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MONEY BOX

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LEWIS: Hello. In today's programme, Europe has too much debt, so it plans to solve the problem by borrowing more. We ask an economist will it work. Bob Howard's here getting out his credit card.

HOWARD: Yes, when a car hire company reserves a deposit, how long should it hang onto it for?

RICHARD: If they are able to take the pre-authorisation in a matter of seconds, I don't really understand why in a matter of seconds it can't be removed.

LEWIS: The loans broker, the Office of Fair Trading, is taking steps to close down. ISA's little brother is born on Tuesday, but are parents and the banks underwhelmed? And the penalty for pension scheme leavers that's called a discount for those who stay.

But first, the Eurozone crisis. David Cameron called on Europe to wheel out its "big bazooka" to attack the Eurozone crisis. In the end, we got a three-pronged fork. But will it work? A question for economist and author John Kay. But, first, those three prongs.

KAY: Well the first prong is writing down Greece's debt or, bluntly, Greece defaulting on its debt - although people are keen not to use that word. The second prong is a European Financial Stability Fund, beefed up, that will stand behind the debt of European governments. The third prong is a recapitalisation of European banks.

LEWIS: Now I understand the first one - that the banks that lend money to Greece are only going to get half of it back basically - but the European Financial Stability Fund, that's got something like £250 billion in it and that's going to be magicked into a trillion. How is that going to happen?

KAY: Well they're hoping to borrow money from other people to leverage it up. Now this is actually quite scary, or certainly quite scary if you're a German because if you ask why you would lend money, it's because you think if you have a problem the Germans will pay it back.

LEWIS: We have heard talk - and the Chancellor himself has mentioned it, as long as it doesn't involve Britain - that some kind of closer union is needed to coordinate the Eurozone countries to stop some of them that have behaved foolishly doing so again.

KAY: Well I know that's what people keep saying, and you can see that in a sense they're right. If Germany controlled Greece, then no doubt Greece would be better run. But actually Germany can't control Greece whatever institutions you put together. That's in a sense the misconception behind it. The only sanction ultimately that Europe centrally has over Greece is to stop paying it more money; and that's the sanction we've been using, and they've run out of the money and they're asking for more.

LEWIS: But the other sanction, I suppose, is to say to Greece you'll no longer be allowed to remain in the Euro; but that's something that is seen as so damaging to the whole Eurozone, that will never happen. So if there's no sanction, Greece and other countries - let's not just pick on Greece - aren't going to behave any better.

KAY: That is absolutely right. And what I think we're doing is seeing Europe playing a game of kind of double or quits against the market. Every time people doubt the rhetoric essentially that comes out of people like President Sarkozy, we double the stakes that are being pulled up to defy them. Eventually we'll run out of money to do that.

LEWIS: You say we'll run out of money and there's certainly been a deal of scepticism about the deal - not just by you but by others in the newspapers this week - but the markets themselves seem to have embraced it; they've gone up by 3 or 4%.

KAY: That's right and it puzzles me the readiness to accept this. I think markets really want to believe that things are going to be okay. And I understand that feeling, I have it myself, but I can't see how it is going to be.

LEWIS: Unusually for an economist, you've written a guide to investment, *The Long And The Short Of It*, based on your personal strategy of making money. You've been so gloomy. What will you be doing with your money?

KAY: I'm kind of getting more scared than I ever have been in my investment life, Paul. I've started to think about, you know, what are the kind of assets that you would really want to be holding when the balloon goes up as it were. And there are not very many, but index bonds aren't too bad, property in Germany isn't too bad; kind of things that you know there's going to be either the governments that are going to stand behind their debts - and bluntly the American government is and the British government is and the German government is - either governments will pay you or you know that there's an enduring value in these things that will survive almost anything. And I think that's the strategy people have to be thinking about today whether it's good companies, good property or good governments - things that in almost any scenario you can imagine are going still to be there, still paying, still making money.

LEWIS: Economist John Kay, a man who makes me sound cheerful.

Now whenever you hire a car using a credit or debit card, the firm involved will usually earmark some money on your card, so they know you've got enough to pay for the hire and any extras like some damage. That can come to hundreds of pounds and they're supposed to clear it from your account as soon as you've paid your bill. But that isn't always happening, causing difficulties for some customers, and Bob Howard's been talking to one of them. Bob?

HOWARD: Yes, Paul. Richard from Derbyshire recently hired a car for a business trip. When he arrived to pick it up, he was asked to approve a hefty deposit known as a pre-authorisation.

RICHARD: I hired a car at Belfast City Airport last week. Went to pick it up at the Budget Rent-A-Car desk. I was told I would need to pre-authorise £850 on my credit card as an excess against any damage which I may incur during the hire period.

HOWARD: Richard reluctantly agreed and returned the car undamaged the next day. He knew he was close to his card limit, so he was keen to get the £850 taken off his card immediately. Budget told him it would be gone in no more than 3 days, but 4 days later the deposit was still there. Worried that he could effectively no longer use his card, Richard phoned his bank, Lloyds TSB, to see what it could do.

RICHARD: I called my credit card company, who said no, it could not be removed at my request. I just had to let it time out. And they said actually it would be in place for 16 days, which was quite surprising. And when I expressed surprise at this length of time, he said, "Oh it's the system, sir. Nothing we can do."

HOWARD: Richard thought reserving £850 on his card for more than 2 weeks after he'd settled his bill was unreasonable and contacted Money Box. When we spoke to Budget, the firm insisted that it had released the deposit on the day he returned the car; but when we spoke to Lloyds TSB, it told Money Box it had not received any notification from Budget, which was why it was still on Richard's account. I asked Gemma Smith from the bankcards group, UK Payments Administration, over what time period a firm could reasonably keep hold of this sort of deposit.

SMITH: The pre-authorisation should effectively be cancelled out when you've made the final payment - i.e. when you've returned the car and they've checked it and you've handed over your card for the last time.

HOWARD: That certainly hasn't happened in Richard's case, and in fact the car hire companies seem to have widely different policies. Budget said it should release the money at the end of the rental; Avis said charges are released back onto the card within 48 hours of the vehicle being returned; but Europcar and Hertz both said it could take up to 10 working days for pre-authorisations to come off customers' accounts. Richard thinks this deposit system needs changing.

RICHARD: If a pre-authorisation is no longer required, then it should be possible for the sales company to put your card in the machine and remove the pre-authorisation. If they are able to take the pre-authorisation in a matter of seconds, I don't really understand why in a matter of seconds it can't be removed. It just seems unfair and inefficient really.

HOWARD: In the meantime customers who find a deposit is still on their account should have several options, as Gemma Smith from UK Payments Authority explains.

SMITH: You can first off speak to the company concerned that's pre-authorised the amount to see whether they can remove it for you if it's incorrect. Secondly, you can speak to your card company and you should expect them to be able to help you out. And if the pre-authorisation has for instance taken you over your credit limit, of course you can speak to your credit card company about extending that temporarily.

HOWARD: Whether that works in practice is another matter. Lloyds TSB said it had offered Richard an extension to his credit limit, but he hadn't taken up its offer; and it said although it could take pre-authorisations off personal card accounts, because Richard's is a business account it can't do anything. UK Payments Authority said it would be contacting Budget to clarify their policy on returning deposits, but with Budget blaming Lloyds TSB it looked like that £850 could sit on Richard's account indefinitely. Then finally this morning Richard told me the deposit had at last been taken off.

LEWIS: Ah, Bob, the Money Box effect. Thanks very much. And you can tell us your credit card deposit tales through Have Your Say on our website: bbc.co.uk/moneybox. Some of you are already.

The Office of Fair Trading is taking steps to close down a loans broker which Money Box has investigated on a number of occasions. The BBC has received more than 1,000 complaints about Yes Loans Ltd of Cwmbran since 2004. The company says it processes tens of thousands of loan applications a month and charges customers an upfront fee, but some customers complain about the service and say it's hard to get that refund. In May 2009, Yes Loans customer Ahmed Zagu (ph) told Money Box he was shocked at his treatment when he asked for a refund after deciding not to go ahead with the loan. He spent 7 months chasing the money.

ZAGU: I sent them a lot of letters, I did a lot of phone calls, and it's been 7 months now and I haven't got anything yet. I just can't believe. I'm shocked that a customer can be treated that way.

LEWIS: Ahmed did in the end get his refund. Well with me is Ruth Alexander from Five Live Investigates who previously reported on Yes Loans for Money Box. Ruth, what does this action from the Office of Fair Trading mean?

ALEXANDER: Well the OFT is minded to revoke the company's consumer credit licence. It can't say why for legal reasons. Now you'll remember, Paul, that in 2009 the regulator placed requirements on the company's licence. We know that then it said the company had to have a clear and timely refund practice, that staff in its call centres had to stick to approved scripts, and that the company had to make it clear to customers that it's a broker, not a direct lender.

LEWIS: And if a company doesn't abide by requirements like that, it could be fined or indeed have its licence taken away?

ALEXANDER: Yes. And in the 2 years since those requirements were laid down, customers have continued to complain to the BBC. What's more, the Financial Ombudsman Service received 76 complaints about Yes Loans in the 6 months to June this year, three quarters of which were upheld.

LEWIS: And what have people been dissatisfied about exactly?

ALEXANDER: Well the common cause of complaint is still really the same; that the customer had paid an upfront fee, generally in the belief that they'd been accepted for a loan. They were then disappointed to find that they were either not offered credit at all or that they were offered it at a far higher rate than they'd expected. Some, like Ahmed, then experienced difficulty getting a refund. Now we've been speaking to someone who used to work at Yes Loans until 2009 to get more of an idea of what's been going on behind the scenes, and she felt then that customers were getting a raw deal. We asked her how often the company got complaints.

FORMER YES LOANS EMPLOYEE: Oh my god, every day. There'd be loads and loads of complaints. There was that many complaints or queries that, you know, there wasn't enough people to handle those calls. There were a lot of miffed people about because they were getting ripped off basically.

ALEXANDER: And she told us that certainly then, in her opinion, the company's focus was all about getting the upfront fee off the customer and that not many would end up with a loan deal.

LEWIS: And this latest action from the OFT, Ruth, that's just a first step, isn't it?

ALEXANDER: Yes the company is actually still open for business. An independent OFT adjudicator will now consider representations from Yes Loans. If the adjudicator were to decide its consumer credit licence should be revoked, the company could appeal and continue trading throughout the whole process.

LEWIS: And what does the company say?

ALEXANDER: Well it says it’s committed to responding to any concerns raised by the OFT and to working towards a solution. It says the vast majority of its customers are happy with its service; that its complaint rate is less than a quarter of a per cent, and that it investigates all complaints thoroughly. And by the way, the company is not in any way connected to Y3S Loans of Cardiff, formerly named Yes Loans and Mortgages.

LEWIS: Thanks, Ruth. And you can hear more about that story on BBC Radio Five Live tomorrow evening at 9 p.m.

Tuesday sees the start of the new savings scheme for children, the Junior ISA. As we reported earlier this month, it’s a tax free savings plan for children who are too young or too old to qualify for the Child Trust Fund. But, unlike the Child Trust Fund, there’s no government contribution. Our Fiona Woods went to a local shopping centre to ask some parents what they thought.

PARENT 1: It’s something that I can’t really think about at the moment because obviously we’ve got a mortgage and stuff like that and we’re actually applying for another mortgage, so financially you’ve got to do one or the other.

PARENT 2: Our children have both got Child Trust Funds set up and I think they have £250 each. To add to that a small amount is doable, but I don’t think there would be necessarily any benefit to us to have tax free saving unless you were saving a larger amount of money.

PARENT 3: I mean they can’t get that money I guess till they’re 18, which is great if you’re thinking about university going forward. But for me, it’s more about saving for them for their education for today - for trying to raise money for school fees when they're 11.

LEWIS: Some parents there. And Fiona Woods is here with us. Fiona, not a lot of enthusiasm there and it doesn't seem there's a lot of interest from the banks either?

WOODS: No, at the moment it looks like Nationwide and Skipton Building Society are the only big names that will be offering the cash Junior ISA from Tuesday, along with some of the smaller building societies. Both of those are paying 3%, but Nationwide's rate goes down to 2.1% after 2 years. If it's a stocks and shares version that you're interested in, there aren't many options on the high street yet, but these are available from firms like Fidelity and Hargreaves Lansdown as well as some of the family mutuals. Check the charges though because they vary from around 0.3 to 1.5%.

LEWIS: Thanks Fiona. Well the big advantage of ISAs is that they're tax free, but for most children they'll never earn enough interest to use up their £7,475 a year tax allowance. So what difference will the Junior ISA really make? Earlier I spoke to Christine Ross who's Head of Financial Planning at SG Hambros. She explained that at the moment some interest on children's savings can be taxed, making the Junior ISA quite attractive.

ROSS: If the savings have been given, donated by the parents, then children's tax allowances cannot be used where the income or the gains exceed £100. Then all of the profit is taxed back on their parents.

LEWIS: So really Junior ISAs are a tax avoidance scheme for wealthy parents?

ROSS: I think one could take that point of view, or one could say that they are an allowance that has been given by the government which is an additional way of saving for children.

LEWIS: And when people decide to save for their children, what should they consider in terms of choosing a Junior ISA?

ROSS: I think before they even choose a Junior ISA individuals have to think about whether they want to use cash savings or whether they want to look to the stock market and other types of investment assets. The last 10 years are probably not the best demonstration of stock market success, but we know that over the very long-term if one wants to keep ahead of inflation, then it is necessary to devote at least some of the money to the stock market. So things like unit trusts, investment trusts, savings plans which will be available through the Junior ISA.

LEWIS: One of the disadvantages of Junior ISAs is that a child gets the money at 18, and a lot of parents are not comfortable with that as they weren't with the Child Trust Fund. Are there any better alternatives for children where the money can be kept back for them a bit longer?

ROSS: It is very difficult to keep money back for children whilst saving directly in their names for their benefit. For parents who have larger sums to invest, considering establishing a family discretionary trust is one option but there are costs associated with that. A slightly sneakier way of dealing with it is perhaps when the child is coming up towards 18 investing in some longer term fixed rate deposit is not completely out of bounds.

LEWIS: At the moment the choice on cash savings is quite limited for Junior ISAs. Is it worth looking at things outside the Junior ISA and get a better rate of interest?

ROSS: It's certainly worth looking at ordinary savings accounts alongside Junior ISAs. So if we look at an account that's potentially taxable, perhaps if it's parental gifts to the child, we still have to consider even if after paying tax the return is better.

LEWIS: Christine Ross of SG Hambros.

People who stop paying into a company pension scheme can be charged nearly twice as much as those who keep paying in. Several big insurers offer firms what they call ‘active member discounts’. This month, the Pensions Regulator warned firms this was unfair. It said they weren’t so much discounts for people who stayed in as penalties for those who left, and they can cost thousands of pounds. June Mulroy is Executive Director at the Pensions Regulator.

MULROY: We think they’re unfair for two reasons. One is because they’re not made very clear to people who are deferred members; and the second thing is that we can’t quite work out what the service is that defined members are getting for this increase in cost. And what we want to see is disclosure of what the costs are and what the benefits are that people are getting for that increase.

LEWIS: Aegon is one insurer that offers the discount. It charges current scheme members 0.7% a year to manage their pension fund, but people who leave are normally charged 1.2% a year and that’s actually more than 70% extra. Steven Cameron is Aegon’s Head of Regulatory Strategy.

CAMERON: Aegon, we offer employers and advisers two types of scheme. One where we charge all members (whether they’re active or deferred) the same percentage of their fund each year. Alternatively, following demand from employers and advisers, we now offer an alternative where we charge members who are contributing a lower percentage of their fund each year, but in return for that where members do leave the scheme, we increase the percentage which we deduct from the leavers’ pot.

LEWIS: But you charge active members .7% and you charge members who’ve left 1.2%. That’s 71% more, isn’t it? What do they get for that?

CAMERON: I think when you look at things in percentage terms, it perhaps disguises what this means in pounds and pence. If you consider two individuals who both join a scheme on the same day, paying in the same contributions, one might continue to contribute for 10 years, another might stop after 5. The person who stops after 5 years, their funds will no longer grow as quickly because they're not paying more money in. So .7% of a larger fund may actually be more than 1.2% of a smaller fund.

LEWIS: It might be more. It might not. What I'm asking though is what do the deferred members get for the extra percentage you charge them?

CAMERON: There are no extra services for the extra fee, but, as we discussed, in pounds and pence terms very quickly you do find that individuals who have left whose pot isn't growing as quickly will end up getting charged less than those who continue to remain in the scheme and whose fund grows more quickly.

LEWIS: Do you accept what the Pensions Regulator says - that this isn't so much an active member discount as an early leaver's penalty?

CAMERON: I actually don't agree at all with the way that the Pensions Regulator has described us. The way that things work is at outset the adviser and the employer will decide how they want to spread charges between active members and deferred members. That's agreed at outset. It's not something that we impose after the event when someone leaves. So it's part of the terms of the scheme from day one. It's not a penalty. It's a way of allocating charges more fairly between active members and deferred members.

LEWIS: Steven Cameron of Aegon. Well listening to that is Tom McPhail who's Head of Pensions Research at Hargreaves Lansdown. Tom McPhail, just tell us what your research shows on the actual effect of this two-tier charging on a pension pot of someone who leaves?

McPHAIL: Hello Paul. If you take the example of someone who's paid into a pension even just for 5 years, who's been paying perhaps even a relatively modest sum, then the difference in the charges when they get to retirement will mean thousands of pounds less in their pension pot. Looking at the Aegon example, someone who paid in £100 a month would get about £2,500 less at retirement as a result of their charges going up.

LEWIS: So it's quite significant even though the percentages often sometimes seem a bit small or perhaps hard to grasp. The Aegon defence though is that if there was not a two-tier price structure, it wouldn't be .7 and 1.2; it would be a sort of middle of the road maybe 1% for everyone.

McPHAIL: And that is true, but at least it would be transparent. And I think what's particularly difficult about this approach that Aegon and others have adopted is that it's misleading people. It's giving them a low charge and saying look we're going to offer you a fantastically cheap deal whilst relying on member inertia to not realise that when they leave their charges will go up. It would be a much more honest approach just to say look it costs say 1% to run the scheme (or whatever the number is) and that's what we're going to charge to everybody.

LEWIS: But insurers and indeed the sponsoring employers like it for that very reason. It seems like a low charge until of course you leave and it goes up. But does that mean we need more rules, more regulation to stop it happening?

McPHAIL: I'm very pleased that the Pensions Regulator has spoken out against this. The Pensions Minister has reserved powers in the current Pensions Bill to act against companies if he feels that this practice continues. I'd like to see a similar position adopted by the Financial Services Authority which also regulates some elements of the pension system. I think there needs to be a very clear message that this kind of cynical exploitation of savers, particularly with auto-enrolment coming in the next few years, is not acceptable. And be honest, be transparent, be upfront. Look, if it costs 1% to charge to run a scheme, then that's what should be disclosed.

LEWIS: You're calling for honesty and transparency and indeed the Pensions Regulator is as well and, as you say, other people aren't happy. Do you think though we need a rule to stop it happening, briefly?

McPHAIL: I think if there's sufficiently strong regulatory guidance to say we're not going to be happy about this, if you keep doing this then we will take action against you - that should be enough to steer pension companies, pension advisers to toe the line, and I hope that that's what we'll get.

LEWIS: Tom McPhail of Hargreaves Lansdown, thanks very much. Well that's just about it for today. There's more on our website: bbc.co.uk/moneybox. My newsletter's there, the podcast. Listen again, send us your ideas - as often you do. Also have your say on car hire companies and hotels ring-fencing funds on your credit card. And we've had several emails about this. Cat says: 'It happened to me. I was on holiday in Italy for 4 days. It took 10 days to get the deposit back. Had to borrow because it took my card to its limit.' Many others in a similar vein. I'm back with Money Box next weekend. Today the reporters were Fiona Woods and Bob Howard, producer Smita Patel. I'm Paul Lewis.