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Thursday April 02 2020, 12.00am, The Times

The letters sent this week to bank bosses by the chief executive of the Bank of England's Prudential Regulation Authority must rank among the most astonishing documents to have emerged from the Bank in its 326-year history.

For centuries the Bank has kept order in the City and imposed its will on its unruly market participants via a system of informal control known as the governor's eyebrows. Such was the authority and standing of the governor that should the Bank order the chief executive of a company to take a particular course of action in the interests of financial stability, it was assumed that they would concur. Yet on Tuesday Sam Woods felt it necessary not only to demand that banks suspend their dividends, or risk supervisory retaliation, but also to make this blunt threat public.

Many will applaud this action as evidence of the Bank getting tough with a sector that too often has put its own interests ahead of those of society. There's no question that suspending dividends, and, indeed, cash bonuses, as the Bank has also demanded, is the right thing for banks to be doing at a time of extraordinary uncertainty. The estimated £15 billion that had been due to be paid out but which will now be retained as capital could, leveraged ten times, have supported about £150 billion of extra lending. That is why the Systemic Risk Council, a global body of former top policymakers, recommended this course of action in a paper published two weeks ago. The European Central Bank banned similar payouts last Friday. The surprise is why the Bank did not act sooner, leaving it until late on Tuesday night to make its announcement.

In this respect, Mr Woods' letter looks less like a show of strength than an admission of weakness. Did one of the lenders refuse to submit to the governor's raised eyebrows, forcing the Bank to go public with its threat? One can see why a board might have wanted to resist what amounts to a breach of faith with investors. HSBC, for example, has half a million retail shareholders in Hong Kong who rely on the usually rock-solid dividends for their pension. What is more, it was clear that all the banks needed to agree to suspend dividends at the same time. The sector faced a collective action problem. If one had refused to cut its dividend, then any that did would have raised immediate market suspicions over its capital position, with potentially disastrous consequences. Yet the Bank made its collective action problem harder to solve by repeatedly insisting that the sector had more than enough capital to withstand the current shock.

Of course, the Bank may have just concluded that this was an opportunity too good to pass up to grab some headlines by showing how robustly it was dealing with the banks. If so, this, too, looks ill-judged, fuelling a new backlash against a sector back in the public firing line as it was during the global financial crisis.

At the start of the coronavirus epidemic, the banks had hoped to present themselves as part of the solution rather than the problem. Indeed, the Bank itself, in congratulating itself on how robustly capitalised the banking system was today after a decade of reforms, had encouraged this narrative. Yet now the banks are under fire over their handling of the government's loan guarantee scheme designed to help businesses to survive the crisis. The banks stand accused of demanding personal guarantees for loans and charging extortionate interest rates.

In reality, the banks are in an invidious position. The government's guidelines for the loan guarantee system require that loans be extended on commercial terms. The government's guarantee covers 80 per cent of any losses on the loan after the recovery of security in the form of property or assets. Under pressure, many lenders have now said that they will not require any personal guarantees on loans of less than £250,000. But even this is unlikely to be enough to entice many small businesses to take up the offer of new loans. After all, many will have existing loans secured against personal assets. If the business does not have the cashflow in good times to service extra debt, leading to insolvency and debt restructuring, those guarantees are likely to be called upon. What these small businesses need is grants, not loans.

But the task of trying to preserve as much of the wider economy as possible falls to the Treasury as the fiscal authority, not the Bank. The Bank's primary responsibility in this crisis is to ensure that the financial system can continue to function and serve that wider economy. Crucial to that task is ensuring, so far as is possible, that banks have access to fresh capital should they need it. With bank shares having already slumped since the start of the coronavirus epidemic, that can't be ruled out. Virgin Money and Barclays, for example, trade at only 30 per cent of their net asset value. In fact, even before this crisis hit, global bank shares were trading below book value. That is a reflection of the extraordinary pressures on their business models from new, technology-driven rivals that have eaten into previously profitable business lines and from zero interest rates that have crushed lending margins.

By playing to the gallery in the midst of a crisis, the Bank risks raising doubts about its own authority and independence. That could end up making its own task harder by undermining investor confidence in the UK financial system. Of course, banks, as beneficiaries of an implicit too-big-to-fail government guarantee and with access to the central bank's lender-of-last-resort facilities, must expect to come under strong government influence to boost lending and expose themselves to heavy losses. Public and political pressure today is the price that banks must pay for the support they received through the last financial crisis. But Britain will have a better chance of emerging from this crisis with a vibrant, commercially driven banking sector capable of delivering the eventual recovery if the governor rediscovers his eyebrows.