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Wells Fargo Struggles to Revamp

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Wells Fargo is still trying to fix itself.

Seven years after a fake-accounts scandal engulfed the bank, thousands of employees are grappling with how to best catch or prevent problems in everything it does.

Each day, employees gather in virtual and in-person "workshops" to map out the risks that come with big moves such as foreclosing on a home and small moves like allowing a customer-service representative to override a late fee. How best to manage those risks is debated. Employees regularly present before a panel of superiors, and their work either is waved through or sent back.

Risk exercises are common at many companies, but the stakes are higher at Wells Fargo. The bank needs to upgrade its risk and control functions to its own liking -- and to satisfy regulators.

The Office of the Comptroller of the Currency, Wells Fargo's primary regulator, raised the possibility in January of breaking up banks that can't put adequate controls in place. It didn't mention Wells Fargo specifically, but the bank was widely seen as a focus of the remarks.

The bank's stock is down about 15% since the scandal erupted in September 2016, while JPMorgan Chase's has more than doubled. Wells Fargo hasn't been able to shake a 2018 order from the Federal Reserve that handcuffed its ability to grow. And the bank, once a prolific buyer of other banks, has been cutting staff and shrinking business lines.

For many inside Wells Fargo, it feels like a make-or-break moment.

Chief Executive Officer Charlie Scharf spoke at a conference in May about what he perceived to be regulators' growing willingness to take drastic action when banks aren't meeting their expectations. "Until our work is done, we're still at risk," he said.

The risk exercises are expected to last for at least another year, according to people familiar with the matter.

In these workshops, technically called "risk control self assessment," employees document how a banking service works, the risks, the controls that mitigate those risks and any gaps that need to be filled with new controls. In a bank, controls do such things as alerting a teller to ask for identification before cashing a check.

The work sometimes has setbacks. Last year, the control work for check and cash processing at the bank's back-end operations centers returned to the drawing board because there was no control in place for employee fraud, according to people familiar with the matter.

Banking today looks less like a collection of corner branches than webs of digital systems that move money around the globe. Many banks rely on aging **technology** accumulated through decades of acquisitions. The challenge is to rework these complex webs while juggling heavy regulatory scrutiny and avoiding business disruptions.

"It takes a long time to turn a big ship," said Jason Goldberg, an analyst at Barclays. "And Wells Fargo is certainly one of the biggest."

The task is all the more challenging for Wells Fargo, which, once the scandal broke, was criticized for having a culture that was insular and decentralized.

"If you can change a culture in seven years, you've done a good job," said Thomas Hoenig, former president of the Kansas City Fed and former vice chairman of the Federal Deposit Insurance Corp., who hasn't directly supervised Wells Fargo. "If you can't have major progress after seven years, you're probably not doing it right."

Scharf said in a letter to shareholders earlier this year that the bank needs to meet regulators' expectations for risk and controls with the speed and quality they expect. "This will remain our top priority," he wrote.

The urgency to right the ship and the strain that effort entails, is felt across the bank's workforce, current and former employees said. A manager wrote in January to his team that works on internal controls, "Each of us is under tremendous stress, whether we acknowledge it or not, and that stress builds over time."

Some workers doing the risk exercises have had to tell their families that they might be scarcely seen for a while. Others had to cancel family vacations to meet deadlines.

Scott Powell, Wells Fargo's chief operating officer, said the bank appreciates the hard work employees are putting into this effort. The bank has support systems in place for employees in the control-evaluation process. In general, there is nothing unique about the timelines, he said.

"We're always talking about how we can make our programs better, and we regularly make enhancements," he said. "If we thought for a second we were creating a process that wasn't achievable, we would modify it."

Years before the fake-accounts scandal, Wells Fargo enjoyed a reputation as a well-run, low-risk place. Underneath, executives pressed an aggressive sales culture. Branch employees sometimes opened customer accounts using fictitious or unauthorized information to meet sales goals.

In September 2016, federal and local authorities slapped the bank with $185 million in fines for the fake accounts. Soon, problems were coming to light in nearly every corner of the bank.

Regulators concluded Wells Fargo couldn't manage its own risk. In 2018, the Fed took the unprecedented move of capping Wells Fargo's growth.

Scharf joined the following year, the third CEO since the scandal. He tossed out the bank's previous overhaul efforts and drew up a new plan to rework internal controls.

Scharf has said that when he took the job, he expected the bank to be further along than it was. In the four years since, things have taken longer than many expected.

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