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MONEY BOX

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LEWIS: Hello. In today's programme, we hear from the Conservative Shadow Health Secretary about his scheme for insurance to pay for care home fees. If a thief steals your credit card, who pays for the money they spend? Worrying evidence that the banks are not always reimbursing customers.

ELPHICK: It makes no sense to me at all. I think they're accusing me of being dishonest, and I don't particularly like being treated like that.

LEWIS: Only one in three fund managers beats the average rise in share prices over 5 years, so are they worth their fees? The price of converting that jam jar of coppers into money you can spend is going up. And money for nothing as some credit card companies charge customers for not using their card.

But, first, the Conservative Party has promised this morning to introduce an insurance scheme so that older people will not have to sell their home to pay the fees for a nursing home. The scheme would be run by the insurance industry but backed by the government. An hour ago, the Conservative Shadow Health Secretary Andrew Lansley told me how it would work.

LANSLEY: The intention of the scheme is to fulfil a need, which we've known about for a very long time, which is that people who go into long-term residential care, because it is means tested and because their home is included in the value of the means test, their home is

at risk. So the scheme will be in essence a straightforward insurance scheme, promoted by the government, backed by the government, but with insurance providers who for a single fixed premium at age 65, which we estimate would be about £8,000, would as a consequence have all their subsequent long-term residential care costs met if they need to go into long-term residential care.

LEWIS: You say the home comes into the means test. It doesn't affect most people. If your partner or your wife or husband goes into care and you're still living in the home, the home is safe. If a relative over 60 lives in the home, your home is safe.

LANSLEY: Yes, but then many people do still end up in that position. Laing & Buisson estimated last year 45,000 people ended up in that situation.

LEWIS: Yes. Though even there, you don't actually have to sell your home, do you? The local authority has to provide care and then the value is taken out of your home when you finally die.

LANSLEY: That's right. But if five people pay £8,000 as a premium at age 65 and on average let's say 20 years later one of those five goes into long-term residential care and pays £50,000 (because on average they stay in that care for two years), those five people paying £8,000 will have paid in £40,000. It will have accrued over that period of time. It will be a fund worth £50,000. So in that sense it is a straightforward pooling of risk.

LEWIS: And what guarantee would there be about the quality of care you'd get because at the moment people can get care from the local authority? Would it be better standard care than that or the same?

LANSLEY: Oh the standard of care would be the kind that is currently supported by local authorities in relation to those who are fully funded from the state.

LEWIS: And would it be backed financially by the government?

LANSLEY: Yes, it would be a guaranteed scheme and it would be guaranteed in two senses. There's the guarantee of the contract you have with your insurance provider; and there would be the government backing, which would take something akin to reinsurance, that stands behind it.

LEWIS: Andrew Lansley. The Association of British Insurers told Money Box it welcomes the scheme but would have to analyse the costings before making a detailed response.

If your wallet or purse was stolen and the thieves used your bank cards to get cash or buy expensive items, you might expect to be reimbursed by your bank. But Money Box has been told that many customers are finding that if the thief uses the right PIN, their bank may well refuse to pay out. If there's no easy explanation of how the thief got the PIN, the bank says it must be the customer's fault. Bob Howard's been investigating.

HOWARD: This is Mayfair in Central London. In the summer, many local business people come to eat outside in the area's many restaurants. Richard Elphick came here in July.

ELPHICK: It was quite a nice day, so we came down here and sat outside the restaurant. And I was sitting with my back to several other people who were having lunch as well. I got up to pay the bill and discovered that my wallet wasn't there. So I immediately rang my office to find out whether I'd left my wallet on my desk. I then rang the emergency numbers and cancelled the cards.

HOWARD: Richard hoped he'd been fast enough to stop anybody misusing them, but the thief had been faster. In under an hour, he'd used Richard's NatWest credit card to withdraw £100 in cash and his NatWest debit card to put him a further £2,300 out of pocket. Richard expected NatWest to refund him. But as we returned from the restaurant where it happened to his office, he told me although the bank had refunded the £100 on the credit card, it's refusing to pay back the rest.

ELPHICK: They say that the PIN numbers were in my wallet at the time when the wallet was stolen. The PIN numbers were not in the wallet. They weren't written down anywhere

and I don't know how anybody could get access to them. That's the whole plank of their objection to refunding the money.

HOWARD: Richard was first told by NatWest that he'd been refunded on the credit card because he'd used it in the restaurant and there's a chance a thief had seen him put in his PIN number. But Richard never paid for the meal because his wallet had already been stolen. When Money Box queried this with NatWest, it admitted it had made a mistake, but still insisted in a statement that it would only refund £100.

NATWEST STATEMENT: Mr Elphick used his credit card on the same day as his wallet was stolen. However, there is no explanation for how his debit card PIN became known to the fraudster as Mr Elphick's debit card had not been used for 13 days prior to the theft. We can only conclude that Mr Elphick kept a record of his debit card PIN in his wallet.

HOWARD: But NatWest's theory to explain how Richard's credit card number could have been known by the thief might itself be the subject of some scepticism. It would involve the fraudster observing the credit card PIN in Hampshire where Richard last used the card, following him all the way to his office in Mayfair, waiting several hours for him to emerge for lunch in order to steal his wallet in the restaurant. Richard doesn't think that adds up.

ELPHICK: It makes no sense to me at all. The rules should be the same for both, surely?

HOWARD: How does it make you feel what they're saying to you?

ELPHICK: I think they're accusing me of being dishonest, and I don't particularly like being treated like that.

HOWARD: The Banking Code says a customer is only liable for the first £50 in cases like this, unless the bank can prove the customer acted fraudulently or without reasonable care. And the code's guidelines say the burden of proof lies with the bank. But NatWest's interpretation is that unless a customer's PIN could have been seen on the day of the theft, they must have acted without reasonable care and so it won't pay out. That's a big worry for

experts who study Chip and PIN security like Steven Murdoch from the University of Cambridge. He says there are different ways criminals can extract PINs, which the banks are reluctant to admit to their customers.

MURDOCH: We are hearing of an increasingly large number of cases like you describe. There are many ways that criminals can discover customers' PINs in terminals which are by no means trustworthy, and there are widely known security vulnerabilities inside the bank systems. So if there's a bank insider with sufficient access, then you could discover a cardholder's PINs.

HOWARD: So this is feasible? Somebody could steal your wallet, phone their mate in the bank, say, "I've got card number so and so, so and so. What's the PIN?" Get the PIN and off you go. Is that a possible scenario?

MURDOCH: It's certainly possible.

HOWARD: Paul, when I put these suggestions to NatWest, I was told it's *not* possible for a fraudster to read the PIN on any of their cards. Nor would their staff ever know somebody's PIN number. So we just don't know how Richard's PINs were discovered.

LEWIS: Thanks, Bob. Well with us is Sandra Quinn from the UK Cards Association. Sandra, what's the scale of this problem of people not being reimbursed?

QUINN: Well we know from the Banking Code Standards Board when they did a study on fraudulent transactions earlier this year that 2.5% of people are not reimbursed; and if you look overall, that 1.4 million cases of card fraud happened last year. That's not individuals and that's not cards. That's individual different things. But in terms of card fraud loss, £400 is lost per card roughly.

LEWIS: Yes, so I mean it's many thousands of people anyway even if you can't put a precise number on it. And Bob told us what the Banking Code said. That makes it clear, doesn't it, the bank has the burden of proof? It's got to prove you had your PIN written down.

QUINN: At industry level, we continually say the burden of proof lies with the bank. Now when a bank looks at a case of fraud, they'll look at different things. They'll examine the audit trail. They'll see whether the genuine card and the genuine PIN were used. But those two things alone aren't enough to reject a claim for fraud. And in fact in the new upcoming Payment Services Regulations we're taking into effect this November ...

LEWIS: These are the European rules?

QUINN: These are European rules which the Financial Services Authority will take over responsibility for in the UK. What they will say is that if a card transaction's authorised by the genuine card and the genuine PIN, they're very specific that they alone will not be the reason that you can reject a claim for fraud.

LEWIS: No. Though I suppose in this case, NatWest are saying that wasn't the only reason. They obviously think there is no other rational explanation.

QUINN: Well they're not only looking at the audit trail. They're looking at a whole range of things. How do you normally use your card? Where are you when this fraud takes place? If your card is used in Thailand when you're in London, then it's very clear that you're not being fraudulent. But one of the things that is concerning card companies is that customers are increasingly negligent about using their PIN and *do* write them down. And they're saying you know if you write them down, keep them with your card, we won't pay out.

LEWIS: Well that's fair enough if they can prove it, of course, and obviously nobody should do that. And just very briefly, you can always go to the Ombudsman, can't you?

QUINN: Absolutely, and I'd recommend Mr Elphick to do so.

LEWIS: Sandra Quinn, thanks very much for that. And you can let us know your experiences of whether banks pay up or not through Have Your Say on our website: bbc.co.uk/moneybox. And I must say an enormous number of you already are. Have Your Say: bbc.co.uk/moneybox.

Now you've also been responding in great numbers to our item last week on the way pension and investment companies charge us for looking after our money. We explained that even a charge of 1.5% a year could lead to a quarter of your money going in fees and cut the value of your pension by up to 40%. Mark from Pitlochrey in Scotland said this.

MARK: 'The programme has confirmed what I've felt for years. Pension schemes other than defined benefit schemes are not there to provide for the individual. They're there to provide profits for the pension companies'.

LEWIS: And at the other end of Britain, Standard Life customer Gillian commented on my interview with the company's Head of Pension Policy.

GILLIAN: 'I thought he gave a most unsatisfactory justification of the charging policy and very unconvincing about the purposes to which the money was applied'.

LEWIS: But some took the opposite view and felt we hadn't represented both sides of the story. Rick from Bournemouth was less than happy.

RICK: 'Your feature on pension charges irritated me. What you describe was how a pension company makes its money. Shock, horror, a company that makes money!'

LEWIS: And Rick wasn't alone in pointing out that the fees pay for investment management. So are they worth it? Does paying more lead to your shares growing more? Independent financial advisers Bestinvest ran some numbers for us. Investment Manager Hugo Shaw told me what they showed.

SHAW: We looked at it in two different ways. First of all, we looked for funds which outperformed the benchmark index in each of the last 5 years. And we struggled to find funds which met that criteria. Indeed only 5 funds out of a universe of 213 outperformed each of the last 5 years.

LEWIS: So they were funds invested in UK shares and you were comparing them with the

FTSE All Share Index, presumably?

SHAW: Exactly, that's right.

LEWIS: So you'd have done better in each year to be in a Tracker fund?

SHAW: A Tracker fund may not necessarily be better than actively managed funds because, if I can just move onto the other analysis that we looked at, we looked at then total returns over 5 years and whether funds had outperformed on a cumulative basis. And there we got some more interesting numbers. We looked at 71 funds where the same manager had been managing funds for that 5 year period, and about a third of them outperformed. So what that's telling us is that in individual years few managers can outperform year in, year out, but over a 5 year period you can find a greater number of funds which manage to do it over that term.

LEWIS: Hugo Shaw of Bestinvest. But even over that longer 5 year period, barely a third of managers managed to outperform the market. So are professional fund managers worth the extra cost in fees? Dick Saunders is Chief Executive of the Investment Management Association, which represents the managers of more than £439 billion of our money.

SAUNDERS: Yes, well I think it's important to remember that the difference in cost is not vast, is typically between about 1% and 1.5% a year. And I think people have got a choice. You can pay less and you will get broadly speaking a return comparable to the index, or you can pay a little bit more and you get at least the possibility, the opportunity to do a little bit better. Now obviously that's not guaranteed, so you know you're having to take a view there, but I think it's not unreasonable that people have that choice.

LEWIS: Yes, but you get the opportunity and the possibility, but some figures that we got from Bestinvest of funds invested in the UK stock market was that over a 5 year period only 5 out of 213 managed to beat that stock market index every single year.

SAUNDERS: Looked at that way, on the whole those who take more active positions will not beat the market every year because they tend to take a longer term view of investments and

that long-term view may not come right every year. But if you were to ask the question why do say no more than half of managers outperform, indeed slightly less than half outperform the index, the answer to that is again very straightforward, which is the performance of the index is actually the combined performance of all the active participants in the market, so you would expect the average to come out at around the index. The trick is can you find somebody who will over the longer term cumulatively do better?

LEWIS: And the evidence is, isn't it, that there is no such person? There may be one or two of the famous ones that we've heard of - Anthony Bolton who we've interviewed on this programme before - but apart from them, there really is no-one. Over the long-term they all go back to the average. And in fact the Bestinvest figures showed that even over a 5 year period, over the whole period, barely 1 in 3 funds did do better than a Tracker would have done.

SAUNDERS: I've not seen the Bestinvest figures, so I can't comment on them. Certainly some work we did on this a few years ago found that there is definite performance persistency, as they say in the jargon. It's not enormous, I'll grant you, and it's not guaranteed, but I think the managers who do well over the long run are more than just a rarity. There's a reasonable number of them.

LEWIS: Dick Saunders of the Investment Management Association.

And now, if you look after the pennies, how do you turn that jar into pounds that look after themselves? Many people have a jar full of small change like this one, but how easy is it to convert it into money you can use? We sent Ruth Alexander out with several kilograms of coppers to find out.

ALEXANDER: Okay, so I've got my big bag full of ten pounds worth of copper coins, but will I be able to use them to buy something at the supermarket? Let's find out. A tin of chocolates at £10 soon caught my eye, but would the cashier take my coppers? (*to cashier*) I wonder if you mind. I'm trying to get rid of some spare change. I've got some coppers in here.

CASHIER: Ooh, you take a long time and look I'm only by myself. What you have to do, the machine in the corner there.

ALEXANDER: Oh the coin changing machine?

CASHIER: Coin changing machine.

ALEXANDER: Should go there? Okay. My attempt to pay for the chocolates in coppers was flatly refused. By law, the most shops have to accept is twenty pence worth. The cashier's answer was the coin cashing machine in the foyer. No need to count your coppers out and bag them up to take them into the bank. Just pour the whole lot in. One of Britain's leading amateur experts on these machines is James Watson.

WATSON: Oh look, hang on. That, do you know what I reckon that is? That's like a shelf holder or something.

ALEXANDER: James is fascinated by the detritus of our lives that gets left behind on the coin tray - the other things at the bottom of the coin jar like pins and washers - so he regularly checks the machines at his local supermarkets, takes pictures of the things the rest of us leave behind and then blogs about it on the Internet.

WATSON: A peg almost, isn't it?

ALEXANDER: Yeah.

WATSON: There's a piece scalloped out of it. But that has come out of a change pot.

ALEXANDER: That's for you then.

WATSON: Yeah. I shall take that home and I shall scan that.

ALEXANDER: From where he's standing, these coin cashing machines seem to be

becoming more popular.

WATSON: More people are using them since the recession began to bite. I think whereas before I used to come up to these machines and there'd be never anyone using them, I mean I came in on Sunday and there were three people queuing up.

ALEXANDER: But, as I found, when you come to change your money with these machines, there's a hitch. When you get up close, there's a small label. It says Coinstar's counting fee is 7.9p for each pounds worth of coins counted. So if I've got my £10 in here, I'm not going to get it all back. But still I poured all my coins into the machine and it counted them. And it didn't then give me cash. It gave me a voucher, which I could either spend in store or cash at customer services. Right, I've got my voucher. So, okay, I put in £10.02p. The processing fee was 79p. So they've given me a voucher for £9.23, which means I can't afford my tin of chocolates. £10.02p in. £9.23p out. The Operations Manager for Coinstar, the company behind the machines, is Nick Harris. He says the fee is good value for money.

HARRIS: It is a reflection of the costs in operating the business. As the service continues to gain in popularity, we know our customers don't object to it. There are 200,000 people a week plus that use the service and the fee's never been an issue.

ALEXANDER: The supermarkets, what's the arrangement? Are they taking part of the cut?

HARRIS: They do receive a portion of the fee. They also benefit from the sales, I suppose, from the vouchers. People tend to buy the treat items. It's found money really, unrealised up until they arrive at the Coinstar machine, and people are then very happy then to go into the store and spend the vouchers, you know.

ALEXANDER: When I was in the supermarket, there was a man using the coin machine who didn't know it charged a fee until I told him. So you put in £12.73 and got £11.72 out.

MAN: That's not bad.

ALEXANDER: That's okay.

MAN: That's good, it was very good. I don't mind.

ALEXANDER: You've got your money now. You can spend it now.

MAN: Yeah, that's right. *(laughs)*

ALEXANDER: There are now 1500 of these machines in supermarkets around the country. Coinstar says the average customer transaction is £28 and it's in the process of changing all the machines so that they charge an 8.9% fee. That's £2.50 a time on that average transaction. It's a nice cut when you handle more coins than the Royal Mint. But not everyone's convinced by these machines. James Watson, the coin machine blogger, for one. *(to Watson)* So have you ever changed any of your money in these machines?

WATSON: No, I'm not paying 7.9%. What I tend to do is what I call the clever man's way of changing money - use the self-scan tills inside the store. You've got your whatever, say £10, £15 worth of shopping. Take a handful of coins and just feed them in, as much as you can. Whatever's left, pay on your card.

LEWIS: James Watson talking to Ruth Alexander. Well Ruth's back in the studio now. Arms slightly longer than when you left, Ruth. Is it silly to ask why don't you just take them to the bank?

ALEXANDER: Well that is free in most cases, but it can be a hassle. You've got to be a customer. Some of them say no more than five bags a day. For coppers, that would be five pounds worth. You've got to sort them and count them yourself in most cases and put them in the banks' special bags.

LEWIS: So freezer bags and jam jars like this one are out, are they?

ALEXANDER: They are. And they might turn you away if you come in at a busy time. And,

one, the Royal Bank of Scotland, said it sometimes charges regular coin changers £2.

LEWIS: So potentially that's more expensive than those coin cashing machines you looked at?

ALEXANDER: It could be. But there are a couple of banks which have free coin cashing machines in their busier branches now. Barclays has 50 and HSBC has about 200.

LEWIS: Right and you can tell us your small change experiences on Have Your Say on our website: bbc.co.uk/moneybox. And there's a bit of a battle going on at the moment between people who are annoyed about card fraud and people who want to share their views of how you use your spare cash. And now, an advert.

ADVERT:

LEWIS: Well that wasn't a real advert, of course. It was one of the creative creations of our colleagues. A view of how some credit cards just might be advertised. Because there is a growing trend for credit cards to charge you if you don't use them. This week Amex introduced a fee of £20 a year for existing customers who don't use their Platinum cash back card. It's not the first. With me is David Black, a banking expert from the research group Defaqto. David Black, who does this?

BLACK: At the moment it's just Amex and Abbey and Alliance & Leicester. The latter two have something called the Santander Zero Card, which is very useful if you're going overseas because it doesn't charge anything on overseas transactions. They charge £10. It's rather more rife in the prepaid card market where those that charge typically are about £3 a month.

LEWIS: So these are the cards where you load them up with cash in the first instance, and then if you don't use them ... And of course after two years, I think the money disappears completely, doesn't it, with some of them?

BLACK: It can do with some of them. As far as the credit card companies are concerned,

they don't really want you to have one of their cards if you're not going to use it. They want you to have it as they would say front of wallet.

LEWIS: But are we back in sort of bank charges territory? Is this a reasonable charge for the extra cost of just keeping you as a customer without using your card?

BLACK: There are some costs to the credit card company even if you don't use the credit card. They have capital adequacy requirements, which basically means you've got a facility and they've got to have secure assets, low yielding assets against that possibility.

LEWIS: Okay, David Black, thanks very much. And we contacted the top five credit card providers. They all said they had no plans to introduce these what are called dormancy charges, but they wouldn't rule out looking at the issue in the future.

Well that's almost it, but a week on Wednesday, October 14th, Money Box Live is going to be broadcast live with an audience in Glasgow. It's all part of the BBC's Money Matters Roadshow. Financial experts will be there all day to give confidential money advice. More details later in the week on our website. More about today's programme from the BBC Action Line - 0800 044 044 - and our website, bbc.co.uk/moneybox, where you can watch videos, sign up to my weekly newsletter, which I think arrived at 11 o'clock last night, download a podcast and listen again to the items on the programme. And of course have your say on cashing in coins and banks not refunding money. Somebody's complaining they couldn't pay by card in a pub and had to put in cash and that cost them money. Others are very concerned about stolen bank cards and the general reaction of banks, so many of those thousands of people already contacting us. We'd like to hear from you on our website: bbc.co.uk/moneybox. I'm back on Wednesday with Money Box Live, this week taking your questions on who will look after your money if you no longer can. Back with Money Box next weekend. Today the reporters Bob Howard and Ruth Alexander, producer Karen Kiernan. I'm Paul Lewis.