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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, company pensioners could see lower rises in their pension each year after the government changes the rules on inflation. Bob Howard's been hearing about payments you can't cancel.

**HOWARD:** Lots of us have them on our credit and debit cards. Should the rules be changed?

**REG:** I felt really frustrated because it was my money, my account, but yet I was powerless to stop the payment.

**LEWIS:** Nearly a million people won't get a penny for their shares in Bradford and Bingley, which the government nationalised in 2008. And I meet the magic money machine in a new bank which promises to bring fun to banking when it opens its first branch later this month.

But we start with another major announcement by the government that could affect the pensions paid to millions of people. This time, it's company pensions that could be cut. Schemes are being told to use the Consumer Prices Index for their annual inflation rises. At the moment, they use the Retail Prices Index, which is typically higher. That change won't affect all company schemes, nor all the pensions they pay, but it could make a big difference to millions of people in the long-term. Live now to Bristol to talk to Pensions Minister Steve Webb. Steve Webb, why are you making

this change?

**WEBB:** What we've done in the Budget is two changes to the way that pensions are uprated. First of all, the basic state pension will now be linked to earnings rather than prices, so pensioners will get a bigger rise; and, as you say, over the long-term that will build up quite a lot. The second change we made is that the earnings related pension, SERPS, or the state second pension, will be linked to the lower Consumer Prices Index. And what we've announced this week is obviously if the state is doing that for the pensions it pays, then company schemes which are opting out of the state scheme do the same thing as well. So it's being consistent across all the different sorts of pensions and using the price index that the Bank of England itself uses for inflation.

**LEWIS:** But each company pension scheme has its own contract with its members, its trust deed, and some of those specify the Retail Prices Index. Will you pass a law to override those contracts?

**WEBB:** You're quite right to point out that the effect of this change will be different for every different pension scheme, and the important thing to remember is that what we specify, what the government specifies is a flaw, and the minimum amount by which pensions need to rise - and that's inflation - up to 2.5%. We're not saying companies *can't* pay more than that. They still can if they want to. And this cap is quite important. I think there's been a lot of exaggeration about the impact of these changes. The FT this morning, the Financial Times, says the impact will be far less sweeping than was originally suggested. And one reason is that the inflation protection is in any case capped at 2.5% - so in a year like at the moment when CPI and RPI are both over 2.5%, it will make much less difference.

**LEWIS:** Yes. Though for some bits of older schemes, it's capped at 5%. But that's one little detail that we may not go into. You say that this is a better index, it's more consistent across all government departments now. But the truth is it uses different maths, doesn't it, and with the same data, it produces a lower inflation rate? It's a way to save money.

**WEBB:** It is a lower inflation rate and it's important to be honest about that and clear about that. But to give an idea of the scale of what we're talking about, the typical occupation pension in payment say to a single person retired is about £70 a week. Obviously some get a lot more, some get less, but that's a typical figure. So if the difference between the two inflation rates was say 1% for round number's sake, that would be a maximum of 70 pence a week on the company pension and, meanwhile, perhaps extra increases on the state pension. So it could more than offset it.

**LEWIS:** Yes, I mean that's one way of looking at it, I know. But using your own figures from the Budget, after 6 years pensions will be 8.5% lower than they would otherwise have been. I mean that is a big change.

**WEBB:** It is a significant change, but it's important to look at it in the round. The basic pension is clearly a very important part of pensioners' incomes, especially for poorer pensioners, and that's going to be rising a lot faster. And it's funny, there's been a big reaction to this change to occupational pensions and yet the earnings link for the basic pension is a *massive* change, is probably a bigger impact for many people, and yet everyone's just going to brush that away. In the long-term, that will have a huge positive impact.

**LEWIS:** We never brushed it away on Money Box, Steve, as you know. We covered it in full. Finally one question for you aside from this. Can you comment on reports in Financial Adviser this week that your boss, Iain Duncan Smith, is planning to break up the Department for Work and Pensions?

**WEBB:** I understand that that's nonsense. I think we were as baffled as anybody when we read about that. So I'm hoping still to have a job next week.

**LEWIS:** Well indeed. But it's not going to happen?

**WEBB:** Not as far as I know, no.

**LEWIS:** Steve Webb, thanks very much. Well listening to that is Nigel Peaple who's Director of Policy from the National Association of Pension Funds. I mean, Nigel, your organisation represents almost all pension funds of this kind in the UK. Just who will it affect and who won't it affect?

**PEAPLE:** Well could I just kick off by saying that we do actually think this is quite a helpful reform. It's very important to making it possible to keep defined benefit and final salary schemes open in the future that the government eases up the regulatory requirements in this area. The UK's rules in this area are almost uniquely heavy compared to all OECD countries.

**LEWIS:** Sure. But I mean helping pension funds - the other side of that is paying lower pensions, isn't it? So what you're doing by saying that is you're confirming people's pensions will be less?

**PEAPLE:** There's no doubt that some people's pensions will be less. But we should also weigh against that the fact that this will mean that some of those schemes are more likely to stay open, so people in the future - including younger people - will have a better chance of getting one of those pensions.

**LEWIS:** So in a sense it's sharing the pain, isn't it? It's saying not only will we cut pensions for people paying into them. We're also going to cut them, or at least not raise them as much, for people already getting them.

**PEAPLE:** There are definitely winners and losers. In terms of your specific question, Paul - you know who precisely will be affected - well as came out in the discussion with Steve, that does partly depend on the scheme rules. In terms of pensioners and will they get the new level of indexation, we think many schemes will get that. But it will depend on the rules. It will also depend on material that's appeared in documentation and sent to members. And it's also the case that not all employers will probably choose to apply this rule.

**LEWIS:** Now it's not just pensioners and payment, is it, because if you freeze your

pension and you go and work somewhere else, you keep your pension till you reach pension age - that's also raised with inflation. Will it also affect the amount your ... how much your pension, your preserved pension goes up by?

**PEAPLE:** Yes, in fact it's a similar picture there. Again potentially this could affect many schemes, but not all. Particularly some of the larger, more generous schemes that were set up before some of these requirements came into effect specified RPI as an index. And in those cases, there would need to be consultation with members and scheme rule changes.

**LEWIS:** I can imagine lots of lawyers being consulted over the next few weeks.

**PEAPLE:** That seems to be the case.

**LEWIS:** Nigel People of NAPF, thanks very much.

A way of making regular payments using a debit or credit card for things like insurance and subscriptions is causing concern for some Money Box listeners. Many people who agree to these recurring payments do not realise they're very hard to cancel, as Bob Howard's been finding out.

**HOWARD:** Paul, Money Box was contacted by Reg from Cambridgeshire. He signed up for a virus checker for his computer as part of his internet package, and agreed to allow the firm the right to take money from his debit card each month unless he contacted them to stop it. The term for this is not one most of us would recognise, but the banks call it a Continuous Payment Authority. But when Reg decided to change his provider, he discovered that the virus checking was now done by a separate firm which he couldn't trace. As money continued to come out of his account for a service he wasn't using, Reg thought that, just like a direct debit, he could tell his bank to stop making the payments. But he got a nasty surprise.

**REG:** When you're entering into the contract, I wasn't really aware that this was

different from a direct debit and I felt really frustrated because it was my money, my account. Clearly I'd evidence I'd cancelled the service, but yet I was powerless to stop the payment.

**LEWIS:** What Reg didn't understand when he signed up is the very peculiar nature of Continuous Payment Authority. Unlike direct debits or standing orders, this is a contract only with the service provider, so only they can cancel it. And not even changing your card or closing your account can stop your liabilities. Michael from the Isle of Wight has ended up paying to insure the same motorbike with two different insurers. He took out the first policy last year, paying for it on his debit card, and, like Reg, agreed to a Continuous Payment Authority. Michael thought when his account was upgraded and he got a new debit card with a new card number, when he switched insurer this year the payments would stop without him having to notify his old one.

**MICHAEL:** I made the assumption that because they didn't have the latest card details, that it wouldn't go through. I quite happily proceeded to purchase my new insurance and was completely nonplussed when a few days afterwards, I got a bank statement and I noticed that basically my first insurance company had still managed to take the money out of my account.

**HOWARD:** Michael's insurer was able to get his new card details from Visa through a service it offers insurance firms to make sure customers aren't left without cover when their cards expire or change. And, like Reg's case, it highlights the powers firms have to keep extracting money from you unless you contact them directly. Whilst Michael's still waiting for a refund from his insurer, Reg was able to persuade his card company that he'd tried to cancel the contract and it reimbursed him. But James Daley, Money Editor at Which?, believes banks should make it much easier for customers to end these contracts.

**DALEY:** What we want to see is the same kind of protection as consumers have with direct debits. Obviously if you have a direct debit on your account, the retailer or financial services company that you sign up with also signs up to the direct debit guarantee. If there is anything that goes wrong along the way, then you're guaranteed

to be refunded immediately. You as the consumer also get to cancel that direct debit whenever you want.

**HOWARD:** But the banks insist they have no liability as the contract is solely between the customer and the service provider. Sandra Quinn is from the UK Cards Association.

**QUINN:** I could enter into a continuous authority transaction today. My bank won't know about it. There's no paperwork that my bank will see and there's nothing I need to share with my bank, which makes it very different from a direct debit where my banker has an electronic record at the minimum of that authority that I've made.

**HOWARD:** Nevertheless the Financial Ombudsman Service believes banks could be doing more for customers. It says it gets several hundred complaints each year about this method of payment, but it believes this may just be the tip of the iceberg. The service's David Cresswell says if you've genuinely tried to cancel the contract, your bank should step in.

**CRESSWELL:** Where you can give some evidence to your bank that you have actually really tried to say to the company stop taking our money, we really do expect your bank to take account of that and help you.

**LEWIS:** David Cresswell there. Well, Bob, some quick advice on how to deal with these problems.

**HOWARD:** Well, Paul, if you get a choice, probably best to opt for direct debit instead. Worth checking your bank statements carefully to see if you're still paying for any of these, and if you have any difficulty cancelling make sure you keep a record of your letters or emails which you can give to your bank when you ask for help.

**LEWIS:** Thanks, Bob. And you can let us know your experience of these payments

you cannot stop on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

Is competition about to break out in high street retail banking? Several groups, including Virgin Money and Tesco, say they want to move into banking. But Metro Bank, based on an American model, will beat them to it. It'll open its first branch on Thursday 29<sup>th</sup> July in Holborn, Central London. The branch will open seven days a week and up to 8 o'clock on weekday evenings. It promises customers it'll put the fun into banking. Well I called in for a sneak preview with Chairman Anthony Thompson. *(Road atmos)* We're standing on Holborn and we're outside the new Metro Bank. The doors have just opened and I'm with Anthony Thompson. Anthony, this is the new banking experience.

**THOMPSON:** This is the first new high street bank for almost 150 years, Paul. As you can see from our location here, we typically take very high visibility, very high foot fall locations. So this is a great corner site - directly opposite the tube station, directly opposite a supermarket that stays open till midnight. So really part of the hub of the centre of town.

**LEWIS:** Well let's go in and see what's different. As we enter, we're standing here. There's these black and white tiles, there's this bright red and blue colour scheme. It reminds me I think perhaps of a cinema more than anything else. There's a long staircase. You can just imagine stars in dresses going up there. And the colours of red and blue and silver are very cinema-like.

**THOMPSON:** Cinemas are about entertainment, and in a sense we're about entertainment too. We want people to have a great experience when they come into their bank. Most banks today really want to discourage people from using their branches because they think they're too expensive to run. We actually want to encourage people to come in. We've got some great things to do so. Let me take you to our magic money machine.

**LEWIS:** It does look like an arcade game. There's a screen with two dogs on there and some holes. And this, I presume, is your coin counter?

**THOMPSON:** Supermarkets do have them, but they charge you to use them. Ours are absolutely free. We have Mikey and Magic, his dog. If I press this screen, he'll introduce himself to you.

**VOICE:** Welcome to Metro Bank. I'm Mikey and this is my dog, Magic.

**THOMPSON:** Children absolutely love this. So I'm going to pour my coins in, or attempt to pour my coins out of my money box. (*pours money in*) And my slip of paper will come out of here as we speak. And all we do is take this to the counter, hand it over to one of the tellers, and they will give me the £52.94 or they credit it to my account. All of our customer service representatives who sit on all of these desks can meet all of your needs because they have all of the information they need about you in front of them.

**LEWIS:** And when you say "meet all of your needs", one of the things people I think don't like about banks is if they see a balance of £5,000, they'll immediately start trying to sell you something. Given that they've got all that information in front of them when you come in maybe to take out twenty quid, are they going to be cross selling?

**THOMPSON:** Absolutely not. And the way we can demonstrate this is by saying that none of our customer facing staff are rewarded on sales targets. If you want to create a culture, which is truly customer focused, you've got to start with a brand new sheet of paper and that's what we're doing.

**LEWIS:** You say you're starting with a clean sheet, but your directors come from RBS, HBOS, Midland, Mastercard, Barclaycard and Nationwide. That's hardly a clean sheet, is it?

**THOMPSON:** Well I as the Chairman and Co-Founder am not from a banking background. My background has always been in consumer marketing, and this absolute belief that I have that if you put the customer first and do a great job for them profit will come as a by product of doing that.

**LEWIS:** We've seen the customer experience and, you're quite right, it's different. What about the banking experience? What kind of rates and terms are you going to offer people that are attractive?

**THOMPSON:** We certainly aren't claiming to be the highest rate payer. We'll certainly be there or thereabouts, but we will be a) consistent in our rates; and b) we will be absolutely transparent in terms of things like charges.

**LEWIS:** And what will the charges be? If I go out, I overspend, I have an overdraft, what will I pay?

**THOMPSON:** Well we've yet to announce what they're going to be, but what I can say is that it will be absolutely at the lowest end of charges that there are on the high street today.

**LEWIS:** Will the charges be what the overdraft costs you or will there be profit in it?

**THOMPSON:** There certainly won't be profit in it. We don't aim to make a profit out of that. They are an administrative charge and we will be representing them as that.

**LEWIS:** And what about your savings and your mortgages because they're going to be the heart of your business, as I understand it? How are you going to attract people in if you're not at the top of the best buy table?

**THOMPSON:** No one person can be at the top of the best buy tables all of the time. And again I think what matters to people in the products that they buy is a number of things, not just the rate. So we are about building relationships with customers, so we will only be giving mortgages to our existing customers, we will only be giving credit cards to our existing customers. We'll be building up relationships with people that we know.

**LEWIS:** But when other banks try to attract customers, they have special rates for a year, they have good mortgage deals for a short period of time. Is this something you'll be doing as a marketing exercise?

**THOMPSON:** No, I think customers have seen through that. They realise when they're offered this super rate to move their account that it's for a very short period of time and that the rate's going to be worked down.

**LEWIS:** Given that you're doing all these things, how are you going to make money?

**THOMPSON:** Well we're in this business for the long-term and we believe that by starting small, by giving customers a great service, we will build relationships and profit is a by product of doing that.

**LEWIS:** Metro Chairman Anthony Thompson. Well it all seemed very glossy and believable, but I was very aware that the bank won't open until the end of the month and so not a single customer's come in yet with those awkward questions or unforeseen demands. How realistic were his hopes to change the face of banking? With me is David Black, the banking specialist from financial analysts Defaqto. David, if customers drew up a plan for a bank, they might well come up with Metro Bank, but can you really make money doing that?

**BLACK:** It's going to be a very slow burn, I think, from their point of view. One of the first problems I see for it is it's very localised: you have to go to the branch to open an account. So there's going to be vast swathes of the population that just won't live anywhere near it.

**LEWIS:** Yes, I mean this is in Holborn. They're expanding out into other parts of London, but you're quite right. But the thing they do offer is they attract you in with all these sort of glossy things and then they will open your account within fifteen minutes and give you your credit and debit card. It's quite an interesting service, isn't it?

**BLACK:** Yes, that part is very innovative. The ones where I can see there would be a lot of demand, there are probably some little small local businesses, the retailers who have coins to pay in or notes to pay in, maybe children who want to put their pocket money into an account.

**LEWIS:** Yes. And opening till 8 in the evening of course will help. But what's it going to have to do to make money? I mean Anthony Thompson's saying they're not planning to make money for a year or two, but what's it going to have to do to start getting profit on that big investment?

**BLACK:** Well the big problem is it's going to have much higher overheads than most other new entrants to banking who typically now start with possibly one branch but mainly internet based. So they're going to have to get an awful lot more customers and that is going to take a long, long time, especially if they're not planning to offer best buy products.

**LEWIS:** Yes, they do say they're going to be good rates, but not the best rates. Is that going to attract customers just for the rates or not? I mean people do go round finding the best rate and then when it's cut they move somewhere else, but I think they're hoping that if these are sort of almost the best people will stay for the consistency.

**BLACK:** If they can be genuinely seen as consistent, then yes they have a chance, but they've got to get people in through the door first. And if they're not offering the best rates, they're not going to get into the newspaper tables and they'll just get passing trade. So if, as you say, it is a bit like going to the cinema, going into one of their branches, it might work for the locals.

**LEWIS:** Yes, it was a bit like that. And what about competition from others? There are probably half a dozen new players lining up, aren't they - Tesco, Virgin Money, M&S Money and Post Office and others?

**BLACK:** Yes and the current account is the key product that all the banks want because they use it as their cross selling initiative. So if they've got your current

account, they know an awful lot more about you and your financial standing than if they haven't. And there is a lot of competition in that area and I would see the likes of Virgin Bank and Tesco Bank who are already known names, plus the Post Office, as offering much more credible competition.

**LEWIS:** Yes and of course Anthony Thompson said they're not going to do cross selling.

**BLACK:** Well we'll have to wait and see. That's probably the plan to begin with, but they need to make some money somewhere.

**LEWIS:** And very briefly, what about the established banks? They're not just going to sit back and let this happen. I mean they've got dozens of branches within twenty metres or at least two hundred metres of that branch.

**BLACK:** Very much so, and their big strength is that they already have an awful lot of customers. And, as the OFT said a couple of years ago, only about 6% of people change their current account each year.

**LEWIS:** David Black of Defaqto, thanks.

Bad news this week for more than 900,000 people who own shares in Bradford and Bingley. An independent valuer has decided their shares were worth nothing when the government nationalised the bank in September 2008, so no compensation will be paid. When the valuer, Peter Clokey, was appointed last year, the government told him to work out the value of the shares assuming the government had not and would not step in. At that time, the bank's shares had tumbled in value from more than £3 to just 20 pence. But I asked Peter Clokey why the shares were not then worth at least 20 pence?

**CLOKEY:** Events were happening very rapidly at the bank. The stock market was a little bit behind or hadn't heard of all the very latest developments because some of

them didn't happen until after hours on that Friday afternoon. So the sequence of events whereby the liquidity support from the Bank of England and the FSA's notice of the bank's ability to act as a deposit taker, those are events that really took place after the market closed on the Friday evening.

**LEWIS:** So that's why the market got it wrong then?

**CLOKEY:** So the market was, yes was a bit behind the very rapid turn of events.

**LEWIS:** So I suppose your view is that if they had known all that, they would also have valued them at nothing?

**CLOKEY:** Yes, if the stock markets had been made aware of those events, I think the stock price would have tended down to zero.

**LEWIS:** There is another way of valuing things, isn't there, which you call fair value, which I suppose looks at sort of assets of the company. Why didn't you decide to use fair value?

**CLOKEY:** I think that the statute under which I'm appointed, it talks about value. On consideration, I reached the conclusion that the economic value was the best. To come up with anything else would be taking me away from the instructions that I'm given under statute.

**LEWIS:** So in a sense your conclusion that the shares were worth nothing was an inevitable consequence of the terms of reference you were given?

**CLOKEY:** Yes and the fact pattern that prevailed at the bank.

**LEWIS:** And how much has this exercise cost?

**CLOKEY:** The all up costs, including the VAT, is about £4.8 million. Two thirds of

that go to PricewaterhouseCoopers, the firm in which I'm a partner, and the rest to legal advisers, the costs of posting letters to shareholders and VAT.

**LEWIS:** And by a strange coincidence, that's the limit of the amount you could claim, wasn't it?

**CLOKEY:** When I was hired for this assignment, I said that I'd do it for no more than that. The story, as ever, turns out to be slightly more complex and requires slightly more work than one anticipates. It ran up to my fee cap, yes.

**LEWIS:** Yes. So, as I said, by a strange coincidence you actually charged the maximum you could and took the time you took to earn that money. That's how it might seem to outsiders.

**CLOKEY:** Well it's been a difficult and complex task. I (and a large team supporting me) wanted to get the answer absolutely right, and the conclusions of this exercise is a long and complex document.

**LEWIS:** Peter Clokey of PricewaterhouseCoopers. And the Bradford and Bingley Shareholders Action Group plans to appeal against his decision and he is taking comments on it until 27<sup>th</sup> August. Details of how to contact those organisations on our website.

But that is all we have time for today. You can find out more from our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). There you can sign up to my weekly newsletter, download a podcast or listen again, and of course have your say on credit and debit card payments you can't stop - as some of you are. If you don't have a computer at home, most libraries will let you use one free and help you get started. Vincent Duggleby's here on Wednesday with Money Box Live - this week taking questions on saving and investing. Money Watch is on BBC2, Tuesday at 8pm. I'm back with Money Box next weekend. Today reporter Bob Howard, producer Lesley McAlpine, and I'm Paul Lewis.