Banks’ payouts in PPI scandal will reach £50bn

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Two of Britain’s biggest banks face a bill of more than £3 billion after a last-minute rush in payment protection insurance claims, pushing the total cost of the scandal above £50 billion.

Lloyds Banking Group and Barclays yesterday became the latest lenders to count the cost of a surge in compensation claims and requests for information before the August 29 deadline, which was imposed by the Financial Conduct Authority.

The banks joined Royal Bank of Scotland, Clydesdale Bank and the Co-operative Bank in reporting far more complaints than expected last month as individuals and claims management companies rushed to make contact before the cut-off.

Lloyds said yesterday that it had suspended its programme to buy back shares and that it would take a new provision of between £1.2 billion and £1.8 billion alongside its third-quarter results next month. That could bring its total bill for PPI to £22 billion.

Barclays said that it would add £1.2 billion to £1.6 billion to its provision, on top of the £9.2 billion that it had already provided.

The scandal is the most costly in British banking history. Banks have taken £48.5 billion in provisions, which is set to rise well above £50 billion once the payments have drawn to a close.

PPI was sold on credit cards, personal loans, mortgages and store cards mainly in the 1990s and early 2000s. The insurance cover was meant to pay out if the customer became ill or lost their job, but in many cases people did not know that they had signed up and policies contained exclusions for common health problems such as back pain or were sold to those who could never claim, including the self-employed.

The Financial Conduct Authority introduced a deadline for new complaints to bring the issue to a close. The floodgates on claims had opened in 2011, when Lloyds abandoned court action against regulators that were taking action against PPI sales.

The latest provisions announced by the banks triggered speculation that Lloyds may have to trim its dividends, causing its shares to fall by 2 per cent early yesterday. They recovered to close effectively flat at 50¼p after analysts said that the bank was generating enough capital to stick to its path of dividend growth.

Lloyds said that its build-up of capital this year would be below its previous guidance, but that its dividend policy would remain "progressive and sustainable". Ian Gordon, an analyst at Investec, said: "We regard Lloyds' dividend as perfectly safe and continue to model 5 per cent growth per annum."

Barclays said that its core equity tier 1 ratio, a measure of its financial strength, would be about 13 per cent after the latest provision. Its statement came after the stock market closed.

Lloyds is Britain's largest high street bank and has been most deeply embroiled in the scandal. It had already taken a £650 million provision this year, including £550 million in July alongside its interim results, bringing its total at that time to £20.2 billion. It received between 600,000 and 800,000 information requests a week last month, "well above the previous assumption", it said. The quality of requests had "continued to be low", it said.

The bank has frozen its £1.75 billion share buyback, of which £600 million is unused. "In line with normal practice, the board will give consideration to the distribution of surplus capital at the year end and continues to target a progressive and sustainable ordinary dividend," Lloyds said.

RBS said that it would add £600 million to £900 million to its costs, as did Clydesdale, at £300 million to £450 million. The Co-op said that it had received "a substantially greater volume of enquiries and complaints than expected" and would provide an update on costs when it had gone through the cases. Shares in Lloyds rose ¼p, or 0.2 per cent, to 50¼p. Barclays closed up ¾p, 0.5 per cent, at 140¾p.