Bank urged to put block on £7.5bn dividends

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Sir John Vickers, former chairman of the Independent Commission on Banking, has urged the Bank of England to block more than £7.5 billion of dividends to be paid out by banks.

The intervention by Sir John, a former senior official at the Bank, heaps more pressure on Andrew Bailey, the governor, to force banks to abandon payout plans, starting with Barclays, which is pressing ahead with a promise to pay £1.03 billion next Friday.

"For the sake of the health of the financial system, dividend payouts by banks should now be totally out of the question," Sir John, who headed the body that devised new financial rules in the wake of the banking crisis, said. "I'm surprised the Bank hasn't yet put a stop to them. It should do so at once.

"As well as further weakening banks' ability to bear the losses that they face [from the virus-related downturn], dividend payouts would dilute the Bank of England's measures to support lending. They should be stopped at once if banks don't withdraw them."

The concern that banks are unnecessarily weakening themselves at a moment of unprecedented uncertainty was echoed by Robert Jenkins, a former member of the Bank's financial policy committee: “If Barclays is permitted by Andrew [Bailey] to do this, then the regulators have officially given up the game. This is a defining moment.”

Kevin Hollinrake, a Conservative MP who chairs the all-party parliamentary committee on fair banking, was shocked that banks planned to carry on with the payouts: “They live in a different world, don’t they? Why on earth would you pay a dividend right now? It’s shocking they could even contemplate this.” Taxpayers had already rescued the banks once, he said, and it would be outrageous if they had to be supported a second time.

HSBC is due to pay out $4.2 billion in dividends on April 14, Royal Bank of Scotland £968 million on May 14 and Lloyds Banking Group £1.58 billion on May 27. At the end of last year they all exceeded minimum standards for capital strength. However, the virus crisis could damage their capital cushions if it leads to widespread borrower defaults.

Some small shareholders say that dividends should be paid because they are reliant on them for their incomes.

The Bank of England and Barclays declined to comment.

Any attempt to backtrack on dividend promises would be difficult because most of them have gone ex-dividend, passing the date on which shareholders qualify for the payment.