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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, Spain is expected to ask for more money this afternoon to prop up its ailing banks. How safe is our money abroad? The Government acts to stop people being offered cash to give up good final salary pensions. We talk to a man who says Lloyds should never have given his mother an £18,000 unsecured loan.

ROGER: Her driving licence had been taken away. At that time she was being ejected from shops on a frequent basis for abusive, often violent behaviour.

LEWIS: The investment website which put up its fees and told customers who complained they must pay to leave. And HSBC says it will waive a foreign payment charge for business customers who don't need it.

But we start with the continuing crisis in Europe. Eurozone ministers are expected to meet by phone this afternoon to discuss bailing out Spain's banks. The International Monetary Fund is reported as saying the banks need at least 40 billion euros of external support to prop them up, and Spain has seen its credit rating as a nation downgraded on Friday to barely above junk status even though a day earlier it did borrow 2 billion euros at a reasonable rate of a fraction over 6%. With me is Justin Knight, Head of European Strategy at UBS investment bank. Justin Knight, how serious is the Spanish situation?

KNIGHT: Well it's very serious. I mean what we have in Spain is a banking system that doesn't have enough deposits really to finance the banks' lending that they've been doing. It doesn't have enough capital - i.e. the banks don't have enough of their own money to absorb some of the losses that they're likely to incur from their over-lending, and this in turn has actually affected the creditworthiness of the sovereign in investors' eyes, its ability to borrow in the government bond markets.

LEWIS: And this has been caused by lending money on property that was just overvalued and they thought it would always make money, go up forever, and of course it didn't?

KNIGHT: Yes, exactly. I mean it's essentially the same problem we've had in a lot of countries - perhaps to a different scale. Ireland had it on a similar scale. We had it on a lesser scale here in the UK. But, as you say, the idea that property prices would go up forever and, therefore, all lending against property was safe.

LEWIS: Now do you think Spain will ask ... We've heard figures of, as I say, 40 billion euros to bail out its banks. Will it ask for that this weekend, this afternoon?

KNIGHT: I think the first thing to say is that this conference call that you mentioned earlier is between the Eurozone finance ministers. It has to be Spain requesting this, so we're not going to get this out of the meeting of the finance ministers itself.

LEWIS: Because Spain has said it won't do it this weekend.

KNIGHT: Indeed and we don't think there's any reason for Spain to be doing it this weekend. But we do think that Spain will be requesting aid for its banking system at some point in the near future.

LEWIS: And just tell us about Santander as a bank in Spain. That's the one most people in Britain have heard of. Is that one of the big banks that's safe or one that

might need propping up?

KNIGHT: Oh it's certainly one of the big banks that is safer within the Spanish financial system. It has large operations abroad in countries where economic growth is quite strong, such as Brazil, other countries in South America, and of course here in the UK.

LEWIS: Now a lot of people I'm sure, if anyone in Spain is listening, millions of unemployed people, businesses are facing bankruptcy. They might say well the banks got it horribly wrong. Let one of them go bust. What's wrong with that? Why do we need to put another 40 billion euros in there when we could do with money in the economy?

KNIGHT: Well I mean when you collapse banks, you have to do it in an orderly fashion because if you don't, you create a lack of confidence in the entire banking system and things get measurably worse than they already are in Spain. And so this has happened with some of the smaller banks already - that in a controlled fashion they've been unwound and they've been merged - but of course what we're looking at is some of the bigger banks being threatened now.

LEWIS: Too big to fail. Stay with us, Justin. But closer to home lots of Money Box listeners are asking us about their money in Spanish and indeed other European banks. Our reporter Fiona Woods has been looking into this. Fiona?

WOODS: Yeah, Paul. As it stands, everyone who has deposits in a Spanish bank or any other bank in an EU member state is covered by the individual country's deposit guarantee scheme. Now that scheme is meant to protect deposits up to 100,000 euros. That's currently about £80,000.

LEWIS: But with countries in trouble as well as banks, can we trust these schemes to repay our money if a bank did go bust?

WOODS: Well there aren't big pots of money that are just waiting to pay out when banks fail. Generally if a bank goes bust, these schemes will look to the country's other banks and financial institutions to cover the deposits. Failing that, they would go to their Government. So at the end of the day, a country's deposit scheme is only as good as the Government that backs it.

LEWIS: And if the Government can't afford to cover the deposits - I mean this is a European scheme - does the European Union stand behind the scheme?

WOODS: No, not at the moment. There are proposals for what's called a mandatory mutual borrowing facility between EU countries. Now that would mean that a scheme that ran out of money could borrow from another country's fund - the idea being that customers would feel more secure that their money was safe. There are also proposals to create one united deposit scheme, but these plans have not been given the green light yet.

LEWIS: And Fiona, earlier this week the Bank of Cyprus, which has 50,000 customers in the UK, took steps to become registered here as a subsidiary, rather like Santander UK is a subsidiary in the UK. Would that make their customers' money safer?

WOODS: Well what that means is that its customers would be covered by the British Financial Services Compensation Scheme rather than Cyprus's own scheme, and some customers may have more confidence in Britain's ability to protect those deposits if something went wrong.

LEWIS: Thanks, Fiona. Well Justin Knight is still with us. Justin, is it a fair assumption that the UK is a safer place to have your money than some of these other countries if everything did go horribly wrong?

KNIGHT: Yes, that is true. I mean of course were the Eurozone to break up, were a

country to leave the Eurozone (and the most obvious candidate for that right now is Greece) is that the deposits within the banking system there would be redenominated into the new currency and likely their purchasing power would be a fraction of what it was while it was in euros.

LEWIS: And just to go back to the question we started with. Is Spain going to ask for money either this weekend or later in the week or at some point in the near future?

KNIGHT: Yes, I mean we think some point in the near future. Obviously the timing of that is uncertain and I may be proved wrong by the end of the day today, but we don't think it's going to happen this weekend.

LEWIS: Well we're repeated on Sunday night, so we'll know by then, Justin Knight, whether you were right or wrong. Justin Knight from UBS Macro Research, thanks very much for that.

A new code of conduct is launched this weekend to protect employees who are offered cash to leave valuable final salary pension schemes or give up inflation proofing to a pension once they're in retirement. Many big companies are making such offers to cut the cost and the risk of providing final salary pensions to their staff. Pensions Minister Steve Webb launched the code of practice today in conjunction with many aspects of the finance industry. Live now to talk to him, Pensions Minister Steve Webb. Steve Webb, who will this new code of conduct protect and how?

WEBB: The idea is that if you are a member of a company pension scheme, perhaps a firm that you've worked for some time ago when you've got valuable pension rights, sometimes firms will come to you and say we'd like you to give up your rights in that scheme in exchange for a different sort of pension. And in general those are inferior pensions unless you get a very good deal and those are the people we're trying to protect - that in the past they've been offered a cash incentive to take the deal and it's very hard to make a rational judgment about these complicated

transactions if you're offered a wodge of cash just before Christmas or put under pressure to accept it.

LEWIS: Yes, I mean we spoke about this a year ago and I think I suggested then that you could ban cash incentives. You haven't banned them though, have you? This is a voluntary code.

WEBB: It's a code of practice that we expect to be put into place in every case. In other words, we've got on board the employers, the pension funds, the insurance industry, the actuaries. So if you are a serious, for example you're an actuary and you're involved in one of these deals, if you value your professional representation you won't break this code. It's serious and we know how seriously it's being taken because some of Britain's biggest firms have told us they were waiting for us to publish the code before they did their exercise because they want to do it right.

LEWIS: Yes waiting till you told them what to do before they stopped offering people cash. And what about leaving a valuable final salary scheme at all or indeed giving up inflation proofing? I mean I must say to me these seem like daft things to do. Why don't you just stop that happening altogether?

WEBB: Well for most people, it would be a bad idea. To give up an index linked salary related pension on the whole is not a good idea. There may be particular circumstances though for particular individuals. So, for example, on inflation protection, if you have poor health and don't expect to live a long time in retirement, then you know 20 years of indexation protection is not so valuable to you as to someone who's going to live a long life. So individuals will be able to make choices, but they'll get much better advice as part of that process and it will be independent and paid for by the firm.

LEWIS: So as well as banning cash incentives, you're going to insist people get quite separate financial advice from an independent financial adviser?

WEBB: That's absolutely crucial. So in these transfer exercises, independent advice paid for by the firm are not conditional on the answer you give is part of it. And for these ones where you exchange some of your inflation protection in retirement, you'll either get guidance if it's what we call a fair deal - in other words if what you're giving up roughly matches what you are having in exchange - or advice if the firm's taking some money out.

LEWIS: And finally, Steve, while you're with us, many Money Box listeners are very worried about your plans for this proposed flat rate state pension of what might be £140 a week. Those who have retired feel it may be unfair on them because they won't get as much as that, and those who haven't retired fear they're going to get less under the new scheme. When are we going to know the detail to either allay or at least answer those questions?

WEBB: Well let me be quite clear. We will publish the details in the white paper later this year, but I can be absolutely categoric if you've already retired we are not touching your pension, so no-one's going to have money taken away from them. And if you haven't yet retired, our starting point will be the rights you've already built up. So if somebody's already got a statement from us saying you're going to get a £160 pension and you've already got those rights in the bank, Steve Webb's not going to come along and say, "Guess what, it's going to be £140." So that's the basis, but the details to come shortly.

LEWIS: But that £160 might be frozen, so it never goes up.

WEBB: There's nothing in any of the models or any of the planning that we're doing about freezing people's rights away. This is about honouring what you've built up to date and then changing future accruals.

LEWIS: Steve Webb, Pensions Minister, thanks very much for talking to us.

Lloyds Bank has agreed to pay some compensation to the family of a pensioner who had dementia but was lent more than her annual income for home improvements. She was a tenant and the money, £18,000, stayed unused in a savings account. Her family only found out about it when she was in a coma just before she died last year. Her son Alex says that Lloyds should have known she had dementia.

ALEX: Her driving licence had been taken away. At that time she was being ejected from shops on a frequent basis for abusive, often violent behaviour. My aunt dropped her off at Tesco's once in Cirencester, waited outside for her, and a while later a police van turned up and ten minutes later they were dragging my mum out. My aunt rescued my mum, but my mum's pockets were full of sweets. Her diet was terrible. You know at one point she was eating nothing but chocolate éclairs. Her pockets were full of chocolate éclairs. She was stealing whatever food she wanted. This was less than one year before she was taken away literally by the men in white coats and with a police escort to a secure psychiatric unit.

LEWIS: That was her son Roger. It's her daughter who's called Alex, who was working very closely with him. It was while she was so ill that Lloyds lent her more than her annual income.

ROGER: She was always very, very agitated about money, but she certainly didn't need another £18,000 deposited in the building society account and untouched, for which she was spending a massive proportion of her disposable income repaying. For Lloyds Bank to say that they were unaware of my mother's mental fragility, I think is very, very hard to believe.

LEWIS: Roger Hyde. Well Lloyds Banking Group has told Money Box that it was not aware of Mrs Hyde's dementia. It says she initiated the request for a loan and it was processed normally. However, now it's reviewed the case, it admits it did fail to take account of her standing orders, but it would have lent her around £14,000, not £18,000. It's now offered to refund all the interest of just over £1,700 and pay £450 compensation to her estate. It added it is "committed to improving services for

customers with dementia". Well Roger Hyde and his sister have rejected that offer. They want more answers about why the loan was allowed and insist the bank should cover the legal costs for probate, which they say have been incurred because of the loan. I played the clips of Roger Hyde to Andrew Chidgey, Director of External Affairs at the Alzheimer's Society.

CHIDGEY: Probably the first reaction that many of us would have was that this was a tragic set of circumstances that this family was having to cope with. And in terms of what happened with Lloyds, we're hearing all the time about instances where people are taking out loans or struggling to pay bills or going into the bank and drawing out large amounts of money, and I think we need to get much, much better at helping people with dementia and their families to cope with financial situations like this.

LEWIS: There is a problem for the banks though, isn't there - that these people are adults, they've got a bank account, they're perfectly entitled to do even very foolish things with their money? Where do you draw the line between when somebody is acting within their rights and when a bank should intervene and say hang on a minute, I don't think you should be doing this?

CHIDGEY: There's no neat line at all, which I think is the problem you identify, and I think what we can do though is work with the banks to think about how we can get better at this. So the first thing I would say is I think we all need to make sure that as families we're thinking about how to prepare for financial decision making. It's really tricky of course because financial matters are very private things within many families, but people do need to talk about, when someone develops dementia, need to talk about it, need to do things like talk to the bank and the bank manager and say, "I have dementia" or "Someone I'm caring for has dementia. Can you note this?" So that people who come into contact with people can think about how they might need to respond differently.

LEWIS: But how would a bank react if you went into the bank and said, "Look, my mum's got dementia. I think you should be cautious what you do with her"? I mean

they may suspect you of trying to engage in some kind of financial mismanagement of her money, mightn't they?

CHIDGEY: Yes they might well and I don't think there is any easy way to solve this - who is to decide finally on whether someone does have the capacity to make decisions. But I think what people can do is prepare early. We know that, for example, many people who are developing dementia are in the early stages of dementia for quite a long time and families need to work through it and think about how can we plan. So, for example, what we'd advise is firstly that families talk about managing money, think about contacting banks and other financial providers with the person to tell them about that, so that they know. I mean there are other things that you can do as well to stop people being at risk of financial abuse. So, for example, you can get a stop put to junk mail being delivered and unwanted telephone calls and you can do things like put no cold caller signs on people's doors. So there are some practical steps you can take, but also some things that need to be about working with the person with dementia to make sure the right people know.

LEWIS: Andrew Chidgey of the Alzheimer's Society. And you can let us know your experience of banks and dementia or other mental conditions through Have Your Say on our website: bbc.co.uk/moneybox. And I have to say emails have been coming in all morning about problems with a range of banks, including a woman who was given a car loan when she didn't drive. And we've had several from people who work or have worked in banks telling us about, as one put it, the phenomenal pressure on them to sell loans, credit cards and insurance. Let us know your experiences: bbc.co.uk/moneybox.

Now the programme has received a number of complaints from customers of the online investment company Interactive Investor after it announced that it would be introducing an £80 annual charge. Customers have told us they signed up to Interactive Investor because there was no regular fee. When they complained, they were told if they didn't like it, they could leave but they'd have to pay to transfer their funds elsewhere. Well with me in the studio is Interactive Investor's Chief Executive

Tomas Carruthers. Tomas, let's just hear first from one of your customers who emailed us. This is Richard Gingell..

GINGELL: I was looking for a online broker and I chose Interactive Investor mainly because of the zero account fees, and then about 3 months later I got an email from them stating that they're now going to start charging £80 per annum fees. If I wanted to transfer my stock to another company, I'd have to pay £15 per stock. So I have nine stocks and that would amount to £135 to transfer all my stocks into the other company. Obviously I was very shocked, so I wrote to them straightaway complaining of this fee and asked if I could be exempt from the transfer fees, but they categorically said in writing that no, no way, these fees are to be charged and there's no way out of them. I only have the option to sell or transfer. I also rang them directly and they told me exactly the same thing and pretty much had a stock answer and not quite, but pretty much said that's tough, that's the way it is.

LEWIS: Tomas Carruthers, in the last day or two you decided to waive these transfer charges. What changed your mind?

CARRUTHERS: What's interesting is that the industry has always operated on the basis that other new broking firms when you move your account will pay the transfer out fees; the customer doesn't pay them. But what we saw in the last few days coming after the Jubilee Bank Holiday was customers who weren't transferring to other broking firms. They're simply upset about the way the market's been over the last few months and they want to go to cash or they want to go to share certificates. And that's why we decided that we should make sure that they didn't have to pay a fee.

LEWIS: Yes it was pretty late though, wasn't it, because I've got letters here - the one that was written to Richard Gingell and another one that just simply says we'd be very sorry to see you leave. I'm aware you feel we should waiver our transfer out fee, but we're not in a position to offer this. I mean that was absolutely clear to your customers and now you've changed your mind.

CARRUTHERS: No, we haven't changed our mind about that. As I said ...

LEWIS: You've changed it.

CARRUTHERS: ... the way the industry works is that the new firm pays the transfer out fees, the customer doesn't. But because we saw customers who weren't transferring actually, they were selling off holdings or they wanted to have share certificates because they were upset about the market, we wanted to make sure they didn't pay a fee.

LEWIS: Your big selling point in the past was no regular charges. Wasn't it inevitable that when you started charging £80 a year for something that used to be free people would complain?

CARRUTHERS: Yes it was and we expected that. Everyone's investing situation is different. We know that the new model suits the majority of our customers, but of course everyone's in a different situation and for some people clearly it has inconvenienced them.

LEWIS: And so but you're still keeping those charges for people who want to stay with you? They will still have to pay £80 a year to use a service that a month ago was free?

CARRUTHERS: Yes, but more than the £80 in charges, the reason that we've introduced this model is that it enables us to rebate all of the commission that we receive from fund managers, which is typically more than half a per cent on your holdings. So if you were to invest simply this year's ISA allowance in a managed fund, then the fund manager would be paying the company more than 60 basis points.

LEWIS: .64%?

CARRUTHERS: .64% and all of that money now goes to the client.

LEWIS: Yes, but even with the maximum ISA allowance, it wouldn't quite be as much as £80 a year, would it? You'd need £13,000, I think, to break even.

CARRUTHERS: That's right. Exactly, £11,280 investment would be £6.64 in the year.

LEWIS: Yes, so you would pay a charge. So you're encouraging big investors. You don't want small investors. Is that the point of this?

CARRUTHERS: No, we have designed a new product specially for people who are just starting investing. We think it's very important to encourage people to invest. So if you're buying as little as £10 or £50 a month into our portfolio builder product, then we will not charge a fee and we will charge you only £1.50 in dealing commission.

LEWIS: And when somebody leaves Interactive Investor ... You've talked about the transfer fee. What if they do sell their shares? Are there no charges involved in that either?

CARRUTHERS: If the client instructs us that the reason that they're selling their stock is because they wish to close their account, then I will not charge them commission.

LEWIS: So that is a guarantee from you ...

CARRUTHERS: Live on radio.

LEWIS: Live on radio, indeed. And what do you say to your customers who are still staying with you? They want to stay, they want to invest, but they really wish they didn't have to pay these charges; that they came to you because it was free?

CARRUTHERS: That the new model represents great value and I urge people to look at their fund investments and their holdings and see the benefit of being able to now recoup all of the income that is paid by fund managers to broking firms like Interactive.

LEWIS: So you think they'll be better off?

CARRUTHERS: Absolutely.

LEWIS: Tomas Carruthers of Interactive Investor, thanks very much.

CARRUTHERS: Thank you.

LEWIS: HSBC has agreed to waive a £6 a month fee for foreign transactions on business accounts for people who don't make foreign payments, but why would they charge it in the first place? Money Box's Emma Rippon is with me. Emma?

RIPPON: Well the new charge was introduced for all customers with a business internet banking account. HSBC refuses to say how many have that account, but it says it's a minority of its 1.3 million business customers. We've established though it's all business customers who have banking online. And it's not just what you might call businesses. For example, one listener had a business account to manage his father's late estate and we heard of someone who had such an account to look after the service charge for her block of flats, and Colin from Halesowen is the treasurer of his local allotment association.

COLIN: We have direct debits dealing with South Staffordshire, which is a few miles up the road, but certainly nothing at all international. There's never any prospect we'd be buying anything abroad for a local allotment as far as I can tell.

RIPPON: All the people we heard from had never made a foreign currency transfer,

never asked for such a service, and they couldn't imagine they would in the future.

LEWIS: So why did HSBC decide to introduce this charge?

RIPPON: Well this online account was launched some years ago and HSBC says provided international payment facilities with no monthly charge, albeit unbeknown to our listeners. But HSBC has now decided that these facilities are worth £6 a month.

LEWIS: And when did that begin?

RIPPON: Well the first payment was taken in May and the bank has told Money Box that it informed all business online banking customers of the new charge up to six times and by a variety of channels. But all the people who got in touch with us say it came completely out of the blue. Colin, the allotment treasurer, says the only notice he had was a leaflet in the post 6 months ago, but he didn't think it applied to him.

COLIN: It says unless they've already done so, users will need to set up a limit if they want to make international payments from their business current accounts. That suggests to me that you know one would assume that if you don't know you've set one of these up, you'd have to opt in to actually you know want to make international payments.

LEWIS: And after we raised these issues, HSBC has decided to make some changes.

RIPPON: Yes the bank now says it will write again to all its business internet customers, and anyone who doesn't want the service can have the £6 fee waived. And the May charge (which has just appeared on the June statement) will be refunded as a gesture of goodwill.

LEWIS: Thanks Emma. So if you have an online business account with HSBC and you don't need international payments (even if you do send money to South

Staffordshire) why don't you contact the bank and get them taken off.

But that's it for today. There's more on our website: bbc.co.uk/moneybox. You can join 200,000 listeners who get our regular podcast. You can send us your ideas, as so many of you do, and have your say on banks and mental health issues. We're also getting comments on the state pension. Mary says, 'I'm 69 and haven't drawn my state pension. If it's limited to £140 what happens to my accumulated 9 years of pension increases?' All that we hope will be made clear, Mary, when we get the white paper. Vincent Duggleby's here on Wednesday with Money Box Live taking your questions on charitable giving. There's no Money Box next weekend: Saturday 16th June is Bloomsday, the day in which James Joyce's novel Ulysses is set. Radio 4's devoting most of the day to that. Enjoy it. Today the producer was Emma Rippon, reporter Fiona Woods. I'm Paul Lewis.