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MONEY BOX

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LEWIS: Hello. In today's programme, as more parts of the UK face flooding, we discover that even if you spend thousands of pounds protecting your home, your insurance may not be any cheaper. Inflation rises for the first time in 8 months. Should we be afraid, very afraid? Or not? One Money Box listener resists the temptation of a bank advert which he says offers more than it can deliver.

BALLARD: It's ridiculous. What you're doing is giving with one hand and immediately taking away with the other.

LEWIS: And we explain how thieves try to get money from cashback websites.

But, first, after what's said to be the worst 24 hours ever for rain in the UK, more rain is on the way and 19 areas are subject to flood warnings. It could be an expensive weekend for insurance companies. The industry has a deal with the government to continue insuring homes in areas of known flood risk. So you might expect them to be grateful when homeowners invest in their own flood protection measures, which can cost tens of thousands of pounds. But Money Box has learnt that, in some cases, the cost of their insurance is not coming down. Bob Howard went to meet one former flood victim in Surrey.

LEWIN: It comes from another village up that road up there, and it comes pouring

down like a tsunami.

HOWARD: So is that what happened in 2007?

LEWIN: Yeah, pours down here. Can't go anywhere. Stays for about five, six hours, and then disappears.

HOWARD: Mike Lewin from Surrey knows all about the misery of having a flooded home. It's happened twice to his Elizabethan cottage in the last 3 years, destroying his possessions and costing his insurance company just over £37,000 to put right. His insurer, Allianz, said the condition for future cover would be that it would be liable for the first £10,000 of any future flood damage - what's known in the industry as the policy excess. After thoroughly researching all the companies which offer flood prevention work, this summer he brought one in to make his home secure.

LEWIN: They've dug out a trench about two and a half foot wide, about two and a half foot high. They've gone right down under the foundations. They've sealed it all in about five, six different layers of anti-watertight protection.

HOWARD: And that's the line which we can see here about a foot ...

LEWIN: That's the line we can see here. There's the width. So they say you can live in the middle of a pond or a lake and not get wet.

HOWARD: It cost Mike £19,000. Although he did it primarily to keep his possessions safe, he also expected that his premium and liability for any future flood costs would come down considerably. But when he told Allianz about the work, he was very disappointed.

LEWIN: I've spent £19,000 fixing it. I've shown the certificate, I've shown them that it should not flood, and they just totally ignored it and said tough. It means we can't even change our insurance company.

HOWARD: Why is that?

LEWIN: Because the next insurance company will say have you got any outstanding problems and have you got excesses on your insurance? So then they'll say we can't touch you.

HOWARD: Now some people would say well that's reasonable in as much as you've been flooded twice in recent years. Why should other people in non-high risk areas end up shouldering more than their fair share of the responsibility?

LEWIN: I've also lived here for 35 years and it's never happened before that. I mean it's obviously some sort of freak weather condition that's going on, that's happening all round the country, so I don't see why I should be singled out as having to pay £10,000.

HOWARD: So should Allianz be making some concession to Mike for all the work he's had carried out? In a statement, the firm explained its reasons for not doing so.

ALLIANZ STATEMENT: Mr Lewin's property is in an area which has been identified by the Environment Agency as being at extreme risk of flooding. Given the higher risk of flooding in this case, a period of no further flooding is required for us to consider reducing terms.

HOWARD: When I asked Allianz how long this no flooding period would need to be, they said it was normally 5 years. But some firms are taking a different approach. I told the insurer Aviva the name of the company, Total Flood Solutions, that carried out the work and the sort of work which it had done. It said it would almost certainly take the view that this work had substantially reduced the flood risk and in this sort of case it would significantly reduce or even remove the excess charge. Neil McDermott, Total Flood Solution's Managing Director, says if each insurer had a list of approved flood prevention companies for customers to consult, it would be a big step forward.

McDERMOTT: There's no uniform preferred supplier from the insurance organisations or from the ABI saying these are the organisations that you should use and these are the ones that we recognise. This is something that a lot of insurance companies already have for other items such as different products for fire protection. And let me tell you something. Flooding costs the insurance companies far more than fire every year.

HOWARD: The National Flood Forum, which campaigns on behalf of flood victims, says it's heard from many frustrated homeowners who have expensive work done only to see their premiums and excesses remain the same. Mary Dhonau, its Chief Executive, says it's time for the insurance industry to make concessions to customers who do the right thing.

DHONAU: We've been told by government and by the insurance industry all along to protect your property, make your property flood resilient, and I urge them to recognise the vast amounts of money that people have put into protecting their own properties and reward the people accordingly. There's got to be a consistent approach. They've got to get together. They've got to decide how they as an industry are going to deal with it.

HOWARD: Mary Dhonau ending Bob Howard's report. So how does the industry respond? I asked Malcolm Tarling from the Association of British Insurers if its members were being fair to customers who've paid a lot of money to protect their home.

TARLING: Wherever possible, insurers will want to take into account the extra mile that those people at flood risk have gone to better protect their property. But what you've got to remember is that most people who invest a not inconsiderable amount of money in these devices and these measures are probably people who are most at risk of flooding anyway, and it is very often the case that these steps that people take to make the property more flood resilient and resistant actually mean they're able to get insurance. But we come across cases where insurers have indeed reduced an excess or indeed in some cases reduced the premium.

LEWIS: Our listener, Mike, did take a lot of steps. He spent nearly £20,000. He got no reduction in the excess or the premium and he's been told he's got to wait for a period of time of no flooding before he will.

TARLING: I think there are two important points to remember on the whole issue of flood resilience. Firstly, that if you are considering investing in such measures, that you check and talk to the insurance company. If you're already insured, talk to your existing insurer to see whether or not the type of measures you're considering are ones that they will take into account. And sometimes for insurance companies where the devices have no track record or where the measures have been untested and unproven, they will obviously want to make sure that they actually are fit for purpose and stand up for the job.

LEWIS: Sure, but wouldn't it help if the insurance industry had a list of approved techniques and approved suppliers, so that people could go to them with confidence - just as you get an approved burglar alarm or an approved lock system on your front door?

TARLING: Well in recent years there's been a proliferation of the so-called flood resilience and flood resistance measures, and I think one of the problems for insurers is to make sure that these products do what they say on the tin, so to speak.

LEWIS: Well that's what I said. Why don't you have an approved list of those that do?

TARLING: Well many companies actually do have lists of approved manufacturers who do actually produce devices and various other measures that actually work. I think this is certainly something the industry will look at in the future because we know that the flood risk in this country is going to get worse, and what insurers want to do is to insure as many properties as possible and also do as much as they can to help the small number of people who are at risk of flooding who are not protected by adequate flood defences.

LEWIS: Malcolm Tarling. And you can have your say on floods and insurance on our website, bbc.co.uk/moneybox. And some of you already are, and not very happy with insurers generally.

Now for months economists and government ministers have been warning us that the economy was in danger of sliding into deflation with prices falling and, therefore, debt more expensive. And for the last 8 months, one measure of inflation - the Retail Prices Index - has indeed been negative, showing that a typical basket of goods, including mortgages, would cost less than it did a year earlier. But now inflation is going back up. The other measure of inflation, the Consumer Prices Index, has risen to 1.5% in October, up from 1.1% the month before. Rising fuel prices and the cost of second hand cars contributed to this. So is this the return of the enemy of savers: high inflation? Listen now to Liam Halligan who's Chief Economist at Prosperity Capital Management. Liam, you've been writing in the newspapers very strongly that inflation is the danger, not deflation. Why do you think that?

HALLIGAN: I have indeed, Paul, in my Sunday Telegraph column. And you know the Bank of England's inflation forecasts recently have been woeful. Back in May, the inflation report said the CPI headline rate would be around 0.4% in the fourth quarter, and it's more likely to be about 2%. That really is a quite outrageous level of error. And it was always obvious to me that deflation was a myth propagated by the economists in the City who dominate the airwaves, who over influence many newspaper columnists because they want quantitative easing, they want endless money printing, their friends in politics want that too because that's the easy way out in order to try and recapitalise banks which would otherwise fail.

LEWIS: So you're suggesting ...

HALLIGAN: And you know there are many reasons why ...

LEWIS: ... you're suggesting this is a big conspiracy?

HALLIGAN: Well you can use that word if you want, but it seems to me pretty obvious and this has happened many times in history before. We have enormous debts in this country. The most painless way to get rid of those debts is to inflate them away. And there are many reasons why inflation in this country has risen. And you mentioned the RPI being negative. It's only negative, as you well know Paul, because it includes mortgage payments which have gone down. If you have the RPIX, which excludes them, the RPIX number is at 1.9% which is even higher than the CPI. When you've got an economy where the currency is falling, as ours has been; when you've got an economy where we've doubled the monetary base in just a few years, as we have; when you've got a situation where oil prices are now almost \$80 and on the way up, whereas this time last year they were \$70 on the way down; and we've got the VAT going back up to normal levels in a few months - very soon Mervyn King is going to have to write a letter to the Chancellor saying why inflation is so high, not so low.

LEWIS: And where do you see inflation going?

HALLIGAN: Well when you've got oil prices where they are ... I mean we were about \$70 this time last year and we went all the way down to \$40 by January and February at the beginning of the year. We're now at \$80 and oil prices could stay where they are. They could even go up as the global economy recovers and the big emerging markets of the East continue to keep growing. So I think inflation is going to go up.

LEWIS: Are we going to see the double digit inflation that we saw in the 70s and early 80s?

HALLIGAN: No, I don't think we'll see that because ... for many reasons. Trade unions aren't as powerful as they once were. One hopes, one hopes that we've learnt some lessons from history in order to prevent that. But I think, as I say, within the next couple of months the Bank of England will be explaining why inflation's so high, above 3%, rather than so low.

LEWIS: And interest rates going up too?

HALLIGAN: I'm sorry?

LEWIS: Interest rates going up too?

HALLIGAN: Well I would have thought that was obvious. When the government borrows as much as we're currently borrowing - and the fiscal figures out this week were pretty outrageous - then that of course pushes up interest rates. When you double your monetary base, that pushes up inflation, which pushes up interest rates.

LEWIS: Liam Halligan, thanks very much for talking to us.

Now some banks are advertising in newspapers and in their high street branches offering eye-catching interest rates on their accounts. But are those headline numbers quite as good as they seem? Ruth Alexander's been finding out.

SAMUEL: Okay, here we go.

ALEXANDER: Adam Samuel, a financial compliance consultant, breaks into a run as we approach a window display at a branch of Abbey.

SAMUEL: If we start looking at the advert itself, what you've got here is 'happy' written in italics and red print above 'bank accounts' in quite solid, large print, and then '6' is in a large gold type - so you can't really miss it - at the top of a Christmas tree, which is ... (*fades under*)

ALEXANDER: He's been put onto the scent of two adverts from the Santander Banking Group by Money Box listener Simon Ballard.

BALLARD: I noticed in the Daily Telegraph an advertisement from Abbey with a very large 6% on it, and the following day a similar ad with a very large 6% on it

from Alliance & Leicester. And yet the further you read down, the less that rate seemed to be attractive anymore.

ALEXANDER: Not only less attractive, but unfair - according to compliance expert, Adam Samuel.

SAMUEL: The average member of the public is going to see 'happy bank account 6%' - and only by bending their necks downwards are they going to get the next bit, which is the 'on balances up to £2,500 for 12 months'. And then you've got to go down much lower to pick up the small print and it says that you've got to pay at least £1,000 into the account every month. And the rate is .1% on balances over £2,500. What we've got here is a very classic example of an advert where the large print gives and the small print takes away.

ALEXANDER: He says he thinks this is in breach of the Financial Services Authority stipulating that adverts should be fair, clear and not misleading. Santander disagrees and says:

SANTANDER STATEMENT: All of the key conditions for achieving the headline rate follow on in the main body of the advert directly after the headline rate, not in the small print.

ALEXANDER: It's true that the caveats are not in the small print, but they are in much smaller print than the very large 6%. Listener Simon Ballard thinks the second advert he spotted is even worse. It's for a current account by the Santander Bank, Alliance & Leicester. It's a similar product, boasting an interest rate of 6%. It includes travel insurance and other benefits for a £10 monthly fee, which got Simon reaching for his calculator.

BALLARD: If you take £2,500 at 6%, you're talking about interest of around about £12.50 a month. And the monthly fee is £10 a month - so your actual return every month is about £2.50, and this equates to closer to 1.2% a year rather than the 6%

which is the proposition being put forward.

ALEXANDER: Over a cup of coffee, compliance expert Adam Samuel had a look at the ad.

SAMUEL: I have to admit to being gloriously confused by it. This isn't clear or fair, and it's in my opinion misleading in headlining a rate that isn't actually delivered.

ALEXANDER: In response, Santander says:

SANTANDER STATEMENT: The 6% interest highlighted in the advert is the genuine amount of interest paid on credit balances. This is one of the best products on the market due to the high interest rate and the list of benefits paid for by the monthly fee. We would always urge that customers weigh up whether they will get value for money from the account's benefits.

ALEXANDER: But listener Simon Ballard says although *he* spotted it, many wouldn't. And there's a clue, because Simon is no financial novice. Until 10 years ago, he worked in financial marketing himself and knows some of the tricks.

BALLARD: Times were different, but one thing that *was* the same was the power of a large percentage. By putting a very large percentage on a financial ad, you will get considerably more interest than without a large percentage number. And I think that this is clearly the strategy being adopted by Santander, but I just wonder whether they haven't just pushed this large percentage number too far. Why not make it 20% and have a £30 monthly fee? It's ridiculous. What you're doing is giving with one hand and immediately taking away with the other.

ALEXANDER: Advertising which pushes at the boundaries of what's acceptable is a problem across an industry where there's a lot of competition for your money. Simon Ballard.

BALLARD: I can remember running advertising that would be picked up by the regulator. The regulator could say why have you got this in a particular type size, why are you emphasising this, why haven't you caveated that? And in almost all cases, one could point to a competitor that had done the same or pushed it even further. Occasionally if there were mild instances, then once you had explained that you were reacting to competitive pressure, they would go away and you wouldn't hear any more about it.

ALEXANDER: The FSA says it won't comment on individual adverts, but it says key conditions should be shown prominently and not omitted or diminished by, for example, putting them into small print.

LEWIS: Ruth Alexander reporting. Fair, clear and not misleading, as ever.

Money Box has discovered that fraudsters are claiming cash rewards by buying things online but then not paying for them. These rewards or cashback can be given on anything from insurance to a bunch of flowers. Some pay a percentage of what you spend; others a fixed amount; and it's these rewards the fraudsters hope to pocket by using other people's details to make the purchase. One Money Box listener, Jacqui from Cheltenham, told us she was sent a home insurance policy from HSBC which she hadn't bought. How did she react when it dropped through her letterbox?

JACQUI: At first it looked absolutely real, and it said you know they were going to take £29, I think, nearly £30 out of our bank each month by direct debit. And it looked completely genuine. It had my name and my address and telephone number. But then when I started to look through some of the rest of the documents, because it was quite a thick pack, I realised that a lot of the details there were bogus. It said things like I mean my birthday, for example, my date of birth it quoted and they'd knocked 30 years off my age - which is no bad thing, but it obviously didn't relate to me. The details of the property, for example, they said that this was a five bedroom bungalow, our house, which it isn't.

LEWIS: What did you begin to think then? When you realised that there was something wrong with it, what did you think it might be then?

JACQUI: I just drew the conclusion that it must be a marketing ploy.

LEWIS: Well that's one listener's experience. Now Charlotte McDonald, a new member of the Money Box team, has been looking into this possible fraud.

McDONALD: I've spoken to both HSBC, who sold the policy, and Aviva, who are the underwriters, and they believe that a fraudster applied for a home insurance policy through a cashback website using Jacqui's name and address, hoping to pocket a cash reward.

LEWIS: And how does a cashback website work?

McDONALD: Well companies selling their products online try to maximise the ways for consumers to come across their site. They pay a commission to other sites, which direct people to their products, resulting in a sale. A cashback website, instead of pocketing the commission made, passes on the financial reward to the consumer.

LEWIS: So the thieves aren't interested in the product, just the cashback?

McDONALD: Yes. It's thought that fraudsters have been making false purchases, taking names, addresses and other details from publicly available places such as the phonebook or Internet.

LEWIS: And did they make money out of Jacqui?

McDONALD: We don't know if the fraudster was successful, although she was told that she was not the only case. Aviva has said in a statement that it has recently increased the time period before paying out the commission to check purchases go through. It believes this type of fraud is no longer successful. But other companies

may not have made these changes.

LEWIS: And in your researches, have you found any figures about the scale of the attempted fraud?

McDONALD: Quidco, the largest cashback website, has more than 45% of the market share in this sector. Last year, 200 million pounds worth of purchases were made through its site, and of that their figures showed just over a million pounds could have been fraudulent.

LEWIS: Thanks, Charlotte. Well with me is Dan Redfearn from the Internet Advertising Bureau, which is the trade body for companies advertising online like the ones we've mentioned. Dan Redfearn, how would someone applying for a home insurance policy in Jacqui's name get the cashback without the policy?

REDFEARN: Sure. One of the ways of doing it is if they were to take the details, as Charlotte said, from the Internet or from the phonebook, apply through a cashback website. And then when the commission or the bounty is paid back, they would then have that money transferred via a PayPal account or even via a cheque, which wouldn't be in the policyholder's name but actually in the fraudster's name.

LEWIS: But surely that would ring alarm bells if they said well the policy's you know Jacqui's, but actually I'm George Smith?

REDFEARN: Yeah, well it would and that's why at the IAB we've brought in several best practice regulations to try and firm this up.

LEWIS: So it's a question of communicating between the company making the sale and the cashback website, so they have the same details?

REDFEARN: Yeah, that's right. I mean the amounts of money we're talking about are quite large. I mean you can get up to about £100 for switching your gas and

electricity, for example. And what we would suggest in that instance is that you make sure that when the commission is paid that there's been a long enough period in order to take the money and also that the cashback's paid through to a bank account.

LEWIS: Yes, I mean Charlotte gave the figures from Quidco. You know about a million pounds, just over a million pounds of its two hundred million sales are fraudulent. That's a lot of money to be stolen from the system.

REDFEARN: Well it's a lot of money. But then you have to put that in perspective; that this isn't just an offline problem. This is - sorry, an online problem. This is an offline problem too.

LEWIS: So you're saying it's an overhead, it's like shoplifting?

REDFEARN: Yeah.

LEWIS: You don't really care because it's too small to worry about.

REDFEARN: *(laughs)* I couldn't say that. But it is something that merchants unfortunately have to take into account; that where you have transactions, you unfortunately will find people who will try and exploit loopholes.

LEWIS: But it's possible, isn't it, that someone in Jacqui's position where there was for example a credit agreement taken out in her name, she could have a bad credit record as a result of that because of this non-sale?

REDFEARN: Well what we would suggest at the IAB is that what we've put into place are best practice guidelines, so that when a policy is taken out that checks are carried out to ensure that before the cashback is paid or before the bounty is paid, that the policy is properly set up, so that in this instance Jacqui would have realised a policy was coming out into her name.

LEWIS: Yeah, but that puts everything on the poor person who gets it. I mean wouldn't it be better if this was regulated? I know you're a trade body. You obviously do a job trying to get members to do things, but shouldn't there be regulations to force companies to behave in a way that prevents these crimes?

REDFEARN: No, I don't think so. I mean going back, this is again you know a very small part of the affiliate marketing and a small part of cashback, and it's something that we think can be tackled with self-regulation and something that through education and through merchants and banks, retailers, etcetera, we feel that there's a good chance of cutting a lot of this stuff out before it actually comes through.

LEWIS: Dan Redfearn, thanks very much for talking to us.

REDFERN: Thank you.

LEWIS: And, Bob, next Wednesday - a big day for the banks and their customers and indeed us?

HOWARD: Indeed, indeed. Yes, it's the long awaited judgement on bank overdraft charges by the Supreme Court. It will have a final ruling on whether the Office of Fair Trading has the power to decide if the charges are fair or not. If the banks lose, then the legal argument should move onto whether the charges *were* fair or not.

HOWARD: And we'll be reporting on that next week. But that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox. Do all sorts of exciting things there, including find out how to report misleading adverts. You can have your say on floods and insurance companies and, goodness, they are ... well I won't say flooding but certainly coming in at the moment. And you'll also be able to see the award which Money Box won this week. The third this year. We're all blushing. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on renting and letting. I'm back with Money Box next weekend. Today the producer was Lesley

McAlpine, and I'm Paul Lewis.