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MONEY BOX

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TRANSMISSION: 3rd JANUARY 2009 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, a record fall in the price of shares last year. Millions have seen the value of pensions, children's savings and ISA's cut by up to a third. Banks celebrate the New Year by slashing the returns on cash savings. Bob Howard's been looking at how the weak pound may affect our holiday plans.

HOWARD: If you're going abroad, do you choose a cheaper country or perhaps economise instead?

CALDER: People will be indulging in austerity tourism. Let's not go out for a lovely lunch in Paris. Let's wait till the weather's a little bit warmer and go off for a picnic in the Place des Vosges.

LEWIS: And with the banks in trouble, will 2009 be the year of the building society?

But, first, millions of people with money in pensions or ISA's and hundreds of thousands of young children with the state's Child Trust Fund will have seen the value of their savings plunge over the last 3 months as share prices plummeted by more than a third from their highs in 2008. The plunge into the cold bath of the banking crisis has wiped out 3 years of growth and made 2008 the worst year for share prices since the FTSE 100 index was created in January 1984. Well with me is Justin Urquhart Stewart, a director of Seven Investment Management. Justin, 1984 of course quite recent history to you and me. Have you seen anything quite like this before then?

URQUHART STEWART: Unfortunately, Paul, there have been previous examples, yes. You only have to go back to 73, 74. And of course you can also go back to before the Second World War, back to 29 and 30 and 31 and the Great Depression. Those sort of periods had equal weaknesses in the markets.

LEWIS: Yes, taking us back to the Great Depression is a bit depressing for next year, isn't it? Why was there such a steep fall?

URQUHART STEWART: Well it's been a combination of issues, but most recently of course it's been to do with what's happened with the banks and the fall there. And particularly, of course, a combination of factors for the FTSE 100, which doesn't really measure the UK economy; it measures what's happening much more internationally. So as commodities came off, that affected mining companies; we know what's happened to the banks and all those areas; and you saw the oil price come down as well. So all the major pillars of the FTSE 100 were seriously suffering.

LEWIS: Yes. And of course looking at the figures, although it was bad in this country, it was actually worse in almost every other market around the world. I mean Shanghai was down 65%. So even putting your money abroad, which some people do sometimes, that doesn't help either.

URQUHART STEWART: Well, yes. And certainly if you were in Iceland, of course, you've had over 94% there losses. But there were one or two markets which people may have missed - and I for one certainly did - Tunisia was up 10%. But if you want something to actually ameliorate some of those losses, the only good news you can actually say from it was that for those that were investing overseas, because you were a sterling investor, the weakness of sterling actually made those losses significantly less than they would have been.

LEWIS: Ah, yes. I'll come back to that later in the programme. And very briefly, what should people do - just hang on and hope it gets better?

URQUHART STEWART: Good investing is about broadening your asset classes and making sure those adjust as you get older into more secure areas, but also making sure that you're dripping money in on a regular basis. You can't time the market, so don't try and do so. Pound cost averaging, drip feeding money in.

LEWIS: Pound cost averaging. Thanks, it's a while since we heard that phrase. Thanks very much, Justin. Stay with us, we'll come back to you in a moment. Listening to that in Ipswich is Gill Cardy, a pensions specialist with the Bristol based financial advisers Nicholls Stevens. Gill, your job now is training advisers, as I understand it. They are going to be seeing clients, aren't they, who are worried, distressed even about the fall in their pension savings? What are you telling them they should be advising?

CARDY: Well I think a lot of advisers should have really been insisting that their clients had an ongoing regular review service, so that they were constantly being talked to about the sort of issues you've been talking about - remembering history. We might not go back to the 30s, but we can certainly remember the technology boom and bust of round about the year 2000, which took till 2003, and we seem to have forgotten that already. And we should also be telling clients as well to be diversifying portfolios. Not following those fads and fancies like technology stocks, like commercial property, but keeping a balanced portfolio all the time.

LEWIS: But that's all very well, isn't it, for wealthy clients who've got six, seven figure sums and they've got an adviser who's constantly on hand checking what they're doing? But most people, they put money into a pension. They put £20, £50, maybe £100 a month and they just want to forget about it. They don't want to have constant conversations with an adviser. And indeed at that level, advisers are not going to be that interested.

CARDY: Well that is sadly true because a lot of good financial advisers are really focusing on what we call the high net worth clients. But if you've got a fund that is a balanced fund, a balanced managed fund - and I would probably tend towards ones that are called *cautious* managed funds, which have a mix of assets, including fixed interests that we haven't talked about either - keep reviewing them. Don't just put your pension policy in a box and forget about it until three weeks before you retire. Bring it out, look at it. Check what the values are and check what it is going to do for you because finding out three weeks before you retire that it's not going to give you the income you wanted is not the time to find out.

LEWIS: No, though of course a lot of people are doing that. In fact one of them called us on Money Box Live last Monday saying his fund had fallen 25% in 6 months, I think. What can people do if they are planning to retire and suddenly find that their pension fund is much less than they'd been hoping?

CARDY: Well if it is really that close to retirement and they really have no other option and they don't have any other financial resources, then I am sorry to say that if you really need that level of income and it's really material to your financial well being, you actually have to carry on working or perhaps try and find some money somewhere else - perhaps equity release or downsizing your property.

LEWIS: Yes, so they just reached 65 in the wrong year.

CARDY: Absolutely. But that is the point of trying to plan ahead and trying to manage the asset classes, so that you're preserving the value that's grown rather than risking more on the stock market.

LEWIS: Gill Cardy of Nicholls Stevens, thanks.

Well of course it's not just investments that have done badly. Now savers are being punished as banks and building societies celebrate the New Year by cutting the rates they pay us. Last year saw rates go up like a rocket as the banks stopped lending to each other and competed to get their hands on our money, but with interbank lending now getting cheaper and the bank rate itself plunging, this New Year rates on our savings are coming down like the rocket stick. Rachel Thrussell is Head of Savings at Moneyfacts. She's watched them come down.

THRUSSELL: We've seen quite a lot of institutions reducing their rates over the last couple of days - I mean mainly the big high streets like Barclays, C&G, Royal Bank, NatWest. They've all passed on cuts of up to 1%.

LEWIS: But you can still get reasonable rates if you look around the market.

THRUSSELL: Yeah, you can still get rates of up to round about 4%. I mean there's a couple that stand out. Anglo Irish are paying 4.55 on their post and phone account, but they haven't passed on the full 1% cut yet, so there is a chance that that could go down. Most of the rates are paying just under 4% - but again some of those haven't changed yet, so savers need to be very careful when they're looking around for rates because obviously they could open one and find the rate hasn't changed and they'd have been better staying off where they are.

LEWIS: Given that it's widely expected the bank rate will go down still further, many people are tempted into a fixed rate account that's at least guaranteed for a year. What sort of rates can you get there?

THRUSSELL: The top rate on a 1 year at the moment is ICICI Bank at 5.1. You've got Anglo Irish paying 5% on a 1 year. And then there's quite a few round about sort of 4.5 from people like Chelsea. So, yes, you can get a good rate, but you must be sure that you can commit your funds for the full year because if you need to access it early sometimes they won't let you or there's quite a stiff penalty, so you could find any extra interest you've earned has been wiped out with the loss of interest.

LEWIS: With rates so low, of course, it's important that people who pay tax have at least some of their savings in a cash ISA, so that at least they're not losing 20% tax off these already low rates. What sort of rates can you get on cash ISA's now?

THRUSSELL: The highest rate we've got at the moment is about 4.5% from Newcastle, although we are expecting new rates for them, so that could potentially go down by 1%. Barclays has gone down from 4.08 to 3.08.

LEWIS: If we have another cut in bank rate next week, we could see another round of cuts.

THRUSSELL: You could do. I mean it depends how far they go with the base rate, how much they cut it, but it's getting to the point now where the straightforward, normal accounts that most institutions have, there's nowhere for them to go. There's a lot now paying 0.1, 0.25, 0.5, quite a few under 1%, so the question is you know if base rate does go again, will they be able to pass this onto savers because you couldn't possibly have a savings market where nearly all the rates are at zero or 0.1 because obviously that wouldn't be good for the consumer.

LEWIS: Rachel Thrussell of Moneyfacts. Well Justin Urquhart Stewart is still with me. Justin, nowhere to go if rates fall again. And there's some speculation in the press we might see negative interest rates. Could that happen?

URQUHART STEWART: It does sound very strange, but it has happened in the past. If you go back over 20 years to Switzerland, what you'll find is that people were so worried about the value of currencies that they were running to anything they saw as a safe currency and the Swiss franc was it - to the extent that for overseas investors going into Switzerland, they actually had to pay for the privilege of holding it, so you had negative rates there.

LEWIS: So if you put £10,000 in the bank and it was minus 1% interest, at the end of the year you'd have £9,900. You'd paid the bank £100 to look after your money.

URQUHART STEWART: Precisely so, which does seem strange, because you would have benefited then of course because you had a stronger currency hopefully against sterling.

LEWIS: Yes. It all sounds a bit speculative …

URQUHART STEWART: Very.

LEWIS: … but anyway we'll have to see if that happens if rates are cut again on Thursday. We'll be hearing that news from the Bank of England. Justin Urquhart Stewart, thanks. And let us know your interest rate tales on bbc.co.uk/moneybox.

Well as the pound continues to weaken against the euro, the dollar and most other currencies, anyone planning a foreign holiday must choose between a short hop to the expensive eurozone or perhaps travel further afield to countries where the pound has held up better or with a lower cost of living. Bob Howard's been investigating the holiday options for the New Year.

HOWARD: This is Knightsbridge in Central London. It's bustling with foreign tourists busy shopping in the sales and taking advantage of the weak pound. It's good news for them, but not for anybody in the UK thinking of holidaying abroad. The bureau de change next to me tells its own story. Here a pound now buys just one euro or one US dollar and 43 cents, a fall of more than 30% for both currencies in the course of a year. But sterling's fallen far more against other currencies - an amazing 69% against the Japanese yen. And the list goes on, as Mark Thompson, a senior trader at the currency exchange business Moneycorp explains.

THOMPSON: In terms of gains by other currencies against the pound, the yen actually comes out on top. This time last year, it was around about sort of 220. Looking at the screens today, we're around about 130, so anyone looking to go to Tokyo on holiday who hasn't really thought about it before is going to be in for a massive shock. The Laos kip is in second place, funnily enough. The Bolivian currency, the Syrian pound. Quite far up the rankings as well is the Swiss franc. That has actually gained massively against the pound as well.

HOWARD: But beware of going for your holidays to Laos or Syria this year. You could be in for a shock.

THOMPSON: Yeah, places to avoid perhaps if you're watching your pennies.

HOWARD: Traditionally around 80% of our holidays are taken in the 16 countries which have now adopted the euro. Simon Calder, the travel editor of the Independent, is spending the New Year in Malta, which introduced the euro a year ago and where costs have risen since he made his holiday booking.

CALDER: I'm in the Westin Dragonara, a 5 star resort in St. Julian's on the East Coast of Malta. When I booked this in October, it looked really good value. About £500 it was going to cost me for a week. Now it's looking slightly less good. Well over £600 is my bill.

HOWARD: So are people just saying well what the hell, I'm here, I'm going to spend what I would normally spend, or do you think people are cutting back?

CALDER: I think people are definitely cutting back. I witnessed an interesting incident in a luxury hotel the other day where a British family said, "We'd like tap water with our meal" and they were told, "The tap water isn't safe to drink" and ended up grumbling about having to spend £3 or £4 on a bottle of mineral water. I mean I went out for a beer the other night to the same bar I'd been into 18 months ago. I had the same beer. It did cost me first time £2. This time it cost me £3. That 50% inflation affects everything you do.

HOWARD: So are there any countries where the currency has actually weakened against the pound, which might make a tempting holiday destination? Mark Thompson from Moneycorp says the Seychelles rupee has lost more than a third of its value, but anybody going there may find a catch.

THOMPSON: The Seychelles rupee is 34% cheaper. There's obviously been a big revaluation going on there. The one thing which may trip people up slightly is that you'll find some of the hotels won't always price their rooms in local currency.

HOWARD: What other countries have not done well?

THOMPSON: Turkmenistan. The Manat it's called over there. That's weakened off by 50%. Another one which has been in the headlines a lot obviously is Iceland and that's 29% cheaper than it was. Historically it's always been quite expensive. Now it's obviously less so.

HOWARD: Even in countries where the pound has weakened, the travel industry insists if the cost of living is still relatively low, the change shouldn't be too noticeable for UK tourists. Frances Tuke from ABTA, which represents travel agents and tour operators, says these countries already began to feel the benefit last year.

TUKE: We saw an increase in visitors to Turkey by 32% and visitors to Egypt up by 38%, so we think those will be the two big winners again in 2009. Things might be a little bit more expensive, but because those destinations are particularly good value for money you'll still be getting quite a lot for your money, so it really won't make much difference to you.

HOWARD: Even so, the travel industry doesn't expect tourists to desert traditional European destinations. Back in Malta, Simon Calder believes many people will be looking to make economies instead and he says there's even one place in Southern Europe where that might not be necessary.

CALDER: People will be indulging in austerity tourism. Yeah, let's not go out for a lovely lunch in Paris. Let's wait till the weather's a little bit warmer, grab some stuff from the markets of the Marais and go off for a picnic in the Place des Vosges. And let's face it, if you want to go to one place where your sterling won't be scoffed at, it has to be Gibraltar.

LEWIS: Simon Calder in a piano bar in Malta. And, Bob, Gibraltar of course uses the Gibraltar pound, which is one for one with the pound sterling, so no exchange rate worries there. I suppose also we should say no exchange rate worries if you stay in the UK. But what other foreign countries are good value?

HOWARD: Well one listener, Andrew, recommends the Ukraine. He's skiied there for the last 5 years and says the exchange rate is very good. And in fact the Ukrainian currency, which I'm not even going to try and pronounce, has fallen 13% in the last year against the pound.

LEWIS: It begins with an 'H'.

HOWARD: Yuh.

LEWIS: Thanks, Bob. And you can join in the Have Your Say on currencies: bbc.co.uk/moneybox.

Are building societies better at banking than the banks? Before Christmas, I went to Yorkshire to visit two societies - one large, one very small. Beverley Building Society is one of the smallest 10 of the 50 odd remaining societies. Its one main branch in its hometown in East Yorkshire, and when I arrived at the nearby station it was the Chief Executive himself who picked me up.

(to Philip Gray) Hi, Paul Lewis from the BBC.

GREY: Morning, Paul. Phil Gray, Beverley Building Society.

LEWIS: Thanks very much for picking us up.

Twenty minutes drive through the misty countryside brought us to the market square in Beverley where the society has its head office and its shop front branch. It wasn't that long before a customer arrived.

JOYCE: Hello.

EMPLOYEE: Hello.

JOYCE: Yes, I'd like my £100 please. You know how I have it, don't you - 20 in £5 and the 80 in tens …

LEWIS: Hello, I'm Paul Lewis from the BBC. *(to Joyce)* Hello, very nice to meet you. Why do you like coming into the branch? So many people do things over the phone now, don't they?

JOYCE: I'm of the old school, you see. I like to deal in cash and I don't like all this new technology. I think it's wonderful, but I hate it.

LEWIS: And you like the fact that people here know you, they know who you are?

JOYCE: Oh yes, yes.

LEWIS: Is that why you come to Beverley Building Society rather than one of the bigger banks in the town?

JOYCE: It's our Beverley Building Society, you see, so naturally when I retired and I sold some property and that, I put the money in here rather than in the banks. *(laughing)* Pleased I did now with all that's happening with the banks, you know, yes.

LEWIS: Beverley customer, Joyce, being very clear about why she chooses this small, local society over the major banks, which also have branches in Market Place. You can see them all from Phil Gray's top floor office where, over tea, he began by telling me a bit of history.

GRAY: Beverley Building Society has been an independent mutual building society since 1866 and it's been based in these offices in Beverley now for over 30 years right in the heart of the town. It's what I would class as the traditional building society. It operates purely retail mortgage accounts and retail savings accounts. We have no wholesale borrowing, so we really just look at what we get from our savers as what we lend. So that I think is the pure building society model.

LEWIS: And looking at your figures - as savings have gone up, mortgages have also gone up; so you literally take money in from savers, lend it out to borrowers, and that's it.

GRAY: Absolutely right, Paul.

LEWIS: Give me some indication of, if I can put it like this, just how small you are. How many customers do you have? How many mortgages? How many savers?

GRAY: We have just over 17,000 savings accounts and we've just under 1300 mortgage accounts.

LEWIS: And have you suffered as others have from a growing level of arrears?

GRAY: No, our arrears report today that goes through our board meeting has seven mortgage accounts that are 2 months or more in arrears.

LEWIS: Seven.

GRAY: Seven.

LEWIS: So essentially you know all those people by name.

GRAY: Yes and even by account number that I don't even need to ask them their account number generally.

LEWIS: And how do you deal with them? Do you deal with them personally? Might they get a phone call from the Chief Executive?

GRAY: There's a couple of them that I have dealt with personally. My market development manager looks after them on a general basis, but certainly if somebody came in and said, "Can I talk to somebody about my mortgage account, I'm in arrears?", then it's probably quite likely the girls would say, "Phil, do you have a few minutes? Would you mind doing this?" So, yes, I have on quite a number of occasions.

LEWIS: They feel they're being dealt with as a person, not just as a …

GRAY: *(over)* Absolutely.

LEWIS: The other side of the problems that have been around over the last few months, of course, has been an increase in cash savings in safe places. Are you finding that your cash savings are going up because people are looking for if you like a haven, somewhere they trust?

GRAY: I think we found certainly that the height of that was immediately after Bradford & Bingley was nationalised and then the Icelandic bank failures, and we certainly found immediately after that we got a huge uplift in savings relative to our size. So, yes, I think the fact that it was a traditional building society based off the fact that we only lend what we receive actually did make a big difference in people feeling safe depositing with us.

LEWIS: From what I can see, you’re not lending money, you’re not actually letting people take on new mortgages. Why is that?

GRAY: That’s really simply because on the funding side, we’ve been particularly cautious to keep the currency at a high level.

LEWIS: So you’re taking in savings, but you’re not lending it all out? You’re growing your capital?

GRAY: We’re growing our capital as a buffer really to protect our customers, so that’s why we haven’t lent as much this year as we’d have done last year. And I think we would prefer to adopt a cautious approach before we get too carried away on committing to too much lending.

LEWIS: This is old-fashioned banking really, isn’t it?

GRAY: Very much so and hopefully it’s fairly safe and it works the way it works, so yes.

LEWIS: But do you think although it’s old-fashioned banking, it’s also the banking of the future?

GRAY: The Bank of England stability report said we needed a return to that sort of way of operating. And I think it’s always the way we’ve always operated and it’s worked well for us, so there’s no reason why we’re going to change it.

LEWIS: So how did Phil Gray’s tiny Beverley Building Society compare with one of its bigger rivals? A short train ride across the Pennines took me to Skipton and the Skipton Building Society. It’s almost exactly a hundred times bigger than Beverley and will soon be the fifth biggest society in the country. But when I visited the Skipton high street branch, I found a similar informal approach to its customers, as branch supervisor Rachel explained.

RACHEL: So you'd like me to show you around. And where would you like to start?

LEWIS: Yes, well, Rachel, let's have a look round. It's a sort of open place office. Is this where people come and get their money out and pay things in?

RACHEL: It is, yes.

LEWIS: You've got no glass screens. You've got an open plan office.

RACHEL: No, everything's open plan. We've got five desks and it's really so that customers can come and sit down, have a nice private conversation with us about their finances.

LEWIS: But if they're just coming in for money, is this just an opportunity to try and sell them other stuff?

RACHEL: Well we can do. It's easy for customers to talk to us, they feel more comfortable, but lots of customers do just want to come in and withdraw £100 and leave and that's fine if that's what they want to do as well.

LEWIS: So it's a local personal service like going into your local shop rather than going into a big supermarket?

RACHEL: Yes - definitely, yes. Some customers just come in to say hello. *(laughs)* That's true, they do. That Mr Brown, he's come back again. He's already been in once. *(laughs)*

LEWIS: Up the hill by Skipton Castle is the society's modern head office. Their Chief Executive John Goodfellow told me how his society had benefited from the recent problems of the banks.

GOODFELLOW: We have seen an unprecedented number of new customers. It's gone up by about 80% this year.

LEWIS: 80%?

GOODFELLOW: 80%. There is an element about building societies that the consumer trusts us; that clearly over the last 12 months the banks have lost that trust because of what’s happened.

LEWIS: And are you seeing new mortgage customers as well?

GOODFELLOW: The mortgage market is just more important at the moment.

LEWIS: But are you under pressure to lend more money from the Government?

GOODFELLOW: Certainly Skipton’s had no pressure from the Government to lend more money. They probably see us as quite small. But you know my personal opinion is it’s very nice political spin, but it doesn’t make a lot of sense.

LEWIS: You say it’s political spin to try and encourage banks to lend more. Why doesn’t it make sense?

GOODFELLOW: If you’re talking about going back to the level of 2007 lending, it’s frankly just … it’s not the market that’s there now. It is just not there. It’s gone back to where I started - you know, “Can I have a mortgage?” “Are you a saver? Have you saved for 6 months?” And if the answer’s no, you don’t get one.

LEWIS: So we’re going back to old-fashioned banking?

GOODFELLOW: We’re going on back to more traditional banking, you know. Some people would argue that’s a good thing and some would argue it’s a bad thing.

LEWIS: Which would you argue?

GOODFELLOW: I’d argue somewhere in the middle. There are times when it is a really good thing and there are times when it doesn't help someone and it's a bad thing.

LEWIS: John Goodfellow of Skipton. So small or large, it seems building societies do offer old-fashioned or, as he prefers, traditional banking. I wonder if that is just what we need. Talking of old-fashioned reporting, Bob Howard's still here. Bob, just time to mention child benefit changes.

HOWARD: Yes, in a change brought forward from April, child benefit for the eldest child goes up to £20 per week on Monday. The rate for other children goes up to £13.20.

LEWIS: Thanks, Bob. Well that's it for today. Find out more from the BBC Action Line - 0800 044 044 - and our website, bbc.co.uk/moneybox, where you can do lots of exciting things, including the Christmas Quiz which is still there; have your say on currencies. Now there's a change this year for Money Box Live. The programme is being moved from its Monday slot to Wednesdays. Same time, after the news at 3. So update your 2009 diaries and this Wednesday at 3 Vincent Duggleby's taking your questions on tax. I'm back next weekend with Money Box. No change there. Today the reporter was Bob Howard, producer Martin Bedford, and I'm Paul Lewis.