Institutions urged to adopt prudent distribution policy

The COVID-19 outbreak has become a global emergency. Our health systems are stretched to the limit and beyond, or will be. The professionals there are daily working miracles. The effect on our economies of the necessary containment measures will be ferocious, at least in the short term.

In times like these the financial system plays a critical role in keeping clients afloat, and keeping money moving. In bleak times, we can take some comfort from two things. Firstly, the roll out of business continuity plans by the financial industry has been unparalleled in history, and extraordinarily successful. Financial systems and institutions are operating successfully and delivering their services unbroken, despite record volatility and market volumes, and with vast proportions of staff working from home. Secondly, the financial system enters this crisis much more robust than it entered the last one. Capital and liquidity buffers in banks and insurance companies have been built up in a multi-year effort, to be ready for times like these. We can now see that some unpopular decisions were wise decisions.

However, we should be under no illusions. In the current environment for the financial markets and the world economy, both banks and insurers will begin to experience pressure on their credit books and investments which in turn will over time reduce the buffers they have built up. This is to be expected in such stressed conditions. The duration and magnitude of such impacts are extremely uncertain and depend on multiple factors outside the control of financial institutions themselves.

Governments, central banks and regulators are rolling out programs to support their economies, the liquidity of financial markets and the ability of financial institutions to continue to deploy their resources effectively. Today's coordinated decisions of the Swiss government, central bank and FINMA are one such step. These global policy responses are unprecedented in scope, scale and speed. Regulators have unisono indicated that capital and liquidity buffers are there to be used and that they will deliver the appropriate forbearance to ensure that that will be the case. This forbearance is being actioned across the globe. Financial institutions should now also think how they can help themselves to help their clients.
In particular, a prudent distribution policy is a preventive measure to ensure that the current robustness remains. The billions that could be distributed to shareholders in dividends in the coming weeks and months might be needed later. We don’t want to regret the coming dividend season, when we look at ourselves in the mirror later in the year. Regulatory forbearance is designed to allow institutions to support their clients in difficult times, not for imprudent distributions. The suspension of many share buyback programs in the financial sector is a welcome sign. But it should not stop there. Firms and their boards of directors should consider carefully the level of upcoming dividend distributions in the light of where we stand today, and how little we know about the near-term future. Strong institutions who act voluntarily now to restrict or delay distributions will remain stronger for longer, in the interest of all their clients. Acting to preserve strength is not a sign of weakness. We are indeed stronger together.