Lloyds Bank moves on from PPI scandal as profits slide

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Lloyds has not set aside any more money to cover the cost of compensating customers mis-sold the insurance

Lloyds Banking Group has started to escape the shadow of the payment protection insurance scandal despite a surge in compensation claims knocking down annual profits to £4.4 billion.

Pre-tax profits at the lender slid by 26 per cent last year after it set aside almost £2.5 billion to cover the cost of compensating customers mis-sold PPI, taking Lloyds's total bill for the long-running scandal to almost £22 billion, the biggest of any bank.

The PPI provision had been announced previously and yesterday the bank said it had not set aside any more money in the final quarter of 2019. Lloyds is Britain's biggest retail bank with about 26 million customers. It has been led by António Horta-Osório, 56, its Portuguese chief executive, since 2011 and is considered a bellwether for the domestic economy given it does almost all of its business in the UK.

Lenders across the board were hit by a surge in PPI compensation inquiries before a deadline last August for customers to submit requests for redress.

Lloyds received about five million information requests, the first stage of a PPI claim, in August alone, William Chalmers, its finance chief, said.

The bank has carried out an initial review of more than 60 per cent of those requests and the conversion rate into valid claims remains at about 10 per cent. “The last claim will be processed during the course of 2020,” Mr Chalmers said.

The bonus pool for staff was cut by a third to £310.1 million, in part because of the PPI hit to profits. Mr Horta-Osório’s pay packet also fell 28 per cent to £4.7 million last year, meaning he is no longer Britain’s highest-paid bank boss.

The bank’s response to the fraud at the Reading branch of HBOS, which it rescued during the financial crisis, was criticised in an independent review by Sir Ross Cranston, a retired High Court judge, in December. Lloyds said Mr Horta-Osório had decided to withdraw from a bonus scheme because of the conduct issues the lender faced last year, including Sir Ross’s report.

Lloyds will submit a new pay policy to shareholders this year and said it had “listened to feedback and the external sentiment around executive remuneration”. Under its proposals, Mr Horta-Osório’s maximum payout would fall by 29 per cent to £7 million, assuming the share price stays the same.

Lloyds shares were up ¾p or 1.4 per cent at 56½p after the bank was cautiously upbeat about its prospects for this year. Mr Horta-Osório said: “With a new majority government now in place and the UK having left the EU, there is now a clearer sense of direction and there are some signs of gradually improving economic indicators.”

Lloyds will target a return on tangible equity (Rote), a key measure of profitability, of between 12 and 13 per cent this year. While this is lower than its previous 14 to 15 per cent aim, it is still higher than targets set by rivals, including Royal Bank of Scotland.

Its Rote last year was 7.8 per cent, knocked by the PPI charge and down from 11.7 per cent in 2018.