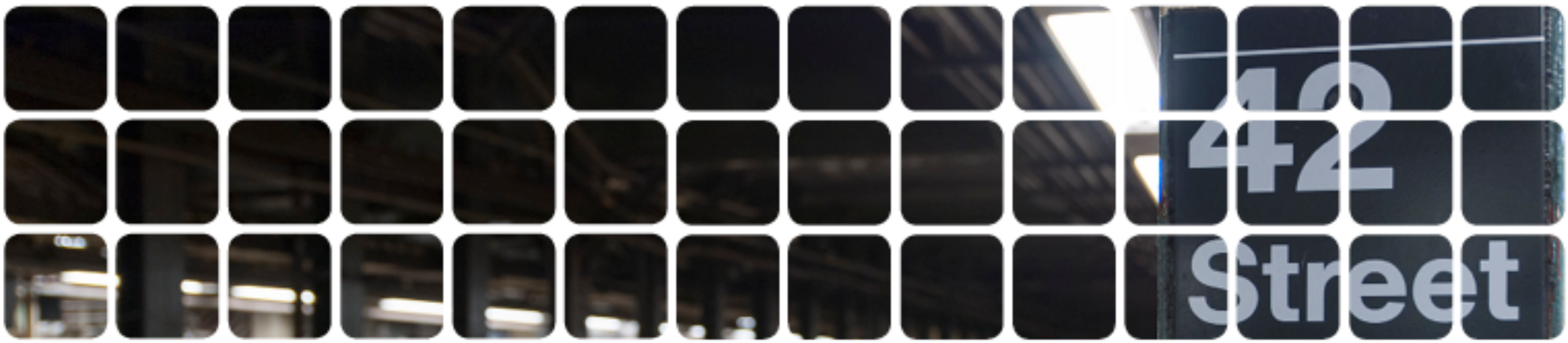
Wells Fargo Mini-Study

October 2016



Welcome to the October 2016 Wells Fargo Mini-Study

Our October 2016 Wells Fargo Mini-Study aims at understanding and modeling the impact of Wells Fargo's fraudulent sales scandal[1] on its reputation, competitive position and finances. This study is part of our continuous coverage of the U.S. Retail Banking industry and our bi-annual Retail Banking Vulnerability Studies, which model customer attrition across the Top 10 U.S. Retail Banks and its financial impact to the industry.

In this study, we seek to answer the following questions in particular:

+ To what degree has Wells Fargo's reputation been tarnished by the scandal?
+ How will the scandal impact switching behavior for Wells Fargo?
+ What is Wells Fargo's projected financial loss–both in terms of deposits and revenues–over the next 12-18 months?
+ Which banks are most likely to benefit from the fallout?

Methodology:

+ Online survey of 1,500 primary customers of the Top 10 U.S. Retail Banks:
  – 1,000 Wells Fargo primary customers
  – 500 primary customers at the other Top 10 U.S. Retail Banks
    (Bank of America, Chase, Citibank, SunTrust, BB&T, TD Bank, PNC Bank, Capital One and US Bank).
+ Sample is representative of the U.S. Market
+ Field dates: October 18 through October 20, 2016

[1] On September 8, 2016 Wells Fargo was fined $185 million by the Los Angeles City Attorney and the Office of the Comptroller of the Currency (OCC) for the fraudulent opening of more than 2 million accounts without customers' knowledge or permission between May 2011 and July 2015. The fraudulent activity is believed to be the result of aggressive sales targets and sales-oriented incentive-compensation program set by senior management which rewarded employees for "cross-selling" as many banking products and services as possible to its existing customers.

Summary of Key Findings

The results of our Wells Fargo Mini-Study paint a bleak picture for the largest U.S. retail bank and—unfortunately—validate the ominous findings from our 2011-2015 Retail Banking Vulnerability Studies where we predicted Wells Fargo stood to lose tens of billions of dollars in revenues and deposits if they did not address the frustration of “trying to be sold on products I don’t need or want,” which customers reported as the *one* frustration they experience most frequently.

The fallout from Wells Fargo’s fraudulent sales practices has been significant: the scandal has been playing out on the news for weeks, the bank has been fined millions of dollars, and thousands of employees—including its CEO—have lost their jobs. **But as our study reveals, the full financial impact of the scandal is yet to be felt.**

Our findings show significant damage has already been inflicted on the bank’s reputation. **Over 85% of consumers surveyed are aware of the scandal**, and positive perceptions of the brand sunk from 60% before the scandal to 24% post-scandal. More tellingly, **negative perceptions of the brand increased from 15% before the scandal to 52% post-scandal.** This blow to Wells Fargo’s reputation will hamstring the bank’s ability to retain customers and attract new ones, as our study reveals.

While only 3% of Wells Fargo’s customers report being affected by the scandal, a full **30% claim they are actively exploring alternatives and 14% have already made the decision to switch banks as a result of the scandal**. This represents $212B of deposits and $8B of revenues at risk. Our projections indicate **Wells Fargo will lose $99B in deposits and $4B in revenues over the next 12-18 months as a direct result of the scandal**, dealing a hard blow to the bank’s finances.

Consistent with findings from our past Retail Banking Vulnerability Studies, **community and regional banks stand to gain the most from the fallout of the scandal, with a projected $38.7B in gained deposits and $1.6B in gained revenues over the next 12-18 months.** Chase and Bank of America will also profit from the fallout, largely due to their national presence which makes them a viable alternative for customers who seek the convenience of a bank with branches across the U.S.

Compounding the issue of an eroding customer base, **Wells Fargo’s ability to attract new customers has also been significantly impacted by the scandal.** Prior to the scandal, 21% of prospects were very or extremely likely to consider doing business with the bank. **Post-scandal, only 3% say they would do business with the bank.** Similarly, before the scandal about 22% of non-customers claimed to not be likely at all to do business with the bank. That number has more than doubled to 54% post-scandal.

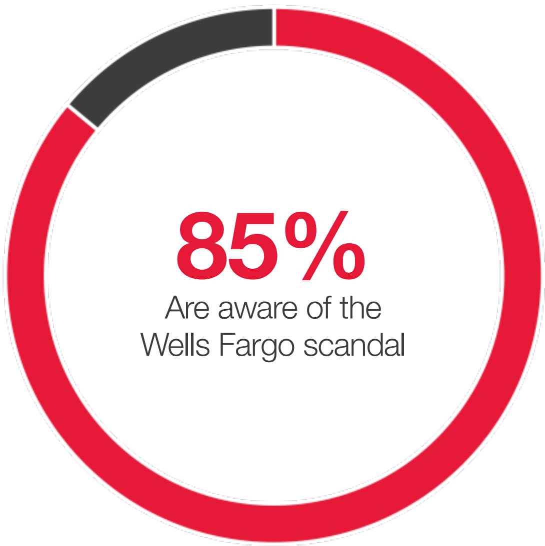
The short and medium term outlook for Wells Fargo is gloomy, and the fallout from the scandal will impact the bank’s bottom line for years to come. Other banks should be quick to take note in order to avoid similar missteps.

"I realized the bank was responsible for the 'mistake' of trying to open a new account for me a few years ago. Thankfully, I caught it!"

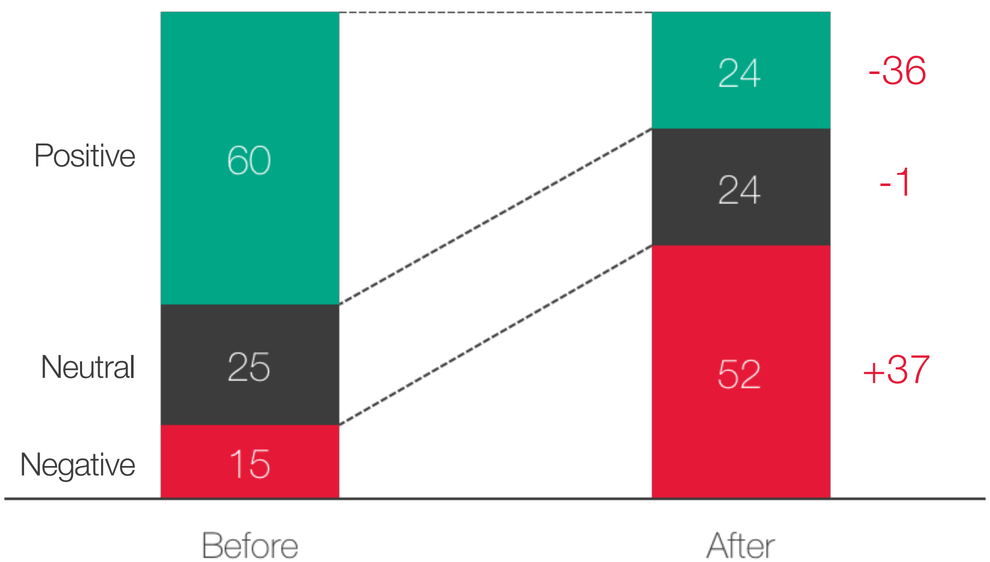
-Wells Fargo Customer

An overwhelming majority of consumers are aware of the Wells Fargo scandal and it is negatively impacting perceptions of the brand.

Awareness of Scandal



Impact of Scandal on Perceptions of Wells Fargo

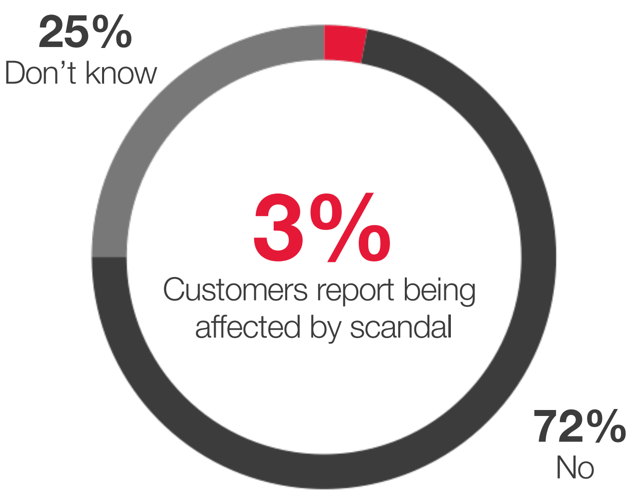


“I am looking to switch after the recent Wells Fargo scandal of employees opening accounts under customers' names without their permission.”

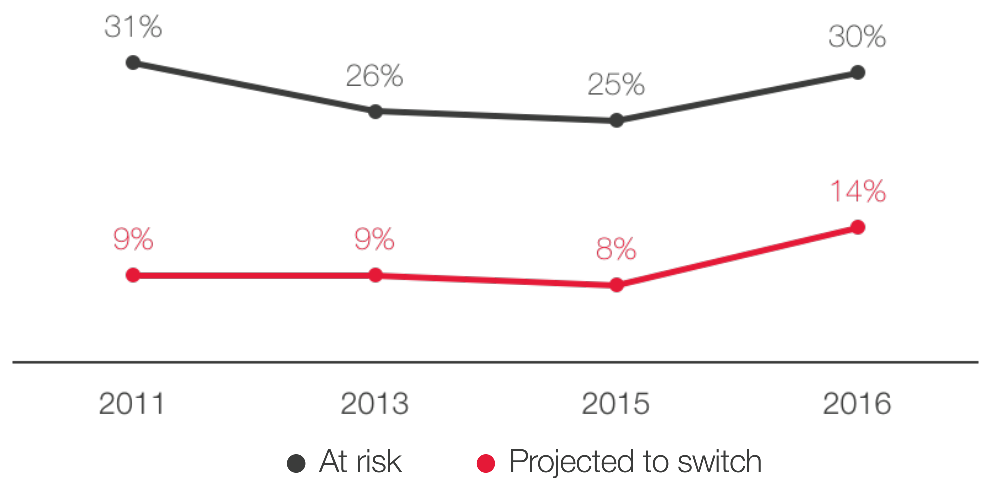
-Wells Fargo Customer

While only 3% of Wells Fargo's customers report being affected by the scandal, 14% are projected to switch in the next 12-18 months—representing $99 billion in deposits and $4 billion in revenues lost.

Wells Fargo's Customers Affected by Scandal



Impact of Scandal on Switching for Wells Fargo over the next 12-18 months



	Deposits (US$ Billions)	Revenues (US$ Billions)
Projected to switch	$99	$4
At risk	$212	$8

Community and regional banks stand to gain the most over the next 12-18 months from the fallout of the Wells Fargo scandal.

Projected Beneficiaries of Wells Fargo's Deposit & Revenue Losses

$99 billion
Wells Fargo's projected deposits lost over the next 12-18months

$4 billion
Wells Fargo's projected revenues lost over the next 12-18months

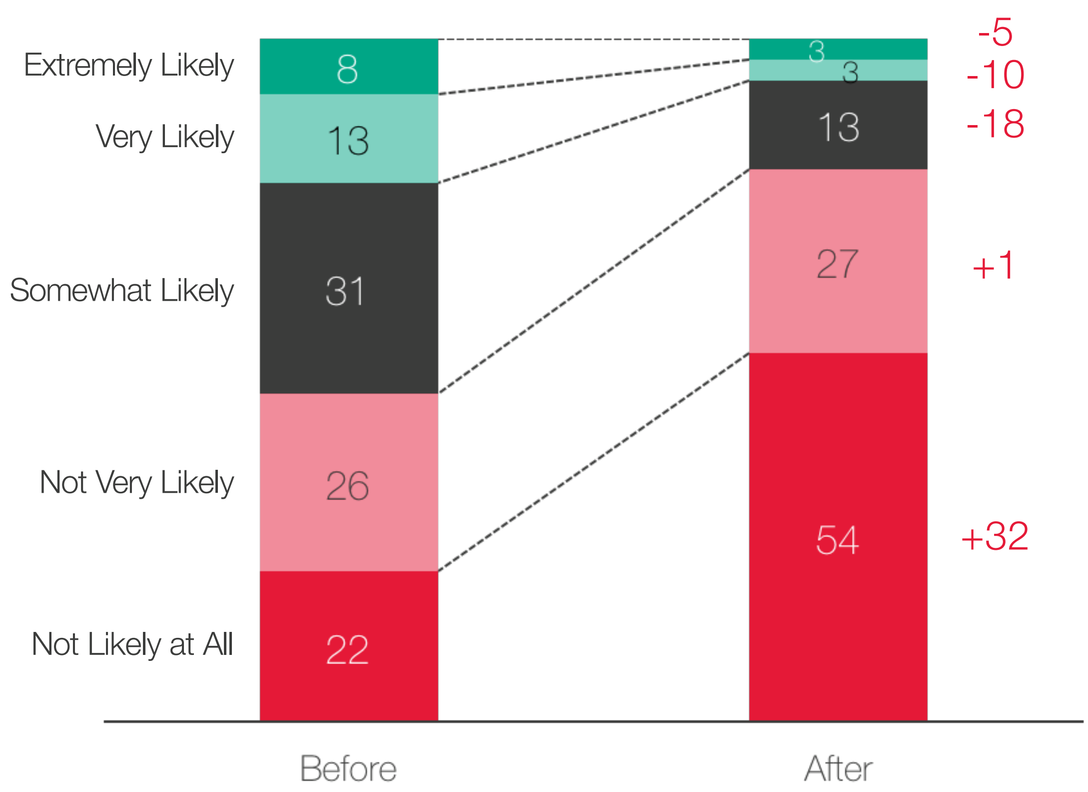
	Gained Deposits (US$ Billions)	Gained Revenues (US$ Billions)
Community/Regional Banks	$38.7	$1.6
Chase	$17.9	$0.7
Bank of America	$13.3	$0.5
U.S. Bank	$7.9	$0.3
TD Bank	$7.5	$0.3
Citibank	$4.6	$0.2
SunTrust	$2.9	$0.1
BB&T	$2.5	$0.1
Capital One	$2.1	$0.1
PNC	$1.7	$0.1

“If I can’t trust them to have my best interests in mind, how can I trust them with my money?”

-Chase Customer

The scandal has also significantly limited Wells Fargo's ability to attract new customers.

How Likely are Prospects to Consider Doing Business with Wells Fargo?

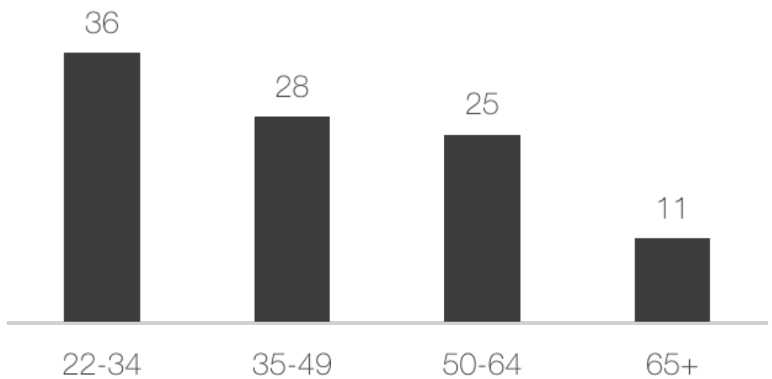


"Wells Fargo's recent activities highlighted in the news make me feel uncomfortable."

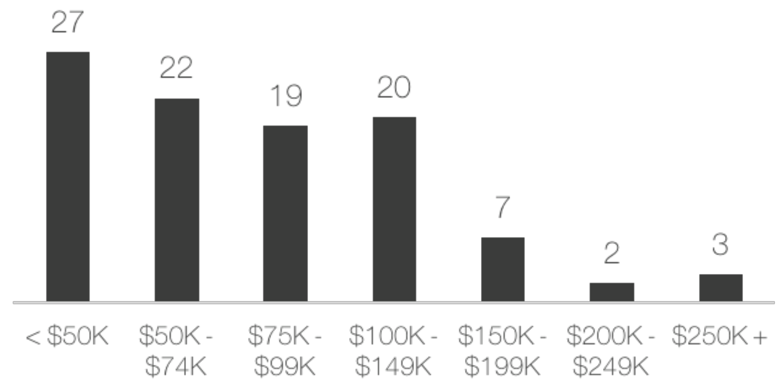
-Wells Fargo Customer

Respondent Demographics

Age



Household Income

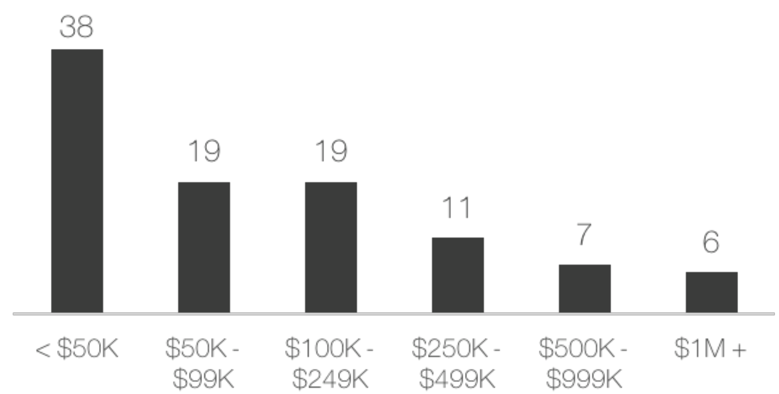


Gender

52%
Female

48%
Male

Investable Assets



! DON’T PANIC

About cg42

The biggest challenges require the boldest moves.

Since 2010, cg42 has helped some of the world’s most important companies address their biggest challenges.
+ How to put the customer first?
+ How to be one company?
+ How to compete on your terms?
+ How to grow?

Our clients all share one thing: they operate in mature, highly competitive, disruption-ready categories. We help them define and execute the bold moves required to drive rapid market share gain.

We do this by asking the questions others haven’t thought to ask, treating insights as a competitive advantage, and determining the bold moves that will align all parts of our clients’ organization to create positive change.

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