What We Learned From Wells Fargo’s Earnings Today

13 January 2017 By: Mark Schwanhausser

Many people circled today’s date on the calendar because it is Friday the 13th. I did it because Wells Fargo released its earnings today. My bias was to comb for insight related to impact of the bank’s scandal over unauthorized account opening, damage to customer trust and brand image, and digital-first pressures on the branch system. Among the takeaways:

The bank is still auditing to determine the depth of the scandal. This scandal has underminded consumer trust, tarnished the bank’s brand image, and made it a magnet for regulatory audits, reviews, and penalties that will extend the pain. It will take a concerted effort on multiple fronts, including with identifying the depth of the scandal and monitoring its new compensation system. I look for an increase in emphasis on digital tools that can build trust by delivering insight and demonstrate that the bank wants customers to avoid financial missteps.

Here’s what the bank said it knows in the wake of the scandal:

- It reached out to 168,000 customers by year’s end regarding potentially unauthorized credit cards.
- It had paid $3.2 million in refunds through 12/9/16, related to unauthorized consumer and small business accounts opened from May 2011 to June 2015. That might not be the end of it. Audits continue on both ends of that window.
- It continues to probe whether customers saw credit scores drop because of the abuses. About 31% of affected customers saw their scores drop (9-point median).
- Key changes in the compensation program include eliminating product sales goals; setting new performance measures based on customer service, growth in primary customers/relationship, risk; and longer-term metrics for customer relationship. The bank also raised minimum wages to $13.50 to $17/hour, affecting about 26,000 workers.

Look for more branch closures. Many factors are contributing to this. The scandal is obviously one, causing a slowdown in account opening as customers and the bank itself to tap the brakes. But digital-first customers are also fundamentally changing transaction traffic, and the bank is encouraging that with its online revamp and mobile upgrades in 2016. The upshot is that Wells will more than double branch closures from 84 in 2016, to 200 in 2017 and 200-plus in 2018.

- Transactions with branch bankers dropped 14% YoY, largely because of slowdown in account opening. Checking applications and consumer credit applications plunged YoY (40% and 43%, respectively). Auto loans also dropped (21% from last quarter), but the bank blames seasonality and risk, not the scandal. In contrast, mortgages zoomed 53% YoY on a wave of refinancing.

Relevant quotes from the earnings call that add color to these takeaways, according to a transcript from Seeking Alpha:

CEO Tim Sloan on coping with the scandal: “We've accomplished a lot over the past few months but we still have a lot of work to do and we understand that it'll take continued effort and time to rebuild trust with our customers, team members and other key stakeholders.”

My takeaway: Look for more features that improve the ability to monitor and manage money digitally, such as alerts about overdrafts.

Sloan on cutting branches: “What you saw last year is us increasing the pace of branch rationalization…What that’s reflecting is us listening to our customers in terms of how they want to do business with us. They still want to come in to branches, but they also are accessing us via online and mobile, and through ATMs, and on the phone. So our strategy is really based upon listening to customers and looking at their habits and how they want to interact with us…What we’ve concluded is that we should increase the pace of rationalization to about 200 this year.”

Sloan on helping customers avoid overdraft fees, which involves a past change in how it uses online and mobile channels to monitor transactions that will post overnight: “The more that we can provide information to our customers so that they can make good decisions about how to manage their money, the better. And we're going to continue to look at ways in which we can use technology particularly through mobile to provide that information, so it’s much more customer friendly to them.”

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