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Asset Management

UK Banks Pass Stress Test

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"The major U.K. banks are resilient to a severe path for the economy in 2021–2025 on top of the economic shock associated with the COVID-19 pandemic that occurred in 2020." This is the conclusion of the Bank of England, the United Kingdom (U.K.) regulator, after running its latest Solvency Stress Test on the eight largest U.K. banks.

The stress test was severe, with U.K. banks subjected to conditions such as world gross domestic product (GDP) 9.6% below 2020 and U.K. GDP down 9%; U.K. unemployment rising 5.6% from year-end 2020, and U.K. property prices down 30+%. All eight banks not only passed this stress test, but no bank had to submit a revised capital plan. These banks' post-stress CET1 capital and leverage levels were all in excess of minimum hurdles. In addition, these banks exceeded their various capital hurdles without any need to convert AT1 securities.

Additionally, the Bank of England said that it will be increasing banks' countercyclical capital buffer (CCyB) requirement to 1%, from 0% now, in late 2022, and then likely to 2% in the second quarter of 2023. The Bank of England lowered the CCyB to zero during the height of the COVID-19 pandemic in an effort to help banks support the U.K. economy. The CCyB is a flexible solvency tool that bank regulators have to provide an additional capital cushion to address possible systemic economic, or particular sectoral, risks. Spectrum believes that the major U.K. banks will easily meet this new capital requirement, which also will provide another layer of protection for AT1 securities.

Spectrum is encouraged by these tough U.K. bank stress test results, and believes they verify U.K. banks' solid capital cushions and resilience.

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