Banks urged to scrap billion-pound payouts

Dividends in doubt as authorities urge lenders to conserve cash

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Doubts have been raised about whether Barclays will pay a promised £1.03 billion dividend next week, as the chancellor and the governor of the Bank of England made plain that they expected banks to conserve cash and play their part in lending to struggling firms.

Royal Bank of Scotland is also thought to be debating whether to pay out £968 million in May.

Barclays is the first of the high street banks poised to pay billions of pounds in the coming weeks and its decision is seen as setting a precedent on whether payouts can go ahead or whether all spare capital should be preserved until prospects are clearer.

Gary Greenwood, a banking analyst with Shore Capital, the broker, said that while the banks looked strongly capitalised to weather the crisis, they were likely to see rising loan defaults and squeezed margins and could come under pressure to cancel dividends.

“I do wonder whether there will be a lot of backtracking, given what the Bank of England has said on the importance of capital preservation,” he said.

On Barclays, he said: “I believe there is still scope to backtrack even after the shares have gone ex-dividend.” The ex-dividend date, which started on February 27 for Barclays, is the moment at which new shareholders cease to qualify for a promised dividend. Once passed, it makes reversing a dividend much more difficult.

Yesterday bank bosses came under more pressure to extend credit after Rishi Sunak, the chancellor, Andrew Bailey, the Bank of England governor, and Chris Woolard, acting head of the Financial Conduct Authority, sent a letter urging them to co-operate to implement the new loan schemes promised to save struggling businesses.

“The priority for all of us — banks, building societies, government and the financial authorities — should now be to take all action necessary to ensure that the benefits of the measures . . . are passed through to businesses and consumers,” they wrote. “This will require a willingness to maintain and extend lending despite the uncertain economic conditions.”

Last week the Systemic Risk Council, a group of former regulators including Sir Paul Tucker, a former deputy governor of the Bank of England, said that banks should suspend all dividends, bonuses and buybacks.

The Bank of England has told banks not to take its loosening of counter- cyclical capital rules as an excuse to raise dividends, but has not said anything publicly on dividends promised. Easyjet’s decision to pay £174 million while calling for taxpayer aid was met with near-disbelief.

For now, banks look well capitalised, but the expected deep recession could lead to a flood of costly borrower defaults. Any suggestion that the banks might have to be bailed out for a second time by taxpayers after being allowed to pay dividends would be explosive.

Barclays is due to make the 6p-a- share payout on Friday, April 3, costing the bank £1.03 billion, although some shareholders might choose to take it in new shares, or “scrip”. Hundreds of thousands of small shareholders are due to benefit, as well as the bank’s big institutional investors.

The bank’s board is understood to have met in the past few days, but to have taken no decision to suspend the payout. The bank made no comment yesterday.

HSBC, which is the second biggest dividend payer in the FTSE 100 after Shell, went ex-dividend on February 27 and is due to pay out on April 14. The total cost could be as much as $4.2 billion, although it also has a scrip option to takes shares rather than cash.

Royal Bank of Scotland, which owns Natwest, goes ex-dividend today and is due to pay out an ordinary and special dividend of 3p and 5p, respectively, on May 14. If they go ahead, it will cost the bank £968 million.

Barclays is under particular pressure because, in the 2008 banking crisis, it carried on using billions of pounds in cash for a share buyback, only to have to tap shareholders in an emergency capital-raising a few months later.

The bank’s common equity tier 1 capital — a key measure of the cushion that it has to absorb future loan losses — fell by £300 million to £40.8 billion last year. However, its CET1 ratio, which reflects capital as a proportion of the total loan book, improved from 13.2 per cent to 13.8 per cent, ahead of its 13.5 per cent target.

Standard Chartered continues to operate a share buyback scheme, which has raised eyebrows with some rival bankers. “I’d be amazed if they were allowed to carry on with that,” one said.