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MONEY BOX SPECIAL

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LEWIS: Hello and welcome to this special live Money Box on Sunday evening. It's barely a day since we were on air, but much has happened in the last 24 hours. We'll be looking at that, but first, welcome to this interactive programme. Are our savings safe? Is our money safe? Call us now - 03700 100 444 - and through our website, bbc.co.uk/moneybox. Well the past week was the first for a generation when people in the UK were afraid that their cash savings were in danger as two Icelandic banks actively marketing accounts to UK customers went under. The government stepped in to save them, but not savers with money in the Icelandic bank's offshore branches. More than £1bn owned by councils, charities and businesses could still be at risk. There were also distinct sounds of gurgling as our longer term savings drained away, and it was the week when the old joke that shares can go down as well as plummet became a rather tragic reality: 21% off share prices in a week and more than 40% in a year, wiping billions off the value of our pensions, child trust funds and other investments if we have them. So today we'll be asking how safe are our savings - cash and long-term - and we're here until five to ten. Before we go to look at today's economic news, my colleague Samantha Washington's here. She has the difficult job of filtering and summarising your comments and questions that are pouring in. Sam, what are people concerned about?

WASHINGTON: Well, Paul, in all my years at Money Box, I have never seen so many e-mails flood in for one programme and people are asking all sorts of things: should I be in the stock market? Is my pension safe? What is the effect of all this on the long-term health of the economy? But most of all, are my deposits in the bank safe? That's the cash they've saved over the years or, as in the case of many people who've e-mailed into this programme, the proceeds of having sold their house or an inheritance. Is that money safe? People just want to know what to do. Kathy from Oxford captures the mood quite well when she writes to us, "I really don't know whether to panic or not."

LEWIS: Thanks very much, Sam. And I must say another e-mail has just come in on that very point. Somebody has sold their house and put the money in the Nationwide. Wants to know if it's safe. We'll be returning to that later. Well it's been another busy weekend trying to rescue the world's financial system. Here in the UK, four high street banks have been locked in talks with Treasury officials on a rescue plan and the BBC Business Editor Robert Peston is with me. Robert, £40 or is it now £50bn to four banks?

PESTON: Well it's rising minute by minute, and I think by the morning the number being raised or the extraordinary amount of money being raised by the banks will have reached £50bn. We're talking around £20bn for the Royal Bank of Scotland; about £12bn for HBOS; eight-ish for Barclays. Don't know where we are with Lloyds TSB at the moment - maybe five. We're talking colossal, unprecedented capital-raising by British companies. It is a moment in history, let's be clear. We have never, ever in the United Kingdom seen an event like this. I mean these are high street names, these are institutions that were proud and independent, and they're going to government with a begging bowl out for just an astonishing sum of money.

LEWIS: Last week, the chancellor said that he would make £50bn available for capital for the banks. If it's all gone, what about the others and the building societies who can all get into this scheme but there's nothing left?

PESTON: Well actually, as you know, this is being driven by an analysis by the Financial Services Authority about how vulnerable these institutions are and, interestingly, the Financial Services Authority thinks that the big banks are more vulnerable than most of the building societies. I think it's possible that Nationwide will end up raising a bit of capital, but nothing like as much as HBOS or Royal Bank of Scotland, which I think probably tells you quite a lot about the risks that these banks have been running and the slightly more prudent way that many of the building societies have been behaving. I mean the other thing which is happening tonight is that there have been reports of pronounced tensions in the takeover by Lloyds TSB or the proposal by Lloyds TSB to buy HBOS. In fact one broadcaster has just been saying that the deal's off. It's *not* off as we speak. They are still negotiating. I think it is possible that the terms of the deal may change a bit because when HBOS you know has had to be sort of forced to raise quite so much capital, it sort of indicates that it's a good deal weaker than perhaps people thought and therefore Lloyds TSB will try and get a sort of slightly better deal for its shareholders. But my expectation is that the deal *will* happen. Certainly it's not off as we speak. It could still I guess collapse by morning, but as of now that deal is going ahead.

LEWIS: So being renegotiated, but probably will happen. And in exchange for this £50bn that you think it will be, is the government then going to be a majority shareholder in these banks? Will someone from the Treasury be sitting on the board and making decisions along with other directors?

PESTON: Well they certainly don't want to sit on the board. That would be a sort of degree of micro management that they would really shy away from. The thing which is *not* clear at this stage is the percentage share that we as taxpayers will have in these institutions, and the reason for that is because most of these banks will take what's known as underwriting from the government; and this is the government saying right, we will give you the money if you can't get it from your existing shareholders. Most of the banks will try to get most of this capital from their existing shareholders or from other investors. They don't want to be actually you know so dependent, so close to the state. It's humiliating for them to get this money from taxpayers. It'll have fundamental effects on the way that they behave. If they can just get most of it… I mean they're all going to have to change their spots, they're all going to have to reform the way they behave. This is the biggest change for banks in their culture, the way they operate that you can think of, as it were, but they want to at least retain *some* semblance of independence, so they will try and raise this money from shareholders.

If shareholders don't want to give it, then of course we as taxpayers will end up giving it. But that's why I can't tell you today. Even though they're being told they've got to raise £50bn, I can't tell you that all of it's going to come from taxpayers. We won't know that for a few days.

LEWIS: And briefly, Robert, Europe. We understand they've pledged, the European leaders, that no major financial institution will be allowed to collapse. That goes further than the UK has *openly* said. And also ministers there will be following the UK plan to guarantee loans between banks.

PESTON: Actually I'm pretty… I'm not sure. You're normally completely right about these things, Paul, but I think actually the British government has said in terms that no major institution will be allowed to collapse. I don't think that's any different from what the UK prime minister or the chancellor has said at all. The significance for the markets of what the Eurozone ministers have said tonight is they are putting in place a guarantee for lending between banks which is very similar to the guarantee that we've given. The mechanism for doing it is a little bit different, but the effect of it is that European taxpayers or Eurozone taxpayers will now be guaranteeing loans between banks. Why does that matter? Well it's because the fragility of the banking system at the moment primarily stems from the fact that banks won't lend to each other, the financial institutions won't lend to banks because they're terrified that almost any bank could fall over. Now when taxpayers are saying you know if your bank or if a particular bank isn't able to repay enough to another bank, the taxpayers will hand over the money - that should, I hope, provide enough confidence to lenders to the financial system that their money is safe and, therefore, the interbank system should begin to… you know money should begin to flow again. Which is vital because actually last week we were perilously close to the collapse of the entire financial infrastructure that underpins the economy, you know, all over the world and you know, it would have been a disaster. So this looks like a hugely significant move by the Eurozone.

LEWIS: Robert Peston, thank you very much for talking to us tonight with that information. Now with me in the studio, among other people - I'll introduce them as we come to them - is Ralph Silva. He’s a banking analyst with Tower Group. Ralph, you’ve heard Robert’s summary there of what’s happening in the UK as far as we know and in Europe. Will they work? Will they really unblock the credit crunch?

SILVA: Well I’m not sure they’re going to unblock it, but I do feel that this is going to help with the capital issue. In other words, banks are going to be able to pay their bills come Monday morning. I don’t question that one bit. Unfortunately, the problem really here is lending from bank to bank. And put yourself in the position of a bank. We’re all in this situation together. Are you going to go out and invest money? No. In fact what you’re going to do is you’re going to put it in a very safe haven, as safe as you possibly can. And the banks are in the same position. Their investors are telling them don’t go out and lend to each other, keep it safe, and I’m not sure what happened with the government plans have addressed that.

LEWIS: And to be clear why people, why banks have to do this - it really is just Barclays might have £1bn too much cash on Tuesday and RBS might *need* £1bn on Tuesday, so they lend it to them overnight. Alvin Hall?

HALL: Yes, they do. This is called the interbank rate and overnight banks will borrow or lend money to another bank and the money’s completely unsecured. It’s all based on the reputation of the bank borrowing the money and their greatest fear is that the bank will go completely bust overnight and they’ll not get their money back. But this is the way companies keep… banks keep their capital reserves proper.

LEWIS: Yes and how they keep their cash level.

HALL: Exactly.

LEWIS: And these guarantees from the government are supposed to address that, so that they know that even if one of the banks *does* go bust overnight, the chancellor will write a cheque himself and they’ll still have the money the next day.

HALL: Exactly, they'll get back the money the next day and the shareholders will be happy and the depositors will be happy.

LEWIS: Right. Alvin Hall, of course, author and financial educator and well-known voice on Money Box and on Radio 4. Well also with us is Ros Altmann. She's a pensions expert, independent pensions expert, but also a great student of the financial system. Ros, how do you see this? Do you think this is going to work? Do you think this is going to restore confidence?

ALTMANN: My guess is that it won't be quite enough. I mean I think what we were seeing last week was that banks were withdrawing money from money market funds, from overnight lending, and just basically running to T-bills…

LEWIS: T-bills being…

ALTMANN: … running to government paper - short-term instruments issued by government….

LEWIS: Because they know those are safe?

ALTMANN: … which they would know were safe. And that's what I think led to the seizing up of the money markets. Now one way that perhaps would help is if you brought interest rates on government paper right down to zero, but that's not part of the plan. So what we're relying on here is shareholders and banks somehow increasing confidence in each other; but the problem, the underlying problem is they don't actually know what each other is holding, what each bank is worth because they can't value it.

LEWIS: Okay, let's go to our first call. There are so many of you calling in that we're not going to get through a fraction, but we'll start with Peter in Derbyshire. Peter, your question or comment?

PETER: Hello Paul. What it is, I'm not too happy with the way the government have actually taken over two of the banks that have failed the most and is that fair to ethical banks who've looked after people's money wisely because now they're in competition with the government? And with this 50k rule, it means that people are actually moving money away from the ethical solid institutions in order to be safe with their money.

LEWIS: Peter…

PETER: I actually have a mother who's in a care home. I've recently had to sell her home and you know she's got for this brief period in time quite a lot of money that where it is at the moment I don't feel particularly secure because it's well over the 50k limit. So being a power of attorney can take up to two or three months sometimes to get the proof of identity because my mother hasn't got a passport or a driving licence…

LEWIS: Peter, I'm going to interrupt you because the line from your phone for some reason is very, very bad. I think we've got the points that you make. You're saying you're not happy with the government bailing out two banks, but you're also very concerned where you can put more than £50,000 on behalf of your mother. Ralph Silva, is it right the government bailed out the banks? Did we have to do it?

SILVA: We have to realise that the banks are a necessary part of our society. Just you know, Peter, the radio you're listening to us on, you know the banks had to get involved with the design and development of that; the house you're in, the banks got involved with that; the street you're going to get on tomorrow morning to go off to work, that street was… we needed the financial resources in the street to make that happen. If we don't have this industry, we're going to have problems building and moving forward, so we absolutely need to. Now the question of do we need to save *all* the banks, well that's a reasonable question. We need to save some of the banks, I agree, but do we need to save all of them? You know, Peter, I think that's a reasonable question.

LEWIS: We seem to be saying we're going to save them all. Sam, an e-mail?

WASHINGTON: We've had an e-mail on just that point, Ralph. E Waters from London says, "Hank Paulson and others have said they will do whatever necessary to protect systemically important banks." Now which banks fit this bill and which ones don't?

SILVA: Well we've estimated that there's 50 banks in Europe, all of Europe, and they happen to be the 50 largest banks; that any collapse of any one of those 50 organisations would cause a systemic problem. In other words, every other bank would collapse at the same time. So we need to save those 50 and, unfortunately, most of the High Street banks, our High Street banks are within that 50.

LEWIS: Alvin?

HALL: There's a phrase that's in music, and the phrase is "it's not right, but it's real", and that means that saving all the banks may not be the right thing to do, but given the extent to which their tendrils reach out internationally, letting one of them fail might cause a collapse that is unexpected - the way Lehman Brothers' collapse brought about this… undermined the confidence in the overall market. So I don't think it's a matter of which one is right. It's a matter that it's a real problem and they have to come up with solutions to it and it won't make all of us happy.

LEWIS: Ros Altmann?

ALTMANN: Well at the risk of being somewhat… in somewhat disagreement, I do kind of wonder if we really can justify saving every single bank.

LEWIS: Even these top 50?

ALTMANN: Whether in fact… You know obviously bankers and banking analysts are going to say that this is the end of the world if one of them goes, but at the end of the day capitalism is based on taking risk and being rewarded for risk. And if companies don't fail, then at the same time you can't expect to be rewarded for risk and capitalism doesn't work and it concerns me that the government is underwriting every single financial institution however irresponsible they've been as long as they're large enough.

LEWIS: Is there a sense, do you think, that the banks are almost blackmailing us? They're saying "We are so important, if you don't undo the mistakes we've made the whole system will collapse"?

ALTMANN: That's my real fear here. And I think you know at the end of the day it's a bit of a game of poker, isn't it, you know?

SILVA: There's no question that the banks are taking advantage of this. There are alternatives. They could sell assets, they could begin to sell *a lot* of assets, but they're choosing not to because they know that they will get protected.

HALL: But isn't the sale of assets at this point a last ditch effort that would not bring in the money that they need and would basically drive them completely down, and should the depositors therefore be punished for this bad behaviour?

LEWIS: Okay, we're going to get onto depositors now, I think, because that is our biggest category, as I understand it, of calls and e-mails - people who are afraid that they might lose their money. That's certainly the sort of fear that seems to be driving people. Sam, have you got e-mails on this?

WASHINGTON: On deposit?

LEWIS: Deposit protection.

WASHINGTON: Indeed we have.

LEWIS: We've had an awful lot, haven't we?

WASHINGTON: I think we should just get a few of the basics in place first, Paul, and there is a compensation scheme here in the UK. I know we've been broadcasting about it for weeks, but…

LEWIS: A lot of people still don't seem to understand.

WASHINGTON: Indeed, indeed. There is one and it's operated by the Financial Services Compensation Scheme, and as of 7th October the limit that you're protected up to is £50,000. That's up from the former limit of £35,000. Now that guarantee applies to all FSA registered banks. It's per customer per bank authorisation. That's the bit where it actually gets tricky and there's no comprehensive list of which banks share these licences and with the various mergers and takeovers the situation's constantly changing, though we do have some links on our website, I should point out, to help you navigate your way through that labyrinth. Yes, we do have some e-mails on it. One quick e-mail here: "Is the £50,000 per account or per person?" Well that is per person, so if you have a joint account that's £100,000. Another one here from David in Reading who uses Barclays for his business banking. He runs a recruitment company. He says, "My question is if Barclays were to get into trouble, what would happen to my business account savings, which is my life blood?" Well as it stands, you get the same £50,000 protection limit as you would as a retail depositor. There are several caveats to that: you need a turnover of £6.5m or less, fewer than 51 employees, and a balance sheet of £3.25m or less.

LEWIS: Okay, Sam, thanks for that and I think we've got a caller on just this subject. Jean is calling from Glasgow. Jean, your question?

JEAN: Oh yes, hello. I'm looking for a little bit of information. In the effort to secure my savings, I decided to spread them about a bit, taking one year fixed rate bonds with several different banks and building societies. And I'm wondering in the worst scenario event - i.e. bankruptcy - would I have to wait until these bonds matured in order to claim through the compensation scheme?

LEWIS: Right, so these are cash… this is a cash deposit account, isn't it?

JEAN: Yes, cash deposit one year fixed rate bonds.

LEWIS: Yes, yes. I think, as I understand it Sam, you wait till the end of the term. Is that right?

WASHINGTON: That's my understanding, yuh.

JEAN: Fine.

LEWIS: So you'd get compensation at the end of the term. And, Jean, which institutions have you got these with?

JEAN: One is with Chelsea Building Society. The other is with Nationwide and the third one is with Skipton.

LEWIS: Right, so you've spread them across them.

JEAN: I also have savings with Abbey.

LEWIS: Right, so you've spread them across in the hopes that…

JEAN: I have, yes.

LEWIS: … they all would be within the limit of the £50,000?

JEAN: Yes, yes. It's my life savings, so I certainly can't… I don't gamble with my savings. I just save the money, so it makes me a bit angry to think about it.

LEWIS: A lot of people are in that position.

JEAN: Yes, of course.

LEWIS: You've taken that action. I'm going to introduce two other guests now, who aren't with us in London but are in different parts of the country. Mark Dampier is head of research at Hargreaves Lansdown and we'll hear from him in a moment. But Donna Bradshaw is financial planning strategist at IFG Group. She's in Southampton. Donna, spreading your money - it's something a lot of people are doing to try to keep it safe. Does this work? And, if so, are you losing interest because you can't have it all in the top account then, can you?

BRADSHAW: It does work. If you're concerned about a bank going bust, then clearly the best thing to do is to spread it around. However, you could lose out on interest rates, so what you need to do is to check which have got the best rates and there's still quite a lot of choice around and you can get rates in excess of 6%. But be very, very careful to make sure, because a number of banks are under the same umbrella group and, therefore, if you have more than £50,000, that would be between all of those banks, so make sure that they're all registered individually.

LEWIS: Yes. And that is a problem, as we've been discussing with Sam. And, Sam, it is difficult to get hold of this list. Well there *isn't* a list you can get hold of. Are there some links on our website that people can use to find that?

WASHINGTON: Indeed there are, yes. And, as I said, the situation is constantly changing with the various takeovers and mergers and we will endeavour to update that.

LEWIS: Okay. And of course if the HBOS and Lloyds TSB deal does go through, that will be another collection all brought together under the same roof. And, Donna, Jean in Glasgow has these bonds which are over a year. If somebody wanted to spread their money among several places, what sort of rate could they get on fixed rate bonds?

BRADSHAW: Well just… I've got all this paper here, Paul.

LEWIS: We hear you shuffling and it's very impressive, Donna.

BRADSHAW: *(laughs)* Well there are so many of them. The best rates currently. There's a short-term bond - 12 months - which is 7.2%. There's actually quite a few at over 7%. That's ICICI Bank. Anglo Irish Bank are 7.05%. That's again a one year bond, but you can get six month bonds. They're around about 6.8, 6.85%.

LEWIS: Right, so that's a pretty good return, isn't it?

BRADSHAW: Very, very attractive returns. But, as I said, you know I'd also make sure because I think there are some banks that are in a more precarious position than others, so there may be a greater possibility of them going bust. For example, I've been saying about the Icelandic banks for some time that I would actually avoid them and we know what's happened with them. So I would also sort of maybe look at the best of the stronger banks and put your money there first.

LEWIS: Yes, it's a very hard thing to find out, isn't it? You mentioned Anglo Irish Bank. Of course the Irish government stands behind them and guarantees 100% of everything. ICICI Bank is registered in the UK. It's an Indian bank, but it is registered here and it is covered by the £50,000 guarantee from the Financial Services Compensation Scheme. Thanks very much for that, Donna, and thanks to our caller Jean. We'll go to Pat now who has a slightly apocalyptic question, I think. Pat?

PAT: Hello. In the event of several banks collapsing, how would the Financial Services Compensation Scheme cope? Surely there would be insufficient money in the compensation pot?

LEWIS: Right, Ralph, where does this money come from in the compensation scheme?

SILVA: Well it comes from the banks themselves. A lot of this money is in the banks and the banks themselves are not permitted to touch the entire amount of it. I think we need to focus on - we've already had a couple of bank failures and I think we've already seen the worst case scenario from a deposit, and I think Bradford & Bingley was in fact the worst case scenario.

LEWIS: It was quite a small bank though, wasn't it?

SILVA: It was.

LEWIS: It was a lot smaller than one of the big four or five.

SILVA: It certainly was, but the deposits within all of the banks in the UK are the most important assets that these banks have and the first thing that's going to be moved to another bank - in Bradford & Bingley's case was into Abbey's - was the deposits. So the worst case that can possibly happen if you don't go to the deposit insurance is that you wake up one morning and you're suddenly doing business with a different bank.

LEWIS: Yes, that's certainly been the case with the four banks: Northern Rock, Bradford & Bingley and now the two Icelandic banks Kaupthing and Icesave or Landsbanki. Ros Altmann, you don't really agree that the government should be doing this, do you - protecting everybody's deposits whenever a bank goes under?

ALTMANN: No, I think the government should protect the first £50,000. In answer to Pat's question, I think if several of the big banks did go bust - it looks as if the government would take them over rather than going bust - then I think the government would chip in and top up the Financial Services Compensation Scheme for the £50,000. But at the moment it seems like the government is guaranteeing even more than the £50,000.

LEWIS: In practice it is, though it won't say it always will. I mean that's the confusing thing.

ALTMANN: And that's what really does concern me. For example, you know your pension is not 100% safe; but it looks like your bank account, however much money you put in there - you know even in a foreign bank as long as it's registered here - is safe.

LEWIS: We have had some e-mails along these lines, I have to say. Tony said, "Why should we have any sympathy for those who put all their savings in one bank to get higher interest?"

ALTMANN: Exactly.

LEWIS: "Money Box has always advised spreading the risk". Though, it has to be said, we have also mentioned banks that pay good rates of interest in Iceland. And then a slightly stronger note from Keith - and I won't read all the language that he uses - but "Why on earth has the government agreed to compensate those people who have more than £50,000 in Icelandic banks at considerable cost to UK taxpayers?" So there is a sense out there… We've had a number of e-mails from people who've said, "Well I didn't put my money with them. I put them, and earned less interest and now I'm the big loser."

ALTMANN: Exactly… and that's what really does concern me, Paul. You know people have been chasing higher rates. Everybody could have known - and probably in most cases *did* know - that only the first £50,000 or so was actually safe.

LEWIS: Though it was much less in the past, wasn't it?

ALTMANN: And it was £35,000 before last week. But yet they still took that risk. Now the taxpayer seems to be asked to bail them out and it wasn't even a British bank. I do not understand the logic.

LEWIS: Alvin?

HALL: I think Ros brings up a very good point. I think most people did not equate the rate that they were earning on their savings with risk. They were chasing the highest possible yield they could get, and they forget that when you get a high return like that there's some risk lurking out there somewhere. None of us thought it was going to be the failure of a bank, but that would indicate that to me. Some of what the Icelandic banks were paying was pretty outrageous compared to what they were paying at home, and that would have indicated risk. But I think people so want the highest yield for the lowest possible risk, that they'll take anything.

LEWIS: We have this sort of vision, don't we, that if we put £100 or £100,000 in the bank, it kind of sits there? Somehow it earns interest, but it's just sitting there and when we want to go and take it out, it's there.

HALL: And it's not.

LEWIS: Of course it isn't. It's out in the world earning its living, which is what is paying the interest on it.

HALL: Exactly.

BRADSHAW: Paul, when it comes to the Icelandic banks as well, what I was surprised at, and I was surprised that the government were going to give a full guarantee on depositors' money, it has been in the public domain for some time how risky Icelandic banks were. It was in national papers, etcetera.

ALTMANN: Exactly.

BRADSHAW: And that's why I really did disagree with what the government did there.

LEWIS: So you think that people should have read that, have seen those signs and said okay, it might be the best interest rate on the best buy tables, but for a couple of percentage, point one percentage points less, I should move it to somewhere a bit safer?

BRADSHAW: Exactly. And for example it was in the Daily Mail, it was in the Mail on Sunday, it was in the Telegraph, and this was months ago. I even got a letter from the MD of Icesave trying to justify the bank's position saying that it was secure and actually it *wasn't* secure and the figures were out there and I was warning people and so were a number of other people.

LEWIS: Well he did tell us just 48 or three days before it went into difficulties that it was completely safe as well on Money Box. Sam, you've got some e-mails on this.

WASHINGTON: Yes, back to the nuts and bolts of compensation, I'm afraid. An e-mail from Rada in Newcastle saying, "Are the savings of British people safe with the Dutch Internet bank, ING Direct, operating in Britain?" Again this is another one which was in the best buy tables some while back.

LEWIS: Yes and of course people's money has been moved to that…

WASHINGTON: … from Kaupthing…

LEWIS: … from Kaupthing and Heritable, hasn't it?

WASHINGTON: Yes indeed, indeed, so it's particularly important that people want to know the answer to it. You're covered by the Dutch deposit protection scheme with ING Direct and that's up to 100,000 euros. That's increased recently.

LEWIS: That's about, what, £79, £80,000?

WASHINGTON: Indeed, yes.

LEWIS: So that's more than the British scheme with ING.

WASHINGTON: It is.

LEWIS: But of course what the Dutch government's view would be if it did get into difficulties, whether they'd guarantee more than that.

WASHINGTON: Indeed, indeed. And one other quick question from Howard just come in on the e-mail. He's in Bath. Says "Does the FSCS cover interest earned or only capital?" Now, Paul, my understanding is that you will get the interest back, but only up to the point of default.

LEWIS: So that was, what, 8th October last week, I think?

WASHINGTON: Indeed.

LEWIS: Yes, I see. And while we're talking about people outside the UK, Sam, just bring us up to date, if you can, on people who have money in Landsbanki Guernsey, which is a separate country outside the United Kingdom, and of course Kaupthing Singer and Friedlander on the Isle of Man?

WASHINGTON: Indeed, we've had lots of e-mails from people with offshore accounts and I spoke to actually the governments of Jersey and Guernsey last week. As it stands, there is no deposit protection scheme for UK residents who are not resident on the island. There's a political guarantee in Jersey to cover the deposits of Jersey residents banking with Jersey banks. The Isle of Man has a £50,000 deposit protection in place, which it rushed through on Thursday. Guernsey as yet - still nothing, no detail, we don't know yet, although they're hoping to make some decision by November.

LEWIS: Yes and of course both those banks in administration or liquidation. I think they have different systems in both countries and depositors will be lining up with other creditors to try and get something back from the money they've left them.

WASHINGTON: Indeed. There's a statement on the website of Guernsey trying to reassure depositors that they haven't lost all their money and that there are some assets and we just have to see what comes out of that.

LEWIS: But they certainly may not get it all. A couple more questions on the details of this. Daniel in Chichester. Daniel, your question?

DANIEL: Hi. Yes, I've actually got money invested with Icesave and it's in an ISA and I just wondered if when I get the money back from them I'll be able to put it into another ISA?

LEWIS: And keep the tax free status. Well a lot of people have been asking us that, Daniel, and I have to say I did talk to the Treasury about this last week and the FSCS, the compensation scheme, says there will be a process in place, but they can't tell us what it is or how it will work. And much the same is true for all the money in Icesave. You will get it back, but when I spoke to the compensation scheme - was it only yesterday morning on Money Box - they did tell me that they hope to have more information next week. They also said they will be writing to all the customers of Icesave. They have a list - or will have a list, apparently - and they will get them their money back somehow. But we still don't know how. And part of that will be preserving that tax free status. So I mean I think it's true to say, Ralph, that the government's going out of its way to make sure that no-one loses a penny except perhaps for the interest from 8th October through these collapses.

SILVA: Absolutely and the insurance plan was never put in place to account for what's going on in the financial services industry. This is far and away the most drastic thing that we've ever seen in the past century. So this is a huge stretch for this and that's why we need some political decisions coming out and I think that we're going to guarantee a lot of this just for political reason and, fortunately, for just a short period of time.

LEWIS: Yes and we've certainly seen some political decisions this weekend. Ros?

ALTMANN: Yeah, I think the Treasury has made it clear that it will try to ensure that the tax favoured status of the ISA accounts is maintained. And it is very important because you know at the moment, by guaranteeing bank accounts and building society accounts, which is just money that you can take out straightaway rather than long-term investments, there is a real danger that we will put people off actually investing for the long-term.

LEWIS: One of the things that people have been saying to us - and we've had some e-mails about this - is should I take my money out, should I invest it, should I close down an investment? They're scared not just about cash; they're also scared about pensions and they're scared about investments. And I mentioned Mark Dampier from Hargreaves Lansdown. He's been waiting very patiently in Bristol. We had a few technical problems at the start. I think he's with us now.

DAMPIER: I am.

LEWIS: Mark, people who've got investments, they are also worried about the safety of them. I think the real problem we've had, as I said right at the start of the programme, is stock markets falling 40%. They could be looking at a very much diminished pension pot or savings pot than they had a year ago.

DAMPIER: Well clearly I mean in the short-term that's exactly true. The market's fallen 40 odd percent in the UK, almost 50% in the US, and the falls have been very vicious. So my own pension pot's reduced quite considerably. I suppose it really depends on when you're going to retire.

LEWIS: But some people are approaching that age, aren't they, and they're thinking… they were planning to retire this week or maybe in a few months time and they want to know what to do now.

DAMPIER: Well I'm afraid I haven't got a magic bullet for them there. I mean the short answer is that as you get closer to retirement, you should start reducing the money you have in risk and put more money across into sort of fixed interest and into more stable investments. I suppose I would say cash, but that feels rather strange at the moment. *(laughter)*

LEWIS: Maybe under the mattress, it might be said, though you have to tell your insurer.

DAMPIER: They have a problem that I can't solve. It may be that they'd have to carry on working. There is no… I mean I think the stock markets eventually will improve, but we could be talking quite a long way down the line.

LEWIS: But we were hearing on Saturday from Stuart Bayliss of Annuity Direct that annuity rates are very high at the moment. So if your pension pot is not completely on the stock market, if it's a with-profits fund or it's been what they call life-styled into these safer things, it may be as well to buy that annuity now because the annuity rates may be less in a year's time.

DAMPIER: I think you're absolutely right. I think annuity rates are going to fall quite a long way because I think interest rates are going to halve, at least halve from where they are today and so gilt yields are more likely to fall too. So, yes, at the moment I think that's exactly right. If you can do it and your pension pot hasn't been too diminished, then an annuity right now is probably a good thing to go for.

LEWIS: Sam, e-mail?

WASHINGTON: Yes, we've had an e-mail from David from Nottingham, back onto the protection subject again, saying "If an annuity is already being paid by an insurance company and that company becomes insolvent, what protection - if any - applies to those payments?" Well our understanding is - we've checked this out with the Pensions Advisory Service - that you will be compensated by the Financial Services Compensation Scheme on the basis that this is a long-term insurance product and, therefore, the details of that compensation are that you would get 100% of the first £2,000 and 90% of the remainder.

LEWIS: Without a limit?

WASHINGTON: Indeed. Yes, it's unlimited. Obviously you don't get everything back because it's 90% of the remainder. This should include inflation cover and also the level of your spouse's benefits.

LEWIS: Right, well that's some comfort. Ros Altmann?

ALTMANN: Well I think what we're talking about with pensions and people struggling what to do with them is a real issue here because you know you can't take the money out of a pension. Once it's gone in, it's a locked box and you just have to wait. If you're coming close to retirement, you have some decisions to make as to what to invest in. But what we're doing at the moment is causing a real problem for long-term savings and for pensions and most of the pensions that people have are invested in the stock market and that seems to be what has been hit the most. Even life-styling may not take you completely out of the stock market. So you know I think there is a role for people to say we need to try and understand investment risk. And at what the moment what the government has done, you know if it's protecting deposits above £50,000, it seems to me at the very least it should be requiring people to lock the money away or have some quid pro quo. You know just like in a pension, you have to lock the money away in order to get the tax relief that you get for a pension. None of that's being thought of right now.

LEWIS: And why do you say it's damaging pensions, it's damaging people thinking about investing in pensions by protecting deposits?

ALTMANN: Because at the moment you're much safer to put your money into a bank account as it happens than into your pension.

LEWIS: But you don't get the tax relief, do you, and you don't get the long-term growth because the theory about the stock market is that in the long-term, if we have a long-term before we retire, stock markets are bound to do better than anything else because they reflect the general growth in business and the economy?

ALTMANN: Possibly so, but if you're just getting basic rate tax relief and you've been sitting there for the last few weeks watching the value of your pension go down, I think you would much rather say I'll take the risk, put the money in a bank at the moment. If the worst happens, the government's going to give me all my money back and I'll worry about the rest of it later.

LEWIS: Alvin?

DAMPIER: You can put your pension into cash.

LEWIS: Mark?

DAMPIER: Bear that in mind… sorry.

LEWIS: Well, yes, you can put it into cash, but it's in a cash fund, isn't it Mark…

DAMPIER: Indeed.

LEWIS: … which has management charges and you're not really in charge of it? You can't bung it all in one of these 7.2% bonds.

DAMPIER: No, you can't do that, but in fact rates are probably around about 5% or so or worse, so they're not necessarily that bad at all. And, remember, you do then get your tax relief.

LEWIS: Yes and that is safe. Even though it's a fund and it's also in cash, that is as safe as cash.

ALTMANN: But if your provider goes out of business, you're only covered 90%, not 100%.

LEWIS: Yes, this is through the compensation scheme.

HALL: But I think what this shows is that people as they move toward retirement need to monitor their pensions much more closely and shift to safer investments as they're nearing retirement. If you knew five years ago that you were going to be retiring this year - regardless of what the stock market was doing, you should have been moving to safer investments. If now your retirement pool has gone down, as has happened with at least five of my very close friends, they're looking at having to go back to work and the problem was they stayed in the stock market too long.

DAMPIER: Trouble is no-one understands it.

HALL: Exactly.

LEWIS: And the problem… I mean Donna Bradshaw, the problem is, isn't it, that we're not used to doing that? We don't all have Alvin Hall as our financial educator to tell us what to do. Not everyone listens to Money Box either, sadly, to know what to do. And people think oh I'm paying into a pension, that's it, retire at 65, don't worry about it.

BRADSHAW: And I think that's particularly the case with people who are in defined contribution company pension schemes because…

LEWIS: Where the money goes into a pension pot rather than a guarantee by the employer, yes.

BRADSHAW: Yes and goes into a fund, and there is very little advice available on where the money should go. In fact a lot of them just opt for a straightforward managed fund. That is a bigger problem. Some of them have lifestyle switching, but lifestyle switching - if somebody's going into lifestyle switching just now and it's at a time when the market's poor - that's not good for them either.

LEWIS: No, it's exactly the wrong time to do it.

BRADSHAW: The most important thing for anyone I think in the 10 years before retirement is to go and get advice because that pot that you have has to last you for the rest of your life.

LEWIS: Yes. And that's assuming, of course - and I always say this, Donna, and forgive me - but assuming you can get good financial advice and not everybody manages that, do they?

BRADSHAW: Indeed they don't. And I'm concerned about some financial advisers who do passive management. They basically pass on the management to someone else or put it into one fund like a multi-manager, and I think people should be looking for independent financial advisers who also give investment and management advice because that is crucial that the company you deal with understands the underlying investments and the management of them.

LEWIS: Alvin, briefly?

HALL: And I think that it's really important for the financial planner or adviser to ask the person about their risk tolerance because most people do not focus on that as a concept as they're nearing retirement at all.

LEWIS: Well you don't have any risk tolerance if you're nearing retirement, do you?

HALL: *(laughs)* Well exactly.

LEWIS: There's no time to repair the mistakes.

HALL: Exactly. You just need to move to safer things.

BRADSHAW: We are obliged to ask about risk tolerance actually and IFAs spend a great deal of time in understanding their clients and understanding their attitude to risk.

LEWIS: But you know most of the people I talk to - if you ask them, “What’s your attitude to risk with your money?”, they say, “None, I don’t want to lose it.”

ALTMANN: That’s right. It’s not will I outperform the markets? It’s will I lose money? That’s the difference. You know if you don’t understand investments and investment risk, you can get very confused and do the wrong thing because somebody says, “Are you willing to take some risk?” And it’s usually if you take the risk you’ll get a higher return, but actually what they mean is if you take some risk you *might* get a higher return.

LEWIS: And you might get a much lower return or lose it.

ALTMANN: Exactly, but that bit doesn’t go through.

LEWIS: Let me go to a caller. Peter in Manchester is calling us and he has a question about how to deal with his investment I think at this difficult time. Peter, your question?

PETER: Hi, good evening. What it is is I’ve an investment with the Halifax Building Society and just looking on the internet there and I’ve started losing money. And I’ve been advised the other day I should leave it in at the moment, but it seems to be diminishing quite quickly. I was wondering if you could give me a little bit of advice on what I should do about it?

LEWIS: So this is invested on the stock market in some way presumably, Peter?

PETER: Yeah.

LEWIS: Okay, let’s ask Mark Dampier that from Hargreaves Lansdown.

DAMPIER: Do you know what it’s actually invested in, Peter?

PETER: There's a few different things like, it's been put about on the stock market, you know on shares and a few gilt edges. The total in value, it started off at £35,000.

DAMPIER: Right. Well I mean without knowing a bit more, it's difficult to be precise. If it's in gilts, then actually it's in exactly the right place. Obviously if it's in stock market investment - i.e. equities and shares - it's got a problem in the short-term. And the problem for any adviser is we actually don't know much more than you in that case. I don't know if the market's going to plummet tomorrow or actually go up.

LEWIS: But isn't it…

DAMPIER: I think it really depends on your time frame here; and if your time frame is long enough - i.e. another five or six years - then I think it's likely better to stay in there.

LEWIS: But the danger I suppose, Alvin, is that people will see things - as Peter has - going down and think panic, panic, sell…

HALL: Oh yes.

LEWIS: … and then when he wants to get back into the market, when it's rising, he'll buy, so he'll have sold cheap and bought dear - exactly the opposite of what you should do.

HALL: Exactly. If you're in the stock market and it's bottoming and you've held on this long and your time horizon is five or more years, you should definitely stay there. The cycle at some point will turn up and you'll be able to benefit from it. I think there was an article in the paper today that said if you missed the ten best days in the market over a 10 year period that your return would be *half* what it would be, so if he's in the market and he has a good time horizon it's time to stay. Don't sell.

LEWIS: Yes. Of course the problem is the market may fall further and that will make people more afraid.

HALL: Yes, they call that catching a falling knife.

LEWIS: The Chief Economist of the International Monetary Fund said it might lose another 20%, which is a frightening thought.

HALL: It wouldn't surprise me.

ALTMANN: The trouble is that markets go down and can go down an awfully long way, but when they turn, they turn very quickly. And if you're not in the market at the bottom and you miss that turn, then you know you can ride it down and still miss it going up.

LEWIS: I saw an investment note the other day that was saying markets fall before recessions, but *during* recessions it's quite a good time to invest because they rise. Ralph?

SILVA: Actually I'm an industry analyst, so I look at the financial services industry, and there's been a trend that I've been very, very concerned about, and that is the trend towards people not trusting their advisers and trying to make these decisions on their own. I just want to say just a couple of things on this. I'm upset at the bankers as well. I'm *extremely* upset at the bankers and I would like to line up a whole lot of them up against the wall and shoot 'em without a blindfold and no cigarette because I'm…

LEWIS: That is very harsh. I'm not sure we can all come with you on that one, Ralph. *(laughter)*

HALL: A revolution.

SILVA: However, the people…

DAMPIER: I'd rather start with the politicians. *(laughter)*

SILVA: However the people who caused this are the senior managers at the banks, not the people who are giving advice. In fact if the banks' senior management were to listen to their own advisers, we wouldn't have got into this. So please trust your advisers, listen to what they have to say. Their best interests are your best interests.

LEWIS: Yes, I go along with you if they're good advisers, but we do get a lot of…

SILVA: Fair enough.

LEWIS: … complaints on Money Box and we see them through the Financial Services Authority of bad advisers who actually don't understand these things and give people bad advice which they follow, and then they get in touch with us because they've lost money. Ros?

ALTMANN: Yeah. I mean I think that's the thing that would concern me the most, and particularly people who don't have a lot of money tend not to have access to the best advice and that's a real, real issue for the country as a whole. You know those who've got a lot of money, we don't need to be quite so concerned about you know whether they're doing the right thing or not, but you know 80% of the population, 90% of the population…

LEWIS: Yes, if you've got £5,000, as some of our listeners calling in have, it's very hard to get good advice; but if you've got a £1m it's a different matter.

ALTMANN: It's virtually impossible. It's virtually impossible.

BRADSHAW: And, Paul, Peter's question actually raised some concerns.

LEWIS: Donna, yes.

BRADSHAW: It raised some concerns for me because Peter didn't understand the investment that he had.

LEWIS: This is Peter in Manchester…

BRADSHAW: Yes, who just called, who didn't understand the investment he had and clearly he's concerned about it, was it appropriate for his risk profile. And I would actually suggest to Peter that he maybe goes and speaks to another adviser just to get a handle on it, or go back to the Halifax and ask them exactly what's in his investment because he doesn't seem to know.

LEWIS: Yes. So we've got Ralph, the banking analyst who says advisers are great; and Donna, the adviser, who says many of her colleagues aren't. Is this the position we're in at the moment? *(laughter)*

DAMPIER: Major institutions are terrible. I'm sorry, but the building societies and banks are about the worst place to go and get financial advice and they have been for 20 years.

LEWIS: Well the reason for that is they don't give independent advice because generally they only sell their own products, so they can't possibly.

DAMPIER: That's partly true.

HALL: That's why I say people who don't have a lot of money should keep their finances relatively simple. They should have a savings account, put it in the building society and leave it there rather than going into the stock market and other types of investments that they do not understand.

LEWIS: Sam?

WASHINGTON: On the subject of simple investments, I've had an e-mail just come in from Fenella saying, "Will my cash be safe in government bonds?"

ALTMANN: Yes.

HALL: Yes.

ALTMANN: 100% safe.

LEWIS: Everyone says yes. Can I make the assumption…?

BRADSHAW: Unless we have Armageddon.

HALL: Unless it's the government of Iceland... or Russia.

SILVA: As long as we keep being taxed. *(laughter)*

LEWIS: Yes, so it's safe because the government is guaranteeing it and standing behind the government are 60 million people, 35 million taxpayers.

DAMPIER: I think we're the only country that hasn't actually defaulted on sovereign debt, but I'm not absolutely sure on that. But I mean countries have defaulted.

HILL: Britain and the US government have never defaulted - Britain and the US government.

DAMPIER: Right.

LEWIS: Yes the US government hasn't, though it probably has the most eye-watering debt. So has ours. They had to enlarge the clock that measures it the other day. *(laughter)* Sam?

WASHINGTON: Yes and another question from Luke in York saying, "I wondered how with-profit bonds will be faring in the current crisis. Will the falls in the market only affect this year's profits?"

LEWIS: Well with-profit bonds are supposed to smooth out the ups and downs of the market, aren't they? Mark?

DAMPIER: Well I've got an endowment maturing on Friday, so ask me on Friday what I will get back because I think I won't get back what they said I'd get back four weeks ago. I'm sure there'll be adjustments being made and I'm quite sure that there'll be 10, 20% knocked off mine even though I've been saving religiously for 25 years.

LEWIS: I'm sure we all hope you do better with your client's money than your own, Mark. *(laughter)* Well let's go to a call now. Charles is calling us from Exeter. Charles, your question?

CHARLES: Oh hi there, Paul. I'm actually in a final salary pension scheme and I believe there are millions of people still in final salary schemes and I'm rather worried that, thinking ahead of the curve, that with stock markets having plummeted the deficits in these schemes are going to be growing quite significantly and I'm concerned that my particular scheme are going to wind up the scheme completely, which will affect me. I'm actually a deferred pensioner. They don't employ me any more.

LEWIS: Yes, so you've paid into the scheme, but you're not actually actively paying in now. I can't think of anyone in the country better to answer that than Ros Altmann who is sitting here in front of me. So Ros?

ALTMANN: Well, Charles, basically the situation is if your pension… if the worst happened and your company goes bust and can no longer support the pension scheme, you would end up in the Pension Protection Fund. Most companies with final salary schemes will have seen big deficits arising as a result of what's happened in the markets, but at least there is some protection here. The Pension Protection Fund at the moment will protect you up to 90% of the pension you're expecting, up to a cap of around £28,000 a year pension. If your pension was more than that, it will be capped. You won't get all your inflation linking protected, so the 90% might fall over time, but at least you would get most of it back. There is a very remote risk that if too many companies fail and go into the Pension Protection Fund, in theory that level of protection could be reduced, but there's no sign of that happening at the moment.

CHARLES: Could I ask you another question related to this?

ALTMANN: Sure.

CHARLES: Do you think there'll be a sort of wave of these schemes actually voluntarily winding up and just buying people out with insurance plans, and then would there be the risk that what you get from a private pension plan would fall significantly short of your sort of final salary related pension?

ALTMANN: It is not possible for the company legally to wind up the scheme voluntarily. That's the first thing. If they buy annuities for some of the pensioners and deferred pensioners, which a number of companies have been doing over the last few months, then your pension would be protected by that insurance company. If that insurance company failed, you'd end up still being somewhat at risk and potentially back in the Pension Protection Fund. But you could only be put into a different type of pension, you know a defined contribution pension and taken out into one of those with the kind of investment risks that you're talking about, if you agreed to that. They can't do that without your agreement.

LEWIS: Okay, thanks very much for your call, Charles. We're going to go onto Brian now who's in Hampshire. Brian, your question?

BRIAN: Two points. We have £170,000 in the Post Office and although they say it's guaranteed, would you advise splitting it up into £50,000 blocks and spreading it about?

LEWIS: Which account is it in, Brian?

BRIAN: It's a super saver in the Post Office.

LEWIS: Right. So essentially that's with the Bank of Ireland, isn't it?

BRIAN: Yes.

LEWIS: And the Irish government has said it will guarantee all deposits and those include the ones done through the Post Office, so in that sense that is safe - as long, as we've said before, if you believe the guarantees that we've given you and the Irish government is good for its money, which of course at the moment it is. And your other investment?

BRIAN: The other one is in ING. We've got £40,000 in a bond for a year and the rest, £10,000, just in an ordinary deposit.

LEWIS: Right, so when you say a bond it's a cash thing that matures in a year or two years time, is it?

BRIAN: One year.

LEWIS: Oh a one year one, yes. Well again, as I said earlier, ING is a Dutch registered bank. It's authorised in the Netherlands, not here, and it is covered by the Dutch scheme which now is 100,000 euro.

ALTMANN: That's right.

LEWIS: About £80,000. So both of those should be safe, Brian.

BRIAN: You wouldn't advise taking you know the Irish one, splitting it into… That's what's worrying us – it's a lot of money for us.

LEWIS: Right. Well, as I say, at the moment - for two years, until I think 28th September 2010 - the Irish government has said it will stand by all deposits in six of its banks and financial institutions, including Bank of Ireland, and that includes deposits made through the Post Office. So we think it's safe. Donna Bradshaw - splitting, would you advise splitting?

BRADSHAW: I think splitting might be a good idea. I know Ireland came out and gave this guarantee, but they really couldn't hold to it if the worst happened. But also, just looking at rates, it may be worth moving out of the Post Office if you can get better rates elsewhere. You know it's not coming up in my best buy table, so you know if you want to make your money work harder then split it around and go onto Moneyfacts, for example, and find the best rates.

LEWIS: Getting something slightly better. We've got very little time left. I'm just going to ask Ralph Silva as our banking analyst, and he's got a very few seconds to do it, do you think we have turned the corner?

SILVA: I think we have turned the capital corner. In other words, everyone's going to get paid on Monday. I don't think we've turned the corner on banks lending to each other.

LEWIS: Alvin Hall, you shook your head.

HALL: No, I don't think we've turned the corner. I think there's still bad news out there and I still think we have some downward pressure in the market.

LEWIS: Ros, you have two seconds. Turned the corner?

ALTMANN: Not yet.

LEWIS: Right, thank you very much. That's it for today. Thanks to my guests Ros Altmann, Alvin Hall and Ralph Silva with me here in London; Donna Bradshaw in

Southampton, Mark Dampier in Bristol. More about the global financial crisis from the BBC Action Line - 0800 044 044, our website, bbc.co.uk/moneybox, where you can download a podcast and in a couple of days read a transcript. I’m back tomorrow with Money Box Live at three o’clock taking your questions on small businesses and the credit crunch. The team here: Samantha Washington, Martin Bedford, editor Stephen Chilcott. I’m Paul Lewis.