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MONEY BOX

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LEWIS: Hello. In today's programme, insurance companies agree to pay back £60 million after wrongly changing the policies of a million customers. And we hear this.

CHRIS: Hello. My name's Chris and I've got a confession to make.

LEWIS: What did he do? I find out how shares are bought and sold in the blink of an eye, but could high frequency trading cause a stock market crash? We'll be going live to a meeting of Bradford & Bingley shareholders. They're quizzing the man who'll decide what compensation they'll get for their nationalised shares. And tough love from the Tories. If you're living longer, you'll have to wait longer for your state pension.

But, first, insurers are being told to repay £60 million to people who took out insurance to protect their mortgage payments if they fell ill or lost their job. And insurers have also been told to reopen complaints they've already rejected and review all the sales of some payment protection products. It's part of a tough crackdown by the Financial Services Authority on mis-selling insurance to people with loans or mortgages. We'll hear from the FSA in a moment. But first, Ruth Alexander's here. Ruth, remind us what the mis-selling problem with Payment Protection Insurance is.

ALEXANDER: Well for some people the insurance they paid for was useless because something in their personal situation, like an illness they had, made it invalid right from the start. As you said, the regulator has ordered that all previously rejected complaints - about 185,000 of them - be reopened. And the FSA suspects many of these complaints were actually valid and it's issued new guidelines to ensure that complaints are now handled properly. So if it's found your complaint should not have been rejected, then you'll be contacted and compensated.

LEWIS: So that applies to people who've already made a complaint. What about those who haven't?

ALEXANDER: Well there's one particular type of PPI where even if you didn't complain, your policy might be being automatically looked at. This is single premium Payment Protection Insurance on unsecured personal loans where you pay all the premiums in a lump sum upfront. A number of firms have agreed to write to all of their customers who bought this type of policy and inform them there could be a problem.

LEWIS: Though even if you haven't complained about your policy, if you think there is a problem then it might be worth getting in touch with whoever sold it you.

ALEXANDER: Yes overall there have been hundreds of thousands of complaints about PPI, and the majority of those that have reached the Financial Ombudsman have been upheld. So if you're unhappy with your policy, contact your provider.

LEWIS: Thanks, Ruth. But back to this £60 million in excess premiums, which the insurance industry has now agreed to refund to about a million people. They all took out a policy to protect their mortgage payments, but then found premiums went up or their cover was reduced. The FSA says the clauses that allowed the firms to do that were not clear and the money must be refunded and the terms changed back. But they will not be stopped from changing policies in future. I asked the Financial Services Authority's Director of Retail Markets, Jon Pain, why.

PAIN: Well they'll have to spell out very clearly in terms of what the basis of those changes are and the reasons for those changes, so it can't just be a blanket clause giving them complete rights to change it.

LEWIS: It all seems a bit one-sided though because if I wanted a contract with an insurance company, to say "I'll pay you the premiums every month (as long as I can afford it)" they would just laugh at me, wouldn't they?

PAIN: Absolutely right, so our requirements of insurance companies are very clear: their contract terms have got to be fair, unambiguous and the right level of disclosure at the point of sale. That does not mean they can't at any stage then have clauses that can't be effective in terms of making changes, but those have got to be clear to the consumer and clear when the consumer bought the policy. So there can't be any retrospection in respect of those types of changes. The one key thing that consumers have always got the right to do is obviously to cancel a policy and shop around and compare policies on that basis.

LEWIS: Ah, but they don't, do they, because that's the whole point; that when you buy a mortgage, you're sold the policy by the person who sold you the mortgage and very often it is not a competitive policy?

PAIN: Ah, well that's a very key point for consumers because consumers are not compelled to buy a policy from their mortgage provider. And you know one of the things that we've made very clear - and as is already happening in the marketplace because there are people who sell policies on a freestanding basis - consumers do not have to take the policy from their mortgage provider at the point of sale. They should - and this is a very important point - they should take the opportunity of shopping around and making sure that their needs are fulfilled by an NPI policy or another form or policy because there are other forms in the marketplace that can equally give consumers the protection they need.

LEWIS: You've taken a lot of action against companies over Payment Protection Insurance. You've fined a lot of the major banks and insurers very large amounts of money, but you've only taken a couple of individuals to task. I think the Financial Services Consumer Panel says there's one or two individuals who you've fined. Why haven't you looked at individuals who are responsible for these policies and fined them as people?

PAIN: Well I think most of our focus on here has been on firms, not individuals. I don't think this is an individual issue. This is about how firms have treated their consumers.

LEWIS: But you fined a couple of individuals, a couple of chief executives - one of a furniture retailer, for example.

PAIN: Yeah, it was related to this marketplace, but it's a slightly different set of circumstances. I think what we're talking about here is actually the process of sales across the whole aspect of that particular firm.

LEWIS: Jon Pain. Well we've talked many times on Money Box about the widespread mis-selling of PPI policies. Hundreds of thousands of claims have been turned down, often because the policy should never have been sold in the first place. Many in the industry knew what was happening and one Money Box listener wanted to share his experience.

CHRIS: Hello, my name's Chris and I've got a confession to make. *(Music)* I used to work as a claims manager for PPI claims and we rejected hundreds of claims that were mis-sold - hundreds of mis-sold policies that people had taken out, believing that they were covered, secure, that no matter what happened they wouldn't have to worry about those loan payments. And then when you need it, you find out that the person that sold you the insurance didn't know what they were talking about; you were never eligible. We came across cases of people that were unemployed being sold policies to cover them for unemployment benefits, but the policies clearly excluded any claims where people were unemployed at the time they took out the policy. The people who were selling the policy were thinking more about the money that they were going to get, the commission, and not really thinking about was the loan suitable for the individual, were they really covered. And day after day, we were turning down hundreds of people who we should have been helping at the hardest times in their life - when they'd lost their job, when they were ill, when they'd been injured. The most distressing claims we'd get were certainly the life claims. This was someone who's just lost either a spouse or a loved one, someone they depend on, and they should have the security of knowing that when this happens at least the loan - and some of these loans were very large, £100,000, effectively a second mortgage - the loan would be paid off. They didn't have to worry about the debt on that loan. When we had claims in where we found they'd clearly been mis-sold -

they'd been mis-sold to someone who had a terminal condition and therefore wasn't eligible for the life insurance, was perhaps too old - that was very difficult. I think we felt dirty. That was the thing that we really felt. It's terrible. I mean the one thing it did for me is make me go out and have a very careful look at the sort of cover I have for my family and speak to friends and family and just say you know look at what you've got, and it does make you very cynical. It felt like blood money I suppose sometimes and that's very difficult, but at the end of the day as well you were thinking well I need this job. *(Music fades)*

LEWIS: Well an extraordinary story there. So do you have a confession to make about working in the financial services industry? Is there something you'd like to get off your chest? Then let us know: bbc.co.uk/moneybox.

What will cause the next stock market crash? Well no-one knows, of course, but some people think it might be something called high frequency trading. There are estimates that suggest half or more of all share trades involve buying and selling the same share not over years or days or minutes, but in milliseconds. In the time it takes to blink an eye, shares are being bought and then sold. Or indeed sold and then bought, and a profit made. This week, I went to the office of GLC, a hedge fund manager in Central London. Stuart Theakston is Head of High Frequency Trading there, and he took me into the machine room to see the super computers that do it.

THEAKSTON: This bank of computers is what runs the high frequency trading. We have some here direct fibre optic connections to all the European stock exchanges, and it's on these machines that statistical models are running as we speak.

LEWIS: Right, so in this wardrobe, which is about a couple of metres tall anyway, you've got a couple of dozen of these units. Each one is like 20 PCs.

THEAKSTON: Yes, the machines are running the models because things change far too fast for any human to comprehend.

LEWIS: So, Stuart we're at your desk. As any dealer's desk, it's covered in screens. You've got about six in front of you that you're reading from, most of which are unintelligible to most ordinary mortals. What is high frequency trading?

THEAKSTON: High frequency trading is really about using mathematical models in computer programmes to monitor and trade thousands of securities at a time. If you look, you can see that we are buying this share here for 1025 and then we're selling it one second later at 1026. So that's fairly high frequency for a one penny profit.

LEWIS: So that's a second you've made a penny profit per share, but presumably there's many, many shares in that deal?

THEAKSTON: There's many shares in that deal and we try and do that as many times as we can during the day.

LEWIS: People complain about high frequency trading, saying that it distorts the market, you've got no interest in the value of the companies, you're simply looking at the price second by second. You add nothing. You're simply creaming a bit off that ultimately the rest of us must be paying.

THEAKSTON: Well I don't think that's really the case. What we're really doing is we're providing liquidity to institutions and retail investors who want to get their trade done immediately.

LEWIS: There are allegations though, aren't there, that because all these models (although some might be slightly better than others) they're all essentially the same - they're all doing the same thing, watching the same data - that you're all pushing things in the same direction and that could drive markets right down, as it did in the 1980s?

THEAKSTON: Well that accusation makes sense on a slightly longer timescale, but for high frequency trading I really don't think that applies. Most high frequency trading desks need to be out of all of their positions by the end of the day. So if collectively they push a stock up, say, then at the end of the day that stock's going to have to go down when they all sell. If that was the case, someone would come along and take the other side of that position and make money from most people, and it's that competitive nature of the market that keeps those prices reasonable.

LEWIS: Stuart Theakston of GLC - making money even while I was interviewing him. Now Stuart talked there of liquidity. All that means is if you want to sell a share, there's always someone to buy it; and if you want to buy one, there's always someone with that share to sell. There's a big pool of shares waiting to be traded. Hence liquidity. But there are mathematicians who think there are such dangers in this new blink of an eye trading that the price we pay for this liquidity might be too high. One is Paul Wilmott who edits his own journal of quantitative finance: 'Wilmott'.

WILMOTT: Liquidity is always the excuse - we need more and more liquidity. I think we have to even ask the question, how much liquidity do we need? Is there an optimum amount of liquidity? For example, suppose we had liquidity in house prices? What effect would that have? More liquidity in house prices, we'd just get more volatility, that we'd get higher peaks and deeper troughs. So liquidity is not a good explanation for anything really. The problem really is whenever people or banks start copying each other and making the same kind of trading decisions en masse. And the danger with people copying each other, you can get the possibility of positive feedback when you have some signal leading to some action, and then that action leading to a similar signal. So for example the 1987 crash when a small fall in the market would lead to a trading signal to sell and then the action of selling causes this signal to say sell more, and so you get this positive feedback. Negative feedback is just the exact opposite, which is a dampening effect.

LEWIS: How do you know it will be positive feedback though because there are bits of the market where that kind of feedback works to keep to control prices, to keep them even? It could be that it would work in that way.

WILMOTT: That is the perfect question and this is the question I keep asking people - how do you know whether it's positive or negative? And we have to answer that question before we rush headlong into all this high frequency trading. If there is any positive feedback, the next crash is going to happen … Well it won't be within a day; it'll be within hours or minutes.

LEWIS: Here surely what they're doing is trying to establish the true market price of a share in milliseconds - what a willing buyer will pay a willing seller and what a willing seller will accept.

LEWIS: Well they're trying to guess what the price will do over the next few milliseconds. They're not really concerned with what the value is. And that's really what it should all be about. The purpose of banks, for example, should be to take money from people with too much, give it to people with great business ideas to help the economy. And that's all about valuation.

LEWIS: What would you like to see happen to high frequency trading?

WILMOTT: I'd like people to stop and think and analyse these strategies. I would like to see regulators get up to speed more with what's going on here, so *they* can ask the awkward questions. It shouldn't be down to *me* asking the awkward questions. It should be the regulators.

LEWIS: Mathematician Paul Wilmott, editor of 'Wilmott', which has been called "the most influential journal you've never heard of."

Shareholders in Bradford & Bingley will have their first opportunity today to quiz the man who'll decide what compensation they receive following the bank's nationalisation last September. They'd already seen the value of their shares plummet from more than £3 each to 20 pence before the Treasury stepped in. In June, the government appointed Peter Clokey from PricewaterhouseCoopers to calculate how much the shares were actually worth and what compensation is due to the 930,000 shareholders. Bob Howard is at the meeting in Central London. And, Bob, what's the mood among shareholders?

HOWARD: Well there are around 200 people here at this meeting in Kensington, Paul. They're both shareholders and bondholders. They're all eager to find out if they'll get any compensation and, if so, when. The valuer Peter Clokey has just spoken. He introduced himself and what he's going to do, and he's going to take questions a little bit later. And in his introduction he said he wants to report by June 2010, which is significant because we didn't have any idea of a time frame before today. He said that he was genuinely independent and that his £4.8 million fee comes from the taxpayer, not from any compensation. And I asked two shareholders - James and Isla - for their reaction straight after he finished speaking.

ISLA: He claims he's independent. However he's paid and appointed by the Treasury, which sounds a bit dubious to me.

JAMES: I was quite impressed with him. I just really hope that he makes a prompt decision.

HOWARD: Well he said by June at the very latest.

JAMES: Yeah. So yeah if it is by June … I think the main thing I wanted to find out was you know timescales and when things are going to be turned round, so …

HOWARD: Do you think it's significant that he says he has a different role from that of the Northern Rock valuer? The Northern Rock valuer has been told he has to assume it is in administration when he values. He says, "That's not the case for me. I just cannot assume any state financial help." Is that just semantics or is that a real difference?

JAMES: I suppose it's got to be seen as a positive really. Administration is obviously worse than not definitely being in administration. So, yeah, I mean it's got to be seen as a positive really.

HOWARD: Does the cost - and it's costing more than £4 million to do this valuation, it's taking a year - is that really money well spent and time well spent? Does it really take that much money and time to do this, do you think?

JAMES: I suppose if they have to do everything by the book - yeah, I suppose that's what happens. But I mean, yeah, I'd obviously just prefer that money to be put into compensation really rather than a long, drawn out process.

LEWIS: That was two Bradford & Bingley shareholders. Peter Clokey from PWC, who will decide what their shares are worth, is also there in our radio car. Peter Clokey, you were appointed in June this year. Now you say it'll be June next year before you've valued this company. Why is it so difficult?

CLOKEY: Paul, this is a big and complex process that I have to do. I have to gather information in from the bank and all those that were involved in its nationalisation. We have to look carefully at the information that's presented to me. And I've said that my target date is to conclude within a year of my appointment. Obviously I'd like to do it somewhat before then, but that's the period I'm allowing myself and the valuation of a major financial situation is a big and complex task.

LEWIS: But in a sense the market had already valued it, hadn't it, because Bradford & Bingley shares were trading at 20 pence the night before the Treasury stepped in. Why isn't *that* the value?

CLOKEY: The instrument that privatised … sorry nationalised the bank asks me the question and tells me to come up with the value on the morning that the nationalisation took place. The question I have to ask is: was the market, which as you say was putting a value of 20p, giving the right signals as to the value of the bank at that time?

LEWIS: You're making it sound very difficult when some people might take that simple approach of 20 pence a share. You're going to take a year. You are being paid 4.8 million and you can understand shareholders who say well he's just trying to justify this vast fee for a year's work.

CLOKEY: In terms of fees, that's the maximum that my fee will be. So if I can do my work more efficiently, the fee will be smaller. But the question comes back to this point as to whether the market price fully reflected or fairly reflected the value of the bank at the time and a bank that was getting into greater difficulty as the weeks went by that summer.

LEWIS: Yes. And you have been told to assume I think no Treasury support in that value. It's conceivable then that the value will be *less* than 20 pence a share. Your letter says you'll tell people the amount of compensation, if any. It could be worth nothing.

CLOKEY: Yes, I mean the answer at the end of the day may be nothing, but it's obviously too early for me to comment at this stage.

LEWIS: So it could be 20 pence. It could be nothing. It could be more. Could it be more than 20 pence?

CLOKEY: As a concept, it could be more - yes. I've got to look at the state of the company's balance sheet and consider carefully what value is there.

LEWIS: I'm sure your tone of voice is being listened to very carefully by shareholders. It doesn't sound to me as if you think it will be more than 20 pence.

CLOKEY: Well I don't want to start hares running at this stage.

LEWIS: So let's just say it could be anything. Is that a fair summary?

CLOAKEY: Well, as an accountant I must say the answer could in theory be anything, but I would have my views at this stage.

LEWIS: Peter Clokey, independent valuer of Bradford & Bingley, thanks very much.

Now people in their 50s will have to wait longer before they get their state pension. That was the message in the tough love package from the Tories this week at their annual conference in Manchester. But how long will men and women have to wait and, indeed, why? Nigel Waterson is the Conservative Shadow Pensions Minister.

WATERSON: The first thing to stress, Paul, is that nothing's going to happen in a hurry. Nor is it going to affect people close to retirement already. But what we have said is there'll be an independent review, and for men from about 2016 and women from 2020 there'll be a slow increase in state pension age. Of course under this government, this has already been announced that it would happen so that the age would go up to 68 by 2046, but we're suggesting that should happen a bit faster and a bit sooner.

LEWIS: You say men from about 2016, so that's men who are 58 years and older. So that would be on top of the rise we're having anyway at that time for women from 60 to 65?

WATERSON: Well that's why we wouldn't be doing anything about women's pensions until after 2020, which is the age at which they are to equalise at 65 with men.

LEWIS: So then you'd sort of tack on a rise of another year to women, so that would go on for another year or two after that?

WATERSON: It wouldn't go up by a year straightaway either for men or women. It would start to build up over time - say by a month, every so many months. It'll be a gradual rise.

LEWIS: But it does create uncertainty, doesn't it? I mean certainly men who are 58 or younger, women who are 54 or younger, they can now expect to have to work possibly till they're 66 before they get their state pension. That will upset the plans they've already made.

WATERSON: Most people I talk to in my constituency and elsewhere grudgingly accept that they're going to have to work longer. I think that's something that most people see on the cards anyway. There's already 1.3 million people working beyond state pension age.

LEWIS: Nigel Waterson MP, the Conservative Shadow Pensions Minister. Well Mervyn Kohler is Special Adviser to Age Concern and Help the Aged. He was listening to that. Mervyn Kohler, it's fair enough, isn't it? We're all living longer. We should wait longer for our state pension.

KOHLER: I think there's a case for that, Paul. We're living longer, we're living healthier lives, and proportionately it seems reasonable that part of that extra time should be spent in work. But I think what's important about this review that Nigel Waterson was talking about is that it looks at the other broader factors. It's not just a question of let's bang up the state pension age. We've got issues like health and equalities to look at. If you're living in Kensington and Chelsea, you've got a life expectancy at the age of 65 of more than 20 years. Working a year or two extra doesn't make a lot of dent in that. But if you're in Glasgow with a life expectancy of only 10 years, it's quite a large proportion of your potential retirement. We've also got to look at the packages of work which are available, the training which is available to make older workers competent to use modern workplace facilities. All of that must be part of this review.

LEWIS: Yes, but of course it's easier for some people to work another year than others, isn't it? And briefly, Mervyn, it's intended to save money - billions of pounds indeed. Do you think it really will?

KOHLER: In the long run, it probably will. The Conservatives of course spent most of their Manchester conference looking for short-term cuts, and this isn't actually going to deliver money in the short-term.

LEWIS: Mervyn Kohler from Age Concern and Help the Aged, thanks very much for that.

And that's it for today. But before we go, a reminder that on Wednesday Money Box Live will be broadcast live with an audience in Glasgow. It's part of the BBC's Money Matters Roadshow. Financial experts will be there all day to give confidential money advice and we'll be there live at 3 o'clock from the Buchanan Galleries Shopping Centre. We'd love to see you if you're around. Details on our website, bbc.co.uk/moneybox, and also from the BBC Action Line - 0800 044 044 - where you can also find out, as usual, more about today's programme and on the website you can watch videos, sign up to my weekly newsletter, listen again or download a podcast, and of course let us know your confessions from inside the financial services industry. Last week we had a huge response to our item on Chip and PIN security from you. Thank you for that. We'll be following that story next week. I'm back with Money Box next weekend. Today reporters Bob Howard, Ruth Alexander. Producer Karen Kiernan. I'm Paul Lewis.