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MONEY BOX

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LEWIS: Hello. In today's programme, thousands of victims of the collapse of the insurer Equitable Life 10 years ago now look set to share compensation of one and a half billion pounds. High earners face big cuts in the amount of money they can put tax free into a pension. Campaigners call for tough new controls on expensive payday loans. Will consumer rights be reduced after the government confirms three consumer bodies will disappear? And Bob Howard's been looking at criticisms of a pre-paid card for young people going travelling.

HOWARD: And how just when you need customer support, they're unable to help.

HELEN: They struggled to understand. I asked them one question at the beginning of the call and it took them 15 minutes to answer it.

LEWIS: Nearly 10 years after the insurance company Equitable Life collapsed, the government seems to have reached a decision about the compensation that will be paid to thousands of victims. The BBC believes a figure of one and a half billion pounds, reported in today's press, is correct. That's less than a third of the compensation suggested by the parliamentary ombudsman's report of 2008, but three times the amount proposed by the independent adviser Sir John Chadwick earlier this year. Well live now to talk to Paul Braithwaite, General Secretary of the Equitable Members Action Group. Paul Braithwaite, your reaction to this news?

BRAITHWAITE: I think it's a very cynical act by the treasury to leak it. They're extremely concerned that their backbenchers are up in arms and this cuts the legs off the select committee's report, published only yesterday, that said that the treasury really should look again at its numbers. It's a massive cut of the 5 billion that is acknowledged by everybody.

LEWIS: Yes, I mean no-one doubts that the government let Equitable Life members down and the losses have, as you say, been put at up to 5 billion - between 3 and 5 billion. But in a time of public spending cuts, no government's going to afford that, are they?

BRAITHWAITE: Well the bill was due 10 years ago. It's completely unfair to have denied these people (and of course it was the Labour government who've been doing the denying for a decade) and then expect them to be in the frontline and suffer a 70% cut. Why should the sufferers here suffer any more than any government department?

LEWIS: But although if the regulator had behaved properly in the past, you would probably have left Equitable Life. You'd have gone into another company, and many of those have actually produced lower returns than you would get through the compensation you want. That's not fair, is it? You should really be getting what you would have got in another company.

BRAITHWAITE: But that's exactly the basis of the proposal by the parliamentary ombudsman that we're seeking to have upheld. She only suggests that people should get what they would have got elsewhere, and that total's 5 billion.

LEWIS: And whatever figure's announced on Wednesday - and we expect it to be one and a half billion and of course many people have died in the 10 years this story's been going on - how quickly can the remaining victims be paid out?

BRAITHWAITE: Well there is a promise that victims will start to be paid out next summer. But there's still quite a fight to be had at this try-on by the treasury, and I can assure you that backbench MPs feel that their integrity in the coalition's pledge is being impugned and it's unacceptable. So I'm sure MPs will want their select committee upheld.

LEWIS: But I mean many MPs are already compromising on all sorts of things in the light of the financial circumstances the country's in.

BRAITHWAITE: Well there's compromise and compromise, isn't there Paul?

LEWIS: Well there is, but you're saying that this is too big a compromise.

BRAITHWAITE: This is a cut of 70%.

LEWIS: Well 70% in what the ombudsman's report implied. But you know many Equitable Life customers have got less than they expected, but not very many have actually lost anything. We call it compensation, but they haven't lost money, have they?

BRAITHWAITE: Well they have lost 5 billion. The parliamentary ombudsman spent 4 years independently studying it. It's her job to recommend compensation where it's due, and she has.

LEWIS: And briefly, if this figure is confirmed on Wednesday, is this the end of the campaign?

BRAITHWAITE: Absolutely not. We'll be working with backbenchers and with the new all party committee of MPs to seek to honour both the ombudsman and the select committee, so the fight goes on.

LEWIS: Paul Braithwaite, thanks very much for talking to us.

The government has slashed the amount of money that very well paid people can salt away tax free in a pension. From next April, the annual maximum will be cut from

£255,000 a year to £50,000. The treasury estimates the change will affect 100,000 people saving for retirement, and almost all of them earn more than £100,000 a year. The government hopes that restricting tax relief to this group will save it £4 billion a year. It's also restricting the maximum amount that can be saved over a lifetime. That's being reduced from 1.8 million to 1.5 million. That's equal to 30 years saving at the new maximum. Treasury Minister Mark Hoban explained the reasons.

HOBAN: This is a scheme that tackles those who are making regular large contributions, contributions over £50,000 a year, and not many of us do that. It preserves tax relief, it makes a sustainable system for the long-term; but it does mean that those who perhaps put a lot in their pension before won't get as much tax relief, which - given the economic situation we're in - is really important.

LEWIS: Well live now to talk to Tom McPhail from independent financial advisers Hargreaves Lansdown. Tom, a maximum of £50,000 a year into your pension sounds very generous to most people who on average earn half that much. So is this a good example of taxing the rich, do you think? Are the government doing what they said they would?

McPHAIL: I think they've come up with a pretty good compromise. They were handed this £4 billion bill that they had to find somewhere - from the previous government - and by spreading it across these 100,000 people at the upper end, I think they've managed to find a way through the situation that is an adequate compromise. And for some people … You know that works out at £40,000 a head. For some people, it's going to be quite a significant compromise. But I think the areas where it's going to be felt most keenly will be for the very high earners and I don't suppose they're expecting much sympathy; but also perhaps for people with long service in final salary schemes who see their big pay rises just before retirement.

LEWIS: Yes, I mean that is a complexity, isn't it? If you have a final salary scheme, which pays a proportion of your final salary, if you suddenly are promoted - I mean for example a teacher who's promoted to head or a doctor who becomes a surgeon - they could suddenly find themselves with a tax bill. How would that happen?

McPHAIL: So what happens when you get this pay rise is it drags up all your existing pension rights because they're calculated by reference to your final salary. If you get a big jump in your salary, everything goes up. So we may see this situation where some of the people you've described suddenly get a big jump in their pension rights. Now the treasury's come up with a formula that will mitigate this to some extent by allowing people to carry forward 3 years worth of allowance to offset this, and perhaps to pay the tax bill when they get to retirement is another idea they're kicking around, but I think some people are going to get caught out by this.

LEWIS: Yes, I mean those cases will be fairly rare. The Telegraph is saying middle classes hit by another big tax bill. But really these aren't middle classes; these are very well paid people, aren't they?

McPHAIL: I think they're the fairly affluent middle classes.

LEWIS: The fairly affluent. *(laughs)*

McPHAIL: I think what this will do is it'll have knock-on implications still for the way employers design their pension schemes …

LEWIS: Yes, I mean people have said it could see the end or contribute towards the end of final salary schemes because of some of these complexities. Do you think that will happen?

McPHAIL: I think it will nudge employers, trustees, unions more towards career average schemes - the sort of stuff we've been hearing John Hutton talking about in relation to public sector pension reform. I think we'll see employers looking more at broad-based workplace savings accounts - what are called corporate wraps where you get ISAs alongside your pension. So it's not the death knell for final salary schemes, but I think it's another nudge in that direction.

LEWIS: Tom McPhail of Hargreaves Lansdown, thanks very much for talking to us.

If you run out of money before the end of the month, what do you do? Well more and more people are turning to payday loans - borrowing small amounts to tide them over to payday. The number of these loans has quadrupled in the last 4 years even though the interest rates charged are terrifyingly high - thousands of percent APR. They can even reach millions if you only borrow the money for a week. Well today the Centre for Responsible Credit is launching a campaign for tighter regulation of these loans. Money Box listener James told us how he took one out in an emergency, but then found it very hard to escape.

JAMES: The initial loan I got was around £100, which was a low amount but I thought I'd stand a chance of getting that and then I'd be able to build up a rapport with the company if I needed them. So I think it was about another £30 I had to pay back 28 days later. And then the following pay I realised my car insurance was due and the car needed repairing, so I upped that to about £350. And then I became ill. I needed to get around £800 to cover my bills. So I borrowed £800, which was £1,000 to pay back., £200 interest for 28 days. Although the APR is clearly displayed, you tend to look at the money and think what you need it for, what you can do with it. The problem with these payday loans, it's such a high interest rate you find yourself getting into the cycle of borrowing it again and next month I'll reduce it; but then next month you borrow it again and you think oh I'll reduce it the next month, I'll get round to it eventually. And at this time they're making all this money on the interest off you. During the first few months I was pretty scared that I'm trapped in a cycle now and I'm not managing to reduce it. I was unsure what the future held.

LEWIS: Well James has now got more work and overtime and is slowly climbing out of his problems. Loans like this are currently regulated by the Office of Fair Trading. Ray Watson is head of its consumer section. I asked him whether the OFT would take action if he received a complaint from James.

WATSON: The consumers who use these products suffer from limited choice. They don't have access to mainstream financial services products and removing the supply would actually worsen their position because they would be forced into the unlicensed market where they would be treated far more badly than they are.

LEWIS: So you're saying this would push them into the hands of criminals. So it's better to pay thousands of percent APR than go to a crook?

WATSON: We're not saying these aren't expensive products. What we're saying is that using the APR as the price indicator distorts the extent to which they're more expensive. The way that the businesses treat people in these sectors tends on the whole to be good - the don't levy default charges, they don't …

LEWIS: Well they don't need to, do they, when they're charging that? And from the company's point of view, whatever you say about APR over 2 weeks for the individual, they are lending out money at thousands of percent. That's the return on their capital.

WATSON: If it was that attractive, then the mainstream would be going in there to make those profits. The APR rates in these sort of loans are quite often lower than would be charged by a bank for an unauthorised overdraft.

LEWIS: So what do you think the answer is to the concerns that have been expressed? And there's a report out this weekend calling on the OFT to review advertising, to review the lenders and take enforcement against those that are breaking your guidance. What do you think the answer is?

WATSON: We monitor closely what's going on in this market and, where there are problems, that we take action against them. I have to say in that report it does actually say it's not very clear how big a problem this is.

LEWIS: And you would say you haven't taken action because the problem isn't big rather than because you're not doing the job you're supposed to be doing?

WATSON: I wouldn't like to say the problem is not big. I sympathise with the people who have to access higher cost credit products. There is not the evidence there to suggest that we need to take widespread action against businesses.

LEWIS: Ray Watson of the OFT. Well, as I said, the Centre for Responsible Credit is calling this weekend for tougher regulation and I'm joined now by Damon Gibbons, its Chief Executive. Damon, I did get the impression from Ray Watson the OFT wasn't too concerned about these loans. Why are you so worried about them?

GIBBONS: Well I think we're concerned for two reasons. I mean firstly they are a very expensive form of borrowing, and particularly when compared to authorised overdrafts. And most payday borrowers will have bank accounts - in fact payday lenders only lend to people in employment with bank accounts. And also to small sum short-term credit card borrowing. It's much more expensive than that as well. Now that would imply that actually many of the borrowers are already exhausting those lines of credit and are in financial difficulty, so more action is needed to protect them.

LEWIS: The Office of Fair Trading has also said that it doesn't think people should be recycled, as James was. What do you think it should do to try and enforce that because it's very hard to know what's going on in this industry, isn't it?

GIBBONS: Well I don't think it is really. To be honest with you, the irresponsible lending guidance which the Office of Fair Trading brought out in March quite clearly says that repeat borrowing and rolling over of loans would indicate that lending is irresponsible and unsustainable.

LEWIS: It's monitoring that though, isn't it, and proving it's happening and clamping down on the companies, which the OFT doesn't seem to be doing?

GIBBONS: Well exactly. And that is the problem because you know it only takes a quick survey over the internet to see those companies which are actually offering rollovers as a default option. So the question is why in 6 months the Office of Fair Trading's done nothing about that.

LEWIS: Payday loans though do fill a hole in the market, don't they? If you go to your bank and say, "I want a hundred quid for a month", they're going to show you the door, aren't they? So they do fill that gap in the market. How can it be filled by more … well by cheaper borrowing?

GIBBONS: I think the issue there is about authorised overdrafts, but, as I say, most people would borrow £100 on an authorised overdraft or use their credit card if it was just for a month. So the difficulty is that people are already up against those credit limits that have been provided by mainstream lenders. The issue is for banks to be more proactive, identify people in financial difficulty, and help them with products that reorganise their finances.

LEWIS: But of course some banks have recently started charging £1 a day, £2 a day even for authorised overdrafts, and the APRs on those if they were calculated are immense, aren't they?

GIBBONS: They are indeed, and this is the issue. In the US where we've looked at this, regulators have clearly put pressure on banks to offer alternatives to payday lending - actually be proactive and help people sort their finances out. And have demonstrated - it was a $40 million pilot programme in the US over the last 2 years with mainstream banks - have shown that they can offer commercially viable alternatives to payday lending. The question is why we're not doing it here.

LEWIS: So would you like to see American restrictions? Some states have banned these companies.

GIBBONS: Indeed, 15 states have banned them; 35 states have got payday specific legislation which limit rollovers, limit the amount of loan relative to income and so forth. That's exactly the sort of thing that we should be looking at in this country together with much more pressure on the banks.

LEWIS: Damon Gibbons of the Centre for Responsible Credit, thanks very much.

As Money Box exclusively revealed last weekend, Consumer Focus is to be scrapped with its responsibilities transferred to Citizens Advice Bureau. How that will work, we don't quite know yet. A consultation is due to start in the new year. Citizens Advice is also going to take over the government supported Consumer Direct helpline. And as we also said, the Office of Fair Trading will lose its role in protecting consumers. That job will pass to local Trading Standards offices instead. What's left of the OFT will be merged with the Competition Commission. The changes to the defence and promotion of consumer rights are part of the government's reform of public bodies: 192 of these quangos will be axed; another 118 will be merged. Here's Francis Maude, the Cabinet Secretary, explaining the criteria on how the government are deciding if a public body should survive or not.

MAUDE: A body to be independent has to pass one of three tests. It has to be doing something which is clearly technical, or it has to be doing something which requires political impartiality, or it has to be doing something where it is actually effectively measuring something in a transparent way. There's obviously no dogmatic rule that says that no independent body can ever be set up again, but what we're going to be doing is subjecting all of the existing bodies to a pretty rigorous examination.

LEWIS: That's Cabinet Secretary Francis Maude. Well on last week's Money Box, the Chief Executive of Consumer Focus, which is set to disappear - Mike O'Connor - told me why he didn't think his organisation should be scrapped.

O'CONNOR: There are huge challenges coming up with changes in the postal market, in the energy market, and consumers need a strong voice. If they do get rid of us, they'll need to replicate us somewhere else. It won't necessarily lead to any savings.

LEWIS: Well live now to talk to Professor Catherine Waddams who's Director of the Centre for Competition Policy at the University of East Anglia. Also a member of the Competition Commission until last year. Catherine Waddams, three consumer bodies going. Will that damage consumer protection?

WADDAMS: I think it may do, and I think it may in particular mean that consumers are less likely to be active in markets. So it's both protection and it's ensuring that they are playing a part in making markets work well.

LEWIS: How do they do that? How do they be active in markets, as you say?

WADDAMS: Well I mean our research at the Centre for Competition Policy shows that some consumers tend to be inactive across lots of markets. And what seems to enable people to be active is that they are aware clearly of the offers that they can take advantage of, so that they will switch between suppliers; but also that they have confidence in the market. And I think these bodies have helped consumers have confidence in the market.

LEWIS: Right, so when you say active in markets, you mean consumers voting with their feet, as we say, or choosing the right company on price or service?

WADDAMS : Indeed, that has a very good effect on companies in making sure they make better offers.

LEWIS: And when Francis Maude explained the three criteria to keep a public body, and I think any one of them was enough - technical, political impartiality or it being effective - this really seems to me to cover all the things Consumer Focus did.

WADDAMS: Yes, it's very surprising. I noticed in the list of the quangos that each of them had a reason why it was being retained, if it was, and Consumer Focus didn't apparently score on any of these. One of the worries is that the jobs that get transferred elsewhere may be two bodies that are themselves under-resourced. Citizens Advice Bureau are themselves facing budget cuts, for example.

LEWIS: Yes, I mean they don't have a helpline, but now if they take over Consumer Direct they'll have to have one. Someone's got to pay for that, haven't they?

WADDAMS: Yes indeed. I'm not sure the money saved is going to be quite as much as perhaps the government hopes.

LEWIS: We heard earlier talking about payday loans, the Office of Fair Trading. On that particular issue, they don't seem to have been held up as a consumer champion by campaigners. Will we really miss their consumer role?

WADDAMS: Well I think it's difficult, isn't it? Issues of that kind, if you put too many restrictions then people like James when they're in trouble may find there is no help for them. So it's always a very difficult balancing act. And the Office of Fair Trading has been looking at markets and ensuring that consumers have a reasonable deal, so I think we may miss them.

LEWIS: And of course they did take the case against the banks in the courts which would be very hard for a local Trading Standards office to do, which is what seems to be planned.

WADDAMS: Yes, the advocacy role is a bit worrying. Both Office of Fair Trading and Consumer Focus have had large advocate roles and I think we do need those sort of bodies. However irritating we may find the sort of issues that they raise, it's important because they do raise these issues.

LEWIS: Professor Catherine Waddams, thanks very much for talking to us.

Now Money Box has been hearing complaints about a pre-paid card which is being heavily marketed to students and young people who are planning to travel abroad. These pre-paid cards are not credit cards, nor debit cards. Instead the money is loaded onto them in advance, so you can't run up debts. But some holders say they've had serious problems using the STA Travel Mastercard, which has left them struggling abroad to access their cash. Bob Howard's been looking into it.

HOWARD: Paul, Money Box was contacted by Helen from Kent. She's just finished university and wanted to go travelling this summer.

HELEN: I graduated in July and decided to go to South America. And I was looking for a secure way to take money with me, and the STA cash card that they advertised in the STA travel agency seemed like one of the best ways. I paid £20 for it and it already had £10 on it. It seemed like a good way to go.

HOWARD: Helen was able to load the card with more cash reasonably easily, but her problems began when she arrived in Brazil.

HELEN: I found it difficult to obtain money from ATMs. The screen would often say things like ‘you’re experiencing communication problems’. I didn’t really understand what that meant. And it was sort of every other ATM would let me withdraw money. Luckily I was with a friend who was able to bail me out quite a lot.

HOWARD: And then things got a lot worse. After using one particular ATM in Brazil, Helen discovered the details of both her STA Travel pre-paid card and a separate credit card she’d used had both been copied and used to make fraudulent transactions. Her credit card provider accepted the loss quickly, but getting staff at the Indian call centre to deal with the £250 she’d lost on the pre-paid card was a very different experience.

HELEN: They struggled to understand English and I had to repeat myself endlessly on my mobile from Brazil, so I ran up a really large phone bill.

HOWARD: So was that a language problem, or was it them just not really knowing the various processes for the card or a combination do you think?

HELEN: I can only assume that it was a bit of both. I asked them one question at the beginning of the call and it took them 15 minutes to answer it. It was really frustrating. I said. “You know you advertise this as a gap year card. What do you suggest I do now that I know that someone else is taking money from it?” They didn’t offer me any solution to the problem.

HOWARD: And things didn’t improve when Helen returned to the UK. She sent a witness statement and phoned the call centre at least four times to ask about a refund. Each time they promised to return her call within 24 hours, but Helen says each time they failed to do so.

LEWIS: And, Bob, is Helen still out of pocket?

HOWARD: Well, Paul, she was until Money Box contacted STA Travel on her behalf this week.

LEWIS: Ah, the Money Box -effectl

HOWARD: Having until that point not even been told her claim had been recognised, on Friday evening the firm contacted her to say it had refunded her both the £250 and the cost of her calls.

LEWIS: And, Bob, you’ve been looking further into this at the firms behind this card and others. What have you found?

HOWARD: Well Paul, it’s quite a complicated set-up. The STA Travel Card, like many others, is issued by Newcastle Building Society, but the call centre which customers deal with is run by Tuxedo Cards. But it’s STA Travel which sells the card and which has its brand on it. And when Helen looked on the STA sponsored website Travelbuzz, she found it was full of other STA pre-paid cardholders complaining about their experiences. Now despite this, we were told nobody was available from Tuxedo or STA Travel to speak to Money Box. Instead they both sent statements. Ian Swain, STA’s Product Director, said despite what the STA sponsored message board says, the vast majority of customers were delighted with their cards, but he admitted a very small number had had some issues and a number of changes had already been made. Tuxedo said it prided itself on providing excellent customer service, but on the rare occasions when there was a problem they would try and act quickly and efficiently.

LEWIS: Thanks, Bob.

Now just a brief other news item. The government has announced this morning that from 1st April 2011 you can put an extra £480 a year into a tax free ISA, taking the total up to £10,680. Half of that - £5,340 - goes into a cash ISA, - a rise of £240. And if you've got one of those dreaded letters from the taxman saying you owe tax, there's new guidance on the Low Incomes Tax Reform Group website on what to do. Don't pay any tax demand, they say, before reading this advice. There's a link on our website, which is - as ever - bbc.co.uk/moneybox where you can do all sorts of interesting things, including have your say on payday loans. That's all for today. We're back on Wednesday. Money Box Live will be taking your calls on the Comprehensive Spending Review - a matter of such importance that Vincent Duggleby and I will both be there. I'm back with Money Box next weekend. Today the reporter Bob Howard, producer Monica Soriano. I'm Paul Lewis.