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## **MONEY BOX**

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**TRANSMISSION: 12<sup>th</sup> FEBRUARY 2011 12.00-12.30 RADIO 4**

**LEWIS:** In today's programme, the government finds £27 million this year for face to face debt advice, but what will happen in 2012? Treasury Minister Mark Hoban gives us an exclusive glimpse of his future. Bob Howard's been asking why there's a go slow on faster payments.

**HOWARD:** And how that's continuing to catch out some customers.

**CLARE:** You would have thought that if they were able to transfer £299, they would be able to transfer over £400.

**LEWIS:** Are investors really being 'fleeced' by fund managers? One independent financial adviser says they are. And £2.50 to make a £10 payment. Credit and debit card surcharges will be investigated after a complaint from Which?

As you may have heard in the news, the government has found £27 million to safeguard face to face debt advice for 100,000 people in England and Wales at least for the next year. Three weeks ago, Treasury Minister Mark Hoban announced the end of what was called The Financial Inclusion Fund. It paid for 500 debt advisers, many of whom have already been told they face redundancy. But today the Treasury announced that the advice they give and their jobs were safe, as Mark Hoban told me yesterday evening.

**HOBAN:** The funding is exactly the same as was on offer in 2010/11, so it should aim to provide the same number of advisers and meet the same level of need, I hope.

**LEWIS:** So this will replace the funding; and those 500 debt advisers (many of whom have been given redundancy notices) can now tear them up and go back to work?

**HOBAN:** Well I hope so, Paul, and I appreciate it's been a very anxious time.

**LEWIS:** But why did you wait three weeks? Because three weeks ago you said you were closing one fund. Three weeks later, you say you're giving them the money back.

**HOBAN:** Well what we had to do is think very carefully about how we provide debt advice. You know given the straitened times we're in, you know every decision has to be looked at very carefully, and what I didn't want to do was give false hope but I also was trying to find some way of ensuring that for 2011/12 that the support would be there for people in need of advice and counselling from CAB and others.

**LEWIS:** This is a one year settlement. What you've just said might make people think that well this is a kind of stopgap and a year from now something else will be announced that'll be slightly different and slightly cheaper.

**HOBAN:** What I think we need to do is to look at those different sources of debt advice and I'm keen to work with the Consumer Financial Education Body to look at a holistic approach, so we do have a range of sources out there, that people know where to turn to, and that there is greater coordination.

**LEWIS:** But the more you say, Mark Hoban, the more I feel that this really is something temporary and that a year from now you'll be saying oh go on the internet, pick up the phone, we don't really need all this expensive face to face stuff.

**HOBAN:** No, Paul, I've seen face to face advice being given, and I think for many

people it is the right answer. But I think for a number of people, there are other alternatives out there that might be available when they need it rather than being forced to queue, to wait for an appointment or whether they're just put off by delays and don't tackle their problems.

**LEWIS:** But you can't give any assurance about another £27 million for 2012/13?

**HOBAN:** You know I think what we need to do, Paul, is to look ahead and see ...

**LEWIS:** *(over)* Well that's what I'm asking you to do - 2012/13.

**HOBAN:** Yeah, I think what we need to do is spend some time looking ahead at how do we provide this advice to people, how do we bring together the various sources of advice and have a coherent picture.

**LEWIS:** Is the government committed to face to face debt advice by this number of people?

**HOBAN:** Look, I think face to face debt advice is really important. I know how many people value it and I think it's important it's continued. But what we need to find out I think in the 21<sup>st</sup> century - what's the best way to meet the needs of people, how do we make sure we signpost them to the service that will benefit them the most? How can we actually make sure there's debt advice when people need it, so they're not tied to office hours? I think there's an opportunity here, Paul, to really modernise this service.

**LEWIS:** Treasury Minister Mark Hoban. Well most of those debt advisers work in Citizens Advice offices. Live now to talk to Jay Lowe from Stoke on Trent CAB. She recently told six of her debt advisers they'd be made redundant at the end of next month. Jay Lowe, yesterday you were expecting to lose those six advisers. You must be happier this morning?

**LOWE:** Yes, certainly it's a huge relief - both obviously from the point of view of the caseworkers but also in terms of the service that we can continue to deliver. But I think you made the point quite effectively that this is only a 12 month stopgap and what happens this time next year?

**LEWIS:** And what happens though on Monday morning? Will those six people be told your jobs are safe and will that be enough?

**LOWE:** We have already actually lost a couple of people who have taken other jobs because of the pending cuts. We've had a couple of people that have asked for voluntary redundancy that certainly I think one of whom would not have done so if it hadn't been for these cuts coming up.

**LEWIS:** So will you have to pay those redundancy costs?

**LOWE:** Yes - certainly the two that we've accepted, I would think so. And also then of course it means either recruiting or training up people to replace very experienced caseworkers.

**LEWIS:** We have had an email from a listener saying well why does the government have to pay this? Why don't the banks pay for this advice? Why aren't your people funded by them if they're part of the problem in the first place?

**LOWE:** Well that's a very good question and I must admit it's one that I've asked, particularly in view of the recent increase in the tax on the banks. But it is something that it really has to be the government that can coordinate and set something up. It may be that this 12 months gives them time to look at something like that.

**LEWIS:** It also will give the minister time to look at what he called 21<sup>st</sup> century ways of delivering debt advice. Is face to face advice necessary? Can people just go on the internet or ring up and get the same kind of help?

**LOWE:** In Stoke - and I'm sure this is reflected in many, many other areas in the country - we find that the majority of people that come in don't have internet access in their homes and it's ironic that some of the free access in libraries is also under threat of closure. Even if they did have that ability, there is a very high level of illiteracy in this area and in others, which also would cause problems for people to access any kind of telephone or online advice. Particularly I think face to face debt advice is crucial for people who are vulnerable in terms of illness or, as I said, sort of learning difficulties or just general difficulties.

**LEWIS:** But is there a danger when you go online that you'll put debt advice or whatever into a search engine and you get commercial companies rather than the charities?

**LOWE:** Exactly. I think anyone who goes online now, they're bombarded with adverts for free debt advice, and I don't know how you would actually distinguish clearly between those organisations that are truly free and impartial and those that are very often fronts for fee charging companies.

**LEWIS:** And very briefly, Jay - now you've had these posts saved, will that be enough? Will you still be having queues of people?

**LOWE:** No. The team as it stands at the moment is the largest that it has ever been in Stoke CAB, but we're still turning away a third of people. And that I think will continue.

**LEWIS:** Jay Lowe from Stoke on Trent CAB, thanks. And on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), there's a link to Radio Four's programme from earlier this week, The Report, on high cost credit and those dangers of seeking debt advice online.

Some Money Box listeners say they're losing money because it still takes days to make payments online or by phone from their bank account. The faster payments

system, agreed and implemented by the banks in May 2008, held out the promise of same day transfers, but almost 3 years on it's still not happening for some bank customers, as Bob Howard's been finding out. Bob?

**HOWARD:** Yes. Paul, Money Box was contacted by Clare from Nottingham. She's a customer of Alliance & Leicester, which is now part of Santander. Each month she makes an online payment to pay off her Tesco credit card and each month she's always made it on time - until this year. When she tried to pay off her balance last month, she discovered she'd been charged £12 by Tesco for a late payment.

**CLARE:** Never had a problem before. It's always arrived on time and this time it hadn't. I found I'd paid it on 21<sup>st</sup> January and they appeared to have received it on the 26<sup>th</sup>. And every other payment that I've made to them has always taken one working day. And I'm sure I may have paid it on a Friday, but even so it would have left enough time for it to actually get to them in time.

**HOWARD:** Now Clare's previous credit card bill payments were all for under £300, but the one she paid last month was for over £400 and this is what appears to have tripped her up. Unlike the other high street banks, which allow one-off faster payment transactions to a value of at least £1,000, Santander still limits customers to £300. If the payment is greater than that, it can take up to five working days to process. Clare can't understand why there's such a big difference in speed.

**CLARE:** After nearly 3 years, you would have thought that if they were able to transfer £299 within 24 hours, then they would be able to transfer over £400. And they quite clearly haven't made this obvious to customers because I wasn't aware of it.

**HOWARD:** Now Santander told Money Box it recognises that some customers might find the immediate payments limit low. However it will increase its faster payments limits this year.

**LEWIS:** And Bob, we looked at this a year ago and I recall then Nationwide was only able to do one-off payments up to £10. Presumably that's improved?

**HOWARD:** Yes, Paul. Several other providers were also lagging behind, but since then they've all managed to up their game and allow one-off payment transfers of at least £1,000. Having said that, it's not just the accounts that money is coming from but those which cash is going to, which are still creaking along the slower payment system. For example, some credit card providers are still not accepting faster payments to pay customer bills. Marks and Spencer, Nationwide and Lloyds TSB Banking Group are in this category.

**LEWIS:** Thanks, Bob. Well Sandra Quinn from the UK Payments Council is here with me in the London studio. Oh dear, Sandra, why is this taking so long? After 3 years, you know you should have done it really, shouldn't you?

**QUINN:** Well let's really look at the real successes that we have through faster payments because it's worth just emphasising these. In the last year we've seen a number of banks' limits (as Bob has mentioned) rise considerably, and that's really risen volume overall. We have seen the overall faster payments limit rise from £10,000 to £100,000, and that's great news, that's really increased volumes. And that's partly down to corporate demand also to use faster payments, and what we've seen in overall volumes is an increase of more than 60% on 2009.

**LEWIS:** Yes, I mean that is the good news and you know you're right - most of the major high street banks do up to £10,000 and some do more for commercial customers, though not for the likes of you and me. But why haven't you been able to get Santander to raise its limit to well even £1,000, if not the £10,000 or £100,000 you say it could do?

**QUINN:** Well, as you know Paul, you and I have had this conversation before, and one of the things we've said is that this is down to competition. This is best left to market forces. This isn't an issue ...

**LEWIS:** *(over)* You're saying don't use Santander, are you?

**QUINN:** We're saying that actually if you're a customer and faster payments are an important part of your banking package, then you need to look at what kind of service you're getting.

**LEWIS:** But ...

**QUINN:** But I ...

**LEWIS:** Sorry, go on.

**QUINN:** I think the key thing for the Payments Council is we've been saying competition for a long time. Is that really getting us to where we want to be? And that's something we're going to be looking at later this year.

**LEWIS:** So if it's not, you might be taking tougher action?

**QUINN:** Well we have a national payments plan on how payments are going to develop in the future. We'll be reviewing that this year. That'll go out for consultation. Is this something that customers want us to be more forceful about?

**LEWIS:** Well it certainly seems customers do want it. And of course there is European legislation down the line, isn't there, that might overrule whatever you or the banks say and force them to do it more quickly? Just tell us when that starts and what that will mean?

**QUINN:** We have the Payment Services Regulations. That came in overall on 1<sup>st</sup> November 2009. But the second part of that is something called D Plus 1, which means I make a payment to you on a Monday. That must get to your bank by the Tuesday. And that means that all those payments that are currently not going through faster payments will have to look at the alternatives available. Faster payments isn't

the only alternative, but it's certainly going to drive an increase in volume at the end of this year.

**LEWIS:** And that will also include standing orders, which often have a much tighter limit on them?

**QUINN:** Absolutely.

**LEWIS:** Sandra Quinn from the Payments Council, thanks very much. And I'm sure you'll be back next January to tell us how that new rule is working as well. (*Quinn laughs*)

Investors are being 'fleeced' by fund management charges. That was the dramatic email we got this week from independent financial adviser Mark Meldon. He's a Director of RC Gray and we couldn't resist finding out more. How did he justify that strong claim?

**MELDON:** I believe that the majority of retail customers in the UK of fund management companies are paying excessive fees, and it's really quite an extraordinarily lot of money that's being wasted by retail consumers.

**LEWIS:** How much are we talking about?

**MELDON:** Well I read just this morning that over £100 billion are in funds where the charges have actually outstripped the investment returns.

**LEWIS:** But if a fund makes you a lot of money - and those obviously are ones that don't - but if a fund does make you a lot of money, some people would be very glad to pay a considerable premium for that, wouldn't they?

**MELDON:** They would, but they're probably not really appreciative of the fact that at the moment it seems that returns are going to be a lot lower going forward. And if

for example you're losing 3% or even 4% of the return of a fund in fees each year, that's going to have a terrible effect on your actual money in your hand.

**LEWIS:** You say 3% or 4%. Is that typical? Or what would a typical large fund perhaps charge where it's got a lot of money, it's got a lot of economies of scale?

**MELDON:** On average a retail unit trust or OEIC in this country would charge about 1.5% per annum as an annual management fee, but on top of that there are other costs which can add up to another 1%. So we could be talking as much as 3% per annum.

**LEWIS:** Give us the example of the biggest retail fund in the country and how much that's making.

**MELDON:** Well that's the Invesco Perpetual Higher Income Fund, which has done very well for its investors over the many years it's been around. That's about 10 billion in size, which is a lot of money. And from that they're taking a declared management fee of about 1.68% and that equals getting on for £175 million. Now about a third of that goes back to the introducing financial adviser in the way of a trail commission, form of trail commission, and the rest is kept by Invesco Perpetual for its own purposes.

**LEWIS:** So what is the way out of this then for people who want to invest rather than save - and we can understand that because the rates you get on deposit accounts are so tiny? What's the way out of it for them?

**MELDON:** It's possible to save between a third and half of your running costs each year by using modern investments like exchange traded funds - another index tracking type investment - and it's not very difficult to do. All you would need is a bit of guidance on the right assets to hold from a qualified individual and you can buy into such a portfolio very inexpensively.

**LEWIS:** Fund managers of course say they're well worth the money that we're

paying them, but what do they actually do for their money?

**MELDON:** I'm not entirely convinced that they are worth their money. Most of them seem nowadays to be purely asset gatherers rather than asset managers. There are a few honourable exceptions, but the majority are still charging the sky's a limit fees and it's a lot of money they're making, and I wonder whether they should give some of that back to their consumers by reducing their fees.

**LEWIS:** Mark Meldon of independent and fee charging financial advisers RC Gray. Well with me in the studio is Richard Saunders, Chief Executive of the Investment Management Association. Richard Saunders, you represent these investment funds. High charges, poor performance - that's the allegation.

**SAUNDERS:** Well as you'd expect, Paul, I don't agree with what we've just heard. Let me give you just one very simple illustration of why I think funds are good value. If you were to take your ISA allowance this year of £10,200 and use it to buy the 100 biggest stocks on the London Stock Exchange, you'd have to pay (even through an online stockbroker) £500, maybe £1,000 to get that investment. If you go to a manager offering you an index tracking fund, you'd pay £50 a year.

**LEWIS:** Sure.

**SAUNDERS:** That's why they're good value.

**LEWIS:** But we're not talking about index trackers. In fact Mark Meldon was saying go for a tracker, do something that simply tracks the stock market - and, yes, you can buy small units. He was complaining about the active managers, the ones that claim to do better than the indexed and very, very often don't, but they still charge 1.68% in the case of that one he mentioned, Invesco Perpetual.

**SAUNDERS:** That's the choice that investors have got, Paul. You can go for a low cost tracker if you want. Alternatively you've got the choice of going for an active

fund in the hope that you might do a little better and maybe get those extra charges back. The point is the charges are completely transparently disclosed and that's a choice that investors can make.

**LEWIS:** Well they're quite hard to understand sometimes, aren't they? You've got the management fee, then you've got all the other things. You've got the total expenses ratio, which is neither a total, nor an expenses, nor a ratio of I think 1.68% in Invesco's case. They are quite difficult to understand.

**SAUNDERS:** I don't think so. I think you do an injustice to the TER actually. I think it's a very simple thing to understand. It's one single number which encompasses all the costs.

**LEWIS:** *(over)* But there are other costs. There's the cost of buying and selling shares as well, which are in addition to it.

**SAUNDERS:** The cost of buying and selling shares are part of the cost of investing. We've done research which looks at what is the net return on funds after all the costs - the costs of buying shares, the cost of the charges and so on - and it turns out that actually the cost of buying shares doesn't make that much impact on the total return.

**LEWIS:** Right, but it's not in the TER, as I understand it. But if you go abroad, if you're in America, for example, you can pay far less, and there are even some funds coming into Britain now where they're saying we'll only charge you just over half a percent - even for actively managed funds.

**SAUNDERS:** I think that's very good news. I think that ...

**LEWIS:** *(over)* So competition might bring down charges?

**SAUNDERS:** I think the more competition we have, the better, because that's going to be good for consumers in the long-run.

**LEWIS:** One of the expenses that Mark Meldon mentioned was trail commission for advisers. Now that will end with the Retail Distribution Review next January, at least for the future. Can that money now be given back to investors?

**SAUNDERS:** Well I think we're going to have to see how the ... I would certainly hope so, yes absolutely, but the investors are still going to have to pay for their advice. They're going to have to pay for it through fees to advisers, so that won't necessarily mean a fall in the total cost of investing.

**LEWIS:** Indeed. Richard Saunders from the Investment Management Association, thanks very much for talking to us.

Which?, the consumer organisation, has asked the Office of Fair Trading to investigate the hidden surcharges when we pay with credit and debit cards. It's made what is called a 'super complaint', which means the Office of Fair Trading has to respond. Which? claims these charges are way in excess of the actual cost of processing plastic card payments and are often unclear to the customer. Bob Howard's been speaking to John, an independent London travel agent, about what the banks charge him to process different card transactions and what he passes onto his customers.

**JOHN:** Debit cards don't cost us very much. It's something like 30, 40 pence. Credit cards can differ. It varies from something like 1.5 up to 2.25 depending whether it's a business credit card or whether it's a normal Visa or Mastercard. American Express is a bit more expensive. Generally it works out on average 2%. That's what we charge.

**HOWARD:** And have those charges remained quite steady, or have they changed recently?

**JOHN:** They've just gone up fairly recently. Not a lot, but they've gone up. We've not put our costs up to the clients. We do try and help them to avoid the charges if they pay with a debit card or cheque or cash.

**HOWARD:** If somebody insists on paying by credit card and you have to charge them 2%, what would that put on an average package tour holiday, do you think?

**JOHN:** It could be £40, £50 on an average one, and obviously a lot more if it's a luxury holiday.

**HOWARD:** How do people respond when they get a sense of how much more it's going to cost them to pay on a credit card? Are they quite shocked?

**JOHN:** I don't think they are shocked these days because I think you pay for theatre tickets extra, you pay extra if you're travelling on budget airlines, you're paying so much more. I think it's almost accepted. I don't think people realise what they're paying until they've made their choice of what they're buying; and then at the end when it comes up how to pay, then you find out how exorbitant credit card charges are.

**LEWIS:** Bob Howard reporting there with travel agent John. With me is James Daley from Which? James Daley, what's wrong with these charges? John said the banks are charging him more. Retailers are having to pay more. Why shouldn't they pass them onto customers?

**DALEY:** We're not saying that they shouldn't pass them onto customers. We're really saying that they need to declare those charges right upfront. You know and, as John rightly says, smaller companies get charged a little bit more. The likes of Ryanair and budget airlines are probably paying between 10 and 20 pence for a debit card transaction, and we think it's entirely reasonable with costs as low as that that they absorb them as part of their costs of simply doing business. Credit cards is a different matter. There are greater costs there. It's not unreasonable for companies to pass those onto the customer, but they shouldn't be inflating them. And what we're seeing in the airline industry, the ticketing industry is that often instead of charging 2% to the customer, they're charging 3% or even more.

**LEWIS:** Yes, but some of them say ... I mean Vue Cinemas, for example, says the charge doesn't just pay for the cost of the banking transaction. It actually is used to pay their whole online enterprise, so that you can buy your cinema tickets online.

**DALEY:** Well where does this end? I mean you know are we going to start seeing charges for keeping the lights on at head office, charges for putting staff on the aeroplanes? You know in the end there is a cost to running a business and I think you know it's quite reasonable for customers to see that cost reflected in the headline price, not just lumped on at the very end of the transaction.

**LEWIS:** So you would like that, would you? You'd like if you go into John's travel agent or if you go online, you'd like it to say this is the cost of the holiday, and that would include the charge or it would say and here it is as an extra percentage that you add on right at the start?

**DALEY:** Yes, I think it would be absolutely reasonable for all travel companies to say if you want to pay by credit card, we should let you know right up front that's going to add an extra 1.8% - whatever it is that that individual company is being charged by the banks. And when it comes to debit cards, we don't think they should be passing on that cost at all. They should just be absorbing it.

**LEWIS:** So that's what you'd like the OFT to find. But what is the actual complaint? What is actually unfair trading about this?

**DALEY:** Well we think that it's actually distorting the market to a certain extent. And if you think if you're buying a flight, you don't actually get the full picture of what it's going to cost you until the actual screen where you're going to pay for it. So you're there on your comparison site trying to work out whether or not EasyJet or Ryanair is cheaper, but you don't actually have any clue until you get to pay for it. So that's why it's distorting the market. It may be that a large number of customers are ending up buying a flight that's more expensive rather than cheaper because of the extra card charges at the end.

**LEWIS:** So what happens next? You've made this super complaint, you have this legal power to do that. What does the OFT have to do now?

**DALEY:** Actually we haven't made the super complaint yet. We're going to launch it next month. Between now and then we're asking customers to come and support our campaign, leave their comments on our website and so on, so that we can add all that evidence into our super complaint. After that, the OFT's got 90 days to respond and hopefully thereonin they'll come up with some regulations or even new legislation to put a stop to this.

**LEWIS:** James Daley of Which?, thanks very much. And you can let us know what you think on those surcharges by having your say on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). Some of you already are. Karen says she pays £4.95 admin charge per concert ticket, which she says is outrageous. But that's it for today. More on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). Lots of things to do there, including have your say. Vincent Duggleby's here on Wednesday with Money Box Live taking questions on end of year tax planning. I'm back with Money Box next weekend. If you can't wait, my money thoughts are every day on my Twitter, Paul Lewis Money. Today the reporter Bob Howard, producer Ruth Alexander. I'm Paul Lewis.