ANALYSIS

Dividend payouts leave banks with painful dilemma

About £15 billion is due to investors, but Covid-19 has changed all that

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Tuesday March 31 2020, 12.00am, The Times

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Banks had lined up healthy dividends for shareholders after a reasonable year in 2019. Bosses hoped that the payouts might get frustrated investors off their backs, kick their share prices out of the doldrums and pave the way for big bonuses.

Just over £15 billion had been earmarked for dividends by Barclays, HSBC, Lloyds Banking Group, Royal Bank of Scotland and Standard Chartered, according to AJ Bell, the investment platform — slightly more than the sum handed out in the heady days of 2007 before the financial crisis. Of this, £7.5 billion was due to be paid out in the next few weeks.

Then Covid-19 struck. Now banks have become the middlemen in some of the biggest taxpayer-backed bailouts that the world has seen, helping to dole out hundreds of billions of pounds to help businesses and individuals.

Privately, bankers hope that the situation could prove to be their finest hour — helping customers and restoring their industry's reputation, badly tarnished 12 years ago. Publicly, they face an awkward dilemma — what to do about dividends.

There are growing calls for banks to scrap plans to pay out billions of pounds to shareholders so that they can keep the money in their coffers to help customers as times get harder. This weekend Agustín Carstens, head of the Bank for International Settlements, called for a global freeze on dividends in the sector. On Friday the European Central Bank ordered eurozone lenders to cancel all dividends until at least October.

In Britain, regulators have been more reticent. The Bank of England warned banks not to use stimulus measures announced on budget day to increase dividends or bonuses, but it has not blocked payouts. A string of senior figures believe that they should do so, including Sir John Vickers, former chairman of the Independent Commission on Banking, and Sir Paul Tucker, former deputy governor of the Bank of England. Last night it was reported that the Prudential Regulation Authority might be about to step in and stop bank dividends, possibly as soon as today.

Even some shareholders agree. Alastair Gunn, a UK equities fund manager at Jupiter Asset Management, said: "The government is doing what it can to support companies and it is time for banks to practise forbearance, too. Not paying dividends so that they have as high a level of capital as possible is an appropriate thing to do."

The question is most pressing for Barclays, which is due to pay a £1.03 billion dividend on Friday. Some think that a dividend freeze is likely, but would be the wrong decision. One top 20 shareholder in Barclays said that the lender should press ahead, given that the payout is historic, relatig to 2019, and that the bank is “not short of capital . . .“I wouldn’t be surprised if they are forced to [pull the payment], but I would be disappointed.”

Banks also could face legal challenges if they withdraw dividends with the record date having been set already.

Two of Ireland’s biggest banks yesterday heeded the call from the ECB for lenders to halt dividend payments and share buybacks until at least October 1. Lenders including Unicredit, Italy’s largest bank, the Dutch groups ABN Amro, ING and Rabobank, KBC, of Belgium, and Commerzbank, of Germany, also have halted payouts.

However, UBS, Switzerland’s biggest bank, said yesterday that it would stick with its plan to pay a 73 cents-a-share dividend for 2019, even though the country’s financial regulator had recommended last week “that boards consider carefully the level of upcoming dividend distributions”.

A spokesman for Credit Suisse, its rival, said: “We follow a sustainable dividend policy and will continue to do so.”

Standard Chartered has been buying its own shares in the market as part of a $500 million buyback programme announced in February as a way to use some of its strong capital reserves. The bank has not announced any change to that plan since the virus crisis hit.

Some financiers believe that banks would move to halt dividend payouts if regulators officially called for it. “It is about confidence. Cutting the dividend can make shareholders worry about banks’ capital. Regulators need to give them cover to do it,” one banker said.

Paydays scrapped
Britain’s biggest turnaround specialist yesterday became the latest company to axe its dividend to preserve cash (Simon Duke and Ben Martin write). Melrose Industries has suspended its 3.4p-a-share final payout after a “significant deterioration in trading”.

Greencore, the sandwich maker, has scrapped its interim dividend, reduced salary and bonuses for executives and directors by 30 per cent for the next three months and delayed some of its planned capital spending. Warning of a “marked” fall in sales, the company is tapping the government’s furloughed workers scheme to reduce costs.

Morses Club, the doorstep lender, is halting new loans and pulling its dividend to help it to weather the economic slump, which is expected to lead to borrowers defaulting.

Oxford Instruments, which makes research equipment, said that it was halting payouts for shareholders even though it was trading in line with forecasts and its cash balances had risen to more than £60 million. The company said it was in a “strong position” to withstand the crisis.

Listed companies have axed £4.8 billion of dividends since the pandemic began, according to AJ Bell, the stockbroker.