work
percent

Retaining Team Members



Annual Percent of Team Members Who Leave Us
*Excludes Wells Fargo Financial (consumer finance)

- Most important influence on our customers? Our talented team members.
- The longer they stay with us the more they can use their talent, skill, knowledge and experience to help satisfy all our customers' financial needs and help them succeed financially.
- Our size and diversity offers team members so many opportunities for personal and professional growth that they should want to stay with Wells Fargo for their entire career.

Goal: Lose fewer team members every year than any other competitor in our industry.

8+

Our average banking household has 4.6 products with us (about double the industry average). Our average commercial/corporate customer has 5.3. But both purchase about 16 financial products from someone. We want our consumer and business customers to have at least eight products with us.

"The problem is that the framework underpinning Generally Accepted Accounting Principles (GAAP) is flawed…GAAP does not recognize the value of intangible assets that a knowledge-based company such as Wells Fargo generates internally—such as the loyalty and relationship levels of our team members and customers."

Which Measures Really Matter?

We measure success differently than our competitors. We believe these measures matter most. They're the most important long-term indicators of success in the financial services industry.

- Revenue Growth
- Earnings Per Share
- Return On Equity
- Revenue vs. Expense Growth
- Assets Managed, Administered
- Managing Risk
- Retaining Team Members
- Team Member Engagement
- Retaining Customers
- Customer Service
- Customer Access Options
- Cross-Selling
- Product Solutions (Sales) Per Banker Per Day

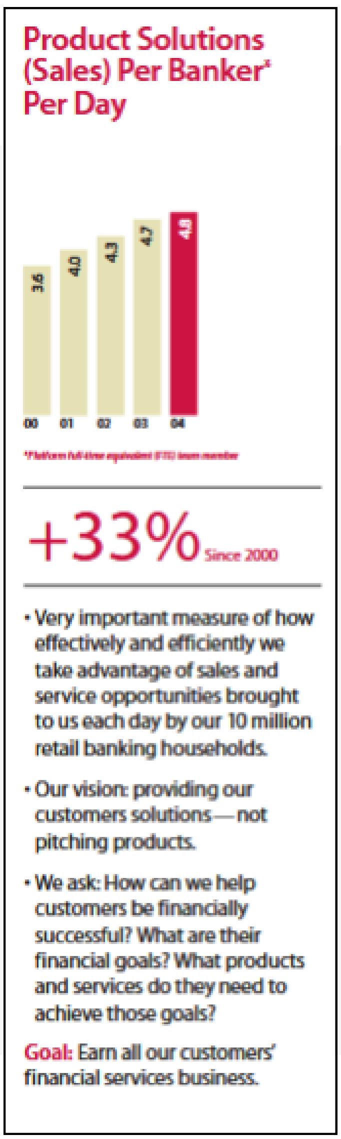
Source: Wells Fargo Annual Report (2004).

Early internal warnings

As performance pressure intensified, concerns began to surface inside the organization — years before regulators or investors took notice.

Internally, Wells Fargo had identified issues as early as 2002 with rising sales-practice violations and implemented some limited reforms at the time. These included forming a sales integrity task force, implementing training and certification programs, expanding audit efforts, and tracking funding rates as a proxy for sales quality.

These actions acknowledged symptoms — but stopped short of challenging the incentive model itself.



Source: Independent Directors' Sales Practices Investigation Report (Apr 10, 2017) and Wells Fargo Annual Report (2004).

Early internal warnings

By 2004, a member of Wells Fargo's Internal Investigations group drafted a memorandum warning that sales goals were driving a sharp increase in sales gaming — defined as manipulation or misrepresentation of sales to receive compensation or meet targets. The memo documented a rise in annual sales-gaming cases from 63 in 2000 to a projected 680 in 2004, alongside an increase in terminations from 21 to a projected 223 over the same period.

From a governance perspective, the critical issue is not that this concern was raised — but what happened next.

2003 & 2004 Wells Fargo Annual Reports

NEGATIVE PUBLIC OPINION COULD DAMAGE OUR REPUTATION AND ADVERSELY IMPACT OUR EARNINGS.

Reputation risk, or the risk to our earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract customers and can expose us to litigation and regulatory action. Because virtually all our businesses operate under the "Wells Fargo" brand, actual or alleged conduct by one business can result in negative public opinion about other Wells Fargo businesses. Although we take steps to minimize reputation risk in dealing with our customers and communities, as a large diversified financial services company with a relatively high industry profile, the risk will always be present in our organization.

Wells Fargo's Annual Reports repeatedly described negative public opinion and reputational harm as material business risks — including impacts arising from lending practices, corporate governance, and regulatory actions.

At the same time, internal investigations were surfacing concerns about sales practices, but those signals were not escalated or treated as an enterprise reputation risk until much later.

2002 Wells Fargo Annual Report

It's impossible to earn trust if one is trustworthy in some things and not trustworthy in other things. *We have to be trustworthy in all things all the time*. The word "integrity" and the word "integration" come from the same root: *entire*. This implies a wholeness, a complete, undivided, unbroken consistency of approach and execution. To have integrity one must be consistently honest and trustworthy in everything one does. When you have integrity, people know you will do what you know is right. And that happens to align with how we define "culture" at Wells Fargo. It's knowing what you have to do without someone telling you to do it. That's why integrity is not a commodity. It's the most rare and precious of personal attributes. It is the core of a person's—and a company's—reputation.

During these years, Annual Reports emphasized integrity and the idea that employees should "know what is right" without being told.

Yet this was also the period when internal investigations first identified growing concerns with targets and the potential they were driving sales gaming.

Sources: Independent Directors' Sales Practices Investigation Report (Apr 10, 2017), Wells Fargo Annual Reports (2002–2004).

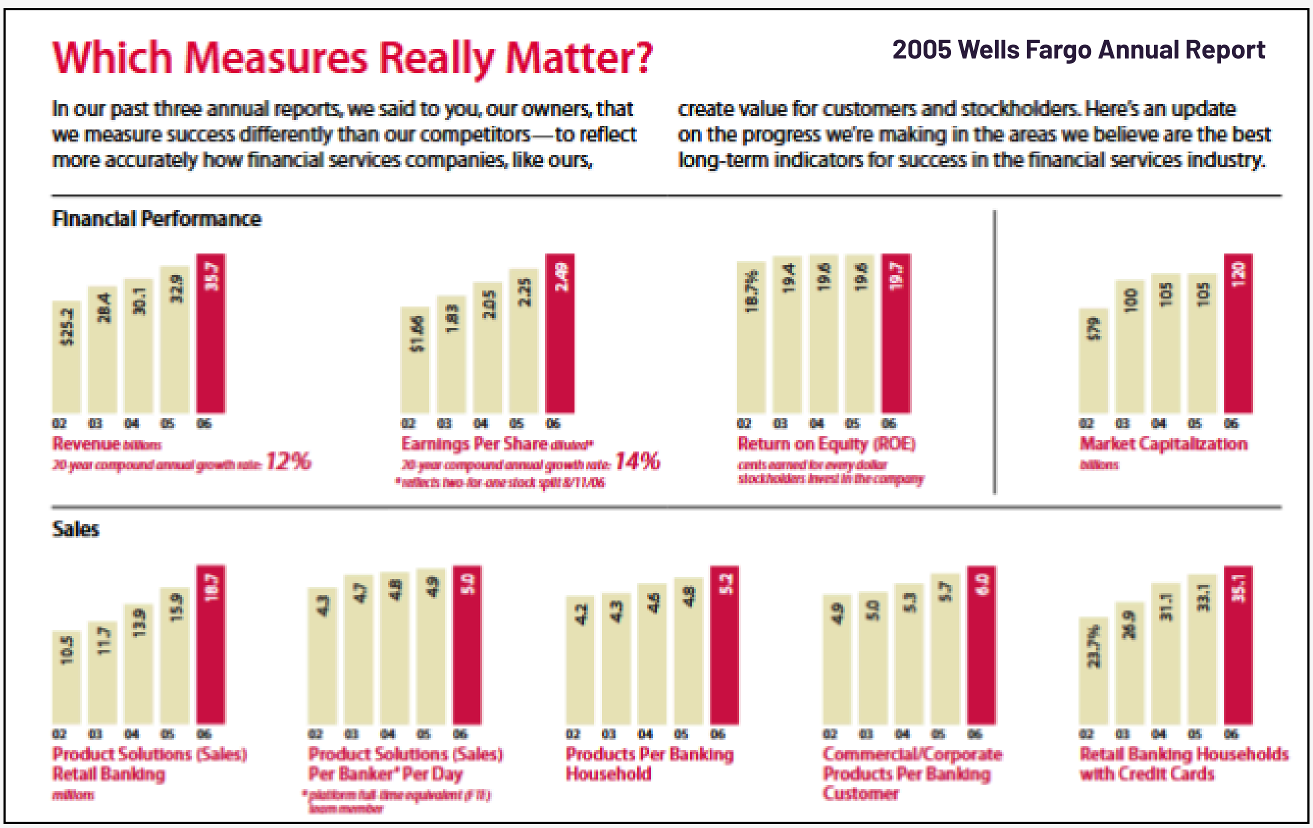
Early internal warnings

In April 2017, an independent board-commissioned investigation found no evidence that the memo or its recommendations were escalated to senior management or the board. The issue entered the system — and then stopped moving.

Witnesses interviewed for this investigation consistently described a leadership view that there was "no appetite to change the model."

Instead, risks were believed to be manageable through more training, better detection, and punishment of individual wrongdoers — preserving the incentive architecture while treating misconduct as a compliance problem rather than a strategic one.

At the same time, public disclosures continued to highlight customers with unusually high product counts, business units exceeding cross-sell targets, and employees celebrated for sales productivity. Signals aligned with strategic priorities were amplified; signals that challenged the model were dismissed as outliers.



Early internal warnings

From an investor's perspective, this asymmetry was largely invisible when evaluating human capital risks using standard methods. Ethics programs, reporting channels, and governance language were disclosed. The data pointing to a systemic problem existed but was unlikely to be voluntarily disclosed given how deeply embedded it was in the company's incentive structure. The right questions needed to be asked.

Product Sales Per Banker Per Day

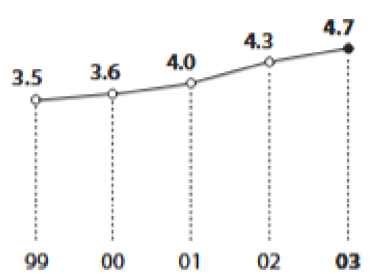
This measure doesn't begin with "sales" nor the "banker." It begins with customers. How can we help them be financially successful? What are their financial goals? What products or services do they need to achieve their goals?

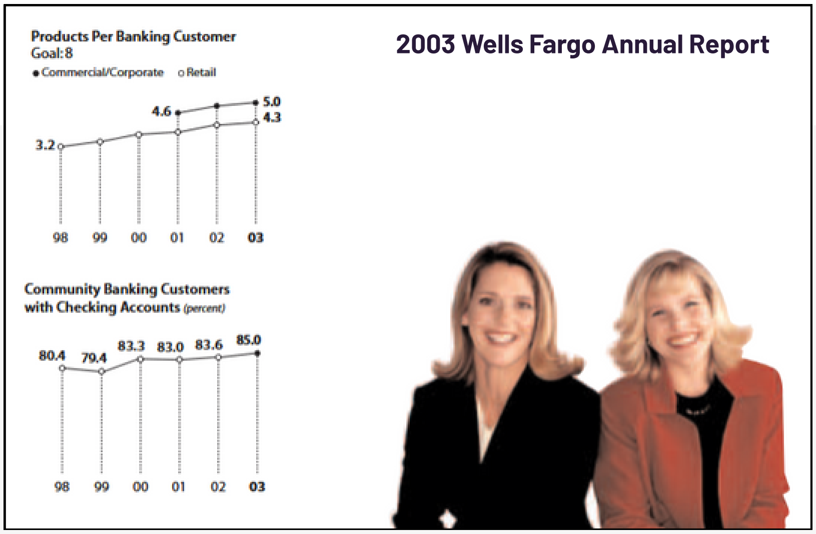
To uncover those needs, we have to have enough bankers to serve customers when, where and how they want to be served. And, our bankers need the training, the resources, the experience and the product knowledge to engage in a meaningful, directed conversation that can help customers achieve their financial goals. We call this "needs-based selling."

So, product sales per banker per day—with other measures such as profit per day and partner referrals—is a very important measure of how effective and efficient we are in taking advantage of the sales and service opportunities that our ten million banking households bring us every day.

Josephina Shipley, Regional Banking, Perris, California; Ashif Lalani, Wells Fargo Services Company, Tempe, Arizona

Product Sales Per Banker Per Day





One reason we've been able to consistently deliver these strong results for nearly two decades in all economic cycles without taking undue risk is because we have one of our industry's most effective, time-tested business models. It's not product-centric but customer-centric.

Source: Wells Fargo Annual Reports (2003)

Why "products per customer" is a flawed performance metric in banking

In many industries, volume-based targets have a clear and direct relationship to revenue. Selling more units generally means generating more income, even if execution risks remain.

Banking is fundamentally different.

Banks do not sell products in isolation. They allocate capital and risk across a balance sheet, choosing an asset and liability mix that determines profitability, volatility, and long-term resilience. A checking account, a credit card, a mortgage, and a revolving consumer loan are not interchangeable "products." They carry vastly different: margins, risk profiles, capital requirements, and loss characteristics across the cycle.

From that perspective, "products per customer" is not a proxy for value creation. It is a count that obscures what matters in banking: product mix and pricing, credit quality, customer need and usage, and the stability and cost of the funding base that supports those assets.

Wells Fargo's decision to elevate product count as a central performance metric — without disclosed analysis of product mix, customer need, or risk-adjusted returns — was not merely aggressive. It reflected a failure of incentive design in a balance-sheet business.

The problem was not cross-selling per se. Cross-selling can be economically rational when it: deepens low-cost funding relationships, improves customer retention, or supports a deliberate asset-mix strategy.

The problem was treating all products as equivalent units of success, and rewarding behaviour accordingly.

Incentivizing employees to add any product or service to reach an arbitrary numerical target — one that lacked analytical grounding as asserted openly in public disclosures — signaled that management prioritized hitting the number over optimizing the bank's risk-return profile.

In effect, a metric designed for simplicity and comparability was allowed to override the complexity inherent in banking itself.

That is not a failure of ethics.

It is a failure of governance and incentive-setting — visible in plain sight.

Escalation failures and delayed accountability

Notably, the risks inherent in the incentive model were not only identified by control functions — they were explicitly articulated by senior business leadership internally.

In a 2004 email to John Stumpf, when he was Head of Community Banking, Carrie Tolstedt, then Head of Regional Banking in Wells Fargo’s Community Banking group, warned about the dangers of poorly designed sales incentives. She wrote that cross-selling needed to be balanced with incentive structures that ensured “quality cross sell,” cautioning that many banks encouraged the wrong behaviour by rewarding sales volume alone. Incentivizing bankers purely on sales per day, she warned, was “asking for trouble.”

She further emphasized the need to balance unit growth with profitability, noting that reliance on a single metric without an integrated model would produce “low value, unfunded bad cross sell” that would not translate into sustainable revenue growth or customer retention.

Source: Independent Directors’ Sales Practices Investigation Report (Apr 10, 2017) and Wells Fargo Annual Report (1998).

Escalation failures and delayed accountability

As later documented, these warnings were not reflected in the incentive structures that followed.

What makes this warning particularly consequential from a governance perspective is how accountability ultimately unfolded. Tolstedt later rose to Head of Community Banking, overseeing the business at the center of the sales-practices failures. Stumpf became CEO in 2007. More than a decade after Tolstedt's email, both executives left Wells Fargo following the scandal.

Accountability did not end there. In 2023, federal prosecutors criminally charged Tolstedt with obstructing a bank examination, alleging she sought to mislead regulators about the scope of sales-practice issues. She received a sentence of 3 years probation.

Stumpf faced civil enforcement, including an industry ban and a $17.5 million fine imposed by the Office of the Comptroller of the Currency.

These outcomes came nearly twenty years after the risks were clearly articulated internally, underscoring how governance failures around incentives, escalation, and information flow can persist for decades — even when the problem is understood at senior levels.

The governance failure was not ignorance.

The core risk was not concealed.

It was openly disclosed — but misinterpreted.

Sources: DOJ (Mar 17, 2023); SEC (May 30, 2023); OCC (Jan 23, 2020; EA-2020-004).

Even public escalation didn’t force a reckoning

What matters for investors is not that evidence eventually surfaced, but that the warning signs were visible well before formal enforcement or public scandal. The most important signal was not misconduct itself, but the performance architecture that made misconduct increasingly likely: aggressive cross-selling targets, narrow success metrics, and incentives that rewarded volume while treating ethical judgment as a given.

By October 2013, those tensions became visible externally. The Los Angeles Times reported that Wells Fargo had terminated branch employees in the Los Angeles region for opening accounts that were never used, citing intense sales pressure. Management characterized the issue as localized rather than systemic — a familiar reframing that preserved the underlying incentive model.

From a governance perspective, this reporting did not reveal a new risk. It merely exposed — to the public — a problem that internal data, warnings, and senior leadership discussions had already identified years earlier.

Source: Los Angeles Times (2013).

Even public escalation didn’t force a reckoning

The deeper failure was not that misconduct occurred, but that neither the board nor investors forced a reassessment of the incentive system that made it increasingly likely. The sales targets, the metrics used to define success, and the assumptions embedded in them were disclosed openly. What went largely unchallenged was whether those targets were appropriate, achievable, or compatible with stated values without distorting behaviour.

In that sense, the most important signals were never hidden. They were embedded in strategy, reinforced in disclosures, and normalized through performance management. The governance failure was the prolonged refusal — by leadership, boards, and investors alike — to treat those signals as evidence of structural risk rather than isolated execution problems.

Source: Independent Directors’ Report (2017).

Regulatory enforcement and the cost of delayed governance

Regulatory action eventually forced a reckoning — but only after years of unresolved governance failure.

In September 2016, U.S. regulators announced enforcement actions totaling $185 million related to unauthorized customer accounts. While the fines drew public attention to the breadth of the scandal for the first time, they did not fully capture the cost investors would ultimately bear.

The more consequential intervention came in February 2018, when the Federal Reserve imposed an unprecedented asset growth restriction, capping Wells Fargo's balance sheet at approximately $1.95 trillion, its size at year-end 2017. The cap remained in place until June 2025, constraining lending, deposits, and balance-sheet expansion while peers continued to grow.

Balance Sheet Capped

$1.95 Trillion Total Consolidated Assets as of Dec 31, 2017

Asset-growth restriction from Feb 2, 2018
until removal effective May 30, 2025

Sources: CFPB/OCC/LA City Attorney (Sept 8, 2016); Federal Reserve (Feb 2, 2018; Jun 3, 2025); DOJ (Feb 21, 2020); SEC (Feb 21, 2020).

Regulatory enforcement and the cost of delayed governance

At the same time, the bank was required to undertake extensive remediation efforts, including governance reforms, redesign of firmwide compliance and risk programs, independent third-party reviews, and ongoing supervisory reporting. These requirements consumed management attention, increased operating costs, and reshaped capital allocation decisions for years.

For investors, the cost was not limited to fines or reputational damage. It was paid through lost opportunity, constrained growth, diminished strategic flexibility, and prolonged uncertainty — long after the underlying risks had been identified internally.

The lesson is not that governance failure eventually becomes expensive.

It is that the cost compounds over time, especially when early warnings are dismissed as exceptions rather than recognized as potential indicators.

Date	Type of Fine	Amount
2016-09-08	Consumer Financial Protection Bureau (CFPB) Consent Order; Office of the Comptroller of the Currency (OCC) Cease and Desist Order; Los Angeles City Attorney settlement (jointly announced)	**$185 million**
2020-02-21	U.S. Department of Justice (DOJ) resolution (criminal and civil investigations; Deferred Prosecution Agreement and civil settlement)	**$3.0 billion**
2020-02-21	U.S. Securities and Exchange Commission (SEC) settlement (misleading investors about key performance metrics and sales practices)	**$500 million**

Unauthorized accounts/products
2011-2016

~ 3.5 million
Across deposit and credit-card accounts

Employee terminations
2011-2016

approximately 5,300

Sources: CFPB/OCC/LA City Attorney (Sept 8, 2016); Federal Reserve (Feb 2, 2018; Jun 3, 2025); DOJ (Feb 21, 2020); SEC (Feb 21, 2020).

When board governance becomes performative

The failure to escalate early warnings was not simply a management breakdown. It was ultimately a board oversight failure.

In April 2017, Wells Fargo's independent directors released a 111-page investigation report, prepared by Shearman & Sterling LLP, examining the root causes of the sales-practices scandal. The report documents a governance structure in which responsibility for sales practices, customer harm, and conduct risk was diffuse, spread across multiple committees and management layers, with no clear point of ownership.

While the board and its committees received periodic information on sales performance, customer complaints, and employee terminations, these data points were not integrated into a coherent risk narrative. Metrics were reviewed in isolation rather than assessed together as indicators of a systemic problem.

What the board consistently saw were:

- strong financial results,
- improving cross-sell metrics, and
- management assurances that issues were isolated and being addressed.

What it did not receive — or did not demand — was a consolidated assessment of whether the strategy itself was creating incentives that made policy violations increasingly likely.

Wells Fargo & Company Annual Report 2014

WELLS FARGO

Culture counts.

An unwavering focus on the customer.

Leading the way in risk and operational excellence
Wells Fargo has always been strong in risk management, particularly credit risk. Our goal is to build on our strengths and set the global standard for risk management excellence among all financial institutions. We want to incorporate robust risk management practices and principles into every aspect of our culture.

Most important, though, is that team members understand they have a responsibility to raise their hands when they see activities that could put our company at risk or are inconsistent with our culture. This shared responsibility is reflected even in how we pay our people. We take great care to align our incentives with our risk management objectives.

2014 Wells Fargo Annual Report

Sources: Independent Directors' Report (2017); Wells Fargo Proxy Statement (2015), Wells Fargo Annual Report 2014.

When board governance becomes performative

Committees met. Reports were delivered. Policies existed.

But governance systems were not designed to challenge strategy under pressure, particularly when that strategy was delivering short-term financial performance. Oversight focused on execution and remediation rather than interrogating whether the incentive model was compatible with stated values and control frameworks.

By the time the board was forced to confront the issue directly — through regulatory enforcement and public scrutiny — the failure was no longer incremental or remediable.

From an investor perspective, this is the critical point: the policies functioned as disclosed. They demonstrated that rules existed, that training occurred, and that reporting channels were in place.

Investor signals: when incentive design is misaligned

The Wells Fargo case highlights a broader lesson for investors, particularly in regulated, capital-intensive industries like the financial sector.

Warning signs are not always hidden. Sometimes they are embedded directly in how performance is defined.

Investors should pause when they see:

- **Single-number targets** used to manage inherently multi-dimensional businesses
- **Volume-based incentives** applied where value depends on risk, mix, and duration
- **Metrics that simplify oversight** but are detached from business realities
- **Numeric targets presented as self-evident,** not grounded in data analysis
- **Public controversies blamed on individuals**, while metric design remains unexamined

More broadly, the question is not whether a metric is disclosed.

It is whether the metric is fit for the business being governed.

When incentive systems flatten complexity in businesses where complexity is the source of both value and risk, governance failure is not a surprise. It is a predictable outcome.

Sources: Independent Directors' Report (2017).

When board governance becomes performative

What the board did not do — and what investors implicitly relied on them to do — was constrain a performance system that rewarded outcomes inconsistent with those rules.

That is the essence of policy theatre for investors: formal governance signals that appear reassuring, while the systems that actually govern behaviour operate in plain sight — and largely go unchallenged.

Governance signals hiding in plain sight

- When the Los Angeles Times brought the issue into public view in 2013, it should have been immediately apparent that “Going for Gr-Eight” was a volume-driven system — targets and incentives optimized for counts rather than customer outcomes — channeling time, attention, and spend into activity that looked productive on paper but didn’t compound long-term value and ultimately diluted what investors were paying for.
- The Board response was limited after the exposé, framing it as individual misconduct rather than a predictable governance failure rooted in the objectives, incentive design, and controls under Board oversight.
- Risk oversight remained structurally weak. It was still decentralized across committees, with the Risk Committee comprised of the 6 other committee chairs — and therefore dominated by senior, long-tenured directors (more than half with 10+ years on the Board).
- In 2015, Wells Fargo still framed Chairman/CEO John Stumpf’s direct involvement in risk oversight as a strength — even though combining the top executive role with a central oversight role creates an inherent conflict of interest and weakens independent challenge.
- As late as 2015 — two years after the LA Times exposé — the Human Resources Committee still delegated authority over key benefit and compensation programs to the senior management teams running those functions, limiting independent committee-level scrutiny of the incentives and control mechanisms embedded in those programs.
- Despite the public exposé, the market largely treated it as immaterial — reinforcing how easily a structurally flawed incentive system can be misread as an isolated operational issue until losses surface.

Sources: Independent Directors’ Report (2017); Wells Fargo Proxy Statement (2015).

Appendix A: Early-warning metrics

Rolling Funding Rate (RFR)

Operational Guidance: minimum 'store-level' RFR 87.5%

2005 Baseline	2012 Threshold crossed	Sept 2012 Low Point	2016 Reforms Instituted
~90%	Below 80%	~77% Overall	>95%

Simulated Funding Analysis

Identified post-scandal

May 2011–July 2015 Review Window
Up to 1,534,280 deposit accounts were identified post scandal as being funded via simulated funding/unauthorized transfers

Employee Turnover Division Total

US Bureau of Labor Statistics (BLS) Finance & Insurance Data for Industry Averages

	2005 Baseline	Oct 2012 Peak	2011-2015
US Industry Average	22.5%	Ind Avg 23.3%	Ind Avg 20.3-26.3%
Wells Fargo	Not Disclosed	~41%	Greater than 30% every year

Employee Turnover by Position

2017 Independent Board Report Findings

2010 Position Specific Employee Turnover	Tellers	Personal Bankers	Service Managers	Branch Managers
US Peers	28%	23%	8%	10%
Wells Fargo	33%	27%	10%	11%

These figures summarize three "early warning" signal areas: account quality, funding integrity, and frontline workforce stability. The **Rolling Funding Rate (RFR)** is an internal indicator of new-account quality (whether accounts are funded in a way consistent with real customer intent). The **Simulated Funding Analysis** reflects a post-scandal review of accounts potentially funded through simulated activity or transfers rather than genuine deposits. The **Employee Turnover** panels flag workforce churn as a pressure-and-control signal, with position-specific comparisons showing how key frontline roles tracked against peer benchmarks.

Sources: Independent Directors' Report (Apr 10, 2017); BLS/JOLTS Finance & Insurance separations rate (JTU5200TSR).

Appendix A: Early-warning metrics

Employee Integrity Metrics	Baseline (Q2 2007)	Peak (Q4 2013)	“Return” (Q1 2016)
Allegations (all sales-practice misconduct)	288	1,469 (+410.10%)	958 (-34.80% vs peak; +232.60% vs baseline)
Terminations/resignations (all sales-practice misconduct)	61	447 (+632.80%)	162 (-63.80% vs peak; +165.60% vs baseline)

Employee Integrity Metrics	Baseline (Q1 2008)	Peak (Q4 2013)	“Return” (Q1 2016)
Allegations (customer-impact-likely subset)	336	1,050 (+212.50%)	730 (-30.50% vs peak; +117.30% vs baseline)
Terminations/resignations (customer-impact-likely subtypes)	106	339 (+219.80%)	122 (-64.00% vs peak; +15.10% vs baseline)

- These **Employee Integrity Metrics** summarize quarterly investigation signals at three points in time: baseline (Q2 2007 for the “all misconduct” series; Q1 2008 for the subtype-based “customer-impact-likely” series), peak (Q4 2013), and a partial decline by Q1 2016 (“return”).
- **Allegations** are quarterly counts of referrals/reports of potential misconduct entered into the ICE investigations system (a proxy for how much suspected misconduct is being flagged). The customer-impact-likely series excludes subtypes less likely to affect customers and begins in 2008 because subtype coding was not established before then.
- **Terminations/resignations** are quarterly counts of employees leaving as an outcome of investigations (a proxy for cases escalating to consequences), with a customer-impact-focused version for higher-risk categories.
- A practical flag for readers: the **customer-impact-likely series starts later (2008)** and is a subset of the all series, so it isn’t a like-for-like baseline comparison — but the fact that customer-impact-coded allegations are already higher in Q1 2008 than all allegations were at baseline in Q2 2007 underscores how early these signals of rising violations were present.

Source: Independent Directors’ Report (Apr 10, 2017).

Appendix B: Timeline

Date	Milestone	Details	Case Study
1998	Wells Fargo merges with Norwest	Merger; leadership emphasizes cross-selling as a core growth strategy (incl. expectation of selling "one more product" per customer each year).	Pages 6-8
1999	"Going for Gr-Eight" featured	Annual-report-era disclosures formalize "eight products per household" as an explicit aspiration.	Pages 9-11
2002	Internal Investigations sees increase in sales integrity cases	Board-commissioned investigation later notes Internal Investigations first noticed an increase in sales integrity cases in 2002.	Pages 12-15
2004	"Gaming" report warns goals seen as unattainable without misconduct	Internal Investigations "Gaming" report: employees felt they "cannot make sales goals without gaming the system," citing job-loss fear and reputational risk. Later investigation finds no evidence the report/recommendations were escalated; later memo did not convey the report's content.	Pages 12-15
2011–2016 (Jan 1, 2011–Mar 7, 2016)	≈5,300 employees terminated for sales-practices violations	Independent directors later report ~5,300 terminations over this period; Board learned the aggregate figure at time of Sept 2016 settlements.	Page 21
2013 (Oct–Dec)	LA Times reports Los Angeles-area firings tied to accounts "never used"	External reporting on sales pressure and improper account openings; bank characterizes issue as involving a limited number of employees.	Page 18
2015 (May)	Los Angeles City Attorney lawsuit filed	Independent directors later note lawsuit alleging widespread improper sales practices; regulatory scrutiny intensified thereafter.	Page 20

Appendix B: Timeline

Date	Milestone	Details
2016-09-08	CFPB/OCC/LA enforcement actions announced	CFPB action over unauthorized deposit and credit-card accounts; settlements with OCC and Los Angeles City Attorney total $185M (plus remediation). Management accelerated end-date for retail product sales goals to Oct 1, 2016.
2017-04-10	Independent directors release investigation report	113-page investigation report (with assistance from Shearman & Sterling) identifies governance/oversight breakdowns and incomplete reporting to the Board.
2018-02-02	Federal Reserve imposes asset growth restriction	Fed restricts growth beyond end-2017 total asset size until governance and risk-management improvements are made.
2020-02-21	DOJ announces resolution	$3B DOJ resolution; statements describe pressure-driven sales practices and “millions” of unauthorized accounts/products during 2002–2016.
2020-02-21	SEC announces settlement	$500M SEC settlement; findings that investors were misled about sales practices and related disclosures; also describes “millions” of unauthorized/fraudulent accounts/products during 2002–2016.
2025 (May 30 / announced Jun 3)	Federal Reserve lifts asset growth restriction	Fed lifts the asset growth restriction after determining required conditions were met.

References

Link	Document	Reference
<>	Wells Fargo & Co. Annual Report (1998).	1998 (late) Norwest merger; cross-sell framing
<>	Wells Fargo & Co. Annual Report (1999).	1999 ‘Going for Gr-Eight’ disclosures
<>	Wells Fargo & Co. Annual Reports (2002–2004).	Cross-sell metrics / products per household baseline assertions
<>	Wells Fargo Independent Directors, Sales Practices Investigation Report (Apr 10, 2017).	2002 internal signal; 2004 ‘Gaming’ report; 5,300 terminations; ICE/FTI trends; board oversight
<>	Los Angeles Times (2013).	2013 external reporting on sales practices
<>	City of Los Angeles City Attorney (May 2015) — lawsuit/complaint.	2015 (May) litigation escalation
<>	CFPB Consent Order (Sept 8, 2016).	2016 enforcement milestone (unauthorized accounts)
<>	OCC enforcement action (Sept 8, 2016).	2016 enforcement milestone (OCC)
<>	Los Angeles City Attorney settlement/announcement (Sept 8, 2016).	2016 enforcement milestone (LA)
<>	Federal Reserve enforcement action (Feb 2, 2018).	2018 asset growth restriction (cap)
<>	U.S. DOJ resolution (Feb 21, 2020).	2020 DOJ settlement ($3B)
<>	U.S. SEC settlement/order (Feb 21, 2020).	2020 SEC settlement ($500M)
<>	Federal Reserve announcement (Jun 3, 2025).	2025 lifting of growth restriction (effective May 30, 2025)
<>	Vanity Fair (Levin, Apr 10, 2017).	Secondary narrative / culture recap
<>	Vanity Fair (McLean, May 31, 2017).	Secondary narrative / culture framing

References

Link	Document	Reference
<>	DOJ (Tolstedt criminal case) — U.S. Dept. of Justice (CDCA), Press Release (Mar 17, 2023).	DOJ (Tolstedt criminal case) — U.S. Dept. of Justice (CDCA), Press Release (Mar 17, 2023). Tolstedt plea re: obstructing a bank examination (criminal accountability outcome)
<>	SEC (Tolstedt settlement) — U.S. Securities and Exchange Commission, (May 30, 2023).	SEC (Tolstedt settlement) — U.S. Securities and Exchange Commission, Press Release 2023-99 (May 30, 2023). Tolstedt SEC settlement re: misleading investors (accountability outcome)
<>	OCC (Stumpf penalty/ban) — Office of the Comptroller of the Currency, News Release (Jan 23, 2020).	OCC (Stumpf penalty/ban) — Office of the Comptroller of the Currency, News Release (Jan 23, 2020). OCC announces CMP + prohibition actions (includes Stumpf penalty/ban)
<>	OCC (Stumpf order) — Office of the Comptroller of the Currency, Enforcement Action EA-2020-004 (Jan 22, 2020).	OCC (Stumpf order) — Office of the Comptroller of the Currency, Enforcement Action EA-2020-004 (Jan 22, 2020). Primary enforcement document: Stumpf civil money penalty + prohibition (exact amounts/terms)
<>	BLS/JOLTS Finance & Insurance — Total Separations Rate (Series: JTU5200TSR).	BLS/JOLTS Finance & Insurance — Total Separations Rate (Series: JTU5200TSR). Industry turnover benchmark used for "US industry average" comparisons
<>	BLS JOLTS Table 20 (definitions/notes). Definitions/methodology for separations rate (supports benchmark interpretation)	BLS JOLTS Table 20 (definitions/notes). Definitions/methodology for separations rate (supports benchmark interpretation)