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Please note that since broadcast, a clarification to the script has been made in the item on the AIG Enhanced Fund.

MONEY BOX

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LEWIS: Hello. In today's programme, as newspapers speculate and bookies shout the odds, we get expert views on what changes to tax and spending the Chancellor will make on Monday. Bob Howard's been looking at a row which is putting up everybody's motor insurance premiums.

HOWARD: If your car needs to be repaired after an accident, just how much should a temporary replacement cost?

HOPE-SMITH: I was absolutely speechless. I couldn't believe how much they were charging for a hire car.

LEWIS: More than 5,000 investors with AIG could lose a quarter of their money now or wait until 2012 to get it all back. And fixed rate mortgage rates began to creep downwards, but not for everyone.

But first, the financial world in the UK is holding its breath as it awaits the Chancellor's pre-Budget Report on Monday. The newspapers aren't though. They're full of predictions of tax cuts, boosts to spending, and a growing public debt. The bookies too have been busy, taking bets on cuts in VAT, cuts in basic rate tax, even on the colour of the Chancellor's tie. To pay for these changes - well not the Chancellor's tie obviously - borrowing by the Government could rise from about £40 billion to more than £100 billion next year, and it seems that the Chancellor will tell us on Monday that we'll have to pay it all back in a few years time. Well with me is Doug McWilliams, Chief Executive of the Centre for Economics and Business Research, with Andrew Smith, Chief Economist at accountants KPMG. Doug McWilliams, is borrowing more to cut taxes and boost spending a good idea?

McWILLIAMS: Not normally, but it is now because we are in a very serious economic state. It looks as if businesses have gone onto a sort of investment strike and that, combined with weak consumer demand, means that the only way to get the economy going is fiscal reflation, but it's a very unusual set of circumstances.

LEWIS: Yes and it's a lot of money. Andrew Smith from KPMG, do you share that view; that we should be doing something now?

SMITH: Yes. With the consumer retrenching, there's a big hole in demand in the economy; and if that's not going to push us into a depression, the Government has to step in and spend the money itself - either by giving us more in our pockets through tax cuts or by increasing its own spending. So I think we need a big package on Monday. It needs to be targeted.

LEWIS: And talks of £100 billion borrowing next year. You think that's about right - £100-120 billion.

SMITH: I think you can easily get to that sort of number if you take into account the fact that revenues are falling anyway for the Government, public spending's going up as unemployment goes up, and on top of that you need a big fiscal injection.

LEWIS: And Doug McWilliams, what's the one thing you would do to give this boost to the economy?

McWILLIAMS: Anything it does has to be, number one, temporary because we're going to have to pay it back afterwards; number two, distort the economy as little as possible; and, number three, get maximum bang for your buck because if you're really going to spend all this money, you really want to make sure it works. I'd go for a big VAT cut. It looks as if they're going to do something like that in Europe and I think that would be the best way of helping the UK economy.

LEWIS: Andrew?

SMITH: Yes, I think the point is that what we want is a big net injection, so this talk about offsetting tax rises elsewhere or public spending cuts is just wrong. You want to target it towards the bottom end of the income scale because these are the people most cash constrained who are most likely to go and spend the money, maybe through the tax credit system.

LEWIS: Yeah, so tax credits rather than VAT. Well also with us is Anita Monteith. She's Tax Manager at the Institute of Chartered Accountants in England and Wales. Anita, where do you see the tax axe falling on Monday?

MONTEITH: Well I think we're right in what we've said so far - something may well happen to VAT - but whether that's necessarily the best way to do it, I'm really not so sure. I think we need to see more money being targeted, and perhaps more help for older people and poorer families would be ...

LEWIS: *(over)* And how would they do that?

MONTEITH: We've already got the winter fuel payments. That system is in place, so it isn't too much of an administrative burden to put some more money down that route.

LEWIS: So how much? I mean it's £250 for people over 60 or households over 60; £400 for the over-80s. How much extra do you think we might get?

MONTEITH: I think maybe £50 or £100 isn't out of the question, and that would be enough to make a difference to people. And those people will actually spend the money. They need to because they can't afford to eat, never mind pay their fuel bills.

LEWIS: And Andrew mentioned tax credits. Is that another thing you think will happen because those go generally to lower income people?

MONTEITH: Yes. And that way you can get to people other than the elderly, and I think people with small children really do need help at the moment.

LEWIS: It is targeted though, isn't it, mainly on families with children? I know you can get it if you don't have children, but only at much lower incomes. What about single people, single households? How are they going to be given more money to go out and spend?

MONTEITH: Well they can also get tax credits if they are working enough hours each week. So the system is there to help them too.

LEWIS: Doug McWilliams, when you say "a big cut in VAT", what do you mean? How much would it be?

McWILLIAMS: I'd like a 5% cut, but there are European rules that make it difficult to do that. You can cut by 2.5. And there are all sorts of loopholes like tax relief for labour intensive services and these could be very effective because it's labour intensive service particularly that create jobs and help to keep people in employment, which is what we need.

LEWIS: So you could cut VAT on restaurant bills and things like that, could you?

McWILLIAMS: You can do that, yes. You have to get a special derogation, but it's not too difficult to get.

LEWIS: It's not that much though, is it - 2½ %? I mean VAT is 17½%, so if you're spending £100 it's £17.50. That would come down to £15.00. It's barely a 2% cut in what you spend. Is that really going to make us all go out to the shops and buy stuff?

McWILLIAMS: Well it isn't the only thing. But of course the great advantage of a VAT cut is you can make it temporary, and that has two advantages: the first is it encourages people to spend now while the advantage still lasts; the second thing is it means that you don't have a long lasting economic cost. One of the problems of things like tax credits is once you've given them, it's very difficult to take them away; and that's why if you *do* introduce those things, you're going to have a much longer term economic problem.

LEWIS: Right, Andrew Smith first. What do you think about a VAT cut? I mean will this work?

SMITH: I mean I think it's a way of spreading the largesse over a large number of people obviously.

LEWIS: Largesse! It's our money, isn't it, that he's spending? *(laughs)*

SMITH: Well it's the Chancellor's largesse. If it's temporary, you do probably bring spending forward. The only downside I can foresee with this is we're already looking at prices falling or inflation coming down pretty sharply. We don't want to move into some sort of deflationary downturn. And of course if you cut VAT, you're going to have a very quick effect on cutting the headline rate of inflation, so I think that might be a bit of a concern.

LEWIS: *(over)* Yes and that might go negative. Yes, so that's the downside on that. Anita?

MONTEITH: I really think we're losing sight of the man in the street and the small business here. If you look at the rate of VAT at 17½%, buy something for £100 - it means it’s costing you £117.50. Drop it by 2½%, which is all he can do, and you’ve reduced the price to £115. Is that going to make any difference at all to your decision to buy something? If you want it and you can afford £100 anyway, I think you’ll be going ahead.

LEWIS: What about a tax cut, like we’ve had already this year - £60 in everybody’s pay packet in September? Is something like that a possibility?

MONTEITH: If we had a magic wand, I think it would be lovely. But I think we’ve seen chaos for employers as they’ve already made the change in September. It costs people a lot of money in business to make these instant knee-jerk changes.

LEWIS: And let me just ask one more thing, Doug McWilliams - before Christmas, will we see another cut in interest rates?

McWILLIAMS: I think so. We’ll probably have about a £15 billion package on Monday and I think that will be enough to allow the Monetary Policy Committee to cut interest rates by something like 50 basis points.

LEWIS: Half a percent. Andrew, do you agree with that?

SMITH: Yes, they considered a full 2 percentage point cut at the last meeting. They did 1½. They didn’t want to worry people too much. I think now everybody knows that, they ought to go for the other half.

LEWIS: Okay, thanks very much to all of you: Andrew Smith of KPMG, Doug McWilliams at the Centre for Economic and Business Research, and Anita Monteith of the Institute of Chartered Accountants.

Now after a serious road accident, many drivers need a temporary replacement vehicle while the claim is sorted out. These cars are often not supplied by regular hire companies, but through a separate industry which has grown up to service the demand. But a major row between this industry and the insurers who end up paying the bill has led to higher premiums for all drivers, and there could be further rises on the way. Bob Howard reports.

HOWARD: Beverley Hope-Smith has just picked up her three children from their school in Essex. To her, a car's essential, so she was worried when it was damaged in an accident which wasn't her fault. Her insurer arranged for it to be taken to a garage to be repaired. On the way, she was offered a solution to her transport problem.

HOPE-SMITH: They sent out a recovery truck and the gentleman on there said that they frequently refer a lot of people to an accident management company that they'd used. And it sounded ideal because there'd be a hire car instantly and it sounded just a nice way of getting it done because it was enough having had the accident.

HOWARD: As Beverley was the innocent party, the firm said she wouldn't have to pay for the replacement car. Instead it would claim the costs from the insurer of the driver who was at fault. Even so, weeks went by with the cost of the hire car spiralling. Beverley's vehicle was worth about £4,000, so she was flabbergasted when the final bill for three months came in at £16,000 or around £200 a day.

HOPE-SMITH: I was absolutely speechless. I couldn't believe how much they were charging for a hire car. It seemed to me that either the accident management company or the other insurers at some point before the whole total had come up must have said well does it really need to take three and a half months to repair a vehicle, but nobody seemed to bother.

HOWARD: Shock turned to anger when the insurer refused to pay. Beverley was then summoned to appear in court on behalf of the accident management company as it tried to force the insurer to pay up. In the end, the case was settled out of court, but legal disputes are increasing. Money Box has learnt that some district judges are seeing seven cases resulting from similar disputes lodged each week. Tony Emms, Motor Claims Director for the insurer Zurich, is clear where the blame lies.

EMMS: Credit hire companies pass on their invoice to the insurer of the responsible party and so they are not incentivised to keep the hire period or the overall hire cost to a minimum. We do from time to time see the cost of the hire can often be way in excess of the actual value of the vehicle that was damaged in the first place.

HOWARD: The cost can also rise as a result of commissions often paid by credit hire companies to garages, breakdown companies and sometimes insurers themselves for referring accident victims to them. Tony Emms says the upshot is every motorist is footing the bill.

EMMS: It is undoubtedly adding to the premiums because the cost of hiring a vehicle through the credit hire model is three or four times higher than hiring a similar vehicle through the insurer themselves. If you take the average motor insurance premium of around £400, it means that each customer is potentially paying £20 a year more.

HOWARD: Credit hire companies insist their charges are reasonable and most are party to an agreement with insurers to keep costs down. If this had been followed in Beverley's case, the agreed rate would have been around £60 a day rather than £200. Credit hire has become a huge industry, estimated to have a turnover of more than half a billion pounds. The company Helphire is by far the biggest player. Its turnover is estimated at more than a third of the total for the industry as a whole. No-one was available from the company to be interviewed, but in a statement its Managing Director Mark Adams said it "adheres to the voluntary agreement which fixes acceptable hire costs and it wasn't involved in Beverley's case." And Mark Adams insisted there's strict monitoring of how long their cars are hired for. Tony Baker is the Director General of the credit hire umbrella group, The Accident Management Association. He blames the rising cost of motoring premiums on the insurance industry.

BAKER: Credit hire has only flourished because of the inability of insurance companies to give mobility to their customers. Time and again credit hire companies are going back to insurance companies and saying "what about settling this, what about the write off?" and it's the failure of insurance companies to process their claims speedily and to use a bit of commonsense.

HOWARD: And, Paul, that dispute between the credit hire companies and insurers looks a long way from being resolved. Last year, the AMA said 30,000 cases were lodged with the courts. Next year, it estimates that could reach 50,000 and we'll end up paying for that with increases in our car insurance premiums.

LEWIS: Thanks, Bob. And many of you are already telling us your experience of car hire after an accident through Have Your Say on our website. That's bbc.co.uk/moneybox.

More than 5,000 people who put money into an investment bond with the insurance company AIG face the prospect of losing up to a quarter of it. ** (see note at end of item) Customers have until Tuesday to choose between getting half their money back now, with the other half promised in 2012, or cash the whole bond in and lose about a quarter of their money. Nearly 900 of these investors have clubbed together to form the AIG Action Group. It claims the product was sold as safe when in fact it was partly backed by mortgages and credit card debt. The Chairman of the AIG Action Group is Zia Khan. I asked him who had put money into this bond.

KHAN: Investors were typically people who'd sold their small family businesses, which they have had for many, many years; and when they were about to retire, they sold the business thinking, right, they can have a happy retirement. And then this comes along and it's stopped all their aspirations, their retirements, and their plans for themselves and their families.

LEWIS: It was designed though for people with at least £100,000 - people with a lot of money. Surely they realised or could have got advice to realise that there was a risk associated with it?

KHAN: Indeed they could have done, but what happened was that they would put their money with one of the big banks. The banks would look at the deposit account and say, "Okay you're earning 5%. How would you like to earn 6% or a bit more with no risk attached?", and that's how it was sold to people.

LEWIS: And your action group, what is it campaigning for? What would you like to see happen?

KHAN: All we're asking for is to give our money back.

LEWIS: And who is your claim against? Is it against AIG or is it against the banks who persuaded, as you put it, your members to buy this product?

KHAN: We're looking at all avenues at the moment. The claim may be against AIG, maybe against the banks or maybe a combination of both.

LEWIS: Zia Khan. Adam Samuel is a lawyer who advises companies on whether their promotional material complies with the law. Did he think the AIG brochure did that?

SAMUEL: The brochure I've seen does not set out where the money is going to be invested and it doesn't set out, therefore, the nature of the risks that the customer is going to be encountering. There are a number of references to the instant access nature of the product; and then quite a long way through the brochure, under a heading which doesn't actually refer to this subject, it suddenly says that by the way, we reserve the right to lock the fund in the event of mass surrenders. Well it should have just said look, this is generally an instant access fund, but we do actually reserve the right to lock the fund. In other words, what you mustn't do is give with the large print and take away with the small print. And as to the comparisons with a bank account, if you're going to say this is an alternative to a bank account, you *have* to say what the fund is actually invested in and as a result what the risks to the investor actually are.

LEWIS: Adam, your job is advising companies on whether their documents and their material is compliant. If you had been given these documents, would you have passed them?

SAMUEL: No. They would have gone back with a message saying I don't know what this underlying fund is. Please describe it for me and then describe to me the types of risks that the average customer would encounter.

LEWIS: These products are sold through intermediaries - advisers at banks or independent advisers. Did *they* explain the risks clearly?

SAMUEL: We don't know. We weren't present at any of these transactions. I have certainly seen some correspondence from one of the intermediaries that was marketing this that described this as safer than a bank account because of the deposit protection arrangements, which is just wrong. Banks benefit from much better deposit protection arrangements than this sort of product.

LEWIS: Compliance lawyer Adam Samuel. The Chief Executive of AIG Life is Doug Brown. Did he accept that his brochure was misleading?

BROWN: If we look at the literature, clearly from our perspective we believe it *is* clear. It does outline … The risks are clearly highlighted.

LEWIS: Well they're hardly highlighted, are they? I mean your brochure starts off by saying its aim is to generate a return that competes with traditional bank and building society deposits and to provide access to funds. The implication is that it's an easy access account, as safe as a bank or building society.

BROWN: It does say that it looks to generate returns that compete with banks and building societies and, where possible, to allow quick and easy access. But clearly …

LEWIS: Well it doesn't say where possible.

BROWN: … if you look at the key features and the risks are highlighted that we are able to defer withdrawals in the case that assets need to be sold. And clearly these are extraordinary markets that we exist in and, unfortunately, the risks materialised in these extraordinary events.

LEWIS: But why do you mention bank and building society deposits, which everyone sees as completely safe - you'll always get your money back, certainly up to £50,000? Why do you even mention them when this is really better compared to a stock market investment?

BROWN: No, what we say is it generates returns *comparable* to banks and building societies. We're not saying it *is* a bank or building society.

LEWIS: But by mentioning them and saying that it competes with them or are competitive against them, mentioning them at all puts that thought in people's minds, doesn't it?

BROWN: That's your view.

LEWIS: Your products were sold by a number of high street banks and we've got copies of letters from Barclays Private Bank saying they offer liquidity and security, they offer returns that are higher than bank and building society deposits while providing a higher degree of safety and liquidity. Another customer's told he moved his money without assuming any additional risk. Do those things really describe your fund properly?

BROWN: We only distribute our product through professional advisers and wealth managers. We aren't communicating directly with the policyholders, so I cannot comment.

LEWIS: No, but you must take some responsibility for how your product is sold?

BROWN: Clearly we do. Via our literature.

LEWIS: And you believe that your literature is clear, fair and not misleading, as it has to be?

BROWN: Yes, I do.

LEWIS: There is an action group of depositors who are telling us that they were misled, that they thought their money was safe, that they do feel AIG bears some responsibility for the fact that it wasn't. Do you accept any responsibility at all?

BROWN: I clearly empathise with the policyholders, and because of that what we have done is come up with alternatives because clearly we don't feel in the current circumstances that it's in their interest to have to liquidate these. We have provided a guarantee to ensure that if they remain in that fund, they will not lose any money.

LEWIS: Well they won't lose any of their capital, but they'll get virtually no return on it over a period of another 4 years.

BROWN: They're guaranteed to get that. Clearly the aim of the fund could generate more than that, but in the circumstances that it doesn't then the guarantee is there.

LEWIS: The guarantee is there as long as AIG is there?

BROWN: Correct.

LEWIS: So the risk is that AIG *won't* be there in 4 years time?

BROWN: That is a risk, but AIG *will* be there in 4 years time. We've satisfied ourselves of the capital and the reserve that we need to hold and we're able to provide that guarantee.

LEWIS: We had an apology from a major high street bank to its customers, its shareholders. Do you want to apologise to these people for what's happened to their money?

BROWN: We do apologise. I think it's clear that we weren't able to deliver what was expected when they expected it. It's not something that we wanted, it's not something that we wanted our policyholders to go through, but these are extraordinary markets and we believe we've come up with a viable solution.

LEWIS: AIG Life boss, Doug Brown. Barclays Private Bank, which wrote the letters I referred to, wouldn't put anyone up for interview. It did give us a statement, which made this comment on the allegations of mis-selling. 'We have a rigorous and transparent complaints process and will investigate any claims of mis-selling on a case by case basis. We reject any allegations of systemic mis-selling.' Customers have a deadline for making their choice by Tuesday. If you don't, AIG will decide for you. More information on our website.

**** Since the programme was broadcast, Money Box was contacted by a spokesperson of AIG to clarify a point we made on the programme about the extent of loss should policyholders cash in their bond now. Their clarification is as follows:**
"Policyholders who choose to leave the fund early will lose 12.5% of their money, not 25% as you reported.
That is because the 25% loss on the market value of the underlying investments is taken on only 50% of a policyholder's investment, not 100% - don't forget that the other 50% of the investment is held in cash and not affected by any market value reduction."

The mortgage market is beginning to settle down more than two weeks after the Bank of England's surprise cut in bank rate, down by one and a half points to 3%. But until now, there's been little change to fixed rate deals for new borrowers, particularly with people who want certainty for their household budget. But this week there have been announcements from two major mortgage lenders. Rob Clifford of Mortgage Force is waiting to talk to us. Rob Clifford, Abbey and Nationwide both announced cuts. What are the details?

CLIFFORD: Well Woolwich as well, Paul. Northern Rock have joined the band too. Fixed rates are available now from as low as 3.99%, which seems a very low rate indeed - fixed for 1 year. Rates can be obtained fixed for 2 years and 3 years too, all with relatively attractive rates.

LEWIS: Do these come with high arrangement fees though? That's often the trick, isn't it - you cut the rate, but you charge a high arrangement fee?

CLIFFORD: Borrowers certainly need to look out for that now. There's increasing incidence of extended early repayment charges. They're creeping back in. Arrangement fees tend to range from around £500 to £1,000 - so, for instance, Woolwich currently charging £995 on a 1 year fixed deal; Nationwide, a slightly less toxic rate of £599 for 2 years fixed.

LEWIS: And of course those are basically just interest in advance, aren't they, whatever they call them, so you have to sort of try and factor that into the rate you're being offered? And what about people who don't have a big deposit because a lot of these best deals, you've got to have 25%, even 40% deposit, don't you?

CLIFFORD: That's exactly right. Almost no-one with less than 25% deposit can now obtain a tracker deal, but there are encouraging signs that lenders are deliberately easing the pressure on those with low deposits but we're still miles away from the plethora of products that were available pre-credit crunch. So some deals are available for fixed rates with just 10% or 15% deposit, but they certainly aren't the cheaper rates.

LEWIS: No, so to get the best deals you still need to have a big deposit, which doesn't help first time buyers, does it? And what about tracker deals? Are they now less competitive compared with fixed rates? Should we be going for fixed now?

CLIFFORD: That's generally the case, Paul, and most people are selecting fixed. Despite the likelihood of further variable rate cuts, people are diving in and taking up these great fixed deals, which range, as I said, from 3.99 up to about 6% for 1, for 2 or 3 years depending on the size of your deposit or your equity.

LEWIS: Yes, so watch the terms and conditions. Rob Clifford of Mortgage Force, thanks very much for that.

Well that's it for today. That's all we have time for. You can find out more, as ever, from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can do all sorts of things - download a podcast and of course have your say on car hire after an accident. Goodness, many of you are telling us some pretty horrific experiences - some blaming poor service by insurers, some questioning the cost, and Jane, whose replacement car was so big, she called it the Starship Enterprise. Vincent Duggleby's here on Monday with Money Box Live, this week taking your questions on saving and investing. I'm back next weekend as usual. Today the reporter was Bob Howard, the producer Lesley McAlpine, and I'm Paul Lewis.