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MONEY BOX

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LEWIS: Hello. In today's programme, new rules to help people whose credit or debit card is stolen. And for the first time, guidance on how to disguise your PIN.

CRESSWELL: I know that people disguising it as Mr NatWest, maybe we wouldn't be entirely satisfied that that was really helping to disguise what the number is.

LEWIS: Why are we spending the entire take from council tax on propping up a single bank? Three million people with shares in Lloyds Banking Group are told give us more money or your shares will be worth less. Why vicars won't be singing this *(Choral Music - Hallelujah)* when they get their pension. And figures out this week show there's more than £2 billion in Child Trust Fund accounts for children under 8, but will the scheme survive until they're 18?

First, though, good news for people whose credit or debit card is stolen - at least if it happened since last Sunday. New rules from Europe begin this month, policed by the Financial Services Authority. The rules say that people whose card has been used fraudulently, even if the correct PIN number was used, should now be refunded first while the bank investigates. Not after the investigation, as they used to be. And the banks can't just send out standard letters rejecting claims. They have to set out exactly why a customer has been grossly negligent with their card details. Money Box contacted listeners this week who've had their claims rejected and asked them to send in letters they'd received from their banks, and that included almost all the high street names. We got hold of the banks' new terms and conditions as well, which have already been revised to conform with the new rules; sent them all on to Dan Waters, the FSA Director now responsible for regulating this area. I asked him first about the letters, saying they wouldn't refund customers. Would such letters conform with the new rules?

WATERS: When I read some of those letters, what I took away from those letters was it's impossible for the system to be compromised; therefore it's your fault. And letters that look like that are not acceptable.

LEWIS: What practical difference then is this going to make to individuals whose card has been lost or stolen?

WATERS: The practical difference should be very significant because the individual who doesn't have access to the systems and the experience and the knowledge of a bank - about how these things work and what kinds of things can and cannot happen - is in a very difficult position in terms of being put in the position of demonstrating themselves that the breach was not their fault. That's where the shoe is on the wrong foot.

LEWIS: But what the banks say is things like if you didn't use your card on the day, no-one could have shoulder surfed you. Therefore you must have been the one who gave them the PIN. Is that sufficient?

WATERS: It's not. It's not sufficient to say the chip is perfect, the card can't have been cloned. We know that nothing is perfect and the bank is in the position to understand exactly how its systems work and how they can be of use, and that's why the regulations switch it around - so the bank needs to have grounds for believing that the consumer has done something deliberately wrong or recklessly wrong. In the meantime, the refund is to be made, the investigation can be conducted. If the bank can satisfy itself that there has been fraud, that there has been gross negligence and can prove that, then they can debit their money back. But they don't get to simply say we're going to assume that everything that the bank did was perfect and what you did is wrong. Therefore we're not going to pay you back until we've done an investigation. That is also the wrong way round.

LEWIS: But that way round is precisely what's still in terms and conditions, isn't it? I mean one says, for example, 'we will only be responsible when we've concluded there *has* been no fraud or gross negligence'. That's the wrong way round.

WATERS: That's not the way that the regulations contemplate.

LEWIS: You've used the phrase "the hurdles are now pretty high for the banks".

WATERS: Yuh.

LEWIS: This is a huge cultural change for them - a) being regulated by you; and b) the shift of the burden of proof. Do you think they're really making this change, or are they still rumbling along under the old rules?

WATERS: There's no reason for them *not* to be making that change. We've spent the better part of a year engaging in detail with the banks.

LEWIS: They've had a year and yet they still have terms and conditions that you believe may not be compliant.

WATERS: I'm not in a position to sit here and tell you what the state of compliance is six days after the entry into force of the regime. The obligation is on the banks to do this. It's their responsibility to get on with this. If they've not done it, then that's going to be a problem for them.

LEWIS: So given that - given your concern about the letters you've seen and about the terms and conditions - will you be going back to the banks now to say "Look, this is what these new rules mean. Go away and change your procedures"?

WATERS: If there are terms and conditions that are out there that we find don't look right, that’s something that we can deal with now.

LEWIS: And you will be doing that?

WATERS: Yes.

LEWIS: The FSA’s Dan Waters saying he will take up the issue with the banks. Well Money Box’s Bob Howard has been looking further at the bank’s new terms and conditions. Bob, Dan Waters didn’t want to say … to judge yet whether they complied or not. What have you found?

HOWARD : Well, Paul, let’s say there seem to be significant differences from the FSA rules. As you mentioned, HSBC’s current account terms and conditions say it will investigate disputed transactions but will only be responsible if or when it’s concluded there’s been fraud or gross negligence. And Barclays says as soon as we are reasonably satisfied that you did not authorise the payment, we will refund. Now that’s a long way from the FSA’s refund first, ask questions later. Even so, all the banks insisted to me they do comply with the new FSA rules.

LEWIS: And, Bob, these new rules only affect disputed transactions from the beginning of this month, last Sunday. Some of our listeners are already in dispute with the banks and they’ve gone to the Financial Ombudsman Service for a decision. What’s the Ombudsman saying?

HOWARD: Well every month, the Ombudsman Service gets about 150 complaints. It estimates it finds in favour of about half of all these claims, but that still means hundreds of people are getting their claims turned down each year. I wanted to try and find out why. For example, last month we asked whether it was ever acceptable to write your PIN down - as many people do - and, if so, how carefully you needed to disguise it. Barclays says you just can’t do it at all. Halifax Bank of Scotland says you can if you adequately disguise it and don’t keep it with your card. So I asked David Cresswell from the Financial Ombudsman Service which advice customers should follow.

CRESSWELL: The slightly irritating answer I guess from us is going to be it is really going to depend on the actual circumstances of the case.

HOWARD: So it's not wrong per se to write your PIN down in some form?

CRESSWELL: If you do though, I think you need to be aware that we will say why did you do that and how were you going to justify it?

HOWARD: *(over)* Well people will say, "Because I have 20, 30 different PIN numbers for different things and I just can't remember them all."

CRESSWELL: Well we'd still say but why did you do it and where exactly did you write it and how secure was the bit of paper that you actually wrote it down on. In a recent case, for example, where we upheld it in favour of the consumer, we decided that writing the PIN number down on a bit of paper and locking it in your jewellery box, when the card itself is locked in a separate drawer in your dressing table, that we felt that that was completely sufficient to show you'd taken reasonable care.

HOWARD: What about disguising it as a phone number in your address book, as a lot of people do?

CRESSWELL: We're going to look at each individual case. We can't make a blank statement about what consumers should or shouldn't do. It's going to depend on how many other phone numbers are in the phonebook, how recognisable it is. I know that people disguising it as Mr NatWest, maybe we wouldn't be entirely satisfied that that was really helping to disguise what the number is.

LEWIS: David Cresswell of the Ombudsman Service talking to Bob Howard.

The numbers involved in the latest bank rescue are so big they're almost impossible to grasp. Just a year after the government gave Royal Bank of Scotland £20 billion with another £8 billion set aside for emergencies, it's now going to give it a further 25 and a half billion pounds. In other words, the government will give a sum equal to the whole of what we pay in council tax over those two years to one bank. Lloyds Banking Group, which will get more than £13 billion, takes the total bailout costs announced this week to around £39 billion. That’s even more than the £37 billion that astonished us last year. It’s as much as the defence budget, two years running. And throughout the period, the banks have been making profits - at least from their UK retail side. Well with me is Ralph Silva, banking analyst from Tower Group. Ralph, bit of a rant there from me, but why are we propping up these businesses that are so badly run they can only function with a subsidy?

SILVA: Well I think maybe this is an appropriate time to sort of look back at what the financial services industry gives us, and I just ask you to look around the room you’re listening to us on. It’s the radio you’re listening to, the television, the telephone, everything around you. Everything there was funded at some point by a bank. Our whole economy, our whole lives were at some point funded by the bank. The banks are absolutely critical.

LEWIS: So they deserve it because they’ve been good to us?

SILVA: They have. They’re essential to us. Not necessarily good to us because they’ve also made a lot of money on doing it, no question.

LEWIS: And a lot of mistakes. But part of the deal is that Lloyds and RBS will sell off more than 900 branches, and at least two new retail banks will be created - maybe people who are already interested, maybe new ones. Who might buy them?

SILVA: Well I think the rumours out there are somebody like maybe the Virgin Group or maybe Tesco or a grocery store chain, another grocery store chain. Tesco’s already got their own bank.

LEWIS: None of them confirming or denying that at the moment.

SILVA: But what I’d like to say is would you like to buy your Sunday roast from your banker? So what makes you think that you want to get your mortgage from your butcher? I don’t have a problem in selling these assets, as long as these banks are sold to people who know how to run a bank and are experts in doing that and not doing something else.

LEWIS: Well maybe know how to run a bank a bit better than some of them are being run. *(laughter)* Will it make them more competitive though? Will it bring prices down for consumers?

SILVA: I don’t think it will because the prices for products in the UK right now are the lowest they are in Europe and they certainly can’t go any lower. I do however believe there will be additional innovation in the way you deal with a bank and that is absolutely great for all of us.

LEWIS: Stay with us, Ralph. Another aspect of this deal though is that Lloyds, in addition to the money from us, is also trying to raise 13 and a half billion pounds from its shareholders. There are nearly 3 million of them - the biggest number for any UK company. So should the millions of small investors take up the right to buy more shares at a discount? It is, after all, the second time they’ve been asked for cash in a year. Money Box listener Akeel, who has 3,000 shares, is weighing up his choices.

AKEEL: I’m a small shareholder and I’d like to know whether to buy more Lloyds shares or should I sell my existing shares in Lloyds? The question is will the Lloyds shares go up eventually or not?

LEWIS: Well with me is Justin Urquhart Stewart from Seven Investment Management. Justin, that is the question, isn’t it: will Lloyds shares go up or not?

URQUHART STEWART: Well you have to see where they’ve come from. They were absolutely awful. They’ve come up a little bit. You have to take a 5 year view at least on this. Somewhere within Lloyds, there is a good profitable commercial bank in there. However, there’s an awful lot of debt to come out. So if you’re willing to take a 5 year view and on the basis you’re not going to get dividends for 2 years at least, then actually you’ll probably get your money back and you’ll make some money, but you’ve got to take that view. Shorter term, it's a risk. If you're not prepared to take that risk, don't take up the rights.

LEWIS: And of course if they do make money and the shares do come back, taxpayers will benefit. We're giving a lot of money, but we'll get some of that back if the shares do well.

URQUHART STEWART: And that's a very important issue. We're putting money into these things and so the taxpayer should get some very good rewards in due course. But it's not going to happen instantly. This is a 5 to 10 year process even with those bad bank parts of these banking organisations.

LEWIS: As I said though, they are profitable in terms of UK retail banking, so there's a good business at the heart of it.

URQUHART STEWART: Oh yes, utility banking has always been very profitable indeed; and so that if you can strip away the other areas that they've actually had, which haven't actually helped them, then actually shareholders in that business will be profitable in the medium term. Banks are essentially profitable if well run.

LEWIS: Yes. A big question though, isn't it?

URQUHART STEWART: Yes.

LEWIS: Akeel did raise the key question though, didn't he - should I sell what I've got and forget about it, or should I buy the new shares? The third option he didn't even ask, which is just do nothing.

URQUHART STEWART: Do nothing at all. But of course you are then being diluted.

LEWIS: Your shares will be worth less because there's a lot more of them about?

URQUHART STEWART: *(over)* A lot more coming in. So really what you'd be doing if you were interested in actually maintaining your position, overall investments in banking, then you should actually then participate.

LEWIS: And the key dates?

URQUHART STEWART: Key dates for this. The 24th (November) is when we're actually going to be having details coming through. You'll see there's an annual general meeting on the 26th, and after that you've got till 11th December to make up your mind. It's a very short order, I'm afraid, and there's going to be big documents coming through the post.

LEWIS: We'll probably be returning to that. Ralph Silva's still with us. Ralph, you mentioned this at the start, but these tens of billions of pounds committed to the banks - a year from now will it have worked, will they have survived?

SILVA: Probably not. Essentially if the economy continues in the current state, we're probably going to have to add a little more money.

LEWIS: *(over)* So they'll be coming back for a third lot a year from now?

SILVA: I do honestly believe they will be coming back for more money. I do not believe the amounts will be anywhere as near what they're giving them now - no question it'll be a lot less - but we're not done yet.

LEWIS: And you said earlier, look at what the banks do. Has it really been worth 70, 80 billion pounds?

SILVA: Well on average the banks used to contribute about 80 to 100 billion pounds a year in tax money. And personally I kind of like my roads having no potholes - so, yes, we want that to continue.

LEWIS: And you think we'll make money out of the shares?

SILVA: I think 10 to 15 years, we're going to make a lot of money out of this.

LEWIS: And Justin, briefly, Ralph mentioned there you know roads built. The banks are certainly letting us get money out of ATMs. Are they doing the rest of their jobs for the economy?

URQUHART STEWART: This is one of the big problems I'm hearing round the country at the moment, despite what we're hearing from their leaders; that actually smaller businesses particularly are actually finding themselves with their facilities being reduced or even taken away. This is a crucial moment when you need your utility banks there to provide cash flow, particularly if you're trying to come out of recession.

LEWIS: So they provide cash but not cash flow for businesses?

URQUHART STEWART: Not for businesses.

LEWIS: Justin Urquhart Stewart and Ralph Silva, thanks very much.

Now what happens when you mix this *(choral music - Hallelujah)* with this *(clip: people protesting)*

LEWIS: The answer is a big hole in the Church of England's clergy pension scheme. At least, that's the conclusion of a report published this week. The scheme only began in 1998, but already urgent changes are being discussed. At the end of last year, the scheme had just over half as much money as it needed to cover its liabilities; and whatever happens, clergy will have to work until they're 68 and the earnings related pension may be scrapped in the future. But an independent consultant who's looked into the deficit blames what he calls "a reckless investment strategy". He found that the scheme's assets are invested 100% in equities. That's either shares or similar things. Now it's normal for pension funds to hold a portion of their assets in less risky investments such as bonds. The average bond holding is around about 50%, he says. And the independent pensions consultant concerned, John Ralfe, told me he was shocked by what he'd found.

RALFE: I'm not aware of any other UK pension scheme that has 100% equities, and in the conversations that I've had with various people in the course of the last few days it isn't one of these where somebody's popped up and said, "Ah, well, you don't know it but." So I stand to be corrected, but I think that the Church of England pension scheme is unique in the UK in having 100% equities. So I would call upon the church to publish the investment advice. And not only to publish the investment advice, but to publish the minutes of the meetings which have been held.

LEWIS: Independent pensions consultant John Ralfe. Shaun Farrell is Chief Executive of the Church of England Pensions Board. When I spoke to him, he stood by the strategy of investing entirely in the shares and other things he includes as equities.

FARRELL: The professional advice we've had right from the beginning was this was an appropriate form of investment, it remains an appropriate form of investment, and we are confident in the advice we have received.

LEWIS: Have you published that advice? Can other people look at it and see if they think it's reasonable?

FARRELL: It's advice to the trustees of the scheme. It's not obviously in the public domain. But our annual report will always be fairly open in terms of the investment strategy that the board is following.

LEWIS: So these actuaries said to you put 100% of the pension fund in shares or equities?

FARRELL: They did. And they did that because the long-term information about the return from equities was then, and remains now, that that will in the longer term - and I do stress the longer term - provide you with the best return.

LEWIS: So when people have said to us this is a bit of a reckless gamble, you'd say that wasn't true?

FARRELL: I would refute that completely.

LEWIS: As a result of this investment strategy, the scheme is going to have to change, isn't it; perhaps close altogether?

FARRELL: No, there are no plans to do that. We are looking at a number of options for the future of the scheme. We've been in consultation with the dioceses who are the main employers, if I can use that phrase, for the purpose of this conversation, and we're looking at a number of options both for reducing the costs of the scheme while still providing an adequate retirement income for our clergy and different ways in which we could structure the scheme going forward.

LEWIS: But parishioners will be paying for these investment decisions through the collection plate for decades, won't they?

FARRELL: Well you keep referring back to investment decisions, but like …

LEWIS: Well you made an investment decision to put all this money into shares or share like investments, which is highly unusual.

FARRELL: Well I wouldn't accept that it's highly unusual. The important thing is that all pension scheme funding is a complicated process. It's not just involved in investment results. It's talked about one has to take into account life expectancy, interest rates, and many of these have been moving against our scheme and indeed many other defined benefit schemes, and 90% of all the schemes in the UK are in a deficit position. So there's nothing particularly unusual about the position we find ourselves in.

LEWIS: Shaun Farrell, Chief Executive of the Church of England Pensions Board.

There's almost £2 billion saved up in Child Trust Fund accounts for more than four and a half million children under 8. The latest figures out this week show that parents and relatives between them put an average of £289 a year into each account. But the Liberal Democrats say the scheme should be scrapped, so the £500 million a year it will soon cost can be spent on reducing school class sizes; and the Conservatives would cut the scheme, limiting it to the 1 in 3 children who live in households with a low income below about £16,000 a year. So are Child Trust Funds a vital institution for promoting savings or a waste of time? Money Box listener Elizabeth from Derbyshire emailed us to say this.

ELIZABETH: I consider myself a good parent, but I can't guarantee that my children won't be idiots at age 18. With hindsight, I would have opted out of the scheme. But when you've just given birth, it doesn't occur to you that this wonderful baby might rather buy alcohol or cannabis rather than university textbooks. Also it is a ludicrous way to spend my tax.

LEWIS: Well Elizabeth wasn't alone in that rather stark view. Live now to Edinburgh to talk to David White. He's Chief Executive of the Children's Mutual, a friendly society which specialises in Child Trust Funds. David White, it's a fair point, isn't it? Very nice to give a few pounds each month to the baby, but is it a good idea to give thousands of pounds to a teenager on their 18th birthday?

WHITE: Good afternoon, Paul. I think if anyone listening who's between the age of 18 and 30 was asked the question have you got financial challenges, they'd say yes, absolutely, as we struggle with graduate debt, as we struggle to try and get on the housing ladder.

LEWIS: Sure, but they're a bit ahead at 18, aren't they?

WHITE: Well, yes. And also if you ask the parents of the 18 to 30 year olds, they will tell you that they wish the Child Trust Fund had existed as the catalyst to make them save for their children. These challenges for our young adults are financial challenges which are huge. So, yes, we absolutely need it to be there. You know if the 18 year olds have to take on debt, that's the wrong way to do it. If parents have to remortgage their house, that's the wrong way to do it. So we need to get the 18 year olds to arrive at 18 with those assets.

LEWIS: Now your Child Trust Funds are all invested in shares and we talked earlier, as you'll have heard, about the Church of England relying on shares for its pension funds and coming a bit unstuck in some people's view. Are shares really the best option for an investment which is really fairly short-term, isn't it?

WHITE: Well I don't think 18 years is short-term, Paul.

LEWIS: Well 13 because they're taken out of shares after 13 years.

WHITE: Well we start to move the money from the age of 13 through to 18 at 20% each year to protect the gains made in the market. I don't think there's any financial commentator who wouldn't agree that investing in the markets is going to give a better return over this sort of period of time.

LEWIS: Though of course since they started, the best returns have been from the cash funds, which have made more than any of the share funds, including your own.

WHITE: Well no, that's not true. We've got accounts …

LEWIS: Well the figures I've got here, got yesterday, it *is* true.

WHITE: Well I don't know where you got the figures, Paul. You didn't get them from us. But I'm quite clear and we can give you all the figures you want that show you that there are some accounts now, as the market has recovered, that are doing better. But we shouldn't be discussing cash versus shares over the short-term. What we should be discussing is the fact that this is clearly, as the evidence suggests, the most successful savings product that there's ever been in this country.

LEWIS: Well that's because it's compulsory; no-one can opt out. I mean one thing dragging down performance is charges, isn't it? Why do you charge children 1.5% a year when the average for a pension tracker fund is .87 and the cheapest less than half a percent?

WHITE: Yes and what you know, Paul, is that the average going into a pension fund is much, much bigger than the £24 a month that's being saved into a Child Trust Fund. If contributions into Child Trust Funds were as much as is going into pension funds, the percentage charged would be much less. If someone invests the government voucher in a Child Trust Fund this year, we would charge £3.75. Now I don't think that's a high charge …

LEWIS: *(over)* Sure, but over ei…

WHITE: You have to not mix up percentages with pounds, Paul. It's very misleading.

LEWIS: Over 18 years, you're taking 30% of the money parents and relatives put in.

WHITE: Well the price is capped on the Child Trust Fund by government. We know that these are small contribution accounts. If we find that the markets forge ahead and we've got very big funds and we think the charges are more than we need, then we'll do something about that over time.

LEWIS: You'll bring them down?

WHITE: That's what we would do over time if the markets forged ahead, but the important thing is …

LEWIS: *(over)* An interesting commitment. David White of the Children's Mutual, thanks very much. And you can have your say on Child Trust Funds on our website, bbc.co.uk/moneybox. And, Bob, some success to report for those tackling share fraud?

HOWARD: Yes, the Financial Services Authority says it's acted against two individuals and seven businesses suspected of involvement in what's known as boiler room fraud. That's where criminals sell unwary investors shares, which are either worthless or vastly overvalued. The raids were in London and Southend. One person was arrested and the FSA has frozen assets worth up to £350,000.

LEWIS: And anyone claiming a state pension from next April won't be able to get it paid in advance.

HOWARD: At the moment the pension can be paid weekly in advance or monthly in arrears, but from April new claims will only be paid in arrears weekly, fortnightly or four weekly. But the Department for Work and Pensions says the change won't affect people who currently get their pension. They can still apply to have it paid weekly in advance.

LEWIS: Thanks, Bob. Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and our website, bbc.co.uk/moneybox. Lots of interesting things to do there, including have your say on Child Trust Funds. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking questions on making a will. I'm back with Money Box next weekend. Today the reporter Bob Howard, producer Karen Kiernan, and I'm Paul Lewis.