INTERVIEW

Sam Woods interview: I had to threaten the banks over dividends

The Bank of England deputy governor had to fire off letters to persuade lenders to stop payouts

Jill Treanor
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Deputy governor Sam Woods says banks have the capacity and the willingness to lend

Sam Woods dug out a tie last week. The top regulator at the Bank of England smartened up for an appearance before MPs on the Treasury committee, joining the virtual meeting from his bedroom at home in Stockwell, south London. It was the first time that Woods — one of the Bank's four deputy governors — had sported neckwear since he and his family went into lockdown a week earlier than most of Britain, after one of them (since recovered) developed a cough potentially associated with Covid-19.

At the time, the advice was to isolate. "Being a regulator, I follow the rules," he says, speaking by phone from that same bedroom. (Internal video-style audiences have not been cleared by the Bank's security team.)

There is double regulatory trouble in the household: his wife, Mary Starks, is No 2 at energy regulator Ofgem, which surely spells a life of rules for their three children — 14, 12 and 10. Not so, according to Woods, who says they take more of an "eyebrow-raising" approach. "Firm but fair is the approach, both at home and at work. You've got to have some rules and they've got to be proportionate or people won't subscribe to them."

That eyebrow-raising approach — the traditional way the Bank has expressed its displeasure to the companies it regulates — has been sorely tested during the coronavirus pandemic, which has created turmoil on financial markets and forced the Bank to embark on two emergency rate cuts, a pledge to buy £200bn of bonds through an expansion of quantitative easing, and the government to back a £330bn loan scheme for cash-strapped businesses. Capital requirements on banks have eased — so-called counter-cyclical buffers — to free £23bn of capital.

Speaking for the first time since banks halted £7.6bn of dividends, Woods acknowledges that lenders did not easily acquiesce to his Prudential Regulation Authority's (PRA) wish to stop payouts.

"We live in a much more legally constrained environment than would have been the case 20 or 30 years ago. There is a role for the eyebrows, but also a very important role for due process," he says.

He had to fire off letters to bank bosses spelling out the need to conserve cash. Some of the banks, such as Barclays, were ex-dividend, so its shareholders were expecting the £1bn payment, while there were also implications for those with investors in Hong Kong, such as HSBC.

While Woods would have preferred a more voluntary approach, he says: "It is understandable that there were a range of views, and in the end it was the right thing to do to keep that capital in the system given the huge uncertainty we face, but I don't find it at all worrying that it was not an easy thing to get agreement to."

By the time the co-ordinated announcements from banks were made about the abandonment of dividends, on March 31, regulators at the European Central Bank had already moved. In a perfect world, says Woods, the ECB and the Bank might have made an announcement on the same day, but what matters was "we had the same outlook".

The decision was not taken lightly — or quickly. The counter-cyclical buffers were relaxed on March 11 and the dividend-halting letter was sent on March 31.

"We were careful not to reach a final view until a few minutes before we sent that letter to the banks," says Woods. At the same time, cash bonuses were put on hold, although he says payments could still be made in shares.

The same diktat on dividends was not imposed on insurance, where general insurers such as Aviva have halted payments while life insurers such as Legal & General have continued to pay out. Banks and insurers are not the same, says Woods, and neither are all insurers. "The biggest uncertainty we've got here is what is the extent of the need going to be on the banking sector in bridging the economy through this? That motivates a safety-first thing on the banking side that isn't quite there on the insurance side."

The insurers look to be getting an easy ride, not paying out on policies for business interruption caused by the pandemic. Woods says that where there is some uncertainty about the need to pay out, insurers should do so. But he adds: "What doesn't make sense is to expect insurance companies to cover huge things they had no expectation of covering. Some of the business interruption side is like that.

“They would not expect to cover a very wide, pandemic-driven business interruption. They deliberately excluded that because they could see it would be a very large hit.”

A government-backed scheme — similar to those in place for floods and terrorism — may eventually be needed, he says.

Woods, a New Zealander with Irish and British passports who was educated at Winchester and Oxford, regulated insurers at the PRA until he took the top job in July 2016. He also worked at the Financial Services Authority, before which he spent 10 years at the Treasury, coinciding with the banking crisis.

He was charged with setting up the body to look after the stakes in the bailed-out banks, and later on the Vickers review that led to ring-fencing of high street banking from investment banking.

Sir Philip Hampton, who was parachuted in to chair Royal Bank of Scotland during the crisis, says Woods has “a lively, inquiring mind”. Hampton, who no longer chairs RBS, adds he is the sort of person who is “understated, unpolitical, very much getting on with the job, thinking it through, organising things sensibly — he doesn’t seek the limelight”.

Woods says the banks have “rebuilt” since the crisis and have both the capacity and and the willingness to lend. His boss, Andrew Bailey — who took over just as the Covid-19 crisis unfolded — last week told banks to “put their backs” into getting out loans through CBILS.

“They have lots of room to lend. Going in to this, we’ll be fine,” Woods says.

The angst “is the prospect of a lot of corporate defaults and downgrades”. What hit could the banking sector take?

The banking industry’s combined 14.8% capital ratio is the equivalent of £240bn, and under stress tests the PRA allows that to fall to 7.5%, which would indicate, very crudely, the capacity to absorb £120bn of losses. “It would be a huge loss, a very worrying thing,” says Woods. “But I have no expectation we’ll see losses on that scale.”

Big businesses are hoarding cash, having drawn down billions of pounds from revolving credit facilities with the lenders. The Bank said recently that there were £260bn of undrawn facilities before the crisis hit. It is not clear what the demand for rescue loans will be, he acknowledges.

On May 7 — Woods’ 47th birthday — the Bank will publish its assessment of the hit to the economy in its scheduled monetary policy report, as well as the implications for financial stability in an emergency update, which comes after last week’s eye-grabbing scenarios from the Office for Budget Responsibility. The 35% contraction in the second quarter — the most in 300 years — is “not implausible”, he says.

“The question for us is, if the economy jagged down and bounced back up again [as the OBR suggested], how well equipped is the banking sector to help the rest of the economy through that?”

Unlike the banking crisis, this is an economic shock that is having an effect on the financial system. So far it has been able to absorb the shock, he says.

Despite the uncertainty, Woods is not panicking. “I don’t think you should do my kind of job if you’re not calm. We are starting the crisis from a good place. We’ve had enough time since the financial crisis to rebuild the system.

“Now we’re going to see how it does in this test.”

The life of Sam Woods

Vital statistics

Born: May 7, 1973
Status: married to Mary Starks, No 2 at Ofgem; three children
Home: Stockwell, south London
School: Winchester
University: Oxford, a first in history and English
First job: McKinsey, but worked in telesales on a gap year in New Zealand and Australia
Car: bike only
Favourite film: *Romeo + Juliet*, directed by Baz Luhrmann
Book: *Anna Karenina*, by Leo Tolstoy
Gadget: his wife’s egg chair, “whenever I can get into it”
Music: the Weeknd
Last holiday: a houseboat on the St Lawrence River, followed by a house-swap with a family in Manhattan
Charity: Royal National Institute of Blind People

Working day
Usually in the office 8am-7pm, but now based at home. With three children in the house he starts early, making sure to take half an hour in the morning and afternoon to check on the family, with “a bit of a break” for lunch.

Downtime
In more normal times, he enjoys windsurfing.