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MONEY BOX

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LEWIS: Hello. In today's programme, the weekend after we voted, it's still not clear who will govern Britain. If the Conservatives and the Liberal Democrats don't do a deal, who'll tackle the growing public debt? Fears about who governs Britain haven't helped share prices (already plunging round the world) after concerns that the Greek bailout won't work, leaving the euro currency under threat. Wesley Stephenson's here today looking at changes in banking.

STEPHENSON: I've been looking at whether we should be more accepting of the changes banks make. *(to Clare Bluston)* Can you understand that it's actually more expensive for you to be in the bank for them?

BLUSTON: If I'm in the bank? Good.

LEWIS: And if you return to Britain after a time abroad, how do you build up a good credit record?

But first, share prices plunged around the world this week - partly on fears that the Greek bailout (finally agreed on Friday) won't work. That could threaten the very existence of the euro as an independent currency. But markets here have also been spooked by the uncertainty about who will govern the United Kingdom after the people elected what one academic told the BBC this morning was "an unviable parliament which can't be repaired short of another election." The fear is that with no

party able to take command with a majority in the House of Commons, MPs won't take the tough action needed to deal with our large and growing government debt. All the parties said in their manifesto that it was important, though none said how they would do it. And yesterday David Cameron, still 20 seats short of a majority in the House of Commons, put it at the heart of his offer to the Liberal Democrats.

CAMERON: No government will be in the national interest unless it deals with the biggest threat to our national interest, and that is the deficit. We remain completely convinced that starting to deal with the deficit this year is essential. The new government must grip this deficit and prevent the economic catastrophe that would result from putting off the difficult and the urgent action that needs to be taken.

LEWIS: Well without a clear and credible plan, the UK will find it more expensive to borrow - pushing up interest rates, weakening the pound and damaging share prices further. Well to unpick Greece, governing the UK and share prices, I have three guests. First though live to Edinburgh to talk to Merryn Somerset Webb who's Editor-in-Chief of Moneyweek. Merryn Somerset Webb, to what extent has the fall in share prices in London been due to the political uncertainty here or to the problems with Greece?

SOMERSET WEBB: Well it's a difficult one to disentangle. You know Greece has affected markets all over the world. But one thing that we can do in the UK is we can separate out the FTSE 100, which has an awful lot of international companies in it, and the FTSE 250 which is much more domestically orientated. And if we look at that, we can see that the FTSE 250 fell by over 4% yesterday, whereas the 100 was off only 2.5%. So that tells us that the markets are taking what's happening in the UK extremely seriously. You can see it in the pound as well, which yesterday actually fell against the euro. You know our currency fell against a currency that is likely to collapse completely. So you can see that the market thinks that what is going on in British politics is a very, very serious business even compared to what's happening in Europe.

LEWIS: Or what *isn't* going on indeed.

SOMERSET WEBB: Or what isn't going on.

LEWIS: Well stay with us, Merryn of course. But also with me is Martin Weale who's Director of the National Institute of Economic and Social Research. How urgent then is it to produce a plan to cut spending and reduce this annual overspend, Martin?

WEALE: Well I think that what people want to see is a coherent government which can reduce the deficit, which has a serious plan to you know at least halve the deficit by 2013, 2014. I certainly think that if you look at what's happening to the market for government stocks, prices are sort of in the middle of the range they've been for the last year and there's nothing there to indicate that investors as yet are showing signs of panicking. Obviously, as we've seen with Greece, the market sentiment can change very rapidly, but I think it's actually a judgement how likely you think that is that influences the decision whether you think we need to start cutting or to start cutting further this year. It's important to remember that Labour had already proposed cuts of about £15 billion in the deficit relative to last year and the Conservatives are simply saying that needs to go up to £21 billion.

LEWIS: Yes. Of course what we've been told though is it's not so much whether you start cutting this year, but you must have a plan in place so people believe you'll be cutting certainly by *next* year.

WEALE: I think that's right. I think that unless the circumstances in financial markets were to become more threatening for British government borrowing, I don't actually think there is a desperate need to introduce substantial further cuts this year, but I am quite sure that what people want to see is a stable government which looks as though it can deliver a programme to bring our deficit under control within a few years. And if we don't get that, then obviously Greece is a terrible warning to everyone.

LEWIS: Well indeed. And Gilles Moec is Senior European Economist at Deutsche Bank. Gilles Moec, how does Europe see Britain at the moment? Does it really think

that there's a big problem here?

MOEC: I don't think so. Not at this point at least. I think Martin is pretty right to say that if you look at the medium term, the situation in the UK is entirely different to what you can see in the peripherals at least in Europe. For instance in terms of net external debt, the UK is in a much better position than these countries. And on top of this, the UK has one adjustment valuable which is missing in the peripheral countries in the euro area, which is sterling. And we've had this fairly steep depreciation of sterling, which has helped quite tremendously over the last month. There is a recovery here that you cannot find in some of the peripheral countries.

LEWIS: Yes, so we have the power over our own currency and indeed over inflation, which of course European countries don't because they have to do it altogether?

MOEC: It's a question actually on the peripherals, a very important question: how can you actually adjust your fiscal policy and also adjust your balance sheet problem in the private sector while at the same time keeping the same currency?

LEWIS: Now you mentioned "peripheral countries". You don't just mean ... You don't mean France and Germany. Who do you mean by that?

MOEC: Basically I mean Spain, Portugal, and Ireland on top of Greece.

LEWIS: These are the other ones that we know have got economic problems?

MOEC: Yes because actually in the Greek case, it was a clear case of fiscal mismanagement. Basically the market was hammering Greece because there was a clear worry as to the capacity to adjust fiscally. In the other peripherals, such as Portugal, Spain, Ireland, the issue is much more with the whole balance sheet of the country - the fact that on top of issues with fiscal policy, the private sector is highly indebted. So what they are questioning actually is the capacity of the country to adjust. I think that some of these concerns are overstated, but when market sentiment

goes in one direction, it's pretty hard to plan things out.

LEWIS: (*over*) But those are not such a problem here. And Martin Weale, what sense do you get that there is some consensus about what we should be doing? I mean if the Liberals and the Conservatives did get together, for example, what do they already agree on about cutting the deficit?

WEALE: Well if you look at the two manifestos, which are of course the best guide we had, then there are some quite strong similarities. For example, both of them are talking of a willingness to review who's entitled to tax credit, a willingness to look at child trust funds. Both of them are talking about action on public sector pay. I think the Conservatives are talking of a freeze this year except for the lowest paid workers. The Liberal Democrats were talking of rises of no more than £400 this year and next year. Both of them were talking of action on public sector pensions. I think you know one important point is that the Liberal Democrats are less keen than the Conservatives on ring-fencing different areas of spending, and my own view is that these commitments to ring-fencing were a mistake because the country is poorer and so the natural first thing would be to reduce spending on everything roughly across the board. And so you know an agreement with the Liberals may be a means by which the Conservatives can get out of what I see as a misplaced commitment to ring-fencing, and that in itself will make the cutting easier.

LEWIS: Yes, ring-fencing meaning they're not going to cut the NHS, they're not going to cut state pensions and that kind of thing where of course big savings are to be made. And Merryn Somerset Webb, how do you see this? Is there a consensus among political parties about what we have to do? Do you think it's going to happen?

SOMERSET WEBB: I think there is probably a consensus among them and everyone knows at this point what needs to be done. But I think Greece also gives the Conservatives and the LibDems a wonderful opportunity. You know the crisis there ...

LEWIS: (*over*) Don't be like Greece you mean?

SOMERSET WEBB: Well no. What it does is because it's spreading so fast and because there is so much risk involved, it gives them a wonderful opportunity to say well we may have said this in our manifesto, but look how the risks have risen. That means they can get rid of ring-fencing, they can stop talking about keeping spending steady on all their favourite things. They can pretty much re-write manifestos by using the cover of a) what happens in the election; and b) what's happening in Europe. So it's a great opportunity for them to get together and kind of start from scratch. And everyone knows that whoever is in charge has to do the same thing.

LEWIS: Yes. And I mean we've been saying on the programme for some weeks that they're going to have to make big cuts that they haven't put in their manifestos and you think this could be the sort of record time when manifestos were torn up after, what, two or three days?

SOMERSET WEBB: Absolutely, they've got cover in every direction. You know it's a wonderful opportunity for politicians to sit back and say, "Well you know what we wrote in the manifesto. Well you didn't vote for it properly and now these terrible things are happening in Europe, so we've had to do this instead."

LEWIS: And how urgent, how important is it for them to say things like that in order to get share prices steady and in order to get the pound steady?

SOMERSET WEBB: Well I think it's quite important. I'm slightly less optimistic about the way the world views the UK than your other guests. I think that we are in both a political crisis and a near fiscal crisis, and I think that if there aren't very clear signs that we have a deal by Monday morning, we'll see quite a lot of carnage in the markets.

LEWIS: Carnage in the markets implies share prices going down. I mean if you've got money invested, what should you be doing with it now?

SOMERSET WEBB: Well it's a bit late to take it out now.

LEWIS: Well it's too late to take it out, yes. So nothing? So sit tight and wait?

SOMERSET WEBB: There's not much you can see. See what happens on Monday. You know I mean to be honest, I've been recommending that people have been out of the market for several months now, so hopefully anyone who's reading Moneyweek is well out.

LEWIS: Ah yes, so go back in time and subscribe to Moneyweek and do what Merryn says. (*Somerset Webb laughs*) Gilles Moec, how far is this contagion spreading as Merryn was saying there?

MOEC: Basically the issue now is what was at the beginning a purely sovereign issue basically with the market testing, the public government bond market has moved to the equity market and has moved to the banking industry too because what's at stake right now in Europe is the fact that banks have purchased quite a lot of government bonds which have been issued over the last year when the deficit started to soar. Now since the price of these bonds is falling, this is of course creating some tension on the cash flow position of the banking industry. So in terms of catalyst, of things that we need now to provide a backstop to the market, there's probably some action needed from the Central Bank. In the end, it is the Central Bank which can come to the rescue.

LEWIS: In Europe. And Martin Weale briefly, do you think Merryn Somerset Webb's right - that we could see manifestos torn up and really, really dramatic action in the next few weeks?

WEALE: Well I think there will be an element (as there must be) of you know some party coming to a compromise with some other party, and that must mean that they'll both have to abandon some part of their manifesto commitment. I think we were really agreeing that the situation does allow for something of a fresh look.

LEWIS: Okay, Martin Weale from the National Institute of Economic and Social Research, thanks. And thanks to Merryn Somerset Webb from Moneyweek and Gilles

Moec from Deutsche Bank.

Now we've reported several times over the last few weeks about changes to personal banking that have really annoyed some customers, not to mention some Money Box listeners. They range from ending cheques and the guarantee card to refusing to pay cash over the counter. From June Nationwide won't let cash card customers withdraw less than £100. But are we right to resist these changes? Wesley Stephenson began at the beginning.

STEPHENSON: Here in the money gallery at the British Museum, you get a real sense not only of the way that money itself has changed but also the way our relationships with the banks has evolved - from the grain banks of Ancient Egypt at one end, all the way up to the chip and PIN machines at the other.

EAGLESON: The Ancient Egyptians had grain banks, so actually the idea of banks *(fades over)*

STEPHENSON: Peta Eagleson is the Curator of Modern Money at the British Museum, and she showed me round.

EAGLESON: One of the things that really interests me about modern banking is the way that in the UK there was a really big growth in local banks. People would deposit gold in these banks and get bank notes which could pass around as promises to pay. But at different times in history, the promise of gold was removed, so people started using these kinds of money that weren't actually worth what they were made of. So people learnt to trust these new kind of financial systems and they learnt to trust banks with their money.

STEPHENSON: We may still trust the banks with our money, but the recent crisis means change is greeted with ever more suspicion. Take the minimum limit on withdrawals over the counter or the phasing out of cheques and cheque guarantee cards. People hate to think they're being forced to change their ways.

BLUSTON: And that's what I want to find how to do. Why can't I get into that?

RICHMAN: Okay, well normally ... (*fades under*)

STEPHENSON: Clare Bluston is in her seventies and doesn't want to be branded a Luddite. She's currently learning how to use the Internet.

BLUSTON: I've got children and a granddaughter and I feel very old when I can't do the things that they're doing. I feel that I should keep up with the times.

STEPHENSON: What about banking? Would you ever consider banking online?

BLUSTON: No.

STEPHENSON: What is it about going into a branch that's simple?

BLUSTON: Well it's nice to talk to people. You get used to all the girls in there anyway. At our age, we need contact with people all the time.

STEPHENSON: Her commitment to old banking methods has a knock-on effect on her tutor, Rob Richman. He runs Ahelpinghand.co.uk that offers computing lessons to older people. It means he has to bank in a way he doesn't like.

RICHMAN: A lot of the time, I'm paid by cheque, so I'm forced to go into the bank, but it's something that I really hate doing in the same way that I hate going to the supermarket. So the only time I tend to go to the bank is when I have to pay my cheques in. Everything else is done generally online.

STEPHENSON: But will Rob and Clare even have a branch in years to come?

SKINNER: I'd say that the UK has about 90% too many branches.

STEPHENSON: Chris Skinner is Chairman of the Financial Services Club which brings together, among others, banks and technology firms to look at the future.

SKINNER: There'll be a number left. There will be very large branches, probably in big shopping malls. The way you will deal with your branch people is you'll probably meet them on the first occasion during your account opening and then you will keep that relationship using Skype Star Video Servicing, for example.

STEPHENSON: I can see the letters of complaint being written already. But Age UK complain that the march of progress throws up unintended consequences. Jane Vass is the Financial Services Policy Advisor for the charity.

VASS: Yes, most people do get used to new technology, but the way they adapt to it may not be as anticipated. So with ATMs and debit cards people may adapt to it by writing down their PIN somewhere that's not secure or by giving their card and PIN to somebody else and exposing themselves to the risk of fraud.

STEPHENSON: So if we want to continue depositing our money with the banks, are we going to be forced to play by their rules? Chris Skinner says that customers needs aren't the banks' highest priority because so few people switch banks. So he says the solution is to shop around.

SKINNER: We all have a choice. If you don't like going into branches but you like good customer service over the telephone, First Direct is Britain's favourite bank. If you want to use the Internet and have the best use of the Internet for banking, then regularly you find that Smile is voted as one of the best Internet bank services. So it's really down to your choice. And if you want to have good branch based services with people, then maybe you will naturally go and use a building society rather than using a bank.

STEPHENSON: And yet actually it's Nationwide who are now saying that you can't withdraw anything less than £100 over the counter. And I think that's the thing that people have been most disappointed about - is Nationwide does have this customer

orientated feel to it and yet they feel now as customers they're not being listened to.

SKINNER: In the case of the Nationwide, it's a bit of a PR fail. But having said that, what they're actually saying is quite rational, which is that it costs more in time and money to use a human to do a transaction, particularly a transaction that's been automated for over 40 years.

STEPHENSON: As the banks try to shepherd their customers into changing their ways, Clare Bluston says she's going to stand firm. She's very used to working with customers herself. For many years she ran a clothes shop, and as someone who used to work in retail, she thinks the service at the banks is getting worse and the queues are getting longer.

BLUSTON: If I left my customers the way they leave us standing there, I would have lost them. I really should go online, but I still like to go in and see what I'm doing. I really do.

STEPHENSON: Can you understand that it's actually more expensive for you to be in the bank for them rather than online as well and actually it would be ...?

BLUSTON: Cost them more money if I'm in the bank? Good.

LEWIS: *(laughs)* Clare Bluston talking to Wesley Stephenson.

It's impossible nowadays to borrow money or take out a credit card or even a monthly mobile phone contract without your credit record being checked, and what it says will determine whether you're offered credit; and, if you are, the price you pay. Now it surprises many people that the worst thing the computer can turn up is no record at all. The best thing is a lot of credit that you're managing well. So people with no credit history have to borrow to get a credit history, but without a credit history they're not allowed to borrow. Well call it a catch-22 or a Gordian knot or whatever you like, but how do you get out of it? That was the essence of this call from Money

Box listener Jenny who lives in Surrey.

JENNY: My daughter and family are returning to the UK after living for 10 years in America. She wants to build up her credit rating by possibly opening a bank account, credit account over here before her return in July. She wants to rent somewhere here before she decides to buy, her and her family, so she'll want to build up a credit rating for that initially so that she can rent somewhere. How can she do this?

LEWIS: Well if you're planning to return home to Britain, can you open a UK personal current account while still living abroad? Money Box's Lesley McAlpine's been looking into your options.

McALPINE: The British Bankers' Association told me there's nothing legally to stop you doing this, but I found in practice it's a pretty mixed picture. None of the major UK banking group - Lloyds, Santander, HSBC, Barclays and RBS NatWest - allow you to open a UK personal current account unless you actually live here, but they do offer international and offshore accounts. For example, the Lloyds Group has an international current account available in sterling, euros and US dollars. To open that, you'd need proof of identity and where you live abroad.

LEWIS: But if you're planning to return to the UK within the next few months, is it worth contacting a UK bank before you arrive?

McALPINE: If you already have an international or an offshore UK bank account, that could be helpful, and HSBC offers what it calls a passport account aimed at people moving to the UK or who've recently arrived there.

LEWIS: And what's the situation when you're back here? What documents do you need to open a personal current account?

McALPINE: Well the most important thing is to bring proof of identity to a local bank branch such as a passport. Getting yourself on the electoral roll if you can also

helps. In the end though, it's up to individual banks as to what type of account they choose to offer you.

LEWIS: Well thanks, Lesley. Well Neil Munroe from the credit reference agency Equifax is with me. Neil, this is a paradox, isn't it - you've no credit history, never borrowed in the UK, so you can't borrow in the UK? How do you get your first loan to build up a record?

MUNROE: Well I think you've got to be identified first - so, as is mentioned, you've really got to get yourself on the electoral roll. Which you can do very quickly now. You don't have to wait every year. There's a rolling register, so you can go along and do that.

LEWIS: That's okay if you're a UK or European citizen ...

MUNROE: Indeed.

LEWIS: ... because you have a right to be on it, and from some commonwealth countries. But if you are American or from part of Europe that isn't in the EU, a part of the world not in the EU, you can't get on the electoral roll, can you?

MUNROE: No you can't and, therefore, you're going to have bring documents with you. What I would suggest if anybody comes across and they're from the US, for example, bring with them a copy of their credit file, which is quite readily available.

LEWIS: In other countries?

MUNROE: In other countries. We do see that and lenders are more prepared to look at that now. But you know it is going to be a case of really building up a document bank, you know where you're going to actually have utility agreements from your previous country, a credit report. And you're going to have to go out and seek people that will be prepared to work with you face-to-face, which is difficult because we all

know how much that's been cut back over the recent years.

LEWIS: Yes. And if you do open a bank account here or maybe take out one of the Initial credit cards such as Barclaycard or Vanquis offer, which enable you to build up a credit record, how long will it take to get your record up and running so somebody will look at it and not go ah, I'm not lending to them?

MUNROE: Well most lenders look at your performance over the last 12 months, so really you know you need to be sort of building it up. Six months onwards would be probably a good time if you need to then start going into bigger borrowings because that'll give you more substance on your file. But certainly obviously yes, as you say, some of those accounts where you know you may pay extra for them. I would like to make the point though that those rates aren't included on your credit file. It's just a credit agreement, so don't be put off thinking that they're for impaired credit or non-credit people. They go on your file as a normal credit agreement.

LEWIS: Yes, this is the Barclaycard Initial Card, for example, that's 29.9%? But of course if you never run up a debt, if you pay it off each month ...

MUNROE: Absolutely.

LEWIS: ... you're not paying the interest rate, so worth doing.

MUNROE: Indeed.

LEWIS: So that's a good thing. And anything else? I mean if you've got a bank account, going to your own bank - is that better than going to a different bank for a loan?

MUNROE: I think obviously what lenders will do is they will look at lots of information when they process your risk. They will look at information from a credit reference agency, they'll look at information they have. So you're right, Paul -

obviously if people do want to apply, go to somewhere where they know you and that will help.

LEWIS: Neil Munroe, thanks very much from Equifax.

Now a small piece of history was made on Thursday when the Green Party got its first ever seat in the House of Commons - Caroline Lucas elected at Brighton Pavilion - and oddly that's created a tax opportunity, if you support the Greens of course. Wesley?

STEPHENSON: Yes, that's right. Money left to a political party in a will can be free of inheritance tax, but there are strict rules. The party must have two MPs elected to the House of Commons at the last General Election. Now the Greens only got one MP, but that is enough if you also got 150,000 votes across the whole of the country; and the Greens got 285,000 votes, well above the number needed. So for the first time, you can leave money free of inheritance tax to the Green Party.

LEWIS: Indeed, if you want to. And of course the main parties as well.

Well that's it for today. You can find out more on our website, bbc.co.uk/moneybox, where you can do all sorts of exciting things - watch videos, sign up to my weekly newsletter, download the programme, listen again, and of course let us know what you think about any of the items on today's programme. That's moneybox@bbc.co.uk. Vincent Duggleby's here on Wednesday with Money Box Live - this week taking questions on saving and investing. I'm back with Money Box next weekend - hopefully with my own voice. Today the reporter was Wesley Stephenson, the producer McAlpine, and I'm Paul Lewis.