Banks scrap dividends and bonuses under pressure from regulator

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The co-ordinated action from the banks came after the Prudential Regulation Authority gave them a deadline

Britain's big banks last night bowed to orders to scrap dividends and cash bonuses or face supervisory action by the financial regulator.

Barclays, Lloyds, Royal Bank of Scotland, HSBC and Standard Chartered issued statements last night agreeing to cancel remaining dividend payments for 2019 and promising not to pay out at all to shareholders in 2020 in order to retain more financial firepower to fight the impact of coronavirus.

The co-ordinated action came after the Prudential Regulation Authority gave banks an 8pm deadline to agree to cancel dividend payments and share buybacks and to make a statement by 9pm. If they did not do so, the PRA warned that it could use its supervisory powers to force banks to comply.

There had been increasing pressure on the regulator to act before £7.5 billion of dividends went to shareholders in the next few weeks, starting with £1.03 billion from Barclays on Friday.

Sam Woods, chief executive of the PRA, said in letters sent yesterday to the banks that they should stop cash bonuses to senior staff. The bosses of the British division of Santander and of Nationwide, the building society, also received letters about bonuses.

Mr Woods also wrote to insurers saying that they were expected to “maintain safety and soundness” when deciding on dividends and pay.

Shares in financial institutions fell sharply this morning because some investors had hoped that dividends would merely be postponed until later in the year. This dragged the FTSE 100 down 3.3 per cent, or 191 points, to 5,489.75,

HSBC fell 7.5 per cent, Standard Chartered 5.8 per cent, Lloyds 5 per cent, Barclays 4.9 per and RBS 4 per cent. Legal & General dropped 7.4 per cent, Aviva 6.4 per cent and Prudential 6.3 per cent. Investment management company Standard Life Aberdeen was 5.6 per cent lower and investment platforms AJ Bell and Hargreaves Lansdown lost 6.9 per cent and 5 per cent respectively.

The PRA said: “The banks enter this period with strong capital positions, more than sufficient to accommodate the combined simultaneous impact of severe UK and global recessions and a financial markets shock.” While the action would deprive shareholders of dividends, the measures to conserve capital were “a sensible precautionary step”, it said.

Nigel Higgins, Barclays’ chairman, said: “These are difficult decisions, not least in terms of the immediate impact they will have on shareholders. The bank has a strong capital base, but we think it is right and prudent.”