Here's why people on Wall Street cheat over and over again

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It's yet another exhausting example of how people working at a bank got up in the morning, cheated and lied to their customers, went home to their families, ate dinner, were fairly normal, went to bed, and then got up in the morning to lie and cheat at work again.

Here's what happened at Wells Fargo: Under intense pressure to meet performance targets from above, thousands of them opened fake accounts for clients.

The bank has agreed to pay a fine of $125 million (peanuts, really at a company with a market capitalization of $235 billion) and thousands — excluding the executives who ran this division, of course — were fired.

In front of Congress, Stumpf was apologetic but weak and ineffectual.

He said said Wells Fargo was dealing with the issue for a number of year before he was made aware of the issue. "If I could turn the clock back, I, we all, wish we had done something earlier," said Stumpf.

And then he said something that you could've seen coming. He couldn't remember details. Specifically, Stumpf said he couldn't remember when exactly in 2013 that he learned about the issue. He was repeatedly asked if he knew before an LA Times story on the practices, but didn't answer.

This, you see, is a Wall Street coping mechanism. It also happens to beget more disastrous behavior.


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Memories

Let's go back to a few times when Wall Street executives have gone to Congress to answer for their sins. If you've ever watched one, you've probably been struck by one thing — *these guys don't seem to remember anything.*

Two examples for you. Back in 2010 Lloyd Blankfein, the CEO of Goldman Sachs, had to take the hot seat to answer for packaging toxic mortgage bonds and shipping them off to customers around the world. This caused what we now know as our most recent global financial crisis. Big deal.

Blankfein, however, couldn't really remember much of what was done surrounding those assets. Here's an exchange from the hearing:

6:59: Collins: There's an email from you to Tom Montag. "Should we have cleaned up these books before and are we doing enough now to sell off cats and dogs?"

Blankfein: I got to the page!

Collins: That would seem to be you indicating that in early 2007, before you marketed more of these synthetic CDOs, you were saying let's clean up these residuals and push them to traders.

Blankfein: I don't remember typing this but I can tell you how I use that statement. **By "cats and dogs," I mean "miscellaneous stuff."**

This is quite an email. One that Blankfein likely typed under great duress. Goldman was incredibly diligent about clearing its books of bad assets so it wouldn't collapse like some of its peers.

But, you know, sometimes you can just forget about that time you were trying to save your multi-billion dollar international financial corporation from impending doom.


© Provided by Business Insider Lloyd Blankfein

Then there was former JPMorgan Vice Chairman Douglas Braunstein's Congressional testimony back in 2013. He was getting grilled on whether or not JPMorgan's executives — including CEO Jamie Dimon — were hiding losses related to the infamous London Whale from regulators and investors.

The Whale was a trader who blew a $6 billion hole in JPMorgan's trading book in London because he thought he could salvage a losing position (and likely because he was scared of admitting he was in deep trouble).

The bank also seemed scared. During that period it stopped sending daily profit and loss reports to the Office of the Comptroller of the Currency. When it started again, apparently Dimon flipped out on Braunstein. Braunstein was asked about that in the hearing.

From Bloomberg: “I don’t recall the specifics of his reaction,” answered Braunstein, in one of at least three exchanges in which he said he couldn’t remember details. A Senate report released this week said Dimon “reportedly raised his voice in anger” when told the profit and loss reports had resumed.

Lawmakers expressed exasperation throughout the hearing as current and former JPMorgan executives deflected assertions that the bank, Dimon and other executives misled investors and dodged regulators while losses mounted on the so-called London Whale bets.

Personally, I'd remember getting chewed out by my boss like that over a crisis like that. But hey, that's just me.


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The science

The reality of these situations is that human beings naturally muddy their memories when they have done something bad. That's according to research from Professors Maryam Kouchaki at Northwestern and Francesca Gino at Harvard.

They call it "unethical amnesia."

Here's how they described it in a recent research paper:

We identify a consistent reduction in the clarity and vividness of people’s memory of their past unethical actions, which explains why they behave dishonestly repeatedly over time. Across nine studies using diverse sample populations and more than 2,100 participants, we find that, as compared with people who engaged in ethical behavior and those who engaged in positive or negative actions, people who acted unethically are the least likely to remember the details of their actions.

That is, people experience unethical amnesia: unethical actions tend to be forgotten and, when remembered, memories of unethical behavior become less clear and vivid over time than memories of other types of behaviors. Our findings advance the science of dishonesty, memory, and decision making.

In Kouchaki and Gino's experiments, their thousands of participants played games. Those who cheated would come back with sketchy memories. Those who didn't remembered what happened clearly. This even happened when they cheaters told they were allowed to cheat.

When the cheaters and non-cheaters were brought back in to do a new task, they were much more likely to cheat. They had become unethical — repeat cheaters. They had suppressed the memory of what was wrong to the point that they didn't recognize wrong anymore.

This applies to all aspects of people lives, not just their jobs. People don't want to be bad people, so they conveniently forget when they've been bad people. That just makes them worse people.

And here's the thing. When it comes to banking this happens time and time again, in part, because we as a society don't always do the best job making the industry and it's people remember when they've done something wrong.

We allow banks to get away without admitting wrongdoing. We allow top executives to go unpunished even when behavior is systematic. We let history get rewritten.

So don't be shocked that Stumpf can't remember details about a fraud perpetuated by thousands of employees at his bank. We've seen this kind of behavior from bankers from the top of the business to the bottom. Yet we're surprised when this kind of cheating happens over and over again.

That has to be another form of amnesia in and of itself.