

# THE WALL STREET JOURNAL.

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## MARKETS

# What the Wells Fargo Cross-Selling Mess Means for Banks

Concept of selling customers multiple products is Holy Grail of banking, but it's tough to pull off in practice



The exterior of the downtown Cleveland, Ohio, branch of Huntington Bank. Huntington Bancshares recently said 52% of its consumer checking households used six or more services at the bank. *PHOTO: TIM HARRISON FOR THE WALL STREET JOURNAL*

By **RACHEL LOUISE ENSIGN**

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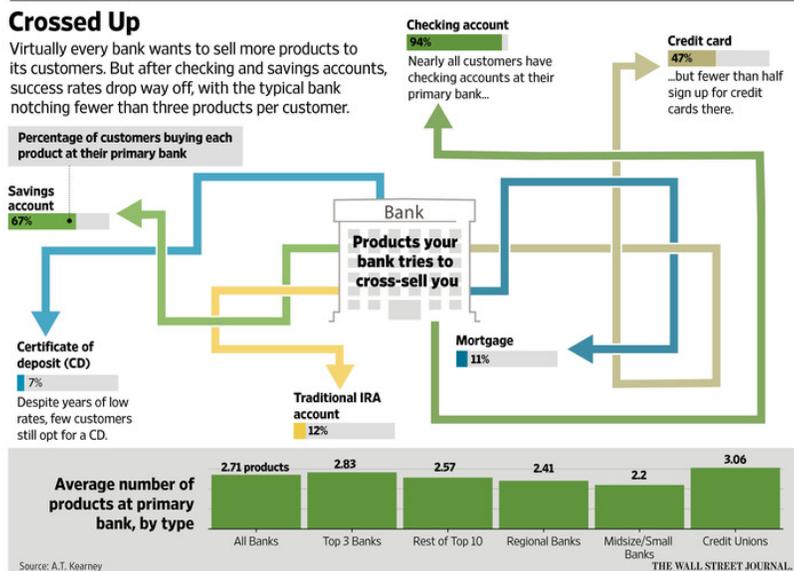
Banks are more eager than ever to grasp the Holy Grail of cross-selling. The only question after decades of falling short and a new scandal at Wells Fargo & Co. is: How?

The concept sounds simple enough. If a customer has a checking account, why not sell him a mortgage, wealth-management services and credit cards as well? The strategy has been used to justify waves of mergers and takes on more importance now that low interest rates are squeezing profits on lending.

The problem is that it is much tougher to pull off in practice. Customers on average have fewer than three products at their main bank, whether it is a national giant or a smaller regional player, according to data from consulting firm A.T. Kearney.



Cross-selling efforts have always been tricky because customers are resistant to switch lenders and many prefer to spread out their money. Borrowers can easily shop for the best deals online, and the best rates on products like savings accounts are often found outside of mainstream banks.



Some lenders are fighting back with technology. PNC Financial Services Group Inc. in recent years has started using “data-mining leads” to target customers. The bank, which declined to say what data it examines, has said about 30% of customers take the bank up on an appointment to discuss their financial situation, which often leads to cross-selling opportunities. About 65% of

the meetings lead to a sale.

“We know you’ve been looking at a car, how about a car loan?” a PNC employee might ask, said Chief Executive William Demchak.

With banks becoming larger over the past two decades, cross-selling has become a mantra. Sanford Weill used it to justify his groundbreaking merger of Travelers and Citicorp in the 1990s. More recently, Bank of America Corp. Chief Operating Officer

Thomas Montag attended a bank function with a hat and T-shirt emblazoned with the words “Cross Sell.”

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Some banks using their own metrics said they are having success cross-selling. Wells Fargo said it has an average of more than six banking products per household. But a \$185 million settlement last week with regulators alleged that some of the bank’s accounts were fake.

Federal prosecutors are looking into the bank’s behavior as well, people familiar with the matter have said. Wells Fargo neither

admitted nor denied the allegations in last week’s settlement. The crackdown led Wells Fargo this week to say it will eliminate branch-level sales goals that encouraged employees to cross-sell products to customers. It will likely make a tough job harder at other banks, too.

Measuring cross-selling is far from a science, and many banks don’t publicly release numbers on the practice. Wells Fargo said it excludes online bill pay and ATM cards from its count, while other banks include items like these, according to A.T. Kearney.

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On average, bank customers had 2.71 products at their primary bank, according to the data from A.T. Kearney, which was based on a recent survey of bank customers. That ranged from 2.83 at the country’s three largest banks to 3.06 at credit unions. While almost all customers have a checking account and 67% have a savings account, fewer than half had credit cards at their bank, only 11% took out a mortgage there, and 12%

used their bank for an individual retirement account, the firm found.

Smaller lenders generally have struggled with cross-selling. People banking at midsize and small banks have only 2.2 products at their bank on average, the survey said. On the other hand, Huntington Bancshares Inc. recently said that 52% of its consumer checking households used six or more services at the bank as of the end of June. The bank doesn't disclose which services count in the measure.

Banks have tried to create incentives for cross-selling. Branch employees can get bonuses—sometimes 10% or more of their salaries—when they sell additional products. Wells Fargo's settlement highlighted the risks of that approach. The bank has refunded about \$2.5 million in fees and fired about 5,300 employees over five years.

Some banks are wary to go so far that they could encourage employees to break rules. A spokesman for Pittsburgh-based PNC said branch employees are awarded bonuses for cross-selling, but aren't held to quotas and only get the full bonus if the account is used.

A Huntington spokesman said the lender doesn't set cross-selling goals for branches, and incentive pay takes into account "overall performance including revenue and customer experience."

When Chuck Sulerzyski took over as CEO of Marietta, Ohio-based Peoples Bancorp Inc. in 2011, he bolstered cross sales by measures like streamlining internal referrals. According to the bank's annual report and Mr. Sulerzyski, the average customer has more than six products now, up from less than four. But he said the bank doesn't tie branch employees' bonuses to the number of products they sell because that "could lead to bad behavior."

Cleveland-based KeyCorp touted cross-selling opportunities in its acquisition of First Niagara Financial Group Inc., announced last year. The deal added new products like residential mortgages for the bank and gave KeyCorp new commercial-banking clients to whom it could sell investment-banking services.

Cross-selling at a bank is "kind of like at McDonald's, where they ask 'Would you like french fries with your cheeseburger?'" said Bob Hedges, global head of A.T. Kearney's financial-services practice. "It's what they've been talking about for decades."

—Emily Glazer and Michael Rapoport contributed to this article.

**Write to** Rachel Louise Ensign at [rachel.ensign@wsj.com](mailto:rachel.ensign@wsj.com)

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