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MONEY BOX

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LEWIS: Hello. In today's programme, Barclays plans to pull out of financial advice in its high street branches. Will other banks stop selling us investments too? Bob Howard's here. He's been having his day in the sun.

HOWARD: Yes, fitting solar panels to your home seems to offer a great financial return, but will we all benefit?

MONBIOT: This is a really bad use of electricity consumers' money. It's incredibly inefficient.

LEWIS: A new European law will make it easier for banks to refuse borrowers the loan rates they advertise. And what does the man who invests for the rich advise for the rest of us?

But, first, a week after it was fined nearly £8 million for giving bad financial advice to thousands of its customers, Barclays Bank says it plans to stop giving financial advice at all through its high street branches. The bank denies the two events are related and says the branch based financial advice service to what is often called the 'mass market' is no longer commercially viable. It's the first of the big high street banks to end its retail investment advice service, but others may well follow. New rules begin in 2 years time, which will mean banks can no longer make money from the investment products they sell. Instead they'll have to charge their customers the real

cost of advice. At the moment, of course, the cost is hidden inside commission and profit. Malcolm Kerr, Director of Financial Services at Ernst and Young has researched how much these advisers will cost.

KERR: In the research that we've done, you end up seeing that the fully loaded costs of an investment adviser could be £200,000 or more per annum.

LEWIS: And under the new rules, does all that cost have to be recovered from fees to customers?

KERR: Precisely. That's a very specific condition inside the RDR. They can't allow the product that may be recommended to subsidise the advice process.

LEWIS: So how much will that be per hour when you go to your bank and say I might need a pension?

KERR: We think the number could be around £200 per hour to break even.

LEWIS: So when Barclays said that they're planning to end their financial advice in branches because it would no longer be "economically viable", it sounds as if the bank was right.

KERR: Well I couldn't comment on Barclays' decision, but what I understand is they're talking about the mass market advice proposition and certainly that's where the real challenges are. People that don't have a lot of money but need decent investment advice, it's going to be hard for them to find that from their banks or other institutions or indeed from IFAs.

LEWIS: So are you saying other banks will follow Barclays' lead and stop giving this advice?

KERR: For banks dealing with people with say less than £50,000 - and candidly

that's the vast majority of the population - then I think that's going to be a great difficulty.

LEWIS: So they'll have to try and find an independent financial adviser to advise them, but they too will find it difficult because they'll want to concentrate on those wealthier people?

KERR: It has to be said that we believe that quite a few IFAs are going to leave the market, and those that stay behind are going to focus on high net worth individuals and employers.

LEWIS: Malcolm Kerr of Ernst and Young. The RDR of course is the Retail Distribution Review, which begins in January 2013. Merryn Somerset Webb is Editor in Chief and blogger for the magazine Money Week. She agrees that banks will stop giving financial advice.

SOMERSET WEBB: I think what's happening here is that it's getting very hard for the banks to make any money out of financial planning, and they're taking a lot of regulatory risk at the same time because you know if they get it wrong they end up with these whopping great fines.

LEWIS: Yes, as indeed Barclays had last week - though of course the bank denies this has anything to do with the fine. People go online and certain Barclays is retaining its online investment site. Isn't there a danger though that people will simply have mis-selling replaced by mis-buying when the only person they can blame is themselves?

SOMERSET WEBB: Absolutely. But is that better or worse? I'm not sure. The average person with a small amount of assets doesn't really need anything complicated. They need a cheap stakeholder pension. These aren't difficult to get. They maybe need an ISA, but choosing the investments for that again is not that hard. If you have that money and you can read, the personal finance sections of the newspapers have raised their games very significantly over the last decade. There are

excellent publications out there as well, and there is this huge amount of information online. You know I think pretty much anybody should be capable of figuring out how to deal with a small amount of money. If you have a large amount of money, the advice is still there.

LEWIS: So when banks and indeed independent advisers say to us that the changes that are coming in in a couple of years - the Retail Distribution Review - will mean that most people won't be able to afford financial advice, you would say that's a good thing?

SOMERSET WEBB: I would say in some ways that's a good thing in that a lot of people don't necessarily need complicated advice. I would also say that the argument here is the wrong argument. What these advisers are saying is they won't take it because it won't look free anymore. Advice isn't actually going to cost anymore. It'll just be more clear what you're paying because you'll be paying a fee rather than a commission. The price isn't actually going to change.

LEWIS: And finally, Merryn, we heard this week the economy's shrinking - at least on provisional figures after growing for a year. What does that tell us about whether interest rates will rise soon or not?

SOMERSET WEBB: Well the Bank of England clearly do not want to raise interest rates regardless of the inflation numbers coming through, and I think they're right on this in that the economy is very fragile. We see that in this number. Although I do buy the weather argument actually. I couldn't leave my own house for three weeks when the weather was very bad. But we can't really raise interest rates at the moment. Our economy is very, very fragile. We're still in a very difficult position with the housing market. If that goes, we really are in trouble, and raising interest rates is the one thing that will absolutely guarantee that the housing market will go. So the longer we can hold off, probably the better.

LEWIS: And what about savers? There are more savers than borrowers. What do you say to them?

SOMERSET WEBB: I say to them that's an extremely unfortunate situation and it's horrible to know that you're losing money in real terms every day. However if interest rates were to go up too soon, the housing market were to crash and the stock market were to crash, most savers would be significantly worse off than they are now. They have to look at the bigger picture.

LEWIS: Merryn Somerset Webb of Money Week with her views on bank advice and interest rates. Value for money.

Money Box has been told that the government is concerned that some commercial operators may be trying to cream off a multi-billion pound subsidy aimed at encouraging homeowners to generate their own solar powered electricity. The so-called feed-in tariff scheme was launched last April and typically claims to offer earnings of £800 a year and savings on electricity bills of another £120. Not a bad return on a £10,000 investment. No surprise that nearly 20,000 homeowners have signed up for it. Bob Howard went to Leeds to visit one Money Box listener who wants to join them.

PAYNE: Hiya, I'm Gary.

McCARTHY: Hello Gary. I'm Donnachadh McCarthy. I'm from 3 Acorns Eco-audits and I advise people on how to make their houses greener. So I've come here to have a look at your roof if that's okay?

PAYNE: Yeah, sure. Yeah, come on in.

McCARTHY: And that's not yours?

PAYNE: That one's not mine.

McCARTHY: I'm really sorry, there's ...

PAYNE: It's not going to do?

McCARTHY: No, you won't put in a solar electric system here.

PAYNE: Right.

McCARTHY: Your roof's a nightmare. Basically you need around ten square metres of un-overlooked roof space to have a decent system. That roof isn't facing south. Also you've got lots of nooks and crannies and there's a dormer. So it is the ultimate nightmare. The only option I could see is if you decided to put in a frame in the garden. It would mean having to ensure that there's no trees likely to overshadow it.

PAYNE: Right, yeah.

McCARTHY: So this might be a possibility here. Put the frame across here and then put the panels here, and then you could actually get even a bigger system.

HOWARD: Gary, how do you feel? Sort of mixed feelings then that the roof is a no go?

PAYNE: If you can have more panels in the garden, that means more electric. Sounds even better really. As long as it's not going to be ... The cabling will all be hidden under the ground and things like that, so it shouldn't be a problem. Sounds like it could be a solution, yeah.

HOWARD: Just talk us through the maths of this in terms of what Gary's options are.

McCARTHY: Okay, well let's say Gary goes for a £10,000 system in his garden. He can borrow the money. It depends on the rate he borrows it at, but he'll get £30,000 back over the 25 years. The other option is he could get one of these companies who are willing to fund the option upfront. They take the £22,500 and he'll get around

£7,500 of free electricity over the 25 years. The final option he could go for would be the government is bringing out a Green Deal. There may be a scheme hopefully next year, starting 2012. whereby they will do an interest free loan.

HOWARD: What are the repercussions of joining the scheme later, do you think?

McCARTHY: Well the way the government has planned the scheme is that their plan is that every year, as people join it, the subvention will get gradually smaller because the argument is as more and more people join the system, the installation costs will drop. So therefore the people who join this year will get 41p a unit. And that will be index-linked, so next year they'll get a little bit more, a little more. Over the years, as they compound interest, they'll make £30,000. However the people starting next year will possibly be paid maybe let's say 38p a unit and that'll be index-linked, and so over the coming years, it'll go down. So this is the year that it is predicted will be the best return for somebody making that sort of investment.

PAYNE: At the moment, as it is now, I'd possibly go for the paid for system that you just get the £7,000 or you know however much it is. But should an interest free loan come from the government next year or whenever it may be, that'll be a lot more attractive, yeah.

HOWARD: Can you see any downside at the moment?

PAYNE: You get the system. You don't pay any money out for it at all. The environment is being helped as well because you're losing less electric. I can't see a downside of that at all, no.

LEWIS: Gary Payne and that report from Bob Howard. But not everyone believes the feed-in tariff is going to bring environmental benefits. George Monbiot, the environmental campaigner and writer, thinks it's the wrong approach.

MONBIOT: This is a really bad use of electricity consumers' money. The feed-in

tariff is paid for through our electricity bills and what we see is that if you go down the route of building a large wind turbine, for instance, you get 4.5p per kilowatt hour as your subsidy from the feed-in tariff. But if you go down the route of installing a solar panel on your roof, you get 41p per kilowatt hour. Now what that says is that solar power in this country at this high latitude is nine times less efficient than wind power. It simply doesn't make sense.

LEWIS: How much is being spent though and where exactly is it coming from, this money?

MONBIOT: It's coming from consumers, and so there's a regressive element here as well.

LEWIS: So the electricity industry pays the people who have the solar panels and you're saying that the whole of that cost falls on the rest of us, those of us who don't have solar panels?

MONBIOT: That's right. And so the people who are most likely to benefit from this are going to be householders who've got their own home and can stump up the £10,000 or so upfront cost of installing a solar panel.

LEWIS: How much will it cost?

MONBIOT: Well the total cost that the government is talking about is £8.6 billion. Now the interesting thing here is that by the government's own figures, it's going to save £420 million. It's incredibly inefficient.

LEWIS: George Monbiot refusing to give the green light to feed-in tariffs. Well I put some of those criticisms to Greg Barker, the Minister for Energy and Climate Change. First, how much would it increase the energy bills we all have to pay?

BARKER: What it really means is about £8 to £8.50 on the average bill annually

over that period. And if you consider that now we're paying something in the region to heat and light the average home about £1300 or £1400 a year, £8.50 in that context is not that much.

LEWIS: This is going to go to people who've got you know nice, big roofs in the south of the country that own their own homes. Why should people who can't fit solar panels - people in rented accommodation, in flats, people with the wrong kind of roof - subsidise those who can?

BARKER: Well I'm afraid that's not entirely correct. One of the biggest take-ups and most applicable take-ups for solar panels has been social housing. A lot of housing associations and council properties are leading the way.

LEWIS: Everyone agrees, even George Monbiot who's against spending the money in this way, agrees that for an individual householder it's a very good deal and a very good investment, but how can anyone investing now be sure that governments over the next 25 years - which is, what, 5 or 6 separate parliaments - will carry on paying this subsidy?

BARKER: Well you know I can certainly speak for the coalition up to 2015 to say we're absolutely committed to this system.

LEWIS: Yeah, but it's not a good investment up to 2015. It's only a good investment if it's up to sort of 2030.

BARKER: Well I'm the Minister for Climate Change, not Mystic Meg. What I can say is that any future government I think would be loathe to act retrospectively.

LEWIS: And given how attractive it is and how many people do seem to be taking it up at the moment, will you have to draw a line and say there will be no more after a certain time?

BARKER: There is a finite amount of money, just under 400 million, for the current spending round, which takes us up to 2014, and we will have to manage deployment within that.

LEWIS: Are you concerned that commercial enterprises will be entering into this and setting up large solar panel arrays and creaming off a lot of the money?

BARKER: I am concerned about that and I'm keeping a very close eye on it. There's quite a large number of applications in the planning system and there have also been some very ambitious statements from large companies about the size of solar exploitation in the pipeline. And I haven't come on to make any announcements, but I am looking very carefully at this; and if I see that large-scale solar - sort of the standalone Greenfield sites on an industrial scale - stand to take a disproportionate amount of the money that's there to be spread widely for homeowners and small businesses, I will act.

LEWIS: Energy Minister Greg Barker, not Mystic Meg. And you can let us know what you think about subsidies for solar power through Have Your Say on our website: bbc.co.uk/moneybox. Many of you are already. Sally in Cheltenham sent us a warning about those companies offering to install the panels free but take the profits that Gary mentioned. She says anyone who signs a solar panel leasing agreement for their roof, when it comes to selling or remortgaging their property some of the major lenders won't lend if their roof is leased. I work for a major high street bank and we will not mortgage these properties.

Now many borrowers face disappointment from Tuesday when new European rules on the way loans are advertised begin. Applicants will be less likely to get the advertised rates from February 1st when the Consumer Credit Directive comes into force. Money Box reporter Ben Carter's been looking at this. Ben?

CARTER: Yes, Paul. Currently lenders who advertise rates for loans are required to give that rate to two thirds of people who apply, but under the new rules lenders will only have to offer the rate to 51% of borrowers. Money Box listener Godfrey Hedley

emailed us to say that his bank, HSBC, were offering a New Year sale loan rate of 7.5%, so when he applied, that's what he thought he would get.

HEDLEY: We went along to the Chicheley Street branch, met the manager there, and he said it would take about half an hour to process everything; and an hour and a half later we were told that, no, it would be 15.8%. I did not realise that one would not get the 7.5% rate. I thought that it was open to everybody. Later on I was told that that was not the case. As a result of not getting this loan, we had to take out a loan with the garage, which actually over the period of the loan going to cost us £1500 more.

CARTER: After Money Box raised his case, HSBC told us that it was "human error" and says Godfrey can have a loan at 6.9%, but he says that it's too late.

LEWIS: And, Ben, there is some good news though for consumers in this directive.

CARTER: Yes, Paul. It's being introduced in two stages. Stage one, which came in at the start of this year, saw credit card providers having to ensure that any payments people make to their credit cards will pay off the highest interest rate balances first. And stage two, which starts on Tuesday, will mean lenders have to make borrowing examples clearer and provide more details about credit agreements. There will also be changes to early repayment charges. Lenders won't be able to add charges of more than 1% of the debt repaid early.

LEWIS: Thanks, Ben. Well live now to talk to Malcolm Harbour, the Conservative member of the European Parliament for West Midlands and Chairman of the Committee on Internal Market and Consumer Protection. Malcolm Harbour, why are you reducing the proportion of people who have to be offered an advertised rate for a loan?

HARBOUR: Well I am absolutely not doing it because the important thing to make clear is this is absolutely the UK government's decision. And I have in front of me the consultation and I'll just quote it to you. What it says here. It's about what's required in the European directive is a representative example. Now the government

consultation said while the maximum harmonisation of the directive would not seem to permit “representative in this context” as meaning 66% of the respondents, and they made the decision about the 51%. Now my view - and I will take this up with Ed Davey who I see regularly (I mean this was done by the last government), I mean I don’t think that’s the correct interpretation and I don’t think they needed to make this change.

LEWIS: Right, so ...

HARBOUR: And just if I make a further point. I mean under the coalition government’s approach to transposing European law, Vince Cable has already said we will be much less ... we will not interfere with the European requirements in the way that this has happened. So anyway I would ...

LEWIS: (over) It could change then?

HARBOUR: ... but I just want to make it absolutely clear because I think what you haven’t said as far as consumers are concerned is why we’re doing this: because it’s intended to encourage more competition for consumers because these common requirements across the European Union, which actually require the minimum change to UK law, will bring about more providers and more opportunities for consumers. And as you’ve also said, part of that was to have some really important new rights; and what your correspondent didn’t mention is that now consumers will have an unconditional right to withdraw from a credit agreement within 14 days.

LEWIS: Yes.

HARBOUR: He’s talked about the right to repay the loan early and there are a whole number of other things. (*Lewis tries to interject*) I mean you rather gave the impression at the beginning that just because this is a European law, it’s somehow bad. There’s a lot of good stuff in here.

LEWIS: Well no, I wasn't trying to give that impression at all. But this is a particular change and ...

HARBOUR: (*over*) Well it came over very strongly, I have to say, in your opening remark.

LEWIS: Let me ask you about the single market. Does this mean we can go on the internet and get a loan from a bank in Spain or Estonia if they're offering better rates?

HARBOUR: We will be able to, but they will have obviously to comply with all the UK rules. This is not actually a maximum harmonisation directive. What it says is there are a number of key rights and obligations that any offerer in the UK must provide. And that includes, by the way, an obligation to assess the credit worthiness of consumers and obligation to provide adequate explanation, all of those sort of things.

LEWIS: And may I just ask you finally in a word, you're going to go to the present government (of which you're a member of one of the coalition parties) and ask them to change this 51% rule?

HARBOUR: Well I will ask them the rationale for this. I mean, Paul ...

LEWIS: But are you going to ask them to change it?

HARBOUR: I will ask them why they made this decision. I mean I'm not a member of the government ...

LEWIS: I know.

HARBOUR: ... but I undertake to you, I will ask Ed Davey why this decision has been made and what he believes the real impact on consumers is going to be.

LEWIS: Malcolm Harbour MEP, thanks very much indeed.

Now it's a hard time to know where to invest money or even whether to invest money, so I went to the City of London to talk to the Head of Research at one of the UK's private client portfolio managers, Williams de Broe. I asked Jim Wood-Smith for his view of the year ahead.

WOOD-SMITH: 2011 is going to be another very difficult year - equities in particular. If we look at the potential gains and the potential losses that can be made there - if everything turns out right, this might turn out to be a 15 or a 20% year. On the other hand, there's an equal and balancing risk there that we could be 10 or 15% down.

LEWIS: What would you be saying to people? Is it still shares that you believe in or are there other things?

WOOD-SMITH: Shares are an important part of what you need to invest in. But, yes, there are other things too. The likelihood is that inflation is going to be rising rather than falling this year, so index linked gilts is an important part of our thinking. Shares - not only UK shares, overseas shares as well, particularly emerging market shares; especially Asia - China, India and the South East Asian countries.

LEWIS: What about the slightly wackier things - at least always seem wackier to me - like gold and precious metals?

WOOD-SMITH: Gold is always a fascinating topic. It does not produce an income. The only way that you can make money out of gold is on what we call the greater fool principle - that if you can find a greater fool than yourself to pay you a higher price than you paid in the first place.

LEWIS: And at the moment of course there are greater fools because the price has been going up at record levels. It's gone up, what, 25% I think over the last year?

WOOD-SMITH: It may be harsh to call them fools because the price may go up an awful lot more. A fairer description would be to say gold is an investment in fear. If you're fearful about the way the world is going to turn out or fearful about the way markets are going to move, gold is a good diversifying asset to hold.

LEWIS: People who are listening, how do they actually take your advice in terms of your investment portfolio or where you put your money?

WOOD-SMITH: The key for your investment portfolio this year is to protect yourself against rising inflation rather than falling deflation.

LEWIS: So you've got to get a return, but of course you can't guarantee that, can you?

WOOD-SMITH: Absolutely not. There are no guarantees. The most tangible sign that you get of the success or otherwise from your portfolio is actually not the capital value of it. The capital value is always going to fluctuate. What is tangible from it is the level of income that you get back from it, and it's essential this year to be investing in shares or other investments where the income that you get from them is going to be higher in 12 months time.

LEWIS: If somebody wants to do it themselves - and many people do - what's the kind of common mistake they make by doing it themselves?

WOOD-SMITH: There are lots of common mistakes - unfortunately that are all hard wired into human beings. It is our nature that we're all most enthusiastic after something has done terribly well and we're most gloomy after it's done terribly badly. So it's a constant battle against our inner nature to stop ourselves buying high and selling low. Markets are at their peak after everybody has already bought. And if you've already bought, you've bought because you think it's going higher; but there are no buyers left, so there's only one way it's going to go, which is going to go down. So the most common mistake people make if they're trying to manage their own investments is buying high and selling low.

LEWIS: Jim Wood-Smith at Williams De Broe. And a bit later today there'll be a longer version of that interview on our website where I get Jim to go into the tricky matter of his own fund's performance and charges. There's just time to squeeze in a brief news item. Bob?

HOWARD: Yes, Paul. Energy company Npower has revealed it still has £21 million to pay out to customers who paid too much for their gas in 2007. It's sent out nearly 2 million letters to people who on average are owed £40 each, but more than a third of them have still not collected their cash.

LEWIS: Thanks for that, Bob. That is just about it for today. You can find out more from our website, bbc.co.uk/moneybox, sign up to the newsletter, get a podcast, listen again, send us your ideas, have your say on subsidised solar panels and hear that longer Williams de Broe interview. Vincent Duggleby's here on Wednesday, Money Box Live, taking questions on mortgages this week. I'm back with Money Box next weekend. If you can't wait, you can read my money thoughts every day on my Twitter, Paul Lewis Money. And don't forget the self-assessment online deadline is midnight on Monday, so that's ruined your weekend. Today reporters Ben Carter and Bob Howard, producer Ruth Alexander. I'm Paul Lewis.