Wells Fargo Wealth Investigation 'A Big Deal'

Industry watchers expect the probe into the wealth management unit to hurt advisor recruiting and retention.

By Janet Levaux | March 02, 2018

A Wells Fargo bank branch in New York. (Photo: Bloomberg)

One day after Wells Fargo said it was reviewing (https://www.thinkadvisor.com/2018/03/01/wells-fargo-reviewing-401k-rollovers-incorrect-wea/) some overcharges and incorrect wealth management fees, as well as possibly "inappropriate" referrals and recommendations affecting 401(k) rollovers to its wealth unit, industry watchers are speaking out on what the latest developments mean for the group's 14,500 advisors.

“Now the investigation [of Wells Fargo] is finally hitting [its] advisory business,” said recruiter Danny Sarch of Leitner Sarch Consultants, in an interview.

“This is a big deal. Earlier investigations were related to banking. Now it’s here,” he explained, adding that he has fielded calls from three Wells Fargo registered reps who may leave the firm.

Over the past 18 months, the firm has been in the spotlight over a variety of fraudulent banking and other non-wealth problems.

“Will things continue to be as relentless as they’ve been?” Sarch asked.

Wells Fargo is working with the law firm Shearman & Sterling (https://www.law.com/newyorklawjournal/2018/03/01/shearman-sees-profits-rise-as-revenue-stays-steady/), which handled earlier investigations, to conduct the review of the wealth unit, according to several reports.

“You do not hire this [legal] team … casually,” the recruiter said.

“There’s a lot of speculation at this point,” Sarch said. “But my instincts tell me there’s always more to the story … and this could be the tip of the iceberg.”

Broader Impacts

“Any series of ongoing issues can impact financial advisors’ ability to prospect and retain clients, and hence the same series of issues can have an impact on recruiting and retention of financial advisors,” explained Chip Roame, head of Tiburon Strategic Advisors.

Wells Fargo’s reference to “problematic fee calculations” (in its latest 10-K filing (https://www.sec.gov/Archives/edgar/data/72971/000007297118000272/wfc-12312017x10k.htm)) “sounds like someone at HQ misapplied some fee schedules, maybe schedules that should have been lower on fiduciary accounts,” Roame explained.

While such errors may not come as shock to advisors, prospective clients might find such activities “sneaky,” the consultant says. Advisors do not want to deal with questions about such issues from clients, whether they directly affected them or not.

As for the “inappropriate referrals and recommendations affecting 401(k) plan rollovers,” it could be that some financial advisors might have made mistakes and perhaps wrongly encouraged some clients to exit these plans for higher cost products, according to Roame.

“This can still be an appropriate move, though, if the clients receive more services — like financial planning — from the financial advisors,” he explained.

What’s Next?

Andy Tasnady of the compensation consulting group Tasnady and Associates, however, sees the latest reviews as being “on the fringes of main business.”

Alternative investments, mentioned as part of the rollover review, “are a very small percent of their business,” Tasnady explained.

But because Wells Fargo has been in news a lot recently, the firm is getting lots of attention today.

“Firms want to know if there are things being uncovered [so they have] an opportunity to put in better controls,” he added.

With the Federal Reserve also watching it carefully, it appears the bank has the time it needs to make such changes.

“We will not lightly lift” the growth restriction now on the bank, Fed Chairman Jerome Powell said during a Senate Banking Committee hearing on Thursday, according to a Bloomberg report. Powell also said Wells Fargo could face sanctions for a “significant period.”

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