

# Enterprise Risk Management- Wells Fargo Account Opening Scam (Case Study)

## **PART B**

a.

- Lack of segregation of duties.

There should be lack of segregation of duties in new account opening and closing process and employees' performance evaluation process. If there was separate monitoring process to check above mentioned two processes, management of bank had able to eliminate this scandal. Therefore, lack of internal controls has been led to this scandal.

- Not having proper data analytic system to trigger irregularities.

Data analytic systems are widely used in banking sector. Considering Wells Fargo bank scandal, it indicates that bank didn't use proper data analytic system to monitor any irregularities. If there was data analytic tool, it could be easily triggered that some accounts were opened and closed unusually within short time period.

- Culture and values of bank do not create anti-fraud attitude.

Culture and values are two elements of anti-fraud triangle which against respectively pressure and rationalization. Therefore, if there are strong culture and value system against fraud, employees did not tempt to do any fraud or misconduct even though there are opportunities. According to this scenario, culture and value system of Wells Fargo bank was not strong enough.

- Not having proper customer complains management system.

Since, some customers noticed the deception when they were charged unexpected charges. Therefore, some of customers should complained about this. If there was proper mechanism to investigate customers' complaints, this issue could be identified initially. Then company had chance to internally solve the problem.

- Not having reliable whistleblowing mechanism.

If there was reliable whistleblowing mechanism, there was a chance that some employee revealed this through whistleblowing mechanism. However, this scenario indicated that there was not proper reliable whistleblowing mechanism and proper action plan to react. The culture or value

system does not encourage employees to follow whistleblowing process if there was not proper action plan.

b.

Large amount of employees of the bank engaged in fraudulent activity. This indicates that employees felt comfortable crossing the line and they did not consider it as a fraud. It is an indication that organization culture may have encouraged the fraudulent practices.

Bank has had rewards driven culture among employees than customer centric culture. Well Fargo employees have not considered how their conducts affected customers in term of overdraft fees and credit ratings. Even they considered, they rationalized it. This indicates that the organizational culture also led them to rationalize the misconduct. Bank's pressure cooker sales culture has battered employees' morale and led to breach the professional ethics. Performance evaluation and Reward mechanism should be based on both quantitative and qualitative aspects. However, in this case, bank organizational culture mainly focused on only quantitative aspect. Ethical practices were not encouraged since main focus was on profitability.

Considering previous success of the bank, it can be assumed that bank mainly focus on risks such as credit risk, liquidity risk, market risk, operational risk etc. However, reputational risk is one of the important risk that related to culture, values and professional behavior of the employees. However, Wells Fargo bank didn't consider about much.

On the other hand, risk culture of the organization is based on combination of risk appetite and risk tolerance. Some companies do not tolerate simple misconduct. Even management level employees of bank didn't consider this as serious misconduct since high risk tolerance level of the bank. Further, bank may not have encouraged a culture which calculated risks which encourage new product development innovation.

c.

Yes

It was an easily preventable scandal if corporate management of the bank took necessary actions on time. It is clear that corporate management did not take proactive measures to prevent this kind of scandal. Intern audit department normally report to board and audit committee. Corporate management of the bank has a responsibility to strengthen and maintain the internal controls of the process. However, it seems that bank did not have proper internal control mechanism. If there was proper monitoring system, this scandal could be easily prevented. Therefore, the scandal was the results of serious oversight failure by corporate management. Further, bank's decentralized structure is also blamed to lack of internal control and monitoring mechanism.

Corporate management did not encourage a culture driven by values. Organizational culture mainly develop based on the leadership. Bank's reward driven culture led employees to misconduct. If leadership of the bank encouraged following customer centric value system rather culture driven by profits and performances, this scandal would not be occurred. Further, employees are highly pressurized to achieve the targets. Employees' performance need to base on both quantitative and qualitative aspects. however, Wells Fargo corporate management mainly focused on quantitative aspect and it led to stress to employees to achieve targets. Bank mainly focus on the best interest of customers and need to adopt its operation according to that. Higher management has main responsibility to create that environment and Wells Fargo management failed to do that.

Strategic aspects, management of the bank did not focus about growth strategies other than product development. Performance evaluation of the bank should have focus on innovative aspects to improve the revenue. Management of the bank has main responsibility to drive the strategy of the bank. Therefore, in many aspects corporate management of Wells Fargo bank should held accountable for the malpractices.

d.

Yes

Incentive structure of the bank was directly caused to the scandal. So many employees' have done this because they were evaluated and paid based on how many new accounts they opened. Bank only focused on the quantity and didn't consider how it impact to profitability in incentive structure. Profitability of the bank increases when higher amounts are debited and keep relatively longer time. However, incentive structure didn't consider both time and amount. therefore, incentive structure did not align with effective goals and also it led employees to do the malpractice.

On the other hand, incentive structure pressurized employees for cross selling and did not recognize and reward ethical dealing with clients. Incentive structure should not only focus financial measures. It should also focus on values of the employees. employees who are ethically dealing with customers should have been recognized and rewarded. However, incentive structure of Wells Fargo bank didn't consider those aspects. Short term sales goals could lead employees to cheat. Therefore, incentive structure should be properly designed.

Incentive schemes are one of main areas that employees try to do frauds. Therefore, internal controls should be tighten in this area. However, in Wells Fargo bank, there was not proper system to monitor how performances were achieved. Incentive structure need to be combined with corporate culture. However, no one can expect every employee of the organization respect the values similarly. Therefore, there should be strong internal control process.

Further, incentive structure of bank has only focused on product development. If company focused on market development and diversification, more, both bank and employees interest would be addressed. Further, bank did not recognized innovations of employees and innovative ways of selling in incentive structure. This led employees to only focus on cross selling to get more incentives. Therefore, in many ways, incentive structure of bank became a reason for the scandal.

e.

- Use data analytic system to trigger irregularities.

Currently, there are many data analytic tools to identify irregularities in data sets. If bank used data analytics tool, it could be easily triggered that there are some accounts are opened and closed within short time period. Further, it can also can identified unusual money transfers. Then internal auditors can conducts sample checks in those highlighted areas.

- Conduct fraud awareness programs to change the risk culture of the bank.

Fraud awareness program could be conducted to educate about the consequences of frauds and importance of integrity to employees. this could create new culture within the bank that respect the values of the bank. Further, whistleblowing mechanism could be strengthen by making it reliable and effective. Tips should have been properly investigated and confidentially of the whistleblowers should have been protected. This is really important since most of the frauds are detected based on the tips. Whistleblowing policy should have been properly communicated to all employees. Further, zero tolerance policy for fraud should have been practiced in the bank.

- Conducts periodic audits.

Period audits should have conducted especially in areas such as incentives. Instead of process audits, period spot audits should have been conducted. This could be lead to detect the issue and also create environment that employees avoid any misconducts.

- Implement segregation of duties.

There should have been proper segregation of duties in those critical processes. Especially, areas such as incentive structure should have been properly monitored. Further, bank should have been conducted job rotation, job enhancement and job enrichment time to time.