Banks must resist urge to swill champagne when the crisis is over

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It's been a grim start to the year for almost everyone, most of all people who have lost loved ones, but one group, some of whom have suffered personal sadness, too, have been having one of the best times of their careers.

These are investment bankers. They secured their fat bonus cheques for 2019 in January and February just as coronavirus started to take hold. Since then, there has been pandemonium in global markets as investors have grappled with the impact of the virus. Those are just the conditions that investment bankers like, as volatility prompts clients to switch in and out of assets, all coming with big fees for the bankers.

Indications are that investment banks have had a bumper first quarter in their markets divisions (with the odd exception, such as ABN Amro, which was caught out by having to swallow a $200 million loss for a client). That, in turn, will lead banks' HR and finance people rapidly to an awkward question. As they crunch numbers internally for the quarter, what do they pencil in for bonuses?

Banking bosses with the finger on the political pulse will realise that while the 2019 bonuses have gone out the door, allowing big revenues generated during this time of crisis to drop straight through to bumper pay packets will not be acceptable. Those bonuses will be paid out in January and February next year, at a time when many countries will still be struggling to emerge from the shadow cast by coronavirus.

One fund manager who used to be a banker said: "It used to be that even if you were doing brilliantly in the investment bank, pay was based on the overall profitability of the bank. In the past 25 years we have got into a situation where it is just pay for individuals' performance even if the overall picture is horrible." That approach will not work in the tough times ahead. "We are going to have quite high unemployment coming out of this. Most people will feel lucky to have a job," the fund manager added.

It is not as if banks haven't been down this path before. The world's biggest banks paid out about $65 billion in bonuses and salaries to staff for their work in 2009, despite being in the eye of the financial storm when many banks need taxpayers' money to prop them up. The mega packages reflected the fact that times were extremely volatile then, too, and bankers pocketed millions as governments bumped trillions into the economy through quantitative easing and other measures. The austerity that followed in Britain and elsewhere forced many people out of work and has been found to have led to family problems, illness and death because of degraded public services.

Bankers may feel that there is a big difference this time round. The financial crisis of 2007 to 2009 was caused by institutions selling home loans to poorer people who could not pay them back and then pumping out that debt to investors. Then the lenders were bailed out by governments.

This time, clearly, banks are not responsible for coronavirus. They have been called on to be among the emergency services helping to fight its effect on people's lives by lending to individuals and businesses. Many know that if they get this right, banks could emerge with a significantly improved reputation.

That will involve enforcing substantial restraint in payouts for this year. It will not be easy. It will be unpopular among many staff, but perhaps not all. That will be hard to navigate as poaching is likely to rise, with banks scouring their rivals for the stars who could really make a difference to their revenues at a time of booming activity.

But there is no getting around the need for forbearance. A decade ago governments stepped in and capped bonuses amid a public outcry. The policies were not very successful, but they did escalate the row. Bankers cannot allow pay to blow up again as an issue.

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