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MONEY BOX

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TRANSMISSION: 31st JANUARY 2009 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, there'll be tough new curbs on lenders selling insurance to protect borrowers' repayments, but will they be enough to stop widespread mis-selling? As the bank rate tumbles, credit card companies are putting up the interest rate they charge us. Why? Bob Howard's here. He's been souping up his report this week.

HOWARD: But beware, installing even a new DVD or sat-nav system could put your car insurance in jeopardy.

MOHAMMED: There's probably millions of people out there today driving a car who think that, yeah, they're fully comprehensively insured. But I mean when it comes down to a claim, the insurance company could actually penalise you.

LEWIS: And £300m saved with a mutual society in Northern Ireland is frozen and much of it may never be paid back.

But, first, those tough new curbs on the sale of payment protection insurance. It's sold with loans by banks and other lenders to protect the repayments if the borrower falls ill or loses their job, but it's faced a storm of criticism over the last few years for being very expensive and failing to pay out in a high proportion of cases. This week, the Competition Commission decided enough was enough. Single premium insurance where the whole cost is paid upfront and added to the debt will be banned, and lenders won’t be able to send any payment protection insurance alongside the loan. Peter Davis was Chairman of the inquiry into PPI at the Competition Commission.

DAVIS: Consumers primarily choose whether or not to buy payment protection insurance only from their credit provider. So what we’ve done is we’ve introduced a seven-day waiting period. After you’ve signed on the bottom line for your credit agreement, the credit provider will not be able to get you to sign on the bottom line of PPI agreement until those seven days are up. The reason to do that is to give people the chance to go out and search the market to find whether or not their credit provider’s product is indeed the best product available for them and the one that’s available at the best price.

LEWIS: In your interim report though last November, you recommended a 14 day period. Why have you cut that to seven days?

DAVIS: In light of the evidence which has been submitted to the inquiry, we made a judgement that seven days was actually sufficient to give consumers the time they need to search around the market.

LEWIS: Sounds as if you’ve been lent on by the insurance industry.

DAVIS: We’re not lent on by anybody. We have come to the view that the right answer in this case is to move from fourteen days to seven days.

LEWIS: With jobs though less secure than they have been for a very long time, and much less secure than they were when your interim report came out in November, isn’t there a danger that this rule will simply mean people don’t take out any payment protection insurance and they’ll be unprotected if they are then made redundant?

DAVIS: No, absolutely not. We have introduced a sequence of measures, including the point of sale measure I have outlined. We’re introducing annual statements, we’re introducing binding personal quotes for consumers. And ultimately, because some of these products cost consumers many thousands of pounds, we have designed the remedies carefully.

LEWIS: Going back to your initial report in November, you said there would be a transition period for the new rules of 12 months. You're now saying some of them won't come into force until the autumn of 2010. That's more than 18 months off. Why not introduce it more quickly than that?

DAVIS: There are significant investments in information technology that some of the parties will need to make in order to make this all work and we obviously have to go through the process of getting the legalities right. So we are very determined in acting as fast as we can in a manner that's consistent with getting these remedies working practically on the ground.

LEWIS: And of the £1.4bn a year excess profits you identified, how much of that do you think you'll get rid of by these measures?

DAVIS: Exactly where prices come down to will be a matter for competition when it is working properly, but we did find that those prices were extremely high. We found for example that commission rates were in the region of 50 to 80% of the premiums that were being paid, and we thought that, as a result of getting competition working, prices would certainly come down significantly.

LEWIS: Peter Davis of the Competition Commission. Well live now to Stephen Sklaroff. He's director general of the Finance and Leasing Association whose members sell a lot of payment protection insurance with loans. Stephen Sklaroff, how will these new rules affect your members?

SKLAROFF: Well I think the key point is the question that you asked Peter Davis in the interview just now and that is that our concern is that if we are not able to sell this product to customers at the time they are taking out a loan, the chances are that very large numbers of customers will go completely unprotected. So so far as my members are concerned, it means that I fear that many of their customers will not be so well served as in the past.

LEWIS: Yes, I mean you put it in terms of the customers, but of course a lot of them who buy it are unprotected anyway because it's been mis-sold, aren't they?

SKLAROFF: Well, as we've discussed before, the figures that we have show that 80% of claims made on these products sold by our members are met and that is very much an average level of claim success that you might see in household insurance.

LEWIS: Listening to this is Simon Burgess. He's managing director of British Insurance, one of the leading independent brokers providing stand alone payment protection insurance. Simon Burgess, before we come to your reaction to the changes, how much can people save buying stand alone PPI, which is what the Competition Commission obviously wants us to do?

BURGESS: By going to an independent provider such as Britishinsurance.com, one can save anything up to 90% of the cost of payment protection insurance.

LEWIS: So, presumably, you welcome the changes, but of course not least because it will boost your business, won't it? It will really drive it up.

BURGESS: I welcome it because it will help consumers. People are struggling financially…

LEWIS: *(laughs)* You're both saying it's about consumers, but you're really both protecting your businesses, aren't you?

BURGESS: We're protecting our business because we run an ethical business and we save families money, and these new rules will help us to continue to do that.

LEWIS: And, Stephen Sklaroff, regardless of whether this product is mis-sold or not or whether it pays out or not, with commission rates as Peter Davis said of 50 to 80%, it really has been over priced, and Simon Burgess says people can save, you know be paying as little as 10% of the cost they pay with you.

SKLAROFF: Well we suggested to the Commission a number of ways in which their concerns over pricing in the past - and by the way the numbers that they quote are now well out of date, two, three years ago and we’re now in the middle of a recession - but even so we suggested to them a number of ways - for example standard terms of conditions, better information for the customer where those concerns could be addressed - and we’re disappointed that what they’ve done here is actually undermine the market rather than going with sensible reform.

LEWIS: Why does it undermine the market though because people can go to organisations like Simon Burgess’s, they can go on the internet, they can do a search and find other providers? Why does that undermine the market? If people want this insurance, they’ll go out and buy it.

SKLAROFF: I think the key word there is “want”. I mean the evidence that my industry has and the insurance industry has - because this has been tried many times over the years - customers tend to think about protecting themselves against having hard times and not being able to repay a loan naturally enough at the time they purchase the loan. And the evidence is, so far, that if you wait - whether it’s one day, seven days, fourteen days - it is much, much less likely that the customer will take out the protection. That is our fear.

LEWIS: And how do you make sure, Simon Burgess, that you are selling this product to people who really can claim? Now that redundancy is threatening many more people, isn’t there a danger they will buy it, they’ll be made redundant within a few weeks unexpectedly, and it still won’t pay out?

BURGESS: Ethical providers such as Britishinsurance.com, we go to very great lengths to make sure that the policies are suitable to meet the needs of our customers. We provide information at the point of sale. We go to very great lengths.

LEWIS: Sure, but no-one knows if they are going to be made redundant in say three months time and they may have absolutely no expectation of it. You've sold them the insurance. It still won't pay out.

BURGESS: Well our policies are very clear in terms of the policy terms and conditions and we go to very great lengths to make sure the eligibility conditions, the so-called small print, is brought to the attention of our prospective customers. If someone is made redundant in three months and therefore is not able to claim, we will refund the premium. People are at no detriment.

LEWIS: And Stephen Sklaroff, how will this affect your members? I know you've talked about customers and I understand that point, but if you can't sell this profitable add-on, does it mean the cost of loans will go up?

SKLAROFF: Yes, it almost certainly does mean that and that's one of the points that we've discussed at length with the Commission, and again we're a little disappointed in the middle of a recession that they didn't take more account of that. It will naturally mean for two reasons… It isn't just a question of cross-subsidy from however much money you make from the PPI. It's also that the existence of the PPI means that the loan is less risky, and that means you can price that into the cost of the loan itself. And this will inevitably mean that on top of all the problems in getting credit that people have already seen in the credit crunch, that there will be increases in prices.

LEWIS: Simon Burgess, how do you envisage getting more people to take this product out? Stephen Sklaroff's fear is they simply won't under these new rules.

BURGESS: It's all about consumer information. Taking out redundancy insurance in the current economic climate is a prudent course of action. If one is having to take credit, the providers of credit will inform the consumer and will provide them information as to why it is a prudent course of action.

LEWIS: Simon Burgess from British Insurance and Stephen Sklaroff from the Finance and Leasing Association, thanks very much.

With the official bank rate falling from 5.5% to 1.5% in less than a year, you might expect borrowing to get cheaper, but credit card costs are in fact going up. Many listeners have contacted us to say that the APR charged by their credit card provider has risen. Just this week, one of the top 10 providers increased its rates by a third for some customers. Samantha Washington has been finding out what's happening and why.

WASHINGTON: Capital One has written to customers affected, advising them of an increase of up to 6.9% APR on purchases, taking the overall rate up to over 33% in some cases. Matt from Surrey was one of these people.

MATT: They say that "due to changes in the credit environment, it is now costing us more to lend. Because of this, we have reviewed our customer accounts and are increasing the standard interest rate in your agreement to"… - and it gives a series of figures, but they're all in the order of 33, nearly 34% per annum. I'm disgusted. In this current climate where we're told that the interbank lending rate has come down, I simply am at a loss to know how they can justify this kind of increase.

WASHINGTON: Capital One told Money Box that the rise is "to account for the increased risk of lending to consumers in these unprecedented times".

LEWIS: And is this part of a general trend we've been seeing?

WASHINGTON: Yes. Louise Bond from comparison service uSwitch has been tracking rates on purchases over the last year.

BOND: We've seen that the average APR for purchases has gone up from 16.4% APR to 17.7% APR, which overall has cost consumers £481m.

LEWIS: But of course, Sam, the rate charged on purchases isn't the *only* cost to credit card users, is it?

WASHINGTON: No, that's right. uSwitch has also seen an increase in cash withdrawal rates to 29% on average, and the average number of interest free days for those who pay their balance off in full has fallen from 56 to 50. The comparison site is also concerned about the effect the new ruling on PPI will have on credit card purchase rates.

BOND: When we've seen other changes, the credit card industry has taken other initiatives in order to recoup their losses. Obviously with PPI, with the current economic climate, I can only imagine that APR's will increase.

WASHINGTON: I put the findings to Sandra Quinn of APACS, the body which speaks for the credit card industry, to see how the increase in rates could be justified.

QUINN: The key thing about APRs is that a credit card APR is not an interest rate. It's essentially the total cost of the credit you're being offered, so there's the cost of the credit being built into that level of APR.

WASHINGTON: And the cost of that credit is what because people say well the interbank lending rate has come down? So what's it costing them?

QUINN: Well a lot of this is built on the level of risk you present to your credit card company as a customer. So what they're offering you is an open-ended line of credit with no guarantee that you'll ever pay it back, so there's a level of risk that they're taking on you. So that APR will also have that level of risk built into it, as well as all the fees and costs of running the credit card account. There is a lot more risk in running a credit card book at the moment than there was two years ago.

WASHINGTON: As we reported before Christmas, new rules came in from January obliging credit card companies to treat customers in financial difficulties sympathetically. So how does all this fit with that code of practice? Sandra Quinn explained what firms are obliged to do.

QUINN: If you're an individual who is in financial difficulties and you have had difficulty paying back your credit card company and the minimum repayment over the last couple of months, what customers will get is a full range of options presented to them when they get a letter from their credit card company saying your rate is going up. And that will include the option to pay off that credit card at the existing rate as long as you add no more debt to it.

WASHINGTON: Capital One has given its customers the required amount of notice and it's offered the ability to pay off balances at existing rates, so long as card holders then close their accounts. As far as the effect of the PPI ruling goes, Sandra Quinn told me that regulatory intervention does add to the cost to firms, which then gets borne out through higher rates. But, she added, it should only have a small effect.

LEWIS: Samantha Washington. And credit and debt are the topics for our phone-in Money Box Live, Wednesday at three.

Faced with the difficulty of financing a new car, some drivers may be tempted to upgrade their existing vehicle instead, but if you make improvements - a DVD system, a built-in sat-nav - tell your insurer, otherwise you could be left without cover, as Bob Howard heard from this young driver.

MOHAMMED: It's something I was looking for. I've always wanted a BMW convertible. Silver body colour with the red leather interior really stands out.

HOWARD: Mohammed from Leicester was delighted when he bought his BMW for around £20,000 just over a year ago. It had one previous owner and, along with the red leather seats, it boasted other features he expected from a luxury car.

MOHAMMED: Satellite navigation system. It's got the TV function, which obviously comes with it. It's got the head lamps which turn with the steering wheel and a higher rated sound system.

LEWIS: Mohammed's joy was short-lived when the car was extensively vandalised a few months later, causing around £5,000 worth of damage. He was fully comprehensively insured and so he was confident the repairs would be paid for without a fuss. But he had a nasty shock.

MOHAMMED: The insurance company arranged to send down an engineer, and as soon as he came and had a look at the vehicle he just started being all funny about it and telling me that there's things on this car which obviously the insurance company do not know about. And I was flabbergasted really. I didn't exactly know what he was talking about. He went back to the dealership and he said to me, "I've got a list, which is an arm's length long, for your car of additional extras".

HOWARD: It turned out that the features which Mohammed thought were standard for the car, like the turning head lamps and sat-nav, were in fact classed as modifications, which he should have informed his insurer about when he first took out his policy. He was shocked because many of those listed, he says were carried out by the car maker for the original owner before it left the factory. His insurer said it would only settle the claim if he stumped up a backdated increase in his premium and excess of around £1,000. He agreed, but still thinks it was unfair.

MOHAMMED: I shouldn't have been penalised like that because obviously I wasn't aware of it. I mean there's probably millions of people out there today who are obviously driving a car who think that yeah they're fully comprehensively insured; but I mean when it comes down to a claim, the insurance company could actually penalise you for something as little as this which you're not aware of.

HOWARD: The insurers concede that some changes like engine modifications may be impossible for a second hand buyer to detect. Nigel Bartram from Norwich Union says its policies don't require customers to give notice of any modifications carried out by the manufacturer before a car is delivered to its owner, but they can be strict on changes that come after.

BARTRAM: The three key things that we'd be looking for there would be anything that would increase the performance of the vehicle from standard, anything that might compromise a vehicle's safety, and also anything that would make the car more susceptible to theft because we price the risk on the information we're given and if that proves not to be correct, then we're fully within our rights to void the policy. We've done that fairly recently on a car where it was very clear that the vehicle was modified and the customer had to pay for his own repairs, which cost him £4,000.

HOWARD: It's not just younger drivers adding things like alloy wheels, which insurers want to know about, but parents putting in home entertainment systems to keep the kids quiet. Even people within the industry say it's a grey area. Peter Staddon from the British Insurance Brokers' Association says whilst drivers have a duty to disclose important changes, some insurers extend the definition too far.

STADDON: We get silly situations where we had an insurance company try and throw a claim out on the grounds that somebody had a roof box. Now the Ombudsman very quickly stepped on that.

HOWARD: Are you supposed to tell your insurer if you have a roof rack fitted then?

STADDON: Well I don't think you do because it's not going to affect anything, is it, and everybody does it when we decide to go on holiday. I don't think it's disclosable.

HOWARD: Several hundred unresolved disputes end up before the Financial Ombudsman Service each year. Peter Hinchcliffe, its lead ombudsman for insurance, says there's often a compromise to be had, like that offered to Mohammed, between voiding a policy completely and paying out in full.

HINCHCLIFFE: Let's take the example of the DVD system that's put in the car. It's one thing for the insurer to say, "You didn't tell me about it and, therefore, you're not on cover and I'm not paying for the accident". It's another thing for you to say, "Actually I want a couple of thousand pounds more for the car or for the damage or the theft because I put this really expensive system in there I didn't tell you about". Now we might well say it's reasonable for the insurer to stay on cover for the big loss, but actually not to pay out for, let's say, the additional items that you fail to tell them about.

HOWARD: So, Paul, quite hard to pin down exactly what insurers will and won't get concerned about, so maybe best to talk to them before you have to make a claim.

LEWIS: Indeed. Thanks, Bob. And you can let us know your experience of insurers and modified vehicles on our website, bbc.co.uk/moneybox.

Nine and a half thousand savers with the Presbyterian Mutual Society may get little back from the £300m they have trusted it with. All the savers are members of the Presbyterian Church in Ireland, and many are elderly, but their money's frozen pending a vote on the society's future after administrators were called in. Credit unions in Northern Ireland are not regulated by the Financial Services Authority as they are in the rest of the UK, and there's no compensation if a Northern Ireland credit union gets into trouble. Jane Adrain emailed Money Box to explain her fears for her relatives' savings in the Presbyterian Mutual Society.

ADRAIN: I was shocked at what happened and the fact that it wasn't covered by the depositor guarantee scheme. Why couldn't something be done for the mainly retired people who are sitting here with no idea if they're going to get their retirement funds back or not? The government should look at this situation. We're talking about £300m here, which compared to the £55bn that was invested to save Northern Rock, £300m is a small amount of money.

LEWIS: Well no-one from the UK government or the Northern Ireland Executive would talk to us. I asked the BBC's Northern Ireland business correspondent, Kevin Magee, how the story had unfolded.

MAGEE: The problems emerged in November and the bank announced that it could no longer meet the demands from its depositors, and as a result of that the accounts were frozen. Now don't forget this was around the same time that the bank deposit guarantee scheme was being introduced - ironically because there was a feeling that people may have been leaving the British banks to deposit their money here with the Irish banks because they were offering a higher threshold at the time. But then there was a realisation that the Mutual Society was not covered by the bank deposit guarantee scheme and essentially that led to a run on the bank. People wanted to take their money out and put it elsewhere where the guarantees did apply.

LEWIS: And why couldn't the bank give the money back to its depositors? What had it done with it?

MAGEE: It looks like at this point that the bank had about 130 million in assets and about 170 million perhaps was lent out to borrowers. But within that lending, there's no doubt that the society was exposed to the property market and of course that's where a lot of these problems have originated. I think somewhere in the region of 80 to £85m possibly was lent to property developers. In addition to that, there's a figure of 26 million that was lent out for people who wanted to buy-to-let. There was large exposure to the property market.

LEWIS: But of course when they wanted their capital back, there was no capital there because it was very hard to sell property for the price they paid for it.

MAGEE: Exactly. The administrator essentially has made a proposal and that's what's being voted on at the moment - that there should be an orderly run down over a period of time and the assets of the company sold. And of course the expectation there would be that let's wait, don't panic, and see is there an improvement in the property market. If so, obviously then the assets would perhaps be worth more than they might be currently. The alternative to that proposal is the straightforward liquidation of the company or a fire sale, and of course that's more or less the choice that they're faced with at the moment.

LEWIS: People had to have voted by Friday. Any indication from your discussions with savers which way the vote might go?

MAGEE: It's very, very difficult to say because I mean I suppose in many respects the savers are between a rock and a hard place. Crucially the timescale involved in this, because so many of them are elderly depositors and savers, they're saying well really, frankly, we haven't got the luxury of five or 10 or 15 years to wait. There was a figure came out in the midst of all this saying that at November's prices the directors estimated that there was a deficit there of about 122 million, so what that could possibly mean is that the savers are looking at a possible return of 60 pence in the pound. But I think at this stage, that's probably a very optimistic figure and you know I think many of them would be pleased if they could indeed get that.

LEWIS: Kevin Magee. Ministers from the Northern Ireland Executive are hoping to meet Gordon Brown, who of course comes from a Presbyterian family, soon.

And, Bob, depositors with Kaupthing Singer and Friedlander on the Isle of Man face a further wait before their compensation might be paid.

HOWARD: That's right, Paul. The petition to wind up the company has been adjourned again. The court is due to reconvene on February 19th. That's because the Isle of Man treasury is now proposing an alternative system of payments for savers rather than resorting to liquidating the company.

LEWIS: Thanks, Bob. That's it now for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. There you can sign up for my weekly newsletter. It's not a blog, but it's a bit like one. And you can of course download a podcast of the programme. Money Box Live is on Wednesday, this week taking your calls on credit and debt. And on Wednesday February 18th, we are live at the Trafford Centre in Manchester from eight till six as part of the BBC's Money Matters road show. Financial advice there for all comers. Money Box next weekend as usual. Today the reporter was Bob Howard, producer Lesley McAlpine, and I'm Paul Lewis.