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## **MONEY BOX**

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**LEWIS:** Hello. In today's programme, I will try to order someone else's credit card PIN live on air. Does one major bank need to improve its security for requesting a PIN reminder? After our piece on high charges on personal pensions, we try to get an answer to this listener's question.

**DONAHUE:** What can one do to avoid all these high fees and get more value and an increased pot at the end of your term?

**LEWIS:** So how low can we go? And where are the hidden charges lurking in our investments? There's hope of compensation for thousands of people who had investments they were told were safe, but which disappeared when the US bank Lehman Brothers went bust. And the courts tell the government to improve its plans for compensation to Equitable Life customers.

But, first, Money Box has discovered serious flaws in a system used by Britain's biggest bank to help customers who have forgotten their PIN. The problem was identified by one Lloyds TSB customer who contacted us after our story on Chip and PIN security a couple of weeks ago. Bob Howard's been investigating.

**HOWARD:** Paul, the security weakness we've found came to light after Money Box was contacted by Malcolm from Buckinghamshire. Fraudsters used his credit card details in August to try and steal around £300. The bank blocked the transactions, but

he was shocked when he discovered how the thieves had apparently got hold of his PIN.

**MALCOLM:** When they were discussing it with me, they said that the PIN reminder had been sent out to my cardholder's address, which I didn't request and I never received. So I started to be a bit worried that there might be a problem with the post. When I looked into it, it turns out from Lloyds website that you can request the PIN number simply by sending a telephone text message quoting the card number, and then the PIN number is sent out to the cardholder's address. So it occurred to me that if the post isn't secure and someone intercepts the statement, they can get your card number and then they can request the PIN number and they have everything they need to breach the security.

**HOWARD:** Money Box listener Malcolm from Buckinghamshire. Now when I spoke to Lloyds earlier this week, I was told you could only request a PIN reminder this way if your phone was already registered for telephone banking for that particular card.

**LEWIS:** Well, Bob, we're going to try and put this to the test. A colleague has very kindly, trustingly given us their Lloyds TSB credit card number, and I'm going to try and order a PIN reminder on *my* mobile that will be sent of course to their home. I've already put in the long 16 digit credit card number, and I'm just going to send now the Lloyds texting number. There it goes. And I'll click okay and send. And we'll see what happens. Bob?

**HOWARD:** (*laughs*) Well hopefully you will get some response from that. I tried exactly the same thing earlier this week and the PIN arrived promptly to my colleague's address three days later. Here it is. And on the back of the letter, you can see 'our tips on how to keep your PIN safe'

**LEWIS:** That's ironic, isn't it?

**HOWARD:** Indeed. When I contacted Lloyds TSB and pointed out the phone I'd

used wasn't registered, they then checked again and admitted it didn't have to be.

**LEWIS:** Right. Well, Bob, this would only work of course for a criminal if they had regular access to your post.

**HOWARD:** That's right. They'd have to get your card number first from perhaps a statement, text the request and then be around to intercept the PIN when it arrives.

**LEWIS:** And how likely is that?

**HOWARD:** Well our listener, Malcolm, believes it happened in his case. And Steven Murdoch, an expert on Chip and PIN security at Cambridge University's Computer Lab says there are various ways criminals can intercept your post.

**MURDOCH:** Someone could maliciously request a PIN re-advice. That letter is then sent to the registered address and you can then pick it up. They could either do it at the Post Office or they could do it at your house. And they've got various tricks for doing so. So, for example, they could set up a redirect and temporarily redirect all your mail somewhere else. Or they could tell the bank that you've moved house and then have this re-advice letter sent to a different address and then pick it up.

**HOWARD:** Lloyds, however, doesn't seem to be at all concerned about what we've discovered. No-one was available to speak to us, but in a statement the bank insisted its customers found the system "helpful" and "convenient" and it had no plans to change it.

**LLOYDS STATEMENT:** We have a wide range of security measures in place to ensure the PIN is safely received by the card holder. These include not sending the PIN if the phone the request is received from has made multiple PIN requests in the past, if the card is reported lost or stolen, or if there has been a recent change of address on the account. Unfortunately, fraudsters are sometimes able to intercept the post; and if a customer suffers fraud on their account as a result of this type of fraud,

we would always refund them in full.

**HOWARD:** Even so, it seems to be the only bank which offers a way to request a PIN which doesn't ask customers to go through normal telephone banking security. Royal Bank of Scotland, NatWest, Barclays and the Co-op Bank all told me their customers had to do this.

**LEWIS:** And, Bob, I've just had a message back. 'Thanks for your PIN request, which will now be processed. If successful, you should receive within the next three working days' and then it gives their website address. But, Bob, apart from this story, listeners are continuing to contact us, aren't they, about a whole range of other Chip and PIN security issues?

**HOWARD:** That's right. We've had lots of suggestions about how technology might be being harnessed to extract people's PINs. A lot of customers have pointed the finger at the card readers now being issued for Internet banking, suggesting they can be modified to do this. We'll report back soon on these theories. And we're very interested also in finding out whether banks are allowing customers to record their PINs in any way at all - for example by disguising them as phone numbers in their address books or mobile phones. And if you admitted you'd done this after a fraudulent transaction on your card, would you get your money back?

**HOWARD:** Good question. A lot of people do do that, don't they? You can tell Money Box about your experiences of Chip and PIN through Have Your Say on our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

Three weeks ago, Money Box revealed that up to 40% of a personal pension can disappear because of the standard annual charges that are taken out of the fund. The total effect can reduce the pension by thousands of pounds for life. Some Money Box listeners have contacted us, asking for practical advice on how to find good lower cost pension schemes. Marco Donahue from Kent emailed us and we called him back.

**DONAHUE:** I was very interested in the piece you did. I have a modest personal

pension and I was shocked to learn that much of the contributions disappeared in fees, and I suspect that that probably applies to my circumstances. But it begged the obvious question: what can one do to avoid all these high fees and get more value and an increased pot at the end of your term?

**LEWIS:** So one listener's request. And we decided to challenge a financial adviser specialising in pensions to see what the cheapest might be. Live now to Bristol to talk to Tom McPhail who's Head of Pensions Research at Hargreaves Lansdown. Tom, tell us first what was the cheapest?

**McPHAIL:** The cheapest ... Hi, Paul. I think the cheapest we've found so far is to use a tracker fund managed by HSBC investing in the FTSE All Share, so it's a fairly broad based tracker fund.

**LEWIS:** So all this does is buys all the shares in the All Share index - that's 600 odd - and just follows them up and follows them down?

**McPHAIL:** Absolutely. No active management there at all, so what you see is what you get. And it's important to remember that it will track the market up, it will track it down. But if you're happy with that, if you simply want exposure to the UK stock market, you can get it for an annual management charge of just .25%.

**LEWIS:** But that's not quite the end of it, is it? Because, as I understand it, you've got to set up what's called a Self Invested Personal Pension and put that fund in it.

**McPHAIL:** Absolutely.

**LEWIS:** What's that going to cost you?

**McPHAIL:** So you need to find somewhere to put it. You need to find a wrapper to put round it. And there are a number of low cost SIPP's out there. Hargreaves Lansdown has one. There are a number out there though where you pay either no or

simply a nominal fee to set it up. So you might have to pay perhaps £100 with some of them. You set up the wrapper and then you put this very low cost fund inside it.

**LEWIS:** Now you say SIPPs are low cost, but there's a lot of concern about them, isn't there? The FSA is looking into them and one had its authorisation withdrawn recently, which didn't help, and left a lot of people really paying a very high tax charge. So SIPPs are not an easy answer. You've to get the right one and you've got to get a cheap one because many of them are very expensive.

**McPHAIL:** Absolutely. The FSA is quite concerned I think about what could be described as cottage industry SIPPs, of which this one that's recently run into problems, the Freedom SIPP, is a good example. Very small SIPP operators with only a few hundred investors are really doing very specialised work. Now the FSA is really looking to bring the whole SIPP market very much into the mainstream and it's looking to crank up the regulation on these.

**LEWIS:** And given the standard charge on a stakeholder of 1 or 1.5% - you're saying it can be done for a quarter or thereabouts when you've added on a sort of set up fee and presumably a fee to your financial adviser upfront - what sort of difference to your pension is that going to make?

**McPHAIL:** Well it's interesting if you look at the average stakeholder pension where you might pay ... the lowest cost ones are coming in at around .8% and some will charge in excess of 1%. They start at 1.5% and then they drop down to 1% after 10 years. And if you're looking out over 25 years, the difference in these charges can amount to tens of thousands of pounds on a typical pension fund. So it is important to look at the charges. I think it is also important to look at what you're getting for your money and to not simply buy a pension because it's low cost, but also to think about what kind of investment management you want in there.

**LEWIS:** Yes, but, as you say, the passive management, just putting it in a tracker fund, is the best. And a SIPP can be cheaper than a stakeholder. These are the stakeholder schemes that the government wanted to be cheap and cheerful, easy to

use, we know what it costs. But using a SIPP, which is much more complicated, that can end up cheaper?

**McPHAIL:** I think the point to bear in mind with stakeholder pensions is that they are simple, so there's no nasty surprises with them, there's no hidden complications. What you see is what you get.

**LEWIS:** Right.

**McPHAIL:** And so if you want a simple pension, go and get a stakeholder.

**LEWIS:** Tom McPhail, thanks very much. Stay with us because I want to bring you in a bit later. But we've been talking about pension fund charges there with Tom McPhail. But are the costs of investing in funds really that transparent? Now City insider Alan Miller, who was formerly a director of the major fund New Star Asset Management. He's now an investment manager of Spencer Churchill Miller, a wealth management company. And Alan says there are hidden costs that can eat away at your investment. I'll let him speak for himself. He's with me in the studio. Alan, we've just heard about this very cheap quarter of 1% fund. What are the extra charges that you might never know about?

**MILLER:** Well as you said there, the underlying costs might be .25, but they're, as your IFA highlighted, there's an annual cost of 0.8% per annum. Various retail funds - somebody, a man in the street buying a retail fund can pay up to 5% front end commission to the IFA - so even if somebody invests over 5 years, that amounts to nearly 1% per annum. And then the other substantial cost, which most of the industry seems to ignore, is the actual cost of buying or selling the underlying shares or bonds.

**LEWIS:** Now of course the fund that Tom McPhail was talking about - and I think the .25 is the total cost, I don't think it's .8 on top of that ... But anyway.

**MILLER:** Well, no, it was .8 for the wrapper, I think he said.

**LEWIS:** Tom, are you still there?

**McPHAIL:** If you were looking at a stakeholder, you'd pay .8. That fund at .25, no there is no additional cost on that.

**LEWIS:** Right, so the wrapper is free?

**McPHAIL:** Correct.

**LEWIS:** So you make your money somehow, but it's free. But as you were saying, Alan, it's buying and selling shares that is the big cost. But of course with something that tracks the All Share Index - the 600 odd easily tradable shares - there aren't any buying and selling costs. You buy them at the start of the fund and you sell them at the end, roughly, don't you?

**MILLER:** Yes. The dealing cost of the underlying All Share tracker will be a fraction of the dealing costs of an active fund. And most active fund managers under perform the index and have higher fees, so the combination is obviously the investors end up with a much smaller pot than they would do by either having directly investing in a tracker or by using somebody who utilises the lowest cost way of investing, which is index funds or ETFs.

**LEWIS:** So ETFs, Exchange Traded Funds - those are similar to indexes ...

**MILLER:** Yes.

**LEWIS:** ... but they were actually buy a share, but they're even cheaper. One of the problems with those though from a financial adviser's point of view is they don't get any commission, do they, so many of them don't recommend them?

**MILLER:** That's right. And if you look at the vast majority of investment in the UK, only a very, very, very small percentage is in index funds or ETFs. And the ETF



industry is colossal in the States because the man in the street likes to deal at the lowest cost and have, if you like, the odds in his favour and the ETF industry is large multiples of what it is in the UK. Even in continental Europe, it's much larger than it is in the UK.

**LEWIS:** And how do you respond to people who say well of course you pay more for active management because you've got a highly skilled person in charge of it and they are actually going to beat the index? You said they never do, but that's not really true, is it? They do sometimes.

**MILLER:** No, I'm saying the average. It's a bit like buying a lottery ticket. You know if you buy a lottery ticket, the odds are you're going to lose and that somebody is going to win.

**LEWIS:** And briefly, Tom McPhail, I know you've found the cheapest for us and that's a job well done, but there are some much more expensive funds - some that Hargreaves Lansdown sells. Why are they worthwhile?

**McPHAIL:** I think the worst thing you can do is go into active management and just randomly pick funds, which is in fact what far too many people do. Paying for active management does pay off if you pick good fund managers. It's fine to pay a fund manager 1.5% a year if they are one of those few who are delivering good investment performance.

**LEWIS:** Yes, it's finding a good one though that's the trick, isn't it? And just to come back to Alan Miller, you've made some very strong criticisms of the charges and how they're hidden. Do you think the Financial Services Authority, the regulator, should be making sure that all these charges are there as the top line of anything that we invest in?

**MILLER:** Yes, I think the only way for people to make educated decisions is to be able to compare one manager and one fund with another. And at the moment it's virtually impossible to compare one fund against another because what is shown is

only a small amount of the total. It's like an iceberg. The industry shows you the top of the iceberg, but it doesn't show you the vast majority at the bottom.

**LEWIS:** And Tom McPhail - in a word, is that fair?

**McPHAIL:** I think it's part of the picture.

**LEWIS:** (*laughs*) Okay, that was a word - part of a picture, but certainly some truth in it. Tom McPhail of Hargreaves Lansdown and Alan Miller of Spencer Churchill Miller, thanks very much for talking to us today.

Now thousands of people who thought their investments had been lost after the collapse of the US bank Lehman Brothers could be in line for compensation. This week, two companies that sold these products went into administration and, strangely, the collapse of these two companies as well could mean their money's safe. Or most of it. Ruth Alexander can explain what sounds like a conundrum.

**ALEXANDER:** Yeah, Lehman Brothers collapsed in September last year, as you'll remember. In February, Money Box reported that thousands of people in the UK were shocked to find that they risk losing some or all of their money as a result and they'd invested in structured saving products with UK companies.

**LEWIS:** Now, Ruth, I'm going to interrupt you there because structured products - this is something people may not know about. They allow you to sort of take a bet on stock market returns, but your initial investment is supposed to be protected. But that only works because an institution agrees to take the risk of covering your bet on the basis they get some of the winnings; and of course if that covering institution goes bust, then you're not covered.

**ALEXANDER:** Exactly. And in this case investors' money was backed by Lehman's. But many investors, the thing is, had no idea of that fact. And it was a double shock because people complained their investment brochures had said their

money was 'capital secure' with no mention of the fact that the security is only as good as the bank providing it. And the triple whammy hit when investors realised that their losses wouldn't be covered by the UK Financial Services Compensation Scheme. It doesn't cover you if a third party backer goes down.

**LEWIS:** But their situation has now changed?

**ALEXANDER:** Yes. For the people who had bought structured products from two sister companies, NDF Administration and Defined Returns Limited, the Financial Services Authority has done a review of this literature and it says preliminary findings are that at least some of the brochures didn't comply with regulations. As a result, the company bosses put the firms into administration rather than face customer payouts and people could now claim compensation from the Financial Services Compensation Scheme. But the scheme bosses say people should wait until they've decided exactly what sort of claims they would consider, and the maximum people will be able to get back is £48,000.

**LEWIS:** Yes and of course it was in February that Money Box pointed out that literature might not be compliant, so we've been proved right on that. Not all the products sold by these two companies were backed though by Lehman Brothers, were they?

**ALEXANDER:** No. Almost 4,000 people held a total of £75 million in those sorts of investments, but many more people, about 31,000, had bought other financial products from those firms.

**LEWIS:** And so what's happening to the money of the other investors?

**ALEXANDER:** Well that totals about £400 million. Andrew Hoskings from administrators Grant Thornton says most of it is safe.

**HOSKINGS:** The bulk of the investments have passed through the company's hands

and have ended up with financial institutions, so they are protected and they're safely put to one side. The firm's client account is obviously a considerable amount of money. It contains direct debits and monies that have already been sured, monies that are partly the companies, and that reconciliation is both complex and the accounts are frozen. And I'm not in a position at this stage to say that those client account monies will make their way to the correct people intact.

**ALEXANDER:** So some investors will find that if they've recently paid money to the company or if their investments have recently matured, that money may be trapped until the administrators and lawyers have gone through that client account and assessed which claimants get what. Andrew Hoskings says if you do lose any money that's being held there, you could well be in line for compensation though and investors will be told within the month what the state of their investments is.

**LEWIS:** And, Ruth, these two companies weren't the only two to sell Lehman backed products?

**ALEXANDER:** No, they weren't. The FSA review of marketing literature extends to other companies which sold these sorts of products. And it's been looking at the quality of information given to customers across the wider structured products market. It won't comment on individual companies or on its broader findings yet though, but it says it will say more at the end of this month.

**LEWIS:** Thanks very much for that, Ruth.

Now ever since Equitable Life was brought to its knees in the year 2000, some of its customers have been campaigning for compensation from the government. Nine years on, not a penny paid, so it's hardly necessary to say it's been a long, hard road. Fifteen months ago, the Parliamentary Ombudsman said the government *should* pay compensation. January this year, the government apologised for mistakes but said it *wouldn't* pay full compensation. Instead it set up a review to provide limited ex gratia payments to some people in hardship. This week though, the High Court said the government's response to the Ombudsman was wrong and it ordered a rethink. The

case was brought by the Equitable Members Action Group. Yesterday, I asked its General Secretary Paul Braithwaite for his reaction.

**BRAITHWAITE:** I'm elated and delighted on behalf of policyholders. The court has done us proud. This is really a great victory for policyholders and a breakthrough.

**LEWIS:** What's the actual effect of it because it's not everything you wanted, is it?

**BRAITHWAITE:** It is the most important part of what we pursued. The effect of the judgement is to roll back the eligibility of the policyholders back to the date that the Parliamentary Ombudsman proposed, which was July 1991. So the ramification in compensation terms is enormous.

**LEWIS:** By bringing the date back to 1991, does that mean people will get more or more people will get something?

**BRAITHWAITE:** It means both of those things. It means far more people and, because of the cumulative payments that were made through that decade, inevitably the compensation could and should be a much, much bigger sum, as the Parliamentary Ombudsman had recommended.

**LEWIS:** When the government came out with its proposals in January, one of the complaints you had was that this wasn't really compensation. It was an ex gratia payment and it was based on hardship. Those two things are still going to happen, aren't they?

**BRAITHWAITE:** No, I don't think so. I think the judge has obliged the government to come back with a completely revised scheme based on 1991 and based on the Ombudsman. And the Ombudsman said that there should be substantial compensation for injustices and not hardship means tested. So, no, I don't think for a moment the government is going to be able to get away with means tested ex gratia payments that are salami sliced away to peanuts.

**LEWIS:** How many people do you think might get compensation now as a result of this change?

**BRAITHWAITE:** I think that we've multiplied by a huge factor the number of people eligible. I think we're talking about at least half a million people now.

**LEWIS:** And many of them may not have been expecting anything.

**BRAITHWAITE:** Well I think people have grown weary and cynical. They have been brushed aside by this government. This is a terrible stain on this government, the way that they have treated the Equitable Life sufferers.

**LEWIS:** I understand that Members of Parliament are debating this in the House of Commons on Wednesday. What do you hope will come from that?

**BRAITHWAITE:** Well we've had enormous support from all sides of the House. The debate is honoring the Parliamentary Ombudsman's recommendations on Equitable Life to pay compensation for the injustices she found.

**LEWIS:** So if members pass that, that would force the government to take an even stronger line than perhaps the court was telling them to?

**BRAITHWAITE:** Yes, that's so. 110 Labour MPs have already supported Vince Cable's motion on that subject, so we could, should there be a vote on Wednesday afternoon, find the government is defeated. This has close parallels with the Ghurkhas.

**LEWIS:** Paul Braithwaite. And, Bob, another court defeat for the government this week?

**HOWARD:** Yes, the government has no power to recover overpaid social security benefits from claimants who had done nothing wrong. That was the ruling from the

Court of Appeal this week. The case was bought by the Child Poverty Action Group after the Department for Work and Pensions sent out 65,000 letters to benefits claimants telling them they could face legal action if their overpayments were not returned. Last year, the DWP lost £900 million due to errors by its own officials in administering benefits. The ruling applies to benefits such as jobseeker's allowance, pension credit and income support, but not to tax credits or housing benefits.

**LEWIS:** Thanks, Bob. Well that's it for today. Find out more from the BBC Action Line - 0800 044 044. Our website, of course, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), where you can do all sorts of things - watch videos, sign up to my weekly newsletter, download a podcast, listen again, and of course have your say on Chip and PIN. And, goodness, a number of you already are. And this week you can also read about the award given to Money Box. Last night we were voted Financial Programme of the Year. Congratulations to the whole Money Box team. That was Thursday night. I'm back here on Wednesday with Money Box Live, this week taking questions on fuel bills and energy saving. Back with Money Box next weekend. Today reporters Bob Howard, Ruth Alexander. Producer Lesley McAlpine. I'm Paul Lewis.