

REGULATORY INTELLIGENCE

COVID-19: UK senior managers on hook if banks misuse coronavirus funding package

Published 12-Mar-2020 by
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The Prudential Regulation Authority (PRA) has issued an unprecedented warning alongside an extensive package of measures from the Bank of England to free up bank balance sheets to help fight the **COVID-19** coronavirus. The PRA said it would watch to ensure banks passed the funds through to the economy and did not hoard funds or use them to boost shareholder dividends and bankers' bonuses. Senior managers will be held accountable if any evidence is found of a bank misusing the funding.

"The Bank of England's measures are intended to free up capital and allow the industry to support customers in difficulty and an economy in potential stress. We believe the industry will use the reliefs in the intended way, but the PRA's warning on distributions reminds banks, and key senior managers personally, that they should not be used to increase remuneration or distributions," said John Liver, financial services partner at EY in London.

Announcing a 50-basis point cut to Bank of England base rate, the removal of capital buffers, and a funding scheme for small-and-medium sized businesses) the PRA said it expected banks to behave responsibly.

"The PRA expects firms not to increase dividends and other distributions in response to this policy action and will monitor firms' distributions against this expectation. The PRA expects boards of PRA-regulated firms to consider this when deciding distributions," the regulator said in a [statement](#).

The PRA expects banks to identify a senior manager to "lead the effective discussion, oversight, and scrutiny of any proposals relating to dividend distributions or share buybacks".

It further expects that senior management function (SMF12) holders will ensure that any changes to remuneration that occur during the period the Bank's package remains in place, expected to be at least 12 months, are documented properly. The regulator said it would actively supervise remuneration committee and board minutes to ensure compliance and calling in senior managers to explain any changes where necessary.

Treating customers fairly

Speaking at press briefing alongside Mark Carney, outgoing Governor of the Bank of England, Andrew Bailey chief executive of the Financial Conduct Authority (FCA) who takes over from Carney on March 16, said banks must treat their customers fairly. The FCA was still dealing with the repercussions of mistreatment of SME businesses by their lenders after the 2008 financial crisis and there could not be a repeat, Bailey said.

"One of the FCA's core principles is treating customers fairly. The system is now in a much more resilient state, we expect them to treat customers fairly, that is what must happen. They know that, they are in a position to do that, there should be no excuses. But we at the FCA and Bank of England will be watching this very carefully," Bailey said.

The Bank of England intends that banks use the "extra room" afforded through its package to show forbearance to SME, mortgage and loan customers who experience repayment difficulties, as a result of **COVID-19**. Some lenders, including Royal Bank of Scotland, had already said they would allow customers who contracted the **COVID-19** to suspend repayments for three months. A three-month repayment holiday is a standard clause in many UK mortgages which can be exercised at any time by borrowers and Carney and Bailey made clear they expected more extensive forbearance measures from lenders.

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