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MONEY BOX

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LEWIS: In today's programme, one baby comments on NatWest closing her account after just one week. (*Fx: baby crying*) That was after fraud action that could affect any of us. Virgin ties itself to Northern Rock. Will it survive the shark infested banking waters? The Government asks us how to simplify the income tax system, but will the answers be printable? We find out about the hidden charges on pension funds that could be costing savers £3 billion a year. And with inflation around 5%, we name the savings accounts that can beat it.

But first, why would a bank close a baby's account? Money Box has been contacted by a couple whose account for their 6 month old daughter was closed by NatWest just a week after it was opened without any explanation at all. The story raises some worrying questions about how information regarding alleged fraud is acted on by financial institutions. Bob Howard's here and he's been investigating. Bob?

HOWARD: Yes, Paul. We were contacted by James from Leicestershire who opened a NatWest Savers Account for his 6 month old daughter Mariella with his partner just over a fortnight ago.

JAMES: We have a 6 month old daughter. We've recently had her christened, and from the christening received gifts from friends and families of cheques and cash. Because we didn't have a bank account, we needed to open one up for her. So my partner Vanessa opened up an account with NatWest. We received the standard

welcome to NatWest letters. So that was that.

HOWARD: James and Vanessa thought no more about it until a week later, completely out of the blue, they received this letter signed 'NatWest accounts closure team'.

NATWEST LETTER: We have with regret reached the conclusion that we will no longer provide banking facilities for you. Your account will be closed in 14 days from the date of this letter. The bank is unwilling to enter into any further discussion with you regarding its decision. Recovery agents have been instructed to collect cards and books in your possession.

HOWARD: James and Vanessa were shocked and confused. They couldn't understand why they were being forced to close an account they'd just opened for a 6 month old baby, but they felt they had no choice.

JAMES: It was just all very frightening and very threatening and we just didn't understand why given that we're an average couple with a young child and this sort of thing just doesn't happen to us. We duly went in, closed the account. The lady was very nice to Vanessa and said, "There's absolutely nothing showing on the account. If there was, I would tell you." So we closed the account, withdrew the money, and contacted Money Box.

HOWARD: So we contacted NatWest to try and find out why the account had been closed. NatWest came back with a one sentence explanation. It said:

NATWEST EXPLANATION: The customer lives at the same address with a person who committed an impersonation fraud.

HOWARD: When I raised this with James, he was baffled, but he said that earlier this year he'd received letters from a phone company addressed to a man he didn't know and had never lived at his address. He wondered if this man might have been

the subject of the fraud alert. So we contacted surf sources within the fraud detection industry who confirmed that James and Vanessa had excellent credit records and the fraud flag was against a totally different name at that address. It was clear that NatWest had made a serious error in forcing the closure of the account and giving James and Vanessa no opportunity at all to query it.

JAMES: We've been made to feel like criminals because somebody allegedly earlier this year tried to perform a fraud using our address. I find it very strange and almost childish of NatWest in that they can just say right, fine, closed. There's got to be some mechanism in which a person in my position can actually find out the reasons why rather than, "It's just closed. Thank you."

LEWIS: So, Bob, made to feel like criminals. What's NatWest have to say about this?

HOWARD: Well, Paul, since we first made contact, the bank has very quickly changed its tune. On Wednesday it was very confident that it had acted correctly, but by Friday it was a very different story.

NATWEST STATEMENT: Unfortunately a fraud alert was raised against their residential address unbeknown to them. A letter closing their daughter's bank account should have included details of how to appeal the decision. We're very sorry for what has happened to this young family and a staff member will ring them to apologise next week.

HOWARD: The bank also told Money Box that as a result of James and Vanessa's experience all closure letters will now include steps customers can take to appeal a decision. It said it would also offer them £200.

LEWIS: Thanks Bob. Well with me is Richard Hurley from the finance industry's fraud protection network CIFAS. Richard Hurley, what do you think went wrong here?

HURLEY: Fundamentally what went wrong is that the procedures that are in place and that are agreed upon between all the financial services organisations weren't followed. NatWest and any organisation when conducting an account opening will have to make various checks. The address of course will form part of the check. In such a case if a warning does flag up, that should be the starting point for an investigation to ascertain what's the link, if any.

LEWIS: But it was the finishing point here, wasn't it?

HURLEY: Yes.

LEWIS: This was an alert to banks, as I understand it, on this address from your organisation CIFAS. Should you have checked it out more carefully?

HURLEY: Well the filing that was in place was actually correct. The one from the mobile phone company was actually correct. They correctly identified. They had legal weight of evidence to prove that a person using a different name at this address ...

LEWIS: *(over)* But using the address, not living there.

HURLEY: Yes.

LEWIS: But if you'd checked the electoral role, you'd have seen that that person wasn't there at all.

HURLEY: The way data sharing has to work is obviously if an organisation has an application, they own that application and so they file a record to the database. The database will be audited at several points to ensure that there is a consistency and a clarity and correctness of the information. In such a case what appears to have happened is that the information filed was correct with the full information of the different person's name. The warning flag came up and, as you so correctly commented, NatWest used it as an end point rather than a starting point.

LEWIS: Yes. So that's in your view what went wrong? It was NatWest's fault because they didn't actually ... But what could they have then done? I mean if you get in touch with people in the house and say, "Are you this Joe Bloggs?", then if it is a fraudster, they're going to say, "Well no, I'm not."

HURLEY: Absolutely. Well there are various sources of information you know ranging from the standard one such as credit files through to obviously the internal information of a variety of fraud prevention agencies, other public sources of information, and of course the members of any SHIP data sharing scheme. So in such a case what we would normally expect, and we always advise, is that the two members of such a scheme contact each other to ascertain full details.

LEWIS: And you say that this was a breach of your rules. Will you be reminding banks - I mean not least NatWest, but perhaps all of them - what they should do before they send out what was really a quite frightening letter?

HURLEY: Oh absolutely. I mean you can legislate for everything except for human error, which of course is the one thing you can always guarantee will occur. And in such a case, rare though it is, you know you can't do anything other than say that it was wrong. In such a case, therefore, yes you know all of our members will be reminded that there is a procedure in place and that everyone has agreed to it.

LEWIS: Richard Hurley of CIFAS, thanks. And you can let us know your experiences of accounts being closed for no apparent reason through our website: bbc.co.uk/moneybox. I have to say many of you are already.

And now ... (*Fx: plane*) Well will Richard Branson's £747 million bank take off as easily as that? That's what Virgin Money spent this week on the 75 branches and one million customers of the good bit of Northern Rock. The former building society of course collapsed in 2007 when the queues of customers wanting to take their money out were even bigger than the security lines at Heathrow. But will this tiny new player on the high street offer the competition to challenge the 7,000 branches of the big

five? Chancellor George Osborne hopes it will.

OSBORNE: They're creating a powerful new presence on the high street, a very well-known brand name in Virgin that is going to be out there lending money, offering good deals to customers.

LEWIS: The closest bank in size to the new Virgin of the North is the Swedish owned Handelsbanken. It has 115 branches in Britain and I asked its Chief Operating Officer, Andy Copsey, how a small bank like that competed with the big five.

COPSEY: The crucial difference between Handelsbanken and most banks throughout Europe actually is the extent to which our branches, our branch managers in local communities are empowered to make decisions in their local towns and cities. And we've steadily increased our branches over the last 10 years in the UK and we've now got 115 branches in the UK.

LEWIS: So tell me about the basic things like debit cards, credit cards.

COPSEY: We have charge cards and debit cards.

LEWIS: Now a charge card isn't a credit card, is it?

COPSEY: No, it's effectively a deferred debit card, so your transactions accrue during the month and then the full balance is direct debited at the month end.

LEWIS: Right, so it's like an American Express card, a charge card?

COPSEY: Yeah, if our customers ask us to provide a credit card, then absolutely we will develop the products that our customers request of us.

LEWIS: If someone comes into you and says, "I'd like a cash ISA", what sort of rate would you pay on that? Your website suggests it's 1%.

COPSEY: That's the general rate that we offer on cash ISAs certainly.

LEWIS: But that's hardly competitive, is it? This is what puzzles me - how you get customers when they can go to a dozen other banks and get much, much better rates on their cash ISAs, for example? Why would they put their money with you?

COPSEY: Well our growing number of customers, who are typically recommended by existing satisfied customers, are looking for more than just a rate. They're looking for a relationship; they're looking for a bank that's a strong bank. We've recently been rated as one of the strongest banks in the world, so they want a bank that's going to be with them through thick and thin and where they have a relationship with a local branch manager, and that goes beyond the rate on a particular product on a particular day.

LEWIS: One of the complaints we get about banks in general is that they don't only want to do banking with you, they want to sell you stuff. They want to sell you a pension or insurance or investments. Do you do that in your branches?

COPSEY: We don't, but the crucial point really is whether the bank manager is giving you the best advice. Our staff do not receive bonuses. They do not have product targets, and it's bonuses and targets that are perhaps at the root of some of the difficulties we've seen in the industry. I work in the head office of a Handelsbanken in the UK. We don't dream up products or ideas. We don't set targets, we don't set bonuses. The branches decide, based on the dialogue they have with customers, what products and services to deliver.

LEWIS: Andy Copsey of Handelsbanken. Well live now to talk to banking specialist Peter Hahn of Cass Business School. Peter Hahn, Handelsbanken clearly has its formula for selling to people. What will the Virgin brand offer that's new to customers?

HAHN: I think in a similar light - and it goes back to your story about NatWest a few

moments ago - Virgin is not going to challenge the big five. What it potentially offers is an alternative. It's for people who want more service, a different type of approach. There is a market that is unfulfilled and they can attack it. Handelsbanken is offering service and I think we undervalue service. It's not just the rate. There are many people who, small businesses in particular, who think of a bank as someone who helps them in their business more than what it costs them.

LEWIS: Yes and Handelsbanken has never been mentioned on Money Box, I don't think before. It doesn't advertise. But it's growing to 115 branches now by word of mouth. Is that what you're really saying - that people actually hunger after something that isn't you know the best rate, but then you look at the small print and it's not the best rate at all?

HAHN: Well if you're a small businessman, you're really focused on running your business and the success of your business. What you want a bank there to do is to help you with all the financial matters, and price at the bank isn't necessarily the most important thing. If you're saving up for your pension, rate should be the most important thing. So it's a different group of clients, customers, and what they want.

LEWIS: So is Virgin destined to be a small, interesting bank rather than a challenger to the big five?

HAHN: Well I think it can grow. In the statements they've made in the last day or two, they've said they really do want to focus more on growing their internet business with a branch alternative. We saw banks a few years ago - remember there were Egg and a number of other internet banks - but they didn't have a high street side as well and they didn't make it. So this is really a new combination. They want to I think lead internet but also have branch, and that has possibilities.

LEWIS: Do you think we need branches at all?

HAHN: I certainly look forward to the day when I never have to go to a branch again,

to be honest. I want to pay my bills at home. We're unfortunately a generation away from being there.

LEWIS: Right, but you think that's the way forward - branches and a bit of internet?

Peter Hahn of Cass ...

HAHN: Well we'll ...

LEWIS: Sorry, go on.

HAHN: I was going to say internet banking in the end will save us all money. High street branches are expensive, there's a lot of people employed, there's real estate. So as we move towards more electronic banking, we take out costs and it should be better for all of us.

LEWIS: Yes, taking out costs of course means getting rid of people and jobs, doesn't it, but anyway. Peter Hahn of Cass Business School, thanks for that.

The Government wants to simplify the way that income tax operates. Hurrah! But it's turned its back on the greatest simplification of all: merging income tax with national insurance. In a consultation paper this week, the Treasury says it wants to "transform the customer experience of the tax system." Among the ideas floated are a personal online tax account where we could all check our own income and tax position and help for people on self-assessment by putting information into the form before they fill it in. But that separate paper from the Treasury also confirms it will keep the separate systems of tax and national insurance because merging them was just too difficult. With me is the minister behind these ideas, the Exchequer Secretary to the Treasury David Gauke MP. David Gauke, tax simplification first. Is this just an admission that the tax system isn't working; there's just too many mistakes?

GAUKE: Well what we're trying to do is make the tax system simpler for people, so that it's easier to understand because at the moment the tax system isn't always

terribly transparent; there are complications within it. Yes, you've got income tax and you've got national insurance contributions, and what we want to be able to do is to make it clearer to people, so that they can check their position, check it in real time, see what income has been included in the calculations and so on. So I think it should help the way the tax system operates and make people feel more comfortable with the tax system.

LEWIS: Isn't there just the danger though that it'll make them see how inaccurate it is? The paper does say if you had better access, would you have more confidence in the accuracy of your own tax? But we know that in the last tax year, 10/11, you got 3.5 million PAYE tax deductions wrong. A third of those people hadn't paid enough and are now being asked for money.

GAUKE: Well just to be very clear about it. You'll know, Paul, that the tax system has always operated with PAYE with what's described as an end of year reconciliation. Essentially when all the information comes through to HMRC, they do a final calculation. And as far as I can see, there is no tax system in the world where the final calculation is done in year. So end of year reconciliations don't necessarily mean that they're mistakes, but what will be easier for people to see is that, for example, benefits in kind tend to be something where HMRC only gets the information at the end of the year.

LEWIS: You mean like having a car or something like that?

GAUKE: Exactly, like having a company car. That's a cause of a lot of end of year reconciliations. It'll be apparent to the taxpayer what's been calculated or hasn't been calculated, so they've got a better idea earlier on as to whether there'll be an end of year reconciliation.

LEWIS: Now you have a sort of mission in your government I think to simplify things. The benefits system is being simplified, we're told; you want to simplify tax. But then you're planning to take child benefit away, a benefit, from higher rate

taxpayers in January 2013. That's going to create a huge new complexity, isn't it?

GAUKE: Well we did need to find savings. I don't need to go into the debate about how we need to get the deficit down ...

LEWIS: *(over)* No, don't go into that.

GAUKE: ... but we did need to find savings. We did feel that for the wealthier households, we had to look at child benefit ...

LEWIS: *(over)* But how are you actually going to do it?

GAUKE: ... and there were various options that were considered and we could have kind of extended the whole tax credit system to every household. That would have been very complicated. And so the proposal of using the tax system, further details will be announced in due course as to exactly how that will operate ...

LEWIS: Right, but it will be ...

GAUKE: ... but we do think it was the best option available to us.

LEWIS: And very briefly, you decided not to integrate tax and NI, but there are two completely different sets of rules operated by employers on the same pay.

GAUKE: Yes, but what we are looking at doing is merging the operation of income tax and NI because, I agree, there is a concern about two different types of calculation and we can deal with that. So those who advocate that NICS and income tax should be merged, you know, one, we can operationally simplify for employers; and, secondly, we can make it more transparent for the taxpayer, so they see exactly how it works.

LEWIS: David Gauke, Treasury Secretary, thank you very much indeed.

Inflation fell slightly this week, but it's still around 5% a year, and at that rate the value of money in the bank halved in 12 or 13 years. So are there any savings accounts that beat inflation, especially after basic rate tax has been paid? That's a question I put to David Black, Insight Analyst for Banking at De Faqto.

BLACK: Regular savers accounts from both First Direct and HSBC, they pay 8% fixed for a year. You can save between £25 and £300 each month for that year. Now they will give a real return based on both RPI and CPI. The catch is that you have to have a particular current account. In the case of First Direct, it's their First Account, which can be fee free provided that you either pay in at least £1500 every month or have an average credit balance of £1500. HSBC, on the other hand, you have to have one of their packaged current accounts, for which a monthly fee is charged. If you put in a maximum cleared balance of £300 every month on the first day of each month, as a basic rate taxpayer you'd get £124.80.

LEWIS: So it's a reasonable return. And what about the inflation linked ones that actually promise to pay you the rate of inflation or a bit more?

BLACK: Well there are a number of banks and building societies that offer RPI linked inflation bonds. The only one that's available as a cash ISA - and it is important that it's a cash ISA - is from the Yorkshire Building Society. You can also get it from the Barnsley and the Chelsea, which are part of the Yorkshire. That's a 6 year term. You have to put in a minimum of £3,000 and it gives you the return equal to the increase in the Retail Prices Index.

LEWIS: What about the Post Office, which we did look at a few months ago? They have an inflation linked bond, don't they?

BLACK: The Post Office have two inflation linked bonds. One is for 3 years and pays 0.24 plus the increase in the Retail Prices Index over the 3 year term. And, like the 5 year one I'm just going to mention, it has a minimum requirement of £500 to put in. The 5 year one has a return at 0.98 above the rate of the Retail Prices Index.

LEWIS: So with that latter one, you probably would (even after tax) you would just beat inflation?

BLACK: You would just beat CPI, but sadly not RPI if you're a basic rate taxpayer.

LEWIS: The risk is though, isn't it, that inflation will fall and, yes, it will beat inflation; but if it comes down to 1.5%, which is what the Bank of England's predicting for a year or two, then you're not getting a good rate of return at all.

BLACK: Well I think if you're in a position to spread things, maybe take out a best buy easy access account and maybe a medium term fixed rate bond.

LEWIS: David Black of Defaqto.

Next October the Government will begin a process to force just about everyone in work to pay into a company pension scheme, but what will they pay the people who manage their money? This week Alan Miller, the Founding Partner of wealth management company SCM Private, claims the costs of running pension funds is high and, perhaps more important, a lot of that cost is hidden. Behind the published fees, there are the costs of buying and selling shares and other investments - charges which he calculates at more than £3 billion a year. Alan Miller is with me now. Alan Miller, just how much buying and selling of shares takes place? What does it cost?

MILLER: Well the average fund has a turnover of close to 130%, so what that means is the average length of time a stock or bond is kept is just 9 months. And if you actually calculate the costs in terms of taxes, commissions, market maker spread, that's costing 0.7% per annum. It doesn't sound a lot, but over 20 years that means 15% of somebody's pension has disappeared in charges.

LEWIS: Yes and I was surprised looking at your list. I mean you say the average is 120 odd per cent, but some of them turn it over practically every month, never mind every 9 months.

MILLER: Yes.

LEWIS: So that's costing you that much more because it's happening more frequently?

MILLER: Obviously some managers are turning over their portfolios and achieving returns, but if you look at the averages most of that extra cost is simply coming out of the pocket of savers.

LEWIS: I have to say some of them ... I mean obviously successful fund managers are trying to get a good return by buying and selling, and Aviva says that over the last 3 years the returns gained from the trading activity were higher than the fees incurred, so the clients benefited from that.

MILLER: Yes well what is wrong with the fund manager actually being honest and fair and telling investors how much their investment's costing them, so they can make a rational decision?

LEWIS: And this isn't contained in what they call the portfolio turnover rate in the terms and conditions they give you?

MILLER: No, all that says is how much in total as a percentage they bought and sold, but it hasn't told you how much it's actually cost. You cannot find the cost anywhere.

LEWIS: So what would you like to see? Would you like to see a figure upfront saying we're going to buy and sell shares to make you more money, but this is going to cost you 1% a year or something like that?

MILLER: All that needs to be done is for the fund manager to say if you look at the last year or the last few years, on average we've turned it over by x. The average cost of that has been y, and therefore the real cost has been z.

LEWIS: And if you look at the funds, at the ones that turn over a lot and the ones that turn over less, which do perform the best?

MILLER: Well if you look at say UK equity funds, for example, and you look at the top 20% by turnover - i.e. the highest turnover funds - and you compare it with the lowest, you will see the cost of that extra turnover is close to 2% per annum on average. Of course there'll be some that are exceeding it, but the average is actually against you.

LEWIS: Against you. Alan Miller of SCM Private, thanks very much for that. Well that is all we have time for today. There's more on our website, bbc.co.uk/moneybox - my newsletter and so on. Have your say on having your bank account closed for no reason - and I must say emails are flooding in. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on small businesses. I'm back with Money Box next weekend. Today the producer and reporter was Bob Howard, and I'm Paul Lewis.