MONEY BOX

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LEWIS: Hello. In today's programme, the day after shares in some banks plummeted, the Treasury has confirmed officials are in talks with bank executives. Will taxpayers have to stump up more? After a rare government apology to customers of the troubled insurer Equitable Life, they ask who will get compensation and when. Standard Life warns 96,000 customers that pension savings they thought were safe have fallen by 5%. How safe are cash funds? And if you were a parent or looked after a child in 2002/3, you may be due a tax rebate - if you're quick.

But first, shares in Barclays Bank plummeted 25% in an hour and a half yesterday with Royal Bank of Scotland shares down 13% and Lloyds TSB shares falling below a pound for the first time in 16 years. The Treasury has confirmed that officials are meeting bank executives to discuss further measures to end the current banking crisis. It's not just in the UK, of course. The Irish government is poised to nationalise Anglo Irish Bank and the US government has put $20 billion into Bank of America. Citigroup has split in two, after announcing heavy losses. Well live now to Angela Knight who's Chief Executive of the British Bankers' Association. Angela Knight, is another high street bank in danger? Shares in Barclays 25% down on Friday. In the past, that's often led to nationalisation by Monday, hasn't it?

KNIGHT: No, I don't think for a moment another high street bank is in danger. One of the things that did happen yesterday was that the ban on short selling was lifted.

LEWIS: This is where people borrow shares that they don't have …

KNIGHT: Correct.

LEWIS: … sell them in the hope of buying them back cheaper on Monday?

KNIGHT: Correct. And the FSA, our regulator, is keeping a very close eye on this, very close attention indeed …

LEWIS: So you're saying that …

KNIGHT: … and I'm expecting that they will be letting us know what happened there on Monday. But indeed Friday became a speculation day in the US and I think that some of that washed over here as well.

LEWIS: So it's speculation rather than weakness of the banks?

KNIGHT: Yes, I think it is. And you will have seen the statement of course that Barclays did feel necessary to put out, which was indeed a strong statement. We are in the middle of the reporting season as it's called, or just running up to that, as well.

LEWIS: Just running up to it. I mean certainly Barclays was saying their profits are going to be higher than estimates of whatever … 5.3 billion, I think. But press reports this weekend are suggesting the banks need more help. The Prime Minister is working on a plan to put another maybe 200, maybe £300 billion into the banks for various purposes. I mean people begin to wonder how much taxpayers' money is going to be needed to repay the banks for their mistakes.

KNIGHT: I've read the reports as well, but I'm certainly not adding anything to that speculation. What I would like to say …

LEWIS: You can't say if those sorts are going on.

KNIGHT: What I would like to say, if I may Paul, is that there is an important capital point. It was one that came out as well during the course of last week, which does make … it is worthy of thinking through. We as the banking industry operate under specific capital rules - a lot of them are *new* capital rules - and if one is in an environment that we are at the moment where the economy's turned into recession, you have to hold more and more capital against your existing assets. That doesn't mean that your assets are bad or wrong or toxic or any of all those awful words that one sees. It is just a question of fact coupled with …

LEWIS: Sure.

KNIGHT: … coupled with the additional change that has taken place, and that was when the Government made the capital announcements last year. That has meant that the new minimum the banks have to hold is higher than it was before …

LEWIS: Well sure, I mean …

KNIGHT: … but together that restricts their ability for new lending, so we need to look into …

LEWIS: Well indeed. And that's the problem, isn't it?

KNIGHT: Yes. So we do need to look into…

LEWIS: Angela, let me bring …

KNIGHT: So we do need … If I may just conclude. So we do need to look at how these capitals interact because that is one of the constraints on the banks with new lending and that was one of the reasons why last week's announcements by the Government on assisting, rules that assist with lending to certainly mid-sized corporates was so important.

LEWIS: Right. Well thanks for that, Angela. Let me bring in Gavin Oldham, Chief Executive of the Share Centre. I mean, Gavin, what do you think has brought on this plummet in share prices in Barclays particularly?

OLDHAM: Well all the papers at the moment are talking about the possibility of the Government setting up a bad bank, which would take off the assets off the banks' balance sheets which have actually caused all these problems all the way through.

LEWIS: And although Angela Knight says a lot of assets are good, there are undoubtedly a lot of very bad debts, aren't there?

OLDHAM: Yes, there clearly are. In fact during the week Capital Economics have estimated that there's potentially another 85 billion pounds worth of losses on write downs of bad debts, which would represent about 40% of that tier one capital that Angela was talking about just now. Now the thing is that if they do that, the crucial issue is at what price are those assets going to be taken off the banks and actually put into that government owned bad bank because the thing is if that price is too low, it would require further capitalisation to go into the banks and the only source of that would be the Government. And if that's the case, obviously you know the market's worried about things like that.

LEWIS: And what do you think of this speculation in the press that there could be another two or even £300 billion needed both to take the toxic debts off and also to provide money for the banks to lend to businesses and customers?

OLDHAM: Well that could well be the value of the bad bank, which is actually put in place in order to buy those assets out. And you know the thing is that the market is obviously very, very concerned about that situation.

LEWIS: And you think it's market concern rather than simply speculation due to this technical thing about the end of short selling?

OLDHAM: Well, I think it is. I mean the fact is that when you get smoke like this, there's generally a bit of fire there. And the fact is that the total market cap of the banks, just to put it in some context …

LEWIS: The total value of all the banks, all their shares, yes.

OLDHAM: The total market count, so all the banks except for HSBC - that's Barclays, Lloyds and Royal Bank of Scotland. You remember that Brazilian footballer? About four hundred of him would be worth about the same as the market value.

LEWIS: Kaka - yes indeed. And finally, Gavin, do you think that if the Government does put more taxpayers' money in, we are heading really for full nationalisation of another bank or all the banks?

OLDHAM: Well it depends really how much equity is going to be required to actually boost the capital, as Angela's been talking about, and I think that there is a worry about that. Obviously Barclays hasn't taken any of that money just yet and obviously it doesn't want to be in a position where it has to take government money, and you know I mean that's why it was probably the worst hit yesterday.

LEWIS: Right, well we'll have to see what happens. Thank you very much to Angela Knight from the British Bankers' Association; Gavin Oldham from the Share Centre.

Well, as we heard, as I said in my cue earlier, Anglo Irish Bank is about to be nationalised by the Irish government. It's the home of a lot of money for UK investors attracted by its interest rates and of course 100% state guarantee from the Irish government. Bob Howard's with me. Bob, should UK investors worry about their money in Anglo Irish?

HOWARD: Well, Paul, I spoke to the bank late on Friday. It estimates it has around 120,000 UK customers with savings of around 9.5 billion euros. Laws to nationalise it are expected to go through the Irish parliament on Tuesday. Its shares have been suspended in the meantime. As far as UK customers are concerned, the bank told me they can withdraw or deposit money as usual and it says the protection scheme covering deposits remains unchanged. If you remember, the Irish government said in September it would guarantee all savings in certain Irish banks, including Anglo Irish, until 28th September 2010, and the terms and conditions of accounts also remain the same. The bank says it will be contacting all its customers in the next few days, probably by letter, to explain what's happened.

LEWIS: Thanks, Bob.

And now to a story that Money Box has reported on in great detail for almost 10 years. This week, a decade after the problems of the insurer Equitable Life became public 6 months after a damning report by the Parliamentary Ombudsman, the Government has announced that some policyholders will receive well not compensation but an ex-gratia payment. It's not clear yet who will get the money, how much or indeed when. More than a million people who had Equitable policies in 2001 have seen the value of their investments slashed. Many say they've lost half their savings. In Parliament this week, Treasury Minister Yvette Cooper made this statement.

COOPER: I think the whole House regrets the mismanagement of the society that caused problems. I wish also to apologise to policyholders on behalf of the public bodies and successive governments responsible for the regulation of Equitable Life between 1990 and 2001 for the maladministration that we believe has taken place.

LEWIS: Yvette Cooper with a rare and indeed long awaited apology. But when campaigners studied the 56-page document setting out the details, they were less happy. Paul Braithwaite is General Secretary of the Equitable Members Action Group.

BRAITHWAITE: Under the headline news that there was an apology, Yvette Cooper had her fingers crossed behind her back and she's only apologised for about half of the things that the Treasury, who are the villains of the piece and have been found guilty of five of the counts of maladministration, have locked up the process for themselves. They've denied the compensation idea at all and they've swung round towards putting in a means tested hardship fund and it's really more of the same. It's a stitch up.

LEWIS: Why do you think it's means tested? That phrase doesn't appear in the report.

BRAITHWAITE: No, it's obfuscated and hidden behind the words 'ex-gratia'. It is a at the discretion … Ex-gratia means charity. It doesn't mean compensation for injustice.

LEWIS: So you're suggesting that what will happen is people will have their finances looked at, and if they're very wealthy they'll get nothing and if they're in hardship they will get something?

BRAITHWAITE: It is completely obfuscated as to what the criteria for who will be beneficiaries of any money, but the implication seems to be hardship.

LEWIS: Well isn't the real problem that people didn't actually lose any money; they've simply got less than Equitable Life falsely promised them?

BRAITHWAITE: Well that's nonsense. Tell that to the chap who retired on a with-profits annuity and made their pension plan maybe 8 years ago. He was getting £20,000 or so as his annual income, and he's now having to live on about £13,000. That may not qualify for hardship, but by god it is.

LEWIS: Paul Braithwaite. Well we wanted to clarify what he called that "obfuscation" with the Treasury, but no minister would come on Money Box and a statement the press office promised us has still not arrived. With me is Simon Morris, a partner in the city law firm CMS Cameron McKenna. Simon Morris, you specialise in working out redress for people. How much do you think Equitable Life customers might get?

MORRIS: This is going to be almost impossible to work out because there are three factors to what happened to Equitable Life. Equitable Life was fairly thinly capitalised, which meant they had very little cushion if things went wrong, and three things went wrong one after another. First of all, markets have continued to fall and that is really nobody's fault. Secondly, Equitable Life took some fairly bad decisions. That again is nobody's fault, I'm afraid, except Equitable Life. But then, thirdly, you had some spectacularly inept regulation from the Government. The Government paid people to look at Equitable Life's returns and they didn't do it properly. They paid them to ask questions. They didn't ask them. So what we need to do is work out what a policyholder's entitlement would be now if the Government had regulated it properly, and that is going to be very difficult to ascertain.

LEWIS: And that's what the Ombudsman indeed suggested - that people should look at well supposing the regulator had said don't touch Equitable with a bargepole, you'd have gone somewhere else. What would you have got then? That's going to be a very difficult calculation. What do you think people might get? And then of course only a percentage of it is redress because only a percentage is the Government's fault.

MORRIS: Yes, I think the difficulty is there are four ifs in a row. The first if is we've got to work out where you would have been today if the Government had regulated you properly in the early 1990s. Then the next if is they've got to work out how much more your policy would be worth. The third if is if you are still alive - and we're on notice this is going to take another 2 to 3 years to work out and people are still dying, I'm afraid. The fourth if is if you can show you're in really dire straits, you may get a bit of money.

LEWIS: And a bit of money, an estimate of how much they might get?

MORRIS: My instinctive feel, without any facts, is we're looking at potentially a 5, 10 or 15% uplift on benefits and payment.

LEWIS: So no more than 15% after all this waiting. And people have been telling us though they've lost 50%, not 15%.

MORRIS: Well they may have lost 50% because of market falls or because Equitable Life kept very low reserves. I doubt they'll have lost 50% because the Government Actuary's Department was a very inept regulator in the early 1990s.

LEWIS: And you did mention a timescale there. Just very briefly, how long do you think before anyone gets a payment?

MORRIS: I think we're looking at easily 3, 4 or 5 years before people get a payment because it is going to be so difficult first of all to work out the rules - it's largely going to be conjecture; then, secondly, to look at the individual circumstances of perhaps a million policyholders; and then finally to work out who is in such dire straits that they're going to be offered some of this ex-gratia payment.

LEWIS: Simon Morris, thank you very much from CMS Cameron McKenna.

Tens of thousands of parents could be entitled to a tax rebate of more than £500 - some over £1,000. They're parents with a child born between April 1986 and April 2003. Many will already have had it, but those who haven't need to act quickly. The deadline for claiming children's tax credit is just two weeks away at the end of January. I asked Clare Merrills from HM Revenue & Customs who exactly is eligible.

MERRILLS: The people that are actually entitled to claim this tax credit relief were people who had at least one child living with them under the age of 16. Now that could be your own child or it could be an adopted children - a child that you have responsibility for, you know you are the guardian or indeed the parent of that child. You could have got up to £529 a year. If you had a child in that year, so you'd got a baby between April 2002 and 2003, you could actually get up to £1,049 in that year.

LEWIS: And that was a rebate on your tax. Why didn't most people get it at the time?

MERRILLS: Most people did get it at the time. We have had a few people coming to us to check whether or not they did claim it and we're finding up to about 95% of people have already had it.

LEWIS: Right. So that's still 5% or so who didn't, so there could be a significant number of people out there who should get the money. Apart from having a child, what other conditions are there?

MERRILLS: If you were a higher rate taxpayer or you know if there were two of you in the family and one of you was a higher rate taxpayer …

LEWIS: Because this is done on the income of the highest paid of the two, isn't it …

MERRILLS: That's right - it is, yes.

LEWIS: … unlike the present system?

MERRILLS: Indeed, yeah. So if one of you was a higher rate taxpayer, that was the person that had to make the claim. If you had one child that wasn't a newborn child in that year, as long as your income was less than around £42,000 you would qualify for some because it was actually worked out on a tapering basis. It did reduce as you were a higher rate taxpayer. If you had a baby in that year, that income limit went up to £49,500.

LEWIS: So you get something right up to possibly £49,000 in the year. Where do you get the full amount?

MERRILLS: If you were not a higher rate taxpayer and you had a child in that year, you would get your full amount, your full £529 or your full £1,049.

LEWIS: So there still may be people out there, they want to make the claim. What do they do?

MERRILLS: Get in touch with us. Either pop into the local tax office or give us a call. Ring your own tax office and you can find out whether or not you actually had that allowance at the time. If you didn't, there is a very straightforward form that you can fill in and claim it now.

LEWIS: There are companies, aren't there, that are setting up to help people do this.

MERRILLS: Yes.

LEWIS: Is it worth going to one of those?

MERRILLS: What you need to do first of all is to check exactly what it is they will be charging you to do it because some of them are charging regardless of whether you get a refund. Some of them are charging quite a high percentage of any refund that you do get. But of course all you need to do is to contact us and we do it for free.

LEWIS: Clare Merrills. And more details of that on our website.

Nearly 100,000 Standard Life customers have been told that the value of their pension fund has fallen 5%. Well with share prices falling by a third, that may not sound very much, but Standard Life's Pension Sterling Fund was sold as free of stock market risk and invested in assets that were pretty much like cash. Money Box listener Geoff Barrett was one customer who put his pension fund in it, so he was disappointed to hear it had fallen at all in value.

BARRETT: Because I'm hoping to take the pension later this year, I wanted to protect the money that I had amassed from fluctuations in the market. That's why I went to them and said I want the safest haven you have for my money. In the letter, they do refer to the managed cash fund, which in their words is 'designed to produce lower levels of volatility in investment returns', which is exactly the sort of product that I was looking for. They've had two opportunities to advise me of this new product and they haven't done so. Had they have done so, I reckon I'd be at least £7,000 better off today.

LEWIS: Well Geoff is just one of several Money Box listeners who've contacted us after getting that letter from Standard Life. The letter was signed by John Gill, Standard Life's Managing Director of Customer Services. I asked him why this safe fund had fallen by 5%.

GILL: As is typical, the Pension Sterling Fund does not come with a guarantee that the unit price will not fall. The value of assets will go up and down in line with market movements and that I think has been made clear to our customers.

LEWIS: Well it has and it hasn't. In the specification, the fund objectives that's on your website, it says it's for investors looking for a temporary home for their money when the short-term outlook for equities, for shares, for fixed interest securities and property is uncertain - so people go there when they want some kind of certainty, don't they?

GILL: Yes, but we've seen exceptional market volatility and I don't believe any asset classes have been immune from this downturn.

LEWIS: Well of course cash has and people in many cases thought their money was in cash. What proportion is in cash?

GILL: Of the order of 50% is in deposits of one form or another and the remainder is in money market instruments.

LEWIS: But on the details on the website, it says cash deposits 12%. Am I misunderstanding that?

GILL: There's pure cash in the sense of deposits with banks. There are things like certificates of deposits that banks issue as well. Broadly speaking, directly issued by banks, it's about 50% of the fund.

LEWIS: Right, so that much is not at risk at all?

GILL: All asset classes are subject to the recent volatility and I think people are well aware of the issues around all banks and building societies in recent times.

LEWIS: Money Box listener Geoff says he was told it was your lowest risk fund. Is that true?

GILL: It's a fund that offers a low level of volatility, but, as I said, unprecedented levels of turbulence in money markets have led to higher than anticipated levels of volatility.

LEWIS: It doesn't quite answer the question though. Is it your lowest risk fund or not?

GILL: It is a fund that has our lowest volatility rating.

LEWIS: And you are now offering people in that letter they can move their money into the managed cash fund. Wouldn't it have been more sensible to put them in something like that in the first place?

GILL: Again, over the last few months things have moved very quickly and conditions have become increasingly turbulent.

LEWIS: People like Geoff who thought their money was safe - I mean he's nearly at retirement, he's facing £7,000 less in his fund - are you going to compensate them?

GILL: We've written to everyone invested in this fund to help them with what they should do going forward.

LEWIS: Yes, but do you think there's any case for compensation?

GILL: Erm … we do not believe that there is a case of compensation. If customers have any particular complaints, we will of course consider those fully.

LEWIS: Standard Life's John Gill. Well Standard Life didn't call its Pension Sterling Fund a cash fund, but many others on the market which are invested similarly do. I asked Tom McPhail, Head of Pensions Research at IFA's Hargreaves Lansdown, what was meant by a cash fund.

McPHAIL: What they're investing in is short-term loans to companies, short-term loans to banks that behave in a very similar way to cash. But where Standard Life I think went a little bit wrong is that they went a little bit further out than that. They were using what are called asset backed securities. If I say mortgage backed securities, you're probably going to start hearing the alarm bells going off now because what they were doing was taking just a little bit too much risk with that cash, I think.

LEWIS: We've heard from one listener who says he was told this was Standard Life's lowest risk fund. They are marketed in that way. Why aren't they simply put all in cash?

McPHAIL: Standard Life wanted to produce a decent return for investors. Now if they went into a pure cash deposit fund, then the rates of interest would have been lower; and when you come to look at the league tables telling you how well these cash funds had performed, there would be Standard Life languishing at the bottom because they're not taking the same investment decisions as all these other cash funds are. And everybody's playing this game to a greater or lesser degree.

LEWIS: Do you think that some of these companies - I know Standard Life didn't, but some of them use the word ‘cash’ to describe these funds - are they misleading customers?

McPHAIL: I think money market would be a more relevant description. And indeed if you look at the sector descriptions, they’re actually in the money market sector. It’s not a cash sector. So people are using cash as shorthand for money market and I think that might be slightly misleading.

LEWIS: What should people in the Standard Life Sterling Fund do though? Can they make any complaint? Can they move their money?

McPHAIL: I think the people who are going to be most disappointed are the ones who’ve been using the fund for the life-styling, for the pre-retirement where they were parking their tax free cash there in expectation of being able to take it out at retirement, and I think they might be having some quite interesting conversations with Standard Life about the disclosure of risk that went on with that process.

LEWIS: And what about moving the money? And not just people in this fund. I mean there’s nearly 100,000 of them, but there’s obviously a lot of other people who thought their money was somewhere reasonably safe. They now want to protect themselves against further falls. Is there anywhere they can put pension fund money that is completely safe?

McPHAIL: Standard Life have now brought out a lower risk cash fund that is more genuinely bank deposit, so for Standard Life investors there is now this alternative available to them. For other pension investors, for other people looking to park money in cash, there are all these funds out there. A couple jump out. There’s a Zurich fund and an AXA fund, which again are very close to being genuinely cash and nothing else. So there are cash funds out there if you want to go looking for them, but anyone who’s thinking of putting money into a cash fund would probably be well advised to check the details of that cash fund before they do so.

LEWIS: Tom McPhail. And you can have your say on cash funds and how they’ve been sold to you on our website: bbc.co.uk/moneybox. Some of you already have. Keith says Standard Life has lost in fact 120 million of that fund. He thinks 5% perhaps sounds better. Lots of emails coming in also on the banks. Ed suggests the Government should demand all bank bosses repay their bonuses before giving them a penny.

Anyway, that's it for today. The BBC Action Line - 0800 044 044; our website, bbc.co.uk/moneybox. Lots to do there, including have your say. Personal finance stories, Working Lunch weekday lunchtimes. Vincent Duggleby's back on Wednesday. Money Box Live this week is on saving and investing. I'm back next weekend. Today the reporter was Bob Howard, producer Samantha Washington, and I'm Paul Lewis.