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MONEY BOX

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LEWIS: Hello. In today's programme, a year on from the Supreme Court case, have banks improved their overdraft charges or taken advantage to make them even more expensive? As energy prices are set for another investigation, what can we do to stop our bills rising as temperatures plummet? Former cabinet minister Jack Straw tells us the insurance industry should stop setting car insurance premiums by postcode. One man tells us how his home is at risk after he missed two payments on his car loan.

NEWMAN: Had I have known on the paperwork that my home was at risk if I did not keep up repayments on a car loan, I would never have signed for the loan in the first place.

LEWIS: And Irish eyes are nearly smiling after the UK, Europe and the world seems likely to offer the country bailout cash this weekend.

A year ago, I was at the Supreme Court of the United Kingdom waiting for the judgement in the biggest personal finance court case for years. Seven banks and one building society took on the Office of Fair Trading. The question: did overdraft charges have to be fair? Then came the judgement, which ended a million claims.

LORD PHILLIPS: We have held that overdraft charges form part of the price or remuneration for the package of services that the banks provide to their current account customers. This means that the OFT cannot consider whether in imposing

those charges, the banks are giving fair value for money.

LEWIS: Supreme Court Justice Lord Phillips making it clear that banks could charge what they liked. Despite this victory, the banks have begun to change their charges, certainly making them clearer. Halifax Bank of Scotland moved quickly to charge a daily fee for overdrafts; and now others are following, changing their multiple charges usually into a simple daily or monthly fee. Ruth Alexander's been looking into this. Ruth?

ALEXANDER: Well Halifax Bank of Scotland customers who go into their overdraft by only a small amount now find it more expensive. They pay a flat fee of £1 for each day that they go more than £10 overdrawn and £2 if they're overdrawn by more than £2,500. If they stray into unauthorised overdraft territory, they're charged £5 each day. The latest to bring in changes now is Lloyds. For the first time customers will have to pay £5 each month they go overdrawn on top of interest. Unauthorised overdrafts will cost a maximum of £85 a month, which is less than the £200 a month which can be charged at the moment.

LEWIS: And RBS NatWest, they're also bringing in a flat fee for unauthorised overdrafts?

ALEXANDER: Yes, that's right. Come February its customers will be charged £6 a day for any unauthorised overdraft of more than £6 and that's subject to a cap of £60 a month. Arranged overdrafts remain unchanged. Interest is charged on the amount you're in debit.

LEWIS: And, Ruth, given that some banks are changing, others are not, it is all very complicated, is there a simple way of working out which bank has the cheapest, comparing their overdrafts?

ALEXANDER: Well unauthorised overdrafts are the most expensive. If you get into one of those, fees and charges can make it hard to get out again, so we've compared the costs of having an unauthorised overdraft with the main high street banks. The

Office of Fair Trading requires banks to publish the cost of six scenarios a customer going into an unauthorised overdraft might face from the cost of the bank refusing a payment because there isn't enough money in your account to the cost of using your overdraft for 21 days in a row and making twelve payments while overdrawn. So we've added the cost of these six scenarios together for typical current accounts. Halifax comes out as the cheapest with Barclays and RBS not far behind. At the other end of the scale is HSBC and the Co-op.

LEWIS: Thanks Ruth. Well with me is David Black from the financial analysts Defaqto. David Black, given that anyone might slip into the red occasionally, how can we minimise the cost of doing so?

BLACK: There are various ways of doing that. I mean first of all, as Ruth has very valiantly said, authorised overdrafts are always cheaper than unauthorised overdrafts; so if you do need an overdraft plan it in advance, ask your bank. The bank may or may not grant you an overdraft or an increase in your overdraft, and typically when you do ask they'll base their response on your account activity, your account behaviour, past overdraft usage, and sometimes they do a credit search as well.

LEWIS: But we've been getting emails today from many listeners who are saying, "I didn't mean to have an overdraft, but I just slipped into the red. A payment was mistimed and then I was penalised." How can you protect yourself against that?

BLACK: Well you need to be financially disciplined, but there are ways you can sometimes completely avoid overdraft charges altogether and there are a variety of things you could do. You could think about just having a basic bank account, which unfortunately doesn't have many facilities - no overdraft, for instance - and the other aspect to look out for on that is the debit card because some of the debit cards have very limited functionality. You could think about switching your current account elsewhere. There are at least two providers who are offering 0% on authorised overdrafts for a year.

LEWIS: So you can actually change to a bank that offers you essentially a free

overdraft for up to a year and then maybe change again after that?

BLACK: Potentially you could do that. And there are also another batch of banks that offer you an ongoing interest free overdraft limit, but again the amount's going to be vary from bank to bank.

LEWIS: Yes, of course the danger is if you have an interest free overdraft limit of say £200, you'll tend to work up to that; and then once you get over that, you get stung with the same unauthorised charges. If you do get stung with charges and it's your first time, is it worth ringing up the bank and saying look, hey, can you just waive these things for me?

BLACK: It wouldn't do any harm, and I think in some circumstances you'd be quite successful in doing that.

LEWIS: Give me some examples of banks though that do allow you to have interest free overdrafts.

BLACK: Well the bulk of them are from what we call package current accounts where you pay a monthly fee. But the highest ones from free and credit current accounts that we could find, all of these unfortunately insist that you deposit a certain amount each month - typically £1,000 or £1,250 each month. Citibank's Access Account will give you an interest free overdraft of £500. First Direct First Account and the Coventry Building Society, Coventry First Account, both offer £250.

LEWIS: And what does this tell us about the way banks finance current accounts because we think of them as free. Well they are free if you're in credit, but of course if you go overdrawn you're penalised and the banks make several billion pounds a year out of that. So would it be fairer to charge us for our current account and charge us much less if we do happen to slip into the red?

BLACK: Well that's what happens overseas generally. And while all these court

cases were going on a year, two years ago, the argument was that those that get overdrawn are effectively subsidising those that don't.

LEWIS: And what about finally offset mortgages? This is if you have a mortgage and you have your current account with the same bank - with some banks, First Direct and Barclays, I think. You can then offset one against the other, so effectively your overdraft is charged at your mortgage rate.

BLACK: Effectively yes, and those are particularly good for higher rate taxpayers. If you've got some element of savings and a credit balance on your current account sometimes, you're effectively earning interest at the same level as you're paying the mortgage interest. You don't actually receive it; it's offset.

LEWIS: So well worth doing if you're in those limited circumstances. David Black, thanks. And if you want to see more detail about how unauthorised overdraft charges compare, go to bbc.co.uk/moneybox and follow the overdraft scenarios link.

Now as temperatures plunge, the cost of keeping warm goes up and up. Ofgem, the energy regulator, revealed this week the profits of the six big energy companies have risen 38% in 3 months. It's now investigating if the companies are playing fair with their consumers. Ofgem Chief Executive Alistair Buchanan explains why an investigation is necessary.

BUCHANAN: We've got clearly enough evidence to conduct a quick-fire inquiry. A jump of nearly 40% in margins over the last quarter at a time when prices are going up, coming hot on the heels of us launching an inquiry into the companies for mis-selling, does send a very worrying message to customers as to whether the companies are playing it straight to us.

LEWIS: Meanwhile three of the major suppliers have announced price rises ahead of the winter. Only one so far - EDF Energy - has promised to freeze prices, well for more than 90% of its customers anyway, until at least the start of March. So apart from putting on extra layers, how can we protect ourselves from the extra costs of the

freezing weather? With me is Audrey Gallacher, Head of Energy Policy at Consumer Focus. Audrey Gallacher, are energy prices too high?

GALLACHER: We've been calling for energy prices to come down now for well over a year because there's been such significant falls in the wholesale commodity cost of energy, so I think they are too high. And clearly the regulator thinks they're too high because they're investigating the profits, they're investing the market.

LEWIS: Energy UK though says that Britain has one of the most competitive energy markets anywhere in the world and says there are many other costs apart from the raw materials of gas or electricity if you like. There's also transport costs and other things.

GALLACHER: I think that's right and ultimately to decarbonise the economy, to invest in security of supply, we're probably only going to see prices increasing, which means it's all the more important that we're starting from a base price that's fairly reasonable. Unfortunately we just don't know if it is because there's such a lack of transparency across the market.

LEWIS: Well that's the sort of industry side. But what about us as individuals? We are for the first time going to get an annual statement from our supplier. I got mine the other day. I must say it wasn't that easy to understand. How useful are those annual statements?

GALLACHER: Well the statements vary across the big six suppliers. We've actually done some analysis of them and we're ranked them in terms of how user friendly they are. But the intent behind these statements are to give people much more control over their energy use whether that's using energy more efficiently or giving them all the information and the tools they need in a competitive market and get a cheaper price.

LEWIS: Yes because it does give you that key figure, doesn't it - the annual consumption in kilowatt hours - and that's the figure you can put into the online websites and get a very accurate idea of how much you can save by moving your account?

GALLACHER: Yeah, that's right. That's the most important bit of information that you need in order to get a really meaningful price comparison, and we would always recommend that people do use an independent site. And Consumer Focus runs an accreditation scheme, the Confidence Code, so you know you're using a site that's unbiased and accurate.

LEWIS: Yes and there are twelve of those and they should in theory all give the same answers, shouldn't they? When I tried it though, I must say most of the deals I got as the best buys wanted to tie me in for 12 months. Now that makes it very difficult, doesn't it, because you might tie yourself into a company that puts the prices up in 3 months time and it would then not be worth having?

GALLACHER: We've definitely seen a massive increase in the number of tariffs that are out there from suppliers, but also the complexity of them. And there's some new developments in the market around things like contracts that tie you in - termination and cancellation fees rule over contracts. And all of these things, along with the concerns that people have got generally on the price of energy, is really not doing anything to help consumer confidence in this market. Trust is at an all-time low.

LEWIS: Yes and of course even if you do switch and you do get apparently cheaper bills, you're paying every month. That's an approximate payment. People often wonder why they have these big credits with the energy companies when really they think they're paying the right amount for their fuel.

GALLACHER: Yeah, the current system where lots of energy bills are based on estimated meter readings, where there's maybe a delay in taking note of your energy usage, these can sometimes have significant credits but also debts as well.

LEWIS: Yes and it can be quite frightening. Audrey Gallacher of Consumer Focus, thanks for that.

The former cabinet minister Jack Straw claims that many people in his Blackburn constituency with a good driving history are being overcharged for car insurance

simply because of the postcode they live in. Mr Straw believes that the insurance industry is giving too much weight to postcodes when deciding what individual customers should pay. The cost of car insurance has seen a huge rise this year, up on average by almost 40% compared to a year ago, but there have been even bigger rises in Blackburn. Jack Straw gave me some examples of some of the rises his constituents have been quoted this year.

BLACKBURN: Somebody who had been charged £400 last year, now £900. Somebody else being charged £500, now £1200. I mean one case, the constituent was able to get the premium down by cutting out, for example, the any driver loading. And in other cases, although people are shopping around, they're facing increases of up to 100%.

LEWIS: And how much of this is due to the general rise in car insurance, which we know has happened this year, and how much to the fact of Blackburn being singled out because of its high position in league tables on car insurance fraud?

BLACKBURN: The insurance association tells me that the average increase in car premium has gone up by 40%, so this is an addition. It's not just the Blackburn area, it's affected other inner areas with similar problems, but there's no doubt that it's a specific problem for some specific urban areas.

LEWIS: Well listening to that in London is Nick Starling who's Director of General Insurance at the Association of British Insurers. Nick Starling, does the postcode you live in play a big part in the car insurance premium you pay?

STARLING: It does play a part because your premium reflects the risk you bring, and unfortunately there are some postcodes where there are higher risks from insurance fraud, from the cash for crash scams and uninsured driving.

LEWIS: Cash for crash where somebody just crashes into the back of an innocent party and then claims a very great deal of money on the basis of that?

STARLING: That's right. These are these deliberate accidents. Well they're not really accidents as they're deliberate, yes.

LEWIS: You say it represents the risk you bring, but just happening to live in a certain postcode where there happen to be a lot of crooks is hardly bringing a risk. You might be a perfectly innocent and good and responsible driver.

STARLING: Yes of course you can and that is taken into account. Your premium depends on your age, the sort of vehicle you drive, your experience as well, but it does reflect where you live because if the propensity to claim is higher, then that will be reflected in the premium that's paid.

LEWIS: Jack Straw, you can see the argument, can't you? People in Blackburn are in some parts of Blackburn overall and more likely to make fraudulent claims, so they have to charge them more.

STRAW: Well I mean of course I can see the argument, but my concern is this. That if you look at the site specific data about Blackburn - for example thefts of and from vehicles - that's low and going down. If you look at the accident rate, it is stable. Yes there is a problem about cash for crash scams here as across other parts of the country. My concern is that I think that their systems, their mathematical algorithms are not sensitive enough to the individual risks posed by individual drivers. What I want to get to the bottom of is why it is that decent risk averse and claims free drivers in Blackburn are being so adversely penalised when others are not. I don't think it's fair. I actually think that it's in a general sense discriminatory.

LEWIS: So Nick Starling, you've heard what Jack Straw says and he thinks, apart from the general point, he thinks you are penalising unfairly his constituents in Blackburn. Will you have a look at that data again and see maybe if you could advise your members to have a different view?

STARLING: All our members look at their data all the time and they want to make sure that honest, safe drivers pay the risk that is appropriate.

LEWIS: But plus a postcode risk.

STARLING: That's always going to be the case. I mean Mr Straw there said that accidents are static. They are, but the trouble is that the number of personal injury claims keeps on going up and certainly in areas there are accident management companies who are extremely active. And though thefts for vehicles are down, we still have a big problem with uninsured driving and the cash for crash issues which I mentioned earlier.

STRAW: But on insured driving, Mr Starling, I mean this is a problem which is countrywide and I genuinely don't think that since the risks of that are pooled through the Motor Insurers' Bureau that my law abiding constituents in Blackburn should have to pay an extra premium for the fact that there are some people across the country who are driving whilst uninsured. I mean that is not their direct responsibility.

STARLING: Well insurers pool risk. Unfortunately we all pay for uninsured driving. We pay about £30 per premium for that. But part of the pooling is that the risk you present comes into the equation as well.

LEWIS: Nick Starling from the ABI and Jack Straw, MP for Blackburn.

Four major companies have been ordered to change the way they deal with people who owe them money. Subsidiaries of American Express, HSBC, Alliance & Leicester and Cattles have been told to make changes in the way they threaten debtors with the loss of their homes for relatively small sums of money. Financial companies can apply to a court to get even small consumer debts secured against the debtor's home. Last year, the courts granted £111,000 charging orders, double the number granted 5 years ago. Money Box listener Mark Newman had a charge put on his home after he got into difficulties keeping up payments on a car.

NEWMAN: I first purchased the car in May 2006 and kept up the payments until approximately June 2008. After I ran into some cash flow problems, the car was collected in September of 2008 despite the fact that I'd offered to pay the arrears that

were currently on the account. The car was then subsequently sold for less than half of its book value and the finance company then obtained a unilateral notice or a charge on my home for the balance. My main beef about this is that had I have known on the paperwork that my home was at risk if I did not keep up repayments on a car loan, I would never have signed for the loan in the first place.

LEWIS: Ray Watson is Director of Consumer Credit at the Office of Fair Trading. He explained first to me how charging orders work.

WATSON: A charging order is an instrument which a lender can apply to the court for, which turns unsecured debt into debt which is secured on the borrower's property. So if you borrowed money say on a credit card on a personal loan and you default on that, you're having payment difficulties, the lender can apply to the court and say please can I have an order to turn this into a charge secured on the lender's home effectively.

LEWIS: So this is turning ordinary old consumer debt, which we don't expect to put our home at risk, into debt that does put our home at risk?

WATSON: It is indeed. I have to say that less than 1% of these orders actually turn into orders for the sale of property, so in most cases the property is not lost but obviously there is potential for that to happen.

LEWIS: So in most cases, the charging order sits there. So if you sell your property, then that particular creditor can say we'd like our money now, but they can actually force a sale?

WATSON: They can force a sale. They can go to court again to ask for an order for sale. So once they've got the charging order registered, if they continue to see problems with repayment of the debt, there is a process by which they can ask the court to issue an order for sale. If the court does that, then all charges will be paid off. It is a means by which you can actually require a property to be sold to pay off your debt.

LEWIS: What stages are there for a borrower to challenge it? Can they go to court and try and stop this happening?

WATSON: They can indeed. The process works that the lender applies to the court and asks for what's called an interim order. At that point the debtor doesn't need to be notified, so I could go to court as a lender and say please can I have an interim charging order? If the court decides to grant the interim charging order, however, the debtor has to be notified and the debtor then has a right to go to the court to challenge before any final order is issued. The date for the hearing concerning the final order has to be set not less than 21 days from sending the interim order, so someone will have notice and there will be at least 21 days before a hearing on whether there should be the final order.

LEWIS: And that's the order to put the charge; it's not the order for sale. What warning do you get of that?

WATSON: Again if you have a charging order and then you want to go for an order for sale, then the borrower has the right to make representations to the court.

LEWIS: Making representations to court though, I mean it sounds simple in a way but it's quite daunting, isn't it? Presumably you need advice, if not a lawyer?

WATSON: You need advice and we would always encourage people to seek advice from free services like Citizens Advice Bureau.

LEWIS: Some of the debts you found were being put under charging orders were quite small, weren't they - £600 or so?

WATSON: Absolutely, absolutely.

LEWIS: Is there a lower limit where it would not be reasonable to impose a charging order?

WATSON: In law there's no limit. You have to look at the circumstances of each case to see what the position is in terms of the money owed, has the borrower been making repayments? When you're talking about securing debt against someone's property, a figure of £600 or even £1,000 does seem to us to be alarmingly low.

LEWIS: Ray Watson of the Office of Fair Trading.

Well as we heard in the news earlier, talks are still going on to settle the about euro's £80 billion ... sorry 80 billion euro bailout of the Irish banks and government. But whatever the outcome, it seems Britain is prepared to play a very big part according to the Prime Minister in helping to stabilise the Irish economy. Chancellor George Osborne has indicated financial support from the UK could total around £7 billion. But given our own financial problems, where's this money going to come from? Ruth Alexander's been finding out.

ALEXANDER: Well most of the money being talked about isn't going to have to be found immediately and it may never need to be found.

LEWIS: Well that's encouraging, Ruth. Why?

ALEXANDER: Well let me explain. We'll have to pay our share of the costs if Ireland defaults on the loans it's getting from the International Monetary Fund and the European Financial Stabilisation Mechanism, but there won't be any upfront costs here because we've already paid into the IMF Fund and the European Commission will borrow the stabilisation money on the market. But, thirdly, we've also said we might give Ireland a loan on top of the international aid packages. The government won't say how much that would be, but it's thought it could be around £2 billion.

LEWIS: And given the current cuts, where would we find that?

ALEXANDER: Well the Treasury says we'd borrow the money ourselves at effectively a rate of about 3% and pass that money to the Irish as a loan. And although

we'd have borrowed that money, it wouldn't actually show up in our whopping public sector net borrowing total, expected to be £149 billion this year, because by giving the money, we'd be exchanging cash for another financial asset - an IOU from Ireland. But it will show up in the UK's public sector net debt figure, currently about £845 billion, because though an asset, it's not the sort of loan that we could realistically sell on to anyone else. But the plus side is we would charge Ireland a higher interest rate than the rate we borrowed the money at, so we could make a profit.

LEWIS: And if Ireland defaults on the loan?

ALEXANDER: Well it's thought that's unlikely, but the UK could be negotiating for collateral to be put up against the loan. I mean there's been speculation that hotels like the Connaught and Claridges in London, which are owned by the Irish government, could be put up as security.

LEWIS: Is nothing sacred, Ruth? Thanks very much. And Bob Howard's here. News, Bob, that the Office of Fair Trading has acted against a debt collection firm Money Box investigated last year.

HOWARD: That's right, Paul. Last year we talked to listener Dr Mike Thompson who threatened to sue Active Capital for defamation after being wrongly identified as owing £640. He received more than £6,000 in damages from the firm. Now the OFT has told Active Capital to stop chasing debts when it's been told in writing it's pursuing the wrong person until it's fully investigated.

LEWIS: Thanks very much, Bob. Well that's it for today. You can find out more from our website, bbc.co.uk/moneybox, where you can sign up to my newsletter, download a podcast, listen again, and of course have your say on overdraft charges. Some of you are, making the very sound point that you don't actually have to go overdrawn and I shouldn't use words like 'stung' for bank overdraft charges because they are something you choose to do. Vincent Duggleby's here on Wednesday with Money Box Live, this week taking your questions on insurance. I'm back with Money Box next weekend. Today the reporter was Ruth Alexander, the producer Lesley

McAlpine. I'm Paul Lewis.