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## **MONEY BOX**

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**TRANSMISSION: 24<sup>th</sup> JANUARY 2009 12.00-12.30 RADIO 4**

**LEWIS:** Hello. In today's programme, Standard Life has said it will compensate some customers in its Pension Sterling Fund, which has fallen 5% despite being marketed as free of stock market risk. But what about the rest? It is a recession, but is it a depression? How deep is the economic crisis and how long will it last? Two councils say they'll step in to lend to local businesses. We look at local initiatives to un-crunch credit. Faster payments by the banks are still stuck in treacle. And was the self-assessment tax deadline of January 31<sup>st</sup> really January 21<sup>st</sup> and already gone?

But, first, Standard Life. It has said it will compensate some of the 97,000 people who have their pension money in its Pension Sterling Fund, which fell by 5% earlier this month even though it was supposed to be as safe as cash. The announcement came just three days after Standard Life firmly told Money Box it would not compensate anyone. Here is Customer Services Managing Director John Gill last Saturday.

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

**LEWIS:** Well after doing a bit more considering, Standard Life has said it will what it calls "remediate" some people. Well, yes, I had to look it up too. It's a verb formed from the word 'remedy'. The remediation will be confined to customers who put money into the fund after Standard Life had realised there *was* a problem with it on December 23<sup>rd</sup>, but before it told anyone on January 14<sup>th</sup>. So most of those who trusted Standard Life with £2.4 billion of their

pension funds before December 23<sup>rd</sup> won't get anything. The pressure though is growing on Standard Life to extend compensation to far more people. Customers have been telling Money Box they didn't realise some of their money was invested not in cash or similar things but in mortgaged backed securities, essentially the products that have caused the worldwide credit crunch. Samantha Washington has been pursuing this story and speaking to those affected.

**WASHINGTON:** Yes, Paul. Investors in this fund are angry and particularly so about the nature of assets this fund was invested in. James, a 70 year old pensioner, writes that he repeatedly asked his Standard Life adviser if the fund was invested in risky assets and was told no. He sent us fund documents from March 2008, clearly showing the fund invested 100% in cash. Well after the 5% reduction in value this month, he contacted his adviser who told him that he'd been called to an emergency meeting the night before that drop in value and for the first time told about investments in asset backed securities.

**LEWIS:** The law says all public information about financial products has to be clear, fair and not misleading. Adam Samuel is a lawyer who advises financial companies on their documentation. We showed him Standard Life's March 2008 information. Did it conform with those standards?

**SAMUEL:** This is a fund which is holding the wrong assets for its fund objective. That makes the documents issued typically to the average IFA not clear, not fair and definitely misleading. There's a description of the asset types as being 100% in cash, which in the small print says well it could indicate some short-term money market instruments. My experience is that mortgage backed securities tend to be over quite long-term periods, so that's wrong. Well I think the FSA should be sitting down with Standard Life right now and insisting that they compensate everybody by putting them in effect in the position they would have been in had they been in a traditional cash fund certainly as far back as March 2008; and then going through their previous documentation for each year and their descriptions of the funds, deciding whether or not those descriptions pass the clear, fair and not misleading test and as far back as those go when they're not clear, fair and not misleading. That may in reality mean that they should be compensating everybody.

**LEWIS:** Adam Samuel. We asked to talk to Standard Life's Chief Executive, Sandy

Crombie, but we were told he was too busy sorting out the problems with the Pension Sterling Fund. The company did though respond in writing to some of these allegations. Sam, what did the company say?

**WASHINGTON:** Well it hasn't confirmed or denied that emergency meeting, but has said advisers had literature indicating the fund was invested in short-dated money market instruments. Now all the investment professionals I've spoken to about this say there's no way mortgage backed securities are short-term money market instruments and certainly not after summer 2007.

**LEWIS:** And, Sam, other listeners are saying Standard Life must have known there was a problem before December 23<sup>rd</sup>.

**WASHINGTON:** Yes Ian, among others, points to the removal of the fund manager in September last year. Others say, "We all knew there were problems in mortgage backed securities from last summer, so why did the drop in valuation, which is done daily, only come now?" Well Standard Life told us the fund manager was moved to allow her to gain wider experience and says that from September 2007 it did look to reduce its holdings of this type of asset. It adds that the daily valuations are done by independent administrators. And when we asked if the company is looking at extending its compensation, it didn't answer the question. But for those who invested after December 23<sup>rd</sup> - no news yet on when, whom or how much they'll get. Standard Life says it's still doing more number crunching this week.

**LEWIS:** Thanks, Sam. Well many of these investors were sold the Pension Sterling Fund by independent financial advisers. They relied on what Standard Life told them. Mark Meldon of RC Gray is one.

**MELDON:** We trusted Standard Life to hold this money in stewardship for our clients in a safe environment, those who've been invested in it, and it's just not happened.

**LEWIS:** When do you think Standard Life should have realised that the investments they were putting this supposedly safe fund in were in fact too risky?

**MELDON:** As long ago as the summer of 2007 when the credit crunch started, it became quite clear quite clearly that certain asset backed investments were fundamentally worthless.

**LEWIS:** We've heard in the last few days that Standard Life is going to pay something, some compensation, what it calls "remediation", to people who were sold these products after 23<sup>rd</sup> December when it says it knew there were problems. Do you think they should be going back further and offering compensation to people before that?

**MELDON:** I think action should have been taken much more promptly than it has been. Many life offices in fact spotted these problems when the credit crunch started back in 2007 and took proactive action to sell all of these poor performing assets and go back to traditional cash based investment. Scottish Widows springs to mind and they've actually told intermediaries that they actually did do this some 15, 16 months ago. Other offices have been caught in this financial storm.

**LEWIS:** And if that's what a client said they wanted and that's what an adviser or an insurance salesperson said they were selling them, is there an industry wide mis-selling problem brewing here?

**MELDON:** Potentially, yes. I think the number of people involved is quite substantial because a lot of private pension plans, such as retirement annuities and personal pensions, are now coming up to maturity as the baby boomer generation ages, and most financial advisers would recommend that a policyholder in a pension plan should switch to a safe fund such as a cash deposit fund in the run up to retirement, 3 to 5 years out perhaps. I do think that the policyholders who thought they were buying something completely safe should be given full restitution. In other words, they should be put back in the position that none of these problems had happened in the first place.

**LEWIS:** So you think Standard Life should be writing to all its customers and, as it would put it, remediating them?

**MELDON:** I think so, yes. I can't really see why they wouldn't.

**LEWIS:** Mark Meldon of RC Gray. We spoke to the Financial Services Authority who wouldn't say if it was investigating these matters. You can read Standard Life's replies to our questions in full on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). We will of course be following this story in future.

And now - the recession. Or is it a depression? That's the debate in the papers this weekend. The figures that came out on Friday confirmed we are in a recession for the first time since the 1990s, but the fall in the total amount we make and sell was bigger than expected - down 1.5%. It's the biggest fall over two successive quarters since 1980. Then the economy fell 5.9% over a year and took 4 years to get back to its peak. Is it going to be that bad, or is it going to be worse - more like the 1930s? Live now to Ross Walker, UK economist at RBS. Ross, is it as bad as the 1930s, as some papers are saying this morning?

**WALKER:** I think we're still quite a long way from it being as bad as that. The 30s saw a full-blown depression. And the big difference between now and then is that what made the 30s a depression rather than a conventional recession is repeated policy mistakes - in other words interest rates were kept too high, money and credit was kept too tight.

**LEWIS:** So you think we're getting that better this time - we're bringing interest rates down rapidly, there's talk of putting more money into the economy through this quantitative easing we've talked about - printing money as us journalists often like to call it. So we're doing those things. Is that going to be enough though because it was started, wasn't it, or certainly made worse by the banking crisis?

**WALKER:** Well governments around the world have taken action much quicker than was the case in the 30s. We've seen extensive interest rate cuts, fiscal easing alongside that. It's not a quick fix. This will take several years to repair the damage that has been done. But in the absence of that, we could be looking at something akin to the 1930s.

**LEWIS:** And what about the banks? I know you work for a bank, but we have poured billions into them worldwide - ten trillion pounds on one estimate, maybe up to a trillion in the UK alone. Are the banks really the places that should continue to be entrusted with all the world's

money?

**WALKER:** Well I think in practice there is no alternative. And one of the lessons from past financial crises - whether the 1930s or more recently, for example, Sweden in the early 1990s - is that to get recovery in the real economy you need to first fix the banks. And you know it's not always a very palatable option, but, as I say, I really think there is no alternative.

**LEWIS:** Sure. And are we fixing the banks? Is what the Government's doing enough, or does it need to take stronger action as many people in the public say to us? They want the banks not just punished but maybe sidelined in this, so that other people can run the world's cash.

**WALKER:** Well further action may be needed. We've seen a steady evolution of policy. We began by addressing liquidity issues - pumping money into the system. We've since recapitalised the banks - in other words shored up the banks' ability to sustain any further losses; guarantees for new lending. So there have been a whole series of measures. We haven't yet embarked on full-scale quantitative easing - printing money. That's an extreme option. We may have to go down that route. So there are still further options.

**LEWIS:** And Ross, literally in a word, when will this end?

**WALKER:** 2011, I guess will be when we see the economy growing back at its trend rate and job creation.

**LEWIS:** Ross Walker of RBS, thanks very much.

Well despite a number of government initiatives to help small businesses, many complain they still can't get the loans or overdrafts they need or can afford from the banks. So two local authorities have decided to use their own resources to lend tens of millions of pounds to businesses in their area. Is this a way to un-crunch credit or are they putting council taxpayers' money at risk? Bob Howard reports.

**MATTHEWS:** It's a brilliant shower door and it's really taken the market by storm because

that's what the public want now.

**HOWARD:** Keith Matthews is showing me round his kitchen and bathroom showroom in Saffron Walden in Essex. He started his small business 6 years ago with his wife, Sue. So far they're riding out the economic downturn with orders coming in, but even so they want their bank to extend their overdraft to help with their cash flow just like it's done before. But it won't.

**MATTHEWS:** Last year, January and February was worse trading-wise than it is this year and we asked for help from the bank and they gave it to us. This year, we asked for the same thing. We got nothing. We were just looking for £10,000. They'll always offer you money when you don't need it, but when the chips are down they seem to turn their back.

**HOWARD:** What do you think the reason is?

**MATTHEWS:** I think they're just nervous about lending anybody any money. We're not the only showroom that's had this and lots of people in the industry I've spoken to have suffered the same fate.

**HOWARD:** To help small business people like Keith, Essex county council has come up with a radical proposal: to set up a Bank of Essex to make loans to help see firms through the recession. Lord Hanningfield is Essex county council's leader.

**LORD HANNINGFIELD:** We would put up around £50 million ourselves. We're talking about trying to support thousands of small companies with small amounts of money. The type we're looking at is £10,000 or £20,000. At the moment we have some of that money obviously invested and we're not getting much return from it. It might be better to be loaning some of that money to small businesses in our own county.

**HOWARD:** But can a council simply set up its own bank? Well if it doesn't take deposits and only lends money, it doesn't have to be regulated. And Essex isn't proposing to set up a branch network, but work within existing banks or building societies that offer the loans. No

names have yet been revealed. Nor have the exact rules for deciding which small businesses will be eligible. Profits will be used to make new loans, but the council hasn't yet said what rates small businesses will be charged.

**LORD HANNINGFIELD:** It obviously won't be as low as 1.5% bank rate or something, but we hope it would be very fair. We will do a thorough risk assessment. It wouldn't matter too much if just one or two went. What we wouldn't want, of course, is lots of them to go. We're not just using local government officers. We are using banking people who have professional knowledge.

**HOWARD:** Whilst Essex is sorting out the details of its scheme, Birmingham City Council is well advanced with plans of its own. Like other towns and cities in the UK, it used to have its own municipal bank right up until the 1970s when it became part of the Trustee Savings Bank, now part of Lloyds. With an annual turnover of around three and a half billion pounds, Birmingham is thinking big. Stephen Hughes is its Chief Executive.

**HUGHES:** The role of local government is to be the leaders for their communities. If we don't solve problems around economic prosperity, we will have increasing social problems we have to meet, more people having their homes repossessed, greater homelessness.

**HOWARD:** So how much do you think you will be putting up?

**HUGHES:** Something of the order of a hundred to two hundred million pounds.

**HOWARD:** Is this a risk free enterprise, or do you concede there are risks?

**HUGHES:** There are significant risks associated with this kind of activity. What we need to do is put in place proper arrangements to mitigate those risks.

**HOWARD:** Experts in this field agree these schemes are feasible, but the lending criteria will have to be weighed up very carefully. If mistakes are made, it could mean councils chasing debts and effectively making some of their own county's businesses bankrupt. Tony Travers

is a local government expert at the London School of Economics.

**TRAVERS:** There's no question that had we had this discussion a year or two ago everybody would have said, "Well hang on, banks know how to do banking. How could local authorities do it better?" Things have moved on. Any ideas are worth a look, it seems to me, providing if local government were to go down that route they need to be very, very cautious. I mean if commercial banks are now not lending, they'd have to be absolutely certain that they were not stepping in to subsidise businesses that couldn't survive otherwise.

**HOWARD:** But some feel it's wrong for councils to even consider going down the path of lending sums to small businesses. Mark Wallace is from the pressure group The Taxpayers' Alliance.

**WALLACE:** Councils aren't set up and indeed aren't charged with the responsibility of acting like investment banks. I think having got their fingers burnt so badly in the Icelandic Banks disaster, councils should be looking for a safe investment and, for better or worse, the taxpayer is now guaranteeing the stability of a large number of banks in this country and frankly the council should be putting their money there.

**HOWARD:** Nevertheless, the race is on for which council - Birmingham or Essex - now makes the first loan. Back in Saffron Walden, small businessman Keith Matthews has great expectations.

**MATTHEWS:** Well I think it's wonderful and I hope it's not too little too late. We know that we've got a better chance of getting it under this scheme than we would be by a government scheme because it will probably take too long and, let's face it, people want the money now.

**LEWIS:** Indeed they do. Essex businessman Keith Matthews ending Bob Howard's report.

Now how long does it take your bank to transfer money to an account in another bank? By now the answer should be minutes, but the faster payment system introduced 8 months ago,

which should be fully operational now, is stuck in the slow lane. Samantha Washington's been looking at. Sam, what's the score now?

**WASHINGTON:** Well last May, 12 banks and 1 building society signed up as founder members of the Faster Payments Service, but 8 months on two haven't even started - that's Northern Rock and Citibank - and one - Abbey - not only hasn't started, but has had its name taken off the founder member list altogether. It's told Money Box that it's been held up due to the IT integration with its new owner, the Spanish bank Santander. We've also discovered that three others - Nationwide Building Society, Co-operative Bank and Yorkshire & Clydesdale Banks - are operating a very limited service. That's processing less than 10% of payments through the system.

**LEWIS:** And listeners have been complaining, haven't they, about some of the big banks - Lloyds, for example?

**WASHINGTON:** Yes. We've heard from many listeners that Lloyds only operates its faster payments over the telephone. Transactions made online aren't going through the faster system. But, as Money Box listener Peter told us, it's not made apparent to people that their money won't be moved out on the same day. Lloyds has told us that the online faster payments service will be back up in the spring.

**LEWIS:** And who are the good guys in all this?

**WASHINGTON:** Well RBS is doing nearly all its payments same day and it's reflected in the fact that we've had very few email complaints about it and NatWest. Barclays tells us it has a 100% record, though we have had a few emails about the reliability of the service on standing orders. One listener Gill, for example, tells us that sometimes a payment to a sort code goes on the same day while on other occasions payment to the same sort code doesn't. Overall, Paul, people are annoyed at the banks' lack of progress here. Richard sums it up in his email this morning when he says, 'It's chaos out there'.

**LEWIS:** Oh dear! Well thanks for that, Sam. With me is Sandra Quinn from APACS, which

runs the plumbing our money flows through. Sandra, 8 months on - chaos, confusion, uncertainty. It's not working, is it?

**QUINN:** Well it certainly is working. Let's look at the numbers. We've got millions of payments now going through the system. By the end of the first 6 months, we'd made over 20 million payments through the system. A lot of volume is going through. And for those customers it works for, it's working really well.

**LEWIS:** Sure for people it works for when it works. But the point is about this system - unless it works for every transaction, you just don't know. And, as Gill said, some do, some don't. Peter said you know he can't rely on it. It's got to work for everything or you've still got to leave five days to make sure with the weekend it gets there in time.

**QUINN:** I think there's a fair case to be made here that because we adopted a ramping up process to the rollout - so that not everybody was doing everything right at the beginning, some banks were going to adopt a much slower role than others - we have had to rely on banks making sure customers know what kind of service they have available to them.

**LEWIS:** But people are telling us they *don't* know. It is not on the page. Lloyds, for example, doesn't tell you which of its payments go through faster and which don't, so you have to assume they're all slow. And the banks have got to not just be clear to people, but they should have it so you can rely on it. You press the button; the money goes; you know it's happened.

**QUINN:** One of the things we're looking at at industry level is how we can make sure that customers get the best information possible. We're looking at more information on our own central website about the number of financial institutions who you can also reach who are *not* the founder members but the wider range of members banks out there that can be reached through faster payments.

**LEWIS:** Yes, I mean that's the secondary problem, isn't it - that building societies, the foreign banks like ING, ICICI, they rely on the clearing banks to process their payments and they're at the end of the queue when it comes to this new system. You certainly can't depend

on them at the moment, can you?

**QUINN:** We've got thirteen founder members. Most of them are doing a variation of some types of payments through the service and that will change drastically this year, but there are a lot more banks and building societies out there who are already using the service. We wouldn't be having the numbers we are having through the service if they weren't being used.

**LEWIS:** We also learn that the Bank of England itself isn't in the system, so these 10 million people paying their self-assessment money this week, they'll have to allow 3 days for it to clear.

**QUINN:** Well I mean as lots of people will know, the Bank of England is changing its banking rules so they're handing over the accounts they've had before. Government accounts are going to the more commercial banks. When those commercial banks take them over, they'll be using the Faster Payments Service to process those payments.

**LEWIS:** Right, so lots of things happening in the future despite the fact that 8 months ago you were telling us this was all happening or would happen by the end of the year. When will it be 100%, Sandra? When can we absolutely rely - we press the button on the keyboard; the money's there?

**QUINN:** Well I'm not going to make any predictions at the moment.

**LEWIS:** Probably very wise.

**QUINN:** Well the events that have happened in the banking service over the last 4 to 6 months have been very effective, so we're not going to be making any predictions. I think it's fair to say that there will be a lot more payments going through the service by the end of this year than there were at the beginning.

**LEWIS:** Sandra Quinn of APACS, thank you very much.

Well I mentioned self-assessment, and up to a million people face a £100 fine in a couple of weeks for missing the deadline - that's the typical number - for filing their self-assessment tax return online. The deadline is a week today. But if it's your first time filing online - and you have to do it online now - you'll need to ask for a PIN, which is then posted to you on a piece of paper. Without that, you can't do it. The Revenue says it may already be too late to get the PIN. Live now to John Whiting, Tax Partner with PricewaterhouseCoopers. John, has the Revenue quietly brought forward the deadline from 31<sup>st</sup> January to 21<sup>st</sup>, which is the last day it will promise to get the PIN to you?

**WHITING:** Well there is an element of that because, as you say Paul, now you've *got* to file electronically, it's too late to file on time by paper, so you need this PIN number to do it. I did ask the Revenue and what they've told me is quite interesting. They've said yeah, of course, normally we would take a number of days to send it. We try and do it in less than the eight or nine days, they say. But, interestingly, if somebody applies for their PIN before 31<sup>st</sup> January, gets it there or thereabouts and files promptly afterwards, they will give you the "reasonable excuse" defence, so they won't penalise you.

**LEWIS:** Ah! Oh well that's progress, isn't it?

**WHITING:** It is.

**LEWIS:** So if people settle down at their computer today and they haven't got the PIN but they still want to get it done as quickly as they can, what are the kind of things you should be doing to make sure you've got everything ready for that magic moment when you *can* do it online?

**WHITING:** Well there's a strong element, much as with paper, it's assemble everything and make sure you really have got it. I mean the best thing, of course, is dig out last year's return and make sure you've got all the entries you need - you know all the data for your interest, your dividends, pensions, pension payments that you have to enter, not the ones you don't; you've got it sorted out as to what goes in, what doesn't go in, not forgetting the Gift Aid. You know get it ready. Pour yourself a large drink as well, but that's only for when you've

actually done it.

**LEWIS:** So John Whiting, our account in residence almost, advises us to take a stiff drink before doing our tax return.

**WHITING:** It all helps, Paul.

**LEWIS:** And briefly, John, the message is even if you don't get the PIN, get it in as soon as you can?

**WHITING:** Get it in as soon as you can. And don't forget it's a two-stage thing. As you alluded to, people have to pay the tax; and if all else fails, for heaven's sake make sure you pay the tax over. And don't forget payments on account as well, and in this recessionary time some people should be reducing those.

**LEWIS:** Ah, good advice there. John Whiting, thanks. Well that's it, we're running out of time. More from the BBC Action Line - 0800 044 044 - our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). Lots of exciting things to do there, including have your say. Many of you are already about today's stories. Vincent Duggleby's here on Wednesday. Money Box Live this week is taking questions on renting and letting, tenants and landlords. I'm back next weekend with Money Box. Today the reporters were Bob Howard and Samantha Washington, the producer Martin Bedford. I'm Paul Lewis.