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MONEY BOX

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TRANSMISSION: 10th JANUARY 2009 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, the Bank of England makes history by cutting interest rates to their lowest ever - well, so far - but who will it help? The Shadow Chancellor explains his plans to scrap basic rate tax on savings interest and raise the tax free allowance for people over 65. Bob Howard's here. *(Fx: phone rings)* Bob, it's the bank on the phone.

HOWARD: Ah, but is it? Why is it so difficult to know exactly who's calling you?

NAOMI: They were quite willing for me to give my details. It needs to be a two-way process. If they want to speak to me, they just need to prove that they are who they say they are.

LEWIS: And new proposals to make sure that if your bank goes bust, you'll get your money back pronto.

But we start in 1694 - Friday, July 27th, to be precise - when the seal was put on the Royal Charter that set up the Bank of England. The new bank fixed interest rates at 6% and in the 314 years since, they have never fallen below 2. Until now. This week, the official bank rate was cut to 1.5%. So is this the worst financial crisis in more than three centuries, or is the Monetary Policy Committee overreacting? Live now to independent economist, Michael Hughes. Michael, is this credit crunch so serious we need to cut interest rates to their lowest in more than three centuries?

HUGHES: Well to some degree we do because we've never had so much debt; and, more importantly, that debt hasn't been quite as widely owned as it is now. So the impact that this is having on a wide number of people, and on companies particularly, is far greater than we've seen in the past.

LEWIS: But the problem is that there isn't enough debt in a way because the problem we're told is that people are not able to borrow money. We can't borrow money to buy a house, businesses can't borrow money to expand. Will cutting rates cure that? Surely it's the availability of credit, not the price of it, that's the problem?

HUGHES: Absolutely, and I think that's where the focus is now going because it's quite likely that the reduction in interest rates is just going to make it easier to repay debts rather than to actually boost spending. So they need to think of unconventional policies and they can take the form of changing the way the budget deficit is financed, so that banks are able to have access to more money from the Government, and it may be that you see the Government buying in some of the bad debts, so that the bank's position is strengthened. But, increasingly, a lot of talk is about the Government guaranteeing new loans that may be made to companies. Not just small companies actually; large companies as well.

LEWIS: So it would be the Government that took the risk rather than the banks. And we've heard a lot, Michael, about quantitative easing - printing money, as some newspapers are calling it. What is that? Will it solve the problem?

HUGHES: Well it's exactly the lines I've just been describing; that you are effectively taking some of the assets of the banks and exchanging it for cash, so the banks have the cash to use - hopefully - to lend to first-time buyers and indeed to companies. And that probably is now more effective because most companies are still reporting that it's quite difficult to renew existing credit facilities, let alone add to them.

LEWIS: Well stay with us, Michael, but let's talk now to Simon Tyler. He's Managing Director at Chase de Vere Mortgage Management. Simon, will this latest rate cut be passed on? This is the third in 3 months.

TYLER: Well it has been passed on so far by a number of lenders and we're seeing new variable rates from, for instance, Nationwide. Their now standard variable rate is down at 3.5%. If you're with Cheltenham & Gloucester, they're at the same rate as well. So they've reflected that immediately. That's great news for those people who've got mortgages, but it's people who now want to take new mortgages on where the impact is really being felt.

LEWIS: Yes. I mean you say great news for people who've got mortgages, but only those who are on variable or tracker rates. People on fixed rates of course are stuck with them - some for 5 years. Aren't they subsidising by still paying 5, 6% the ones who are getting these reductions?

TYLER: Well I wouldn't say that they are subsidising those who've already got the rates because those particular products - the fixed rates they took out yesterday, 2 months ago, 3 years ago - were based on the price of swaps that the lenders bought at that stage. There is a margin there were the lender is still making or possibly losing money against those particular deals. They're not cross-subsidising the cheap deals that are now available.

LEWIS: Right. They must feel as if they are though if they're on a fix of 5.75% and their neighbour's rate is going down on a tracker, down to maybe 2% or 1.5%?

TYLER: That's truly unfortunate, but the choice at the moment of repaying that debt, repaying any early repayment charges and taking out a new product doesn't necessarily make sense.

LEWIS: And what about people who want to borrow money? That isn't getting any easier, is it?

TYLER: Well certainly there's a problem with most lenders now in terms of liquidity, we know that, and new products being available at wider margins than we've seen before. A couple of years ago, you could have got a base rate tracker from the right lenders at .75 below base. Now most products are 2.25 above that as a minimum, so there's a 3% swing in funding costs and it is more difficult. Most lenders have not got much money to lend.

LEWIS: Yes you need very big deposits, don't you? Well stay with us, but listening to that is Kevin Mountford who's Head of Banking at Moneysupermarket.com and is a specialist in the savings market. Kevin, savers have seen rates paid cut to the bone, haven't they? Just how much have they fallen?

MOUNTFORD: Yeah, I think we keep hearing the fact that mortgage rates were decoupled from bank base rate and weren't directly impacted, and I think savings did get to the same situation. We enjoyed inflated rates throughout 2008, but subsequently banks, building societies are frantically trying to bring them back in line with bank base rate and subsequently we've seen huge reductions relative to where we were the middle of last year over recent months. And our research shows even before the latest bank base rate reduction, on average savings rates were yielding something like 1.8, 1.9%.

LEWIS: Goodness me because you could get over 7% not long ago, couldn't you?

MOUNTFORD: Quite. Yes, very much so.

LEWIS: You say before the latest cut announced on Thursday. Have there been some cuts since Thursday's announcement?

MOUNTFORD: There have. I actually don't think we saw the complete fallout from the December reduction. I think the providers widely anticipated that early January there'd be another reduction and maybe were keeping some of their cards close to their chest. So I think the more significant players will start to declare their hands over the coming days and weeks. But I think, just to demonstrate the risk we face, particularly in the easy access variable rate market, we had Tesco Personal Finance leading the way at 6% over recent weeks and they've dropped over the last couple of days to 3.6%.

LEWIS: But this is the problem though, isn't it, because people do sometimes go for the best rate and think well that's sorted and they don't look at it again for another 2 or 3 years, by which time they've fallen right down to sort of 45th position in the tables? Do we have to be even more active savers now - moving our money, what, every few months?

MOUNTFORD: Well I think the biggest danger is that we become even more complacent. Savers will think well is it really worth me moving around when rates are so low? But I think if you check the markets, there's still a gap between the best and the worst; in fact maybe even the best and the average accounts. So more than ever, we need to be vigilant.

LEWIS: And tell us some good deals out there, or at least what are now seen to be good deals.

MOUNTFORD: Well in the easy access market, anything I think over 4% looks good. You've got ING Direct Savings Account paying 5%.

LEWIS: That's with a bonus though, isn't it, that runs out?

MOUNTFORD: It is and that's got quite a significant bonus of 2.17% for 12 months. And I think in the past people have maybe shied away from bonus accounts because of exactly the reason you've just described, but what I would suggest is we take advantage of these but just make sure we make a note as and when these bonuses fall off.

LEWIS: And, Michael Hughes, do you think savings rates are going to go down to zero? And if they do, doesn't that mean people will stop saving and the banks will have even less money to lend?

HUGHES: Well potentially they will. And I have to say that the only example we've seen of negative interest rates in recent years was in Switzerland and we are not Switzerland by any means. So I think we have to accept that the rates will remain positive, but that there will have to be some incentives, possibly even tax incentives, to compensate people because it's ridiculous to be paying tax on such low interest rates.

LEWIS: And, Michael, there are various estimates in the newspapers this morning about how long these current economic problems will last. I think one commentator, one economist in fact, was saying 3 years. What's your estimate?

HUGHES: Well I think we're going to have a pretty difficult two or three quarters this year, but actually I do think there is a light at the end of the tunnel. I'm quite encouraged by how the credit markets, the wholesale money markets began to improve this week. That light isn't shining very brightly, but if it continues to shine I think we should start to gain momentum in 2010.

LEWIS: Well that's better news than some of the newspapers are saying. Thank you very much for that, Michael Hughes, and also thanks to Simon Tyler and to Kevin Mountford.

Now the Conservatives promised this week to scrap the tax on savings for most savers. No tax at all would be charged on savings interest, right up to the limit where higher rate tax was due. That would avoid the current problems where tax is deducted automatically whether you're due to pay it or not, leaving £250 million waiting to be reclaimed. The Shadow Chancellor George Osborne explained the other reasons why he wanted to get rid of this tax.

OSBORNE: Savers and pensioners, who are people who did the right thing and saved during all those years, have been the innocent victims of this recession, and what government can do is boost their income by abolishing tax altogether for basic rate savers.

LEWIS: But that will make a very small difference, won't it? I mean somebody, a small saver with £1,000, they'll get about 12 pence a week from the tax cut. That's not going to make any difference to them when they've seen the rates come down by at least half over the last few months.

OSBORNE: Well you can't have artificially high interest rates because we do need interest rates to come down. If you introduce the tax policy that we're proposing, you are adding 20% to their income.

LEWIS: You say you're abolishing the basic rate of tax on savings interest and your leader, David Cameron, said top rate taxpayers will continue to pay the same. That's not true though, is it, if all your money comes from savings interest because you will then gain this whole chunk of money that's saved on basic rate tax - more than £7,000?

OSBORNE: Of course that's entirely true - that if your entire income is savings and you're a higher rate taxpayer, then you benefit like other people do from the fact that the basic rate goes to zero - and we never said otherwise. Indeed I've made that point as well.

LEWIS: On top of this, you're also helping pensioners or people over 65 anyway by raising the tax allowance for them. What are you doing there?

OSBORNE: Well we're increasing the personal tax allowance for pensioners for those aged over 65 by £2,000, so that takes it from around £9,500 to £11,500. And also, incidentally - as some of your listeners will know - there's a slightly higher personal allowance for those aged over 75. That would also go up by £2,000. So that means if you're someone, a pensioner over the age of 65 - let's take that person as an example - you could earn from your pension or indeed other sources of income up to £11,500 without paying any tax at all under this Conservative proposal.

LEWIS: That allowance though is only given in full, isn't it, to people with an income below a certain limit? I think from April, that's going to be £22,900. We've certainly had emails and in the past many people over 65 complained about that because income above that level is taxed at a much higher marginal rate - at 30% rather than 20% because you're taking away the allowance as well as taxing them.

OSBORNE: I'm afraid we would continue to take away the allowance, taper it away. Now we do that for reasons of affordability and I have to make a judgement about how, given the state of the public finances, given the limited amount of resources available, how you best target money. But I did take the decision on this particular aspect of helping pensioners, helping savers to concentrate on the many millions of people who are on more modest incomes from savings and pensions.

LEWIS: It does have a rather strange consequence though, doesn't it, combined with your other policy, your savings policy to scrap the basic and lower rate tax? Every £1,000 extra savings income, although you won't be taxed on it, will reduce your allowance, so it will in effect put your tax up by 10% of that savings income.

OSBORNE: No, I don't accept that.

LEWIS: Well that's the arithmetic. There's no denying it. That is how the arithmetic works.

OSBORNE: Well let me give you an example. If you had a couple and they were a retired couple, 65 year old couple and they had a total pension income of say £14,000 a year each and they also had £1,000 a year each in interest from their savings account, those people would be £1200 better off. So the net effect on people who both benefit from the increase in the personal tax allowance for pensioners under the Conservative plan and the abolition of tax for basic rate taxpayers on savings is a positive one.

LEWIS: That's true for people whose income is below this limit where you lose your allowance at what will be £22,900, but if you have earnings or a pension of £22,900 and no savings, you'll pay £2,282 tax. If you have earnings of the same but £1,000 in savings, that will reduce your tax allowance by £500 and that will leave you paying £100 more tax.

OSBORNE: Well you know I think we're going to have to just agree to disagree on this.

LEWIS: Will you look at the rules to make sure that doesn't happen?

OSBORNE: I'm very happy to look at the tapering on the personal tax allowance for pensioners on middle incomes, but, as I say, the calculations we've made are that if you've got savings, if you're a pensioner, then you are beneficiaries of this policy at a time when savers are seeing their other incomes fall away.

LEWIS: George Osborne. And in a statement this morning, his office told us: in some specific circumstances, the effect is a 10% marginal tax rate on savings, but this is lower than the 30% marginal rate that exists today. And there's a longer version of that interview on our website: bbc.co.uk/moneybox.

Banks often warn us to take care of our numbers and passwords, but what happens when the bank rings up and asks you to prove who you are. What should you tell them? In Scotland, some customers have recently lost money to telephone fraudsters who tricked them into revealing bank details. This report by well the man who calls himself Bob Howard, but wouldn't give me his mother's maiden name.

RECORDED MESSAGE: If you have an account with us, please say or key in your account … Please now enter your branch sorting code … If you're an existing bank account customer, press 1.

HOWARD: We're used to requests to identify ourselves when we phone our bank, but when a bank decides to phone us, how easy is it to be certain the caller is who they say they are? In the last 6 months, fraudsters have telephoned dozens of people around the Highlands of Scotland pretending to be their bank in order to steal their passwords and empty their accounts. Detective Constable Stephen McCabe from the Northern Constabulary says some have lost considerable sums.

McCABE: What the criminal would do is establish whether or not that person had a bank account and where the bank account was held. And then they would tell them that there was interest due to them and in order for them to get that, they had to confirm the likes of the passwords. It then allowed them to access the complainer's account through telephone banking and money was transferred from the complainer's account into the fraudster's account.

HOWARD: What sort of figures are we talking about people losing?

McCABE: Some of them are in excess of £10,000.

HOWARD: That sort of scam worries Money Box listener Naomi from Cambridgeshire. That's because even if it's the bank that's called her, it still requires her to prove who she is before telling her anything, so they know they've got the right customer. But Naomi doesn't like the principle of having to give or complete any personal information before she's sure of who she's speaking to.

NAOMI: They say, “We’re from such and such a bank” and I say, “Well how do I know that?” And then they say, “Well if I give you part of your date of birth, would you give me the rest of the date of birth?” And I say, “Well no. All I want to do is know how I can find out why you’re ringing if you’re really ringing from the bank. And if you’re not really ringing from the bank, I don’t want to talk to you any more or give you *any* personal information at all.”

HOWARD: These concerns are shared by other Money Box listeners. Amanda and Paddy from Plymouth received a whole series of unsolicited calls from their bank. They always began with the employee asking them to complete personal details they didn’t feel comfortable giving. In the end, as the caller became increasingly tetchy, Amanda says they decided to act.

AMANDA: Some days in the space of a day, I was getting two or three calls from them. Well this carried on for the best part of 2 months. She told me that, “I shall mark your file that you have refused to go through our security checks, so that we could talk to you” and the only way I could stop the calls in the end was to remove all telephone numbers from the banking system, so that the only way they could get hold of me was to write to me.

HOWARD: The industry is aware this is an issue and there are guidelines for how banks should identify themselves drawn up by the British Bankers’ Association and the Information Commissioner’s Office. They recommend banks either offer a pre-agreed password to customers or suggest customers phone the bank back on a clearly verified number, such as the phone number written on their bank card or bank statement. Brian Capon from the BBA admits it’s a difficult area.

CAPON: We’ve got the two sides. We’ve got the bank that wants to make sure it’s really the customer that they’re speaking to, so that they don’t divulge any personal information to anyone else, and of course we’ve got the customer who quite rightly wants to make sure it’s the bank they’re talking to. I don’t think there’s a single, straightforward, simple answer to it. The best thing to do really is to take that person’s details, the department and a contact number, but always contact them back on a published number.

HOWARD: But ringing back can be a lengthy and expensive process and none of the banks Money Box contacted have adopted the suggested system of a pre-agreed password. Mike Naylor, formerly of Which? and a commentator on personal finance, believes changes are needed.

NAYLOR: If banks want to be able to make outgoing phone calls, then they really need to have sort of a system of passwords or something in place. They can't on one hand say don't give your details out and then, on the other hand, expect people to give their details out. They need to have much more specific procedures in place to help consumers know what to do when they get a phone call.

HOWARD: None of the high street banks would be interviewed, but they all said they would never ask customers to give sensitive information like passwords or PIN numbers if they make an unsolicited call. Detective Constable Stephen McCabe says if customers are unsure, it's always better to play it safe.

McCABE: If you're in any doubt at all, then you shouldn't be giving out any information whatsoever and I'd certainly be wary of people asking you for passwords which would then lead on to them being able to access your account. If you do get these calls, phone your bank on a recognised number.

LEWIS: Stephen McCabe ending that report, which really was by Bob Howard. And you can have your say on banks phoning or emailing you on our website, bbc.co.uk/moneybox. Don't forget to give us the name of your first pet.

Faster return of our savings if a bank goes bust, but no decision yet on just how much would be protected. That was the proposal this week from the City watchdog. The Financial Services Authority also wants the banks to set up a register, so that customers can see clearly which accounts are covered by the Compensation Scheme. And if you have a mortgage and savings with the same bank, your savings would be separately protected. Chris Pond is the FSA's Director of Financial Capability.

POND: The importance of this is that we've got the Financial Services Compensation Scheme, which we want to make sure is even more effective than it's proved to be in recent months during the recent turbulent times, and it's about sending a clear message that regardless of the type of account that you have, you are going to be paid compensation and you will be paid swiftly.

LEWIS: You're suggesting it can be paid out in future in seven days. Is that really achievable? I mean the European Union says twenty days is reasonable.

POND: Well we believe it is, but it would require firms themselves to make certain changes in the way in which their IT works. Even under the current circumstances, if the application is made electronically, then these payments can come through very quickly indeed. But we want this to be consistent and across the board and we want to be ahead of the game in comparison to what the European Union are asking us to do.

LEWIS: Being paid swiftly is obviously important, but being paid it all is important too, isn't it? And there is a limit of £50,000 in theory at the moment on the amount that you'll get back, but you're not proposing to increase that despite suggestions by the Chancellor himself that it might be better at £100,000.

POND: Well, as you know, the limit has been increased fairly recently, Paul, and this paper is focusing very much on the speed with which the payouts can be made and indeed on the proposal, which is very important indeed, that the payouts should be made gross. In other words, the amount that a depositor owes to an institution should not be deducted from the amount that's paid out.

LEWIS: One of the things which your own research found was perhaps the most misunderstood aspect of the Compensation Scheme was which banks are covered and which banks are joined together. Why aren't you accepting the recommendations of people in consumer organisations that it should be a brand that counts for compensation - not this peculiar thing of authorisation, which nobody understands and at the moment nobody can find out about?

POND: Well this is something, Paul, on which you've berated me in the past and which Money Box has been campaigning on - to make sure that there is much greater understanding and transparency about which accounts will be covered - and we have responded to that by making sure that there is much more information available for people, for instance on our Moneymadeclear website, which will allow you to identify very easily which accounts are available.

LEWIS: When are people going to see any difference because that's what really will improve their confidence - when they see things have changed?

POND: These changes, because of the IT changes necessary, won't come into effect until the end of 2010. These things unfortunately do take time.

LEWIS: Chris Pond of the FSA. And if you want to respond to that consultation paper, the details are on our website, together with a link to that Moneymadeclear website Chris Pond mentioned.

And Bob - it really is Bob who's here - some confusion over when the £60 addition to the Christmas bonus, which was promised in the pre-Budget, when it will actually be paid?

HOWARD: Yes, many people are entitled to this - mostly people on state pensions and some disability benefits. The Department for Work and Pensions told us the money will start going out this month, but some people may not be paid until February or March, so don't worry if you haven't received it yet.

LEWIS: Thanks, Bob. And a lot of people are emailing us about these bank calls. Andrew from Oxford says he asks the bank to multiply the month of his birth by the date - sometimes they can, sometimes they can't. And some ask for details of cheques. And one man, who rang back to be put through to security, ended up with the security guard at the door of the headquarters of Barclaycard's HQ in Northampton. But that is it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can do all sorts of exciting things - find out more, watch videos, download a podcast. The Christmas Quiz is still there. More than 45,000 of you have done it. And you can have your say on those calls from your bank. Vincent Duggleby's here on Wednesday - not Monday - with Money Box Live, this week taking your calls on insurance. I'm back next weekend. Today the reporter was Bob Howard, the producer Lesley McAlpine, and I'm Paul Lewis.